

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

**FINANCIAL STATEMENTS**  
For the year ended December 31, 2015  
with  
**INDEPENDENT AUDITORS' REPORT**



**KPMG Al Fozan & Partners**  
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License No. 46/11/323 issued 11/3/1992

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Saudi Airlines Catering Company (“the Company”) which comprise the balance sheet as at December 31, 2015 and the related statements of income, cash flows and changes in shareholders’ equity for the year ended and the attached notes 1 through 27 which form an integral part of these financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and Company’s bylaws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

### *Auditors’ responsibilities*

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

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

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



**Opinion**

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

1. present fairly, in all material respects, the financial position of the Company as at December 31, 2015, and of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
2. comply with the requirements of the Regulations for Companies and Company's by-laws with respect to the preparation and presentation of the financial statements.

**For KPMG Al Fozan & Partners**

Ebrahim Oboud Baeshen  
License No. 382

Jeddah, Jamada Al Awal 12, 1437H  
Corresponding to February 21, 2016



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

**BALANCE SHEET**

As at December 31, 2015

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	304,248,115	476,525,754
Investments	7	205,170,874	303,512,809
Trade receivables	5	553,395,599	549,713,255
Inventories	6	142,376,394	86,753,572
Prepayments and other current assets	8	130,168,505	151,143,602
<b>Total current assets</b>		<b><u>1,335,359,487</u></b>	<b><u>1,567,648,992</u></b>
<b>Non-current assets:</b>			
Margin deposits with banks	23	14,807,413	10,167,111
Investments	7	40,000,000	40,000,000
Property and equipment	9	458,053,712	191,497,391
<b>Total non-current assets</b>		<b><u>512,861,125</u></b>	<b><u>241,664,502</u></b>
<b>Total assets</b>		<b><u>1,848,220,612</u></b>	<b><u>1,809,313,494</u></b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current liabilities:</b>			
Trade payables	10	209,933,379	174,855,025
Dividend payable		2,881,530	3,572,374
Accrued expenses and other current liabilities	11	136,502,083	241,107,183
Accrued Zakat and income tax	19	35,109,943	40,295,776
<b>Total current liabilities</b>		<b><u>384,426,935</u></b>	<b><u>459,830,358</u></b>
<b>Non-current liabilities:</b>			
Employees' end of service benefits	12	137,162,600	116,920,570
Accrued long-term bonus		8,470,711	6,855,646
<b>Total non-current liabilities</b>		<b><u>145,633,311</u></b>	<b><u>123,776,216</u></b>
<b>Total liabilities</b>		<b><u>530,060,246</u></b>	<b><u>583,606,574</u></b>
<b>Shareholders' equity</b>			
Share capital	13	820,000,000	820,000,000
Statutory reserve	14	286,600,187	216,750,092
Retained earnings		211,560,179	188,956,828
<b>Total shareholders' equity</b>		<b><u>1,318,160,366</u></b>	<b><u>1,225,706,920</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>1,848,220,612</u></b>	<b><u>1,809,313,494</u></b>



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors' Member

The accompanying notes 1 to 27 form an integral part  
of these financial statements.

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

**STATEMENT OF INCOME**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
<b>Revenue:</b>			
Inflight catering revenue		1,635,052,624	1,603,413,854
Sky sales revenue		239,341,916	209,392,758
Business lounge revenue		133,155,933	90,590,132
Non-airlines revenue		206,840,345	176,399,615
Other operating revenue	15	46,409,643	56,143,711
		<u>2,260,800,461</u>	<u>2,135,940,070</u>
<b>Cost of revenue:</b>			
Cost of materials and goods sold		(937,109,018)	(915,440,274)
Personnel cost		(222,524,834)	(188,760,041)
Rent and maintenance of production units		(73,917,851)	(84,787,122)
Depreciation		(20,483,405)	(15,291,999)
Other operating cost	16	(182,224,152)	(157,086,268)
<b>Total cost of revenue</b>		<u>(1,436,259,260)</u>	<u>(1,361,365,704)</u>
<b>Gross profit</b>		824,541,201	774,574,366
General and administrative expenses	17	(155,629,333)	(141,249,564)
<b>Operating income</b>		668,911,868	633,324,802
Other non-operating revenues and expenses, net		29,589,086	20,608,030
<b>Net income</b>		<u>698,500,954</u>	<u>653,932,832</u>
<b>Earnings per share (Saudi Arabian Riyals):</b>			
Operating income	21	<u>8.16</u>	<u>7.72</u>
Non-operating income	21	<u>0.36</u>	<u>0.25</u>
Net income	21	<u>8.52</u>	<u>7.97</u>



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors' Member

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

**STATEMENT OF CASH FLOWS**


For the year ended December 31, 2015  
(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>			
Net income		698,500,954	653,932,832
<u>Adjustments for:</u>			
Depreciation	9	24,661,054	18,499,911
Net reversal of provision for doubtful debts	17	(16,225,207)	(31,076,031)
Net provision for slow moving and obsolete items	6	1,853,627	2,083,148
Loss on disposal of property and equipment		256,423	81,080
Unrealised gain on held-for-trading investments	7	(1,658,065)	(3,512,809)
Provision for employees' end of service benefits	12	30,006,786	14,186,326
Provision for accrued long-term bonus		3,753,745	6,855,646
Investment income		(2,827,313)	(3,689,382)
		<u>738,322,004</u>	<u>657,360,721</u>
<b>Changes in operating assets and liabilities</b>			
Decrease / (increase) in trade receivables		12,542,863	(99,565,318)
Increase in inventories		(57,476,449)	(12,206,967)
Decrease / (increase) in prepayments and other current assets		20,341,781	(81,876,413)
(Increase) / decrease in margin deposits with banks		(4,640,302)	1,937
Increase in trade payables		35,078,354	22,279,128
(Decrease) / increase in accrued expenses and other current liabilities		(104,605,100)	10,379,995
		<u>639,563,151</u>	<u>496,373,083</u>
Payment of accrued long-term bonus		(2,138,680)	--
Zakat and income tax paid	19	(47,026,527)	(44,179,372)
Employees' end of service benefits paid	12	(9,764,756)	(9,672,800)
<b>Net cash from operating activities</b>		<u>580,633,188</u>	<u>442,520,911</u>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	9	(291,586,825)	(112,035,726)
Proceeds from sale of held-for-trading investments	7	--	100,000,000
Proceeds from maturity of held-to-maturity investments	7	100,000,000	--
Proceeds from disposal of property and equipment		113,027	77,000
Investment income received		3,460,629	3,021,162
<b>Net cash used in investing activities</b>		<u>(188,013,169)</u>	<u>(8,937,564)</u>
<b>Cash flows from financing activities:</b>			
Dividend paid	18	(564,897,658)	(539,873,345)
<b>Net decrease in cash and cash equivalents</b>		<u>(172,277,639)</u>	<u>(106,289,998)</u>
Cash and cash equivalents as at beginning of the year		<u>476,525,754</u>	<u>582,815,752</u>
<b>Cash and cash equivalents as at end of the year</b>	4	<u>304,248,115</u>	<u>476,525,754</u>

**Non-cash supplemental information:**

Zakat and income tax charged to shareholders accounts 46,201,746 41,840,694

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board of Directors' Member

The accompanying notes 1 to 27 form an integral part of these financial statements.

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

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>Share capital</u>	<u>Statutory reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2015		820,000,000	216,750,092	188,956,828	1,225,706,920
Net income for the period		--	--	698,500,954	698,500,954
Transfer to reserves	14	--	69,850,095	(69,850,095)	--
Zakat and income tax	19	--	--	(41,840,694)	(41,840,694)
Dividends	18	--	--	(564,206,814)	(564,206,814)
<b>Balance at December 31, 2015</b>		<b>820,000,000</b>	<b>286,600,187</b>	<b>211,560,179</b>	<b>1,318,160,366</b>
Balance at January 1, 2014		820,000,000	151,356,809	187,272,203	1,158,629,012
Net income for the period		--	--	653,932,832	653,932,832
Transfer to reserves	14	--	65,393,283	(65,393,283)	--
Zakat and income tax	19	--	--	(46,201,746)	(46,201,746)
Dividends	18	--	--	(540,653,178)	(540,653,178)
Balance at December 31, 2014		820,000,000	216,750,092	188,956,828	1,225,706,920



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors' Member

The accompanying notes 1 to 27 form an integral part of these financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

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**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 Dhual-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**  
(Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

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**1. ORGANIZATION AND ACTIVITIES (continued)**

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

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

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

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

On August 2, 2012, the board of directors resolved to establish a limited liability company with a share capital of SR 30 million to be mainly owned and controlled by the Company. The limited liability company which has still not been incorporated will be under the name of Saudi Airlines Catering Services ("SAC Services") and will include "business and industry" catering activity which is currently part of the Company's operation.

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

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

**b) Basis of measurement**

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

**c) Functional and presentation currency**

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

**SAUDI AIRLINES CATERING COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

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

**d) Use of estimates and judgments**

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

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

*i. Impairment of trade receivables*

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

*ii. Allowance for slow moving inventories*

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

*iii. Useful lives of property and equipment*

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

*iv. Accruals for services provided by Saudia and its affiliates*

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the financial statements:

**a) Cash and cash equivalents**

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

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

**SAUDI AIRLINES CATERING COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

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**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**

Except for free-hold land, property and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

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

**SAUDI AIRLINES CATERING COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

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

**e) Property and equipment (continued)**

Leasehold improvements	5-20 years
Equipment	3-7 years
Motor vehicles	7-10 years

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

**f) Impairment of assets**

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

**g) Accounts payable and accruals**

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

**h) Provisions**

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

**i) Employees' end of service benefits**

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date. 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.

**SAUDI AIRLINES CATERING COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

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

**j) Revenue recognition (continued)**

Revenue from sales is recognized upon delivery of goods by which the significant risks and rewards of ownership of the goods have been transferred to the buyer and the Company has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods. Revenue is recorded net of returns, trade discounts and volume rebates.

Revenue from rendered service is recognized when the outcome of the transaction can be estimated reliably and completely performed.

**k) Expenses**

All expenses, excluding cost of revenue, are classified as general and administrative expenses. Allocations of common expenses between cost of revenue and general and administrative expenses, when required, are made on a consistent basis.

**l) Operating lease**

Payment under operating lease is recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

**m) Zakat and income tax**

Zakat and income tax are provided for in the financial statements in accordance with Saudi Department of Zakat and Income Tax ("DZIT") regulations. Zakat and income tax are charged to the statement of changes in shareholders' equity. Additional Zakat and income tax liabilities, if any, related to prior years' assessments arising from DZIT are accounted for in the period in which the final assessments are finalized.

**n) Segment reporting**

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

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

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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.

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

**p) Dividends**

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

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31 comprise the following:

	<u>2015</u>	<u>2014</u>
Cash in hand	1,806,039	2,105,945
Cash at bank - current accounts	<u>302,442,076</u>	<u>474,419,809</u>
	<u>304,248,115</u>	<u>476,525,754</u>

**5. TRADE RECEIVABLES**

a) Trade receivables at December 31 comprise the following:

	<u>2015</u>	<u>2014</u>
Related parties, net (Note 20)	449,931,201	464,748,430
Other customers	<u>139,766,614</u>	<u>138,161,654</u>
	<u>589,697,815</u>	<u>602,910,084</u>
Provision for doubtful debts (other customers)	<u>(36,302,216)</u>	<u>(53,196,829)</u>
	<u>553,395,599</u>	<u>549,713,255</u>

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

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**5. TRADE RECEIVABLES (continued)**

The ageing analysis of trade receivable is as follows:

	<u>Up to three months</u>	<u>Above three and up to six months</u>	<u>Above six months</u>	<u>Total</u>
December 31, 2015	220,912,545	44,814,302	287,668,752	553,395,599
December 31, 2014	252,503,152	76,699,873	220,510,230	549,713,255

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

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	53,196,829	83,425,979
Additions	14,774,074	12,243,595
Reversals	<u>(31,668,687)</u>	<u>(42,472,745)</u>
Balance at end of the year	<u>36,302,216</u>	<u>53,196,829</u>

**6. INVENTORIES**

a) Inventories at December 31 comprise the following:

	<u>2015</u>	<u>2014</u>
Catering items	29,995,221	28,166,890
Sky sales items	104,902,508	50,917,038
Packing and other materials	11,533,060	10,051,610
Spare parts	<u>3,873,825</u>	<u>3,787,097</u>
	150,304,614	92,922,635
Provision for slow moving and obsolete items	<u>(7,928,220)</u>	<u>(6,169,063)</u>
	<u>142,376,394</u>	<u>86,753,572</u>

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

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	6,169,063	4,525,099
Additions	3,375,569	3,343,645
Write-off	(94,470)	(406,652)
Reversals	<u>(1,521,942)</u>	<u>(1,293,029)</u>
Balance at end of the year	<u>7,928,220</u>	<u>6,169,063</u>



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**7. INVESTMENTS**

Investments at December 31 comprise of the following:

		<u>2015</u>	<u>2014</u>
<b><u>Current assets</u></b>			
Held-for-trading investment	7.1	205,170,874	203,512,809
Held-to-maturity investment	7.2	--	100,000,000
		<u>205,170,874</u>	<u>303,512,809</u>
<b><u>Non-current assets</u></b>			
Held-to-maturity investment	7.3	40,000,000	40,000,000
		<u>40,000,000</u>	<u>40,000,000</u>
		<u>245,170,874</u>	<u>343,512,809</u>

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

		<u>2015</u>	<u>2014</u>
Balance at beginning of the year		203,512,809	200,000,000
Unrealized gain on held-for-trading investment		1,658,065	3,512,809
		<u>205,170,874</u>	<u>203,512,809</u>

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

7.2 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.

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

**8. PREPAYMENTS AND OTHER CURRENT ASSETS**

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

		<u>2015</u>	<u>2014</u>
Prepayments		94,244,584	115,458,569
Unbilled receivables		26,372,844	22,978,403
Margin deposits with banks		3,983,516	857,476
Advances to suppliers		570,914	1,840,397
Advances to employees		3,117,415	3,622,797
Accrued income		34,904	5,668,220
Others		1,844,328	717,740
		<u>130,168,505</u>	<u>151,143,602</u>

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**9. PROPERTY AND EQUIPMENT**

The movement in property and equipment during the year ended December 31, 2015 is analyzed as under:

	Land	Leasehold improvements	Equipment	Motor vehicles	Capital work-in-progress	Total
<b>Cost:</b>						
Balance at January 1, 2015	33,786,058	28,323,879	77,243,093	58,048,401	70,719,258	268,120,689
Additions	--	5,179,775	3,222,870	9,559,082	273,625,098	291,586,825
Disposals	--	(156,400)	(3,292,674)	(6,624,001)	--	(10,073,075)
Transfer from capital work-in-progress		4,912,782	27,600,699	15,073,636	(47,587,117)	--
Balance at December 31, 2015	33,786,058	38,260,036	104,773,988	76,057,118	296,757,239	549,634,439
<b>Accumulated depreciation:</b>						
Balance at January 1, 2015	--	14,721,453	39,393,612	22,508,233	--	76,623,298
Charge for the year	--	4,355,083	14,324,425	5,981,546	--	24,661,054
Disposals	--	(96,939)	(3,004,674)	(6,602,012)	--	(9,703,625)
Balance at December 31, 2015	--	18,979,597	50,713,363	21,887,767	--	91,580,727
<b>Net book value:</b>						
At December 31, 2015	33,786,058	19,280,439	54,060,625	54,169,351	296,757,239	458,053,712
At December 31, 2014	33,786,058	13,602,426	37,849,481	35,540,168	70,719,258	191,497,391

The capital work-in-progress represents construction works on the new buildings in Madinah, Dammam camp and the laundry project.

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**10. TRADE PAYABLES**

Trade payables at December 31 comprise the following:

	<u>2015</u>	<u>2014</u>
Related parties (Note 20)	15,559,769	12,435,552
Other parties	194,373,610	162,419,473
	<u>209,933,379</u>	<u>174,855,025</u>

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

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

	<u>2015</u>	<u>2014</u>
Employees related accruals	30,378,918	29,831,466
Accrued expenses and other liabilities	106,123,165	197,527,942
Others	--	13,747,775
	<u>136,502,083</u>	<u>241,107,183</u>

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

Movement summary for the year ended December 31 is as follows

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	116,920,570	112,407,044
Charge for the year	30,006,786	14,186,326
Payments during the year	<u>(9,764,756)</u>	<u>(9,672,800)</u>
Balance at end of the year	<u>137,162,600</u>	<u>116,920,570</u>

**13. SHARE CAPITAL**

The share capital of the Company amounting to SR 820 million (2014: SR 820 million) is divided into 82 million (2014: 82 million) shares of SR 10 each (2014: SR 10 each). At December 31, the shareholders and their percentage interests in the share capital of the Company are as follows:

<u>Shareholder</u>	<u>No. of shares</u>	<u>2015</u> <u>Value in SR</u>	<u>%</u>
Saudi Arabian Airlines Corporation	29,274,000	292,740,000	35.70
Strategic Catering Company Limited	20,375,918	203,759,180	24.84
General public	32,350,082	323,500,820	39.46
	<u>82,000,000</u>	<u>820,000,000</u>	<u>100</u>

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**13. SHARE CAPITAL (continued)**

<u>Shareholder</u>	<u>No. of shares</u>	<u>2014</u> <u>Value in SR</u>	<u>%</u>
Saudi Arabian Airlines Corporation	29,274,000	292,740,000	35.70
Strategic Catering Company Limited	28,126,000	281,260,000	34.30
General public	24,600,000	246,000,000	30.00
Total	<u>82,000,000</u>	<u>820,000,000</u>	<u>100</u>

During the year ended December 31, 2015, Strategic Catering Company Limited sold 7,750,082 of its shares to the general public.

**14. STATUTORY RESERVE**

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

**15. OTHER OPERATING REVENUE**

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

	<u>2015</u>	<u>2014</u>
Camp facilities sales	491,125	61,666
Exclusive purchase income and services to suppliers	15,913,969	25,324,849
Transfer of airline equipment charges	30,004,549	30,757,196
	<u>46,409,643</u>	<u>56,143,711</u>

**16. OTHER OPERATING COST**

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

	<u>2015</u>	<u>2014</u>
Communication and utilities - net	12,065,113	9,253,044
Supplies and expendable items	37,212,922	33,116,185
Service agreement	79,072,006	73,143,049
Other operational cost	53,874,111	41,573,990
	<u>182,224,152</u>	<u>157,086,268</u>

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**17. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	<u>2015</u>	<u>2014</u>
Personnel costs	97,878,396	101,144,486
Depreciation	4,177,649	3,207,911
Reversal of allowance for doubtful debts (Note 5)	(16,225,207)	(31,076,031)
Professional and technical fee	5,546,183	(4,438,537)
Rent	11,295,019	13,249,049
Marketing and promotional	13,373,738	12,977,024
Utilities	4,503,207	3,696,559
Stationery and printing	340,988	479,741
Repairs and maintenance	224,421	252,616
Travelling	5,561,983	5,767,891
Management fee	12,671,840	15,000,000
Board of Directors' fee	1,589,868	2,374,000
Service agreement fee	4,463,399	10,109,127
Insurance	3,086,794	1,823,309
Others	7,141,055	6,682,419
	<u>155,629,333</u>	<u>141,249,564</u>

**18. DIVIDENDS**

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

On May 7, 2015, the Board of Directors resolved to distribute interim dividend amounting to SR 143.5 million, which is equivalent to SR 1.75 per share after Zakat and before income tax deduction, from the Company's interim profit.

On August 2, 2015, the Board of Directors resolved to distribute interim dividend amounting to SR 143.5 million, which is equivalent to SR 1.75 per share after Zakat and before income tax deduction, from the Company's interim profit.

On October 20, 2015, the Board of Directors resolved to distribute interim dividend amounting to SR 143.5 million, which is equivalent to SR 1.75 per share after Zakat and before income tax deduction, from the Company's interim profit.

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**19. ZAKAT AND INCOME TAX**

**a) Zakat and income tax provision**

The movement summary in Zakat provision is as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	36,298,829	35,898,500
Charge for the year	32,624,849	33,590,911
Adjustment related to prior years	(2,707,918)	--
Payments during the year	<u>(33,590,914)</u>	<u>(33,190,582)</u>
Balance at end of the year	<u>32,624,846</u>	<u>36,298,829</u>

The movement in income tax provision is as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	3,996,947	2,374,902
Charge for the year	11,889,065	12,610,835
Adjustment related to prior years	34,698	--
Payments during the year	<u>(13,435,613)</u>	<u>(10,988,790)</u>
Balance at end of the year	<u>2,485,097</u>	<u>3,996,947</u>

**b) Zakat component**

The Zakat base is comprised of the following:

	<u>2015</u>	<u>2014</u>
Non-current assets	512,861,125	341,664,502
Non-current liabilities	145,633,311	123,776,216
Shareholders' equity	1,225,706,920	1,158,629,012
Net income	698,500,954	653,932,832

**c) Zakat assessments**

The Company has submitted its Zakat and income tax declarations for the years 2009 to 2014. The Company has paid the amounts due according to the declarations, which are currently under review by the DZIT.

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**20. RELATED PARTY TRANSACTIONS**

- a) Related parties include the Company's shareholders and their relatives up to the fourth generation, associated and affiliated companies and directors and key management personnel of the Company. Terms and conditions of these transactions are approved by the Company's management.
- b) Significant related party transactions for the year ended December 31 and balances arising therefrom are described as under:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b><u>Due from related parties included in trade receivables:</u></b>						
Saudi Arabian Airlines Corporation	Shareholder	Trade / operations	1,459,600,000	1,416,333,000	393,551,551	444,546,756
Alhokair Group Joint Stock Company	Shareholder	Trade / operations	--	1,472,000	367,949	367,949
Saudi Airlines Cargo Company	Affiliate	Trade / operations	15,949,000	18,827,000	21,772,503	8,435,915
Saudi Ground Services Company	Affiliate	Trade / operations	47,582,000	44,796,000	34,239,198	11,397,810
					<u>449,931,201</u>	<u>464,748,430</u>
<b><u>Due to related parties included in trade payables:</u></b>						
Newrest Group Holding S.L.	Shareholder	Trade / operations	13,994,840	16,213,000	52,904	5,877,921
Saudi Airlines Real Estate Development Company	Affiliate	Trade / operations	10,192,000	175,700	15,506,865	6,557,631
					<u>15,559,769</u>	<u>12,435,552</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 year ended December 31, was as under:

<u>Name</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>	
		<u>2015</u>	<u>2014</u>
Key management personnel	Remuneration	<u>6,923,362</u>	<u>9,165,439</u>
Board of Directors	Annual fee	<u>1,965,000</u>	<u>2,374,000</u>

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**21. EARNINGS PER SHARE**

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

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

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

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

**22. OPERATING LEASES**

	<u>2015</u>	<u>2014</u>
Payments under operating leases recognized as an expense	74,627,686	71,585,346

Operating lease payments represent rentals paid by the Company for the premises of the business units, offices and residential properties, which are mainly leased from Saudia and the General Authority of Civil Aviation ("GACA") and are renewable on an annual basis.

During 2010, the Company leased a central kitchen in Riyadh from GACA for a period of 10 years starting from January 1, 2010 for an annual amount of SR 17,407,657. At the expiry of its term, the lease is renewable upon agreement between the Company and GACA. As per the lease agreement, GACA is entitled to 8% of the Company's annual sales that exceed SR 290,000,000 to be paid in the first month of the following year.

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

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

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

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

	<u>2015</u>	<u>2014</u>
Not later than one year	65,437,983	40,045,365
Later than one year and less than five years	164,913,946	217,981,454
Later than five years	87,400,000	96,200,000
	<u>317,751,929</u>	<u>354,226,819</u>



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**23. COMMITMENTS AND CONTINGENCIES**

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

	<u>2015</u>	<u>2014</u>
Capital commitments	<u>88,110,813</u>	228,168,249
Letter of guarantees	<u>14,807,413</u>	<u>10,167,111</u>

**24. SEGMENTAL INFORMATION**

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

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

1. Catering including business lounges, non-airlines and others
2. Sky sales

The Company's assets, liabilities and results of operations as of and for the year ended December 31, 2015 and 2014 by business segments are detailed below:

	<u>Catering</u>	<u>Sky sales</u>	<u>Total</u>
<b><u>2015</u></b>			
Assets	<u>1,714,721,807</u>	<u>133,498,804</u>	<u>1,848,220,612</u>
Liabilities	<u>457,930,954</u>	<u>72,129,295</u>	<u>530,060,250</u>
Revenue	<u>2,021,458,544</u>	<u>239,341,916</u>	<u>2,260,800,460</u>
Net income	<u>630,834,736</u>	<u>67,666,217</u>	<u>698,500,954</u>
<b><u>2014</u></b>			
Assets	<u>1,720,612,198</u>	<u>88,701,299</u>	<u>1,809,313,496</u>
Liabilities	<u>547,132,115</u>	<u>36,474,465</u>	<u>583,606,580</u>
Revenue	<u>1,926,547,312</u>	<u>209,392,758</u>	<u>2,135,940,070</u>
Net income	<u>584,793,353</u>	<u>69,139,478</u>	<u>653,932,831</u>

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**25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

**Credit risk** is the risk that one party will fail to discharge an obligation to a financial instrument and will cause the other party to incur a financial loss. The Company seeks to limit the credit risk with respect to the customers through by monitoring outstanding receivables. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Accounts receivable are mainly due from Saudia and other foreign airlines and are stated at their estimated realizable values. The six largest customers account for 50% of outstanding trade receivables at December 31, 2015.

**Fair value and cash flow interest rate risks** are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risks arise mainly from short-term bank deposits which are at floating rates of interest. All deposits are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company are not significant.

**Liquidity risk** is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments.

**Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Arabian Riyals, Euros and United States Dollars. Other transactions in foreign currencies are not material.

**Fair value** is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Except for the held-for-trading investments, which are stated at the fair value, the accompanying financial statements are prepared under the historical cost method and the differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**26. RECLASSIFICATION AND CORRESPONDING FIGURES**

Certain reclassification has been made to the prior year financial statements to confirm with current year's presentation.

<b><u>Reclassification from component</u></b>	<b><u>Reclassification to component</u></b>	<b><u>Amount (SR)</u></b>
Cash and cash equivalents	Held-for-trading investment	200,000,000
Prepayments and other current assets	Held-for-trading investment	3,512,809
Cash and cash equivalents	Prepayments and other current assets	382,845

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

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2015  
(Expressed in Saudi Arabian Riyals)

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**27. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised to issue by the Board of Directors Jumada Al-Awwal 12, 1437H, corresponding to February 21, 2016.