



SAUDI AIRLINES
CATERING



الخطوط السعودية
للتامين

ANNUAL REPORT 2012



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Our Office Locations



Main Office

P.O.Box 9178 , Jeddah 21413
Kingdom of Saudi Arabia
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Beyond the Horizon

Saudi Airlines Catering Company looks into a bright and prosperous future, ripe with opportunities to be reaped, as competitive pressures for improved service quality continues to escalate in the airline industry. There continues to be an increasing need for the organization's expertise in forging partnerships to develop and improve the hospitality image of industry players. Sound strategies to diversify the organization's service repertoire as well as its client base to include non-airline industries, offers further avenues of growth that mirror developments in the said industries. The organization will continue its tradition continually raising service excellence to new heights whilst remaining true to its values. "Our clients have joined us on a historic journey filled with challenges and immense rewards; together we face a future bright with promise. We are proud to serve them and we are proud of their trust".



Message from the CEO

The Saudi Airlines Catering Co. applies a work methodology based on quality and safety of food products through the adoption of integrated systems including high level development and training programs to respond to the needs of our clients in a timely manner.

We have tailored special strategies to conform to relevant international quality management and standardisation systems while fulfilling local rules and regulations. Our offerings, therefore, smartly meet all aspirations by rendering services of high quality at competitive prices.

The company aims at improving its capital efficiency through the improvement of catering services and the development of our all other products, in addition to the introduction of new niches in the market.

To that end, we will always boast a competitive edge that translates into world class products and moves the company forward beyond all horizons.

Gerhard Marschitz
Chief Executive Officer





Message from Chairman of the Board of Directors

Saudi Airlines Catering Co continued to achieve covetable rates of performance since its privatisation in 2008. Income and net profit have steadily increased, and so did all performance and productivity indicators. Our revenues increased by 59% with net profit rising in 2012 to SR 487, 000,000 compared to SR 287, 000,000 in 2008.

The company also continued to deliver on its goals by winning the lion's share of the market in airline catering services and by broadening its scope to reach other similar sectors including, for example, catering for big companies and off-shore sites of petroleum and mining companies. The accrued advantage was to expand revenue sources and reduce risk. Other developed investment projects include workers' housing and related services and laundry rooms at hospitals and hotels.

The Company seizes this opportunity to express to its partners the keenness of the Board of Directors to ensure that the company will remain a leader in catering and foodstuff services in the Kingdom and a great economic entity as ever. It also ensures that the Board of Directors and the staff will continue to work together as one team to enhance its success through the continuous development of its human capabilities.

Khalid Abdullah Al-Molhem
Chairman of the Board of Directors



AWARDS & RECOGNITIONS

The organization's commitment to excellence has attracted international and industry-wide recognition. The profile of awards presented to the Saudi Airlines Catering Company to date makes it part of a small and very distinct group of catering companies in the region. The most recent awards received by the organization is listed below for illustrative purposes:

IATA 2009 Award Certificate Golden Award of Excellence in Catering Quality)
 IATA 2010 Award Certificate Golden Award of Excellence in Catering Quality)
 ISO 22000:2005, Issued on 24 August, 2010 and expires on 23 August, 2013. (Certification body SGS – SWISS) Catering for In-Flight, Staff Feeding, Support Services and Sky Sales.

HACCP Codex Alimentarius, Issued on 24 August, 2010 and expires on 23 August, 2013. (Certified since 2004, Certificate body SGS) Catering for In-Flight, Staff Feeding, Support Services and Sky Sales.

2011 Platinum Award Recipient, Award of Excellence (Quality and Safety Alliance In-Flight Services QSAI)





COMPANY PROFILE

Saudi Airlines Catering Company was established in 1981. The 30 years that followed witnessed a drastic expansion in the organization's operations which spanned both the local as well as the international market. New catering units were established in King Khaled International Airport, Riyadh (KKIA); King Fahd International Airport, Dammam (KFIA); Prince Mohammed International Airport, Madina (PMIA); and Cairo International Airport. To leverage the organization's catering expertise, in raising overall service standards and value delivery to customers the organization was privatized in 2007 by Royal Decree, from His Royal Highness, the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud. The company is now managed by our strategic partner Newrest.

MISSION STATEMENT

To actively develop our client's hospitality image, which will enable them to achieve their own objectives.

VALUES

- Commitment to quality
- Cost efficiency
- Teamwork
- Service Spirit



Airline Catering

Saudi Airlines Catering Company is an integrated service provider, catering to the needs of commercial airlines and charter light operators (including VIP and individual flights) alike. Catering services span menu planning and costing, meal preparation and delivery, beverages and supplies. Additionally, the organization provides a number of support services, which are tailored to meet specific client requirements, such as catering to individuals with special needs, provision of linens and waste disposal to name just a few.





In-Flight Cuisine

Menu planning is a meticulous and detailed process that accounts for the general meal requirements of a particular route and travel class, as well as the specific requirements of individual passengers, such as VIPs, individuals with dietary restrictions and children. The organization's in-house culinary expertise comprises international, regional and local flavours, thus permitting the preparation of a diverse array of dishes e.g. Arabic, European, American and Asian, which cater to a wide variety of tastes. Attention to detail extends to the crockery used for meal presentation, with first and business class food service. The organization's portfolio of services extends to encompass the design of catering utensils and equipment (e.g. cutlery, carts and trolleys, trays and linen), the printing and branding, of passenger amenity bags and on-board lavatory toiletries.





ALFURSAN Lounges

Saudi Airlines Catering Company operates in all Alfursan airport lounges across the Kingdom, serving first and business class passengers of Saudi Arabian Airlines. The service entails the catering of extensive buffets comprising: hot meals, snacks and desserts. Additionally the organization also ensures internet access, the availability of a broad selection of newspapers and magazines and offers the luxury of purchasing Skysales products from the comfort of each of the said lounges.





Hajj and Umrah Pilgrims

Saudi Airlines Catering Company provides pilgrims with meals and various services, which are extended to the two Holy Mosques, during the performance of Hajj and Umrah rituals and throughout the duration of the pilgrims' stay in the cities of Mecca and Medina.

Visitors of the Holy City

Saudi Airlines Catering Company offers its "Guests of the Holy City" service seasonally on board what it presently estimated to be 45 commercial airlines and private jets. The service caters to a large number of pilgrims on their return flights, having performed the Hajj or Umrah rituals.



Large Corporations

Saudi Airlines Catering Company serves the needs of large corporations by operating cafeterias on the client's premises. The cafeterias are equipped to serve meals, beverages and confectionary to a large employee base, typical of such corporations.

Private Companies and Institutions

To maximize the "customization" of its services, the organization has deemed it necessary to further sub-divide this segment of interest into further sub-segments as follows:

- Large Corporations
- Educational Institutes
- Hospitals

Remote Site Operations

Saudi Airlines Catering Company offers a wide range of services to companies operating at remote sites, far from urban centres. These services include: catering, housekeeping, cleaning and laundry services, as well as maintenance and security services where needed.

Service particulars are determined in accordance with the exact nature of the remote-site operations, as well as the size of the employee base (ranging from 50 – 1000 employees) being catered to. The Saudi Airlines Catering Company's current portfolio of clients, availing these services comprises the oil, gas and mining industries.





Skysales

Saudi Airlines Catering Company has handled Skysales, Saudi Arabian Airlines' prestigious in-flight shopping service since 1984. The organization closely monitors passenger purchasing trends, which coupled with other factors (e.g. launch of new products, exclusive agreements with suppliers and the price to volume ratio of each product) from the basis of product selection decisions.

Saudi Airlines Catering Company sources the selected products directly from its suppliers, Nas Air and LaBoutique Outlets at Hotels and updates the in-flight product catalogue accordingly.

In an effort to personalize the in-flight shopping experience of Saudi Arabian Airlines' passengers, the offered product selection and associated product catalogue is reviewed quarterly.

Below are some of the main products offered by Skysales to passengers:

- Perumes and cosmetics
- Watches and jewellery
- Pens and writing instruments
(High end stationary)
- Children's toys
- Saudi Arabian Airlines brand products





Educational Institutes

Saudi Airlines Catering Company meets the needs of universities and private schools through supplying the institutes' canteens and cafeterias with meals, beverages and confectionary items at reasonable prices.



Hospitals & Healthcare Institutions

In adherence to the high operating standards synonymous with Saudi Airlines Catering Company, specialized facilities have been developed to serve healthcare institutions and hospitals across the Kingdom.





الغداء the LUNCH by newrest



The Lunch By NEWREST

A modern catering concept, that offers its clientele culinary together with the necessary atmosphere for a complete experience. The Lunch is catered by a designated team and includes a healthy variety of fresh and balanced meal menus, a coffee bar with a wide selection of hot and cold beverages, as well as a grab-and-go fridge to suit everyone.





Meal Preparation

Meal preparation takes place in a custom-designed catering units located in KAIA, KKIA, KFIA, PMIA and Cairo International Airport. Each catering unit houses designated areas (e.g. loading bays to receive supplies, dry and cold storage facilities, hot and cold kitchens, bakeries, dishwashing facilities, and a handling department) to allow for the performance of synchronized and simultaneous processes, thus ensuring the timely delivery of meals to designated aircrafts via a large fleet of delivery vehicles. The average daily capacity across all units is around 107 flights. An automated “temperature” monitoring process has been installed to allow for the on-line tracking of meals through the entire preparation, delivery and storage process, thus ensuring food quality and safety.



Quality Standards

Saudi Airlines Catering Company operates in accordance with strict international standards, in pursuit of achieving sustained “excellence”. The corporate philosophy regards catering as an “Integrated Value” proposition, which necessitates uncompromised value delivery in the areas of food safety, gourmet experience and process timeliness. To this effect, detailed operating procedures have been developed in-line with industry “best practices” to quantify and qualify the entire gamut of processes, from the training and development of corporate employees to the selection and sourcing of quality ingredients, material and operating equipment. The Saudi Airlines Catering Company’s in-house expertise includes seasoned professionals in the following specialist areas: food preparation and catering, procurement quality control and HSE (Health, Safety and Environment).

The Annual Report of the Board of Directors

For the Fiscal Year Ended December 31, 2012

National Laundry Co.

Striving continuously to improve its services repertoire, the Saudi Airlines Catering Company is currently in the process of instituting a new industrial laundry operation, to cater to the hospitality and health-care service. It is envisaged that the National Laundry Co. will cover the needs of the Kingdom's main cities and become a key player in the industry in the near future. The company will allow client organizations to channel all resources in the pursuit of their core businesses, whilst enjoying the assurance that support services sub-contracted to the National Laundry Co. will be executed professionally and to a high standard. The National Laundry Co. will be inaugurated in Riyadh and thereafter in Jeddah to serve hotels, hospitals and private companies.



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The History of the Company

The commercial activities of the company began in 1981, when Saudi Arabian Airlines created a special catering unit at King Abdulaziz International Airport in Jeddah. It offered catering and non-catering services for Saudi Arabian Airlines and other airline companies whose flights depart from King Abdulaziz International Airport. At later stages, Saudi Arabian Airlines established additional catering units at King Khalid International Airport, King Fahd International Airport, Prince Mohammed bin Abdulaziz International Airport and Cairo International Airport. In 1985, the catering unit assumed the function of sky sales aboard Saudi Arabian Airlines flights. In 2006 and 2007, it took charge of managing Alfursan Lounges.

Despite the fact that the catering unit was part of Saudi Arabian Airlines, it was managing its commercial affairs separately from Saudi Arabian Airlines even before its detachment from the mother company by privatisation.

As part of privatisation, Saudi Arabian Airlines incorporated Saudi Airlines Catering Co as a limited liability company on Muharram 20th, 1429 H (January 29th, 2008). It was registered under No. 4030175741, with a capital of SR100,767,000 divided into SR1,007,670 shares at a par value of SR100. It also transferred to the newly created company the fixed assets, employees and most of the contracts executed prior to privatisation.

The company was, further transformed into a shareholding company by a decision from the Minister of Industry and Trade No. 68/q on 22/2/1432H (26/1/2011) with a capital of SR100,767,000 divided into 10,076,700 ordinary shares at a par value of SR10. The process involved the capitalization of (a) SR658,791,392 of the retained company's profits, (b) SR13,718,428 of the company's general reserve and (c) SR46,723,180 of the company's regular reserve. Eventually, the company was transformed into a public shareholding company by a decision from the Capital Market Authority dated 6/7/1433H (27/5/2012).



SACC's Shareholding Chart

The following table gives a snapshot of share distribution in the company:

Shareholders	Capital (SR)	Shares	Ratio
General Saudi Arabian Airlines Company	292,740,000	29,274,000	35.7%
Strategic Catering Co. Ltd.	281,260,00	28,126,000	34.3%
The public	246,000,000	24,600,000	30.0%
Total	820,000,000	82,000,000	100%

Catering Units

The catering units are located in King Abdulaziz International Airport, King Khalid International Airport, King Fahd international Airport, Prince Muhammad bin Abdulaziz International Airport and Cairo International Airport. Each unit comprises loading docks, dry and cold storehouses, kitchens for the preparation of cold/hot meals, a bakery, dish washing machines and a handling department which is the largest and is in-charge of delivering meals on time onboard the flight. Altogether, the units serve meals to around 107 flights every day on average.



Quality

SACC serves high quality meals to all passengers irrespective of the airline company or the travel class. This earned the company several prizes in recognition of the quality of food offered. Safety, cleanliness and hygiene are never compromised, for which reason SACC applied some fairly advanced systems and controls on the quality of raw material, production processes, employee health, temperature and clean environment. Regular laboratory analysis is also provided to secure the highest standards of meals to our customers, noting that all our meals are compatible with the Shaira law and are served in a timely manner to prevent any undesirable delay on flight departures.

Services Rendered to Airline Companies

Created in 2008, the department first offered only airline catering services and airline sales. However, now, it has a broader scope as it serves all parties concerned with air transport industry accounting for around 92.3%, 92.8% and 90.6% of the company's revenues in the years 2010, 2011 and 2012 respectively.

There are three divisions in the department namely: in-flight catering services, sky sales and Alfursan Lounge services. In 2010, the company began to provide Saudi Arabian Airlines with catering related equipment (such as pottery, tableware and dishes).

Our Main Line of Business

The company has two main lines of business: airline and non-airline company services. The airline company service department delivers the following services: (a) offer catering and relevant services to Saudi Arabian Airlines and most of the other airline companies that organize flights from and between the various airports in the Kingdom, (b) offer retail sales carrying the brand “Sky Sales” aboard Saudi Arabian Airlines and (3) operate Alfursan Lounges on behalf of Saudi Arabian Airlines.

The latter department offers catering and other relevant services to non-airline customers. These include institutions, large companies, educational institutions and such other companies that operate in remote areas in the Kingdom.

SACC is currently building a housing complex in Dhahban area to the north of Jeddah to house SACC’s non-Saudi workers in Jeddah. It will also lease a part of that complex to other parties in need for housing their employees who work in the same area. Under construction is also a laundry unit at King Abdullah Economic City (KAEC) in addition to another one that has been recently approved in King Fahd Medical City in Riyadh. The two aforementioned units will offer customised laundry services for hotels and hospitals.



Our Mission

Deliver a promise on an elevated hospitality service to our customers to help them pursue their goals.

Strategy

SACC’s strategy focuses on the following:

- Maintain the leading position of the company in airline catering services in the Kingdom through the provision of high quality and cost efficient services.
- Improve catering services provided for non-airline companies by targeting new customers including, for example, institutions, large companies, educational institutions and companies operating in remote areas in the Kingdom with the aim of reducing undesirable fluctuations in respect of airline catering services.
- Participate in the country’s efforts to support Haj and Umra through the provision of catering services to pilgrims upon individual requests made from several parties during Umra and Haj seasons.
- Continue with the development of Saudisation programs for the employment of Saudi nationals in the company with special attention paid to Saudi women and providing them with relevant training, in line with the directives of the Ministry of Labour.
- Enhance the efficiency of working capital by improving the standards of transactions with suppliers and collecting dues from all customers in a timely manner.
- Continue engagement with our strategic partner Newrest and its global network to be updated of outlooks of future developments in the catering industry and improve SACC’s products and purchases.



Alfursan Lounges

Saudi Arabian Airlines was awarded a license by the General Civil Aviation Authority to operate Alfursan Lounges all over the international airports in the Kingdom (King Abdulaziz International Airport, King Khalid International Airport, King Fahd International Airport) to serve its passengers. Two agreements were executed by the two parties as of 29/1/2008 for indefinite terms commissioning to SACC the operation of the Alfursan Lounges on behalf of Saudi Arabian Airlines. SACC will collect the dues from airline companies as defined according to the number of their passengers who use Alfursan Lounges. Passengers not entitled to such a service (for example economy class travellers) can still enjoy the full service of Alfursan Lounges against a fee that should be paid to SACC.

Revenues accruing from Alfursan Lounges accounted for 3%, 2.7% and 3% of total revenues in 2010, 2011 and 2012 respectively. Alfursan Lounges offer passengers special places to relax, sit, have some hot or cold meals and enjoy convenient access to internet.

Non-Airline Catering Overview

When it was still a department of Saudi Arabian Airlines, the only catering unit (SACC now) was accustomed to offering services to a limited number of non-airline customers including, for example, private schools. In 2008, SACC created a special department to take charge and thus it got involved anew with catering businesses for non-airline entities.

This department has gained a growing importance, and despite its relatively low yields (2.7%, 3.1% and 4.2% in 2010, 2011 and 2012 respectively), the company expects steady revenue increases in the future.

The company relied heavily on its own resources, staff, expertise and airport production firms affiliated with this division in order to expand its non-airline catering services. However, growing in terms of customers, this division is being staffed by the company with personnel capable of handling customer airline companies and understanding their needs. For this purpose, the company appointed in 2009 a manager to oversee the development and growth of the department.



In-Flight Catering Services

The in-flight catering services serve meals to passengers and cabin crews (in addition to other related services) on board Saudi Arabian Airlines flights and most other airlines that arrange flights from airports in the Kingdom. It offers the same service to private airline operators, chartered flights, VIP flights and individual flights. In addition, it serves large numbers of pilgrims on return flights back home.

Sky Sales

In 1984, Saudi Arabian Airlines commissioned its in-flight retail sale services (currently named Sky Sales) to its then affiliated catering unit. In 2007, an agreement was signed by SACC and Saudi Arabian Airlines on Sky Sales under which SACC was given the exclusive right to offer sales services aboard local and international Saudi Airlines' flights. The lion's share of annual revenues accrues from sales on flights commuting between Saudi Arabia, Cairo and Beirut. Locally, flights departing between Jeddah and Riyadh earn the highest revenues. The sales service is currently restricted to Saudi Airlines flights.

SACC purchases its goods for Sky Sales directly from suppliers on a refundable basis. It has the right to claim refunds for unsold goods. In some cases, SACC procured some given products on an exclusive basis for a given period of time.

The sales brochure is updated three times a year with the product selection criterion based on a number of relevant factors such as passenger consumption patterns (e.g. new perfumes), price-size ratios and whether or not the product is exclusively offered by the company. In-flight sales mainly cover the following:

- Perfumes and cosmetics.
- Watches and jewellery .
- Pens, sun-glasses and electronic devices.
- Products carrying the brand of Saudi Arabian Airlines.
- Kids' toys and other gifts.

The company trains its flight attendants to act as salesmen onboard the flight. By the end of 2010, more than 500 stewards had been trained. It has also applied since June 2009 a new system for Sky Sales for the sake of following up with purchases and improving the efficiency of sales. The system includes fixed vendor machines that can be used for cash or credit card. It is also efficient for stock taking and monitors all products and declined purchases, which helps in identifying products on high demand by passengers.





Customers



The company's strategy targets the following three main sectors in non-airline catering: (a) companies operating in remote areas in the Kingdom, (b) companies, factories and institutions and (c) pilgrimage. It further focuses on industrial and trade institutions and companies, educational institutions (particularly private schools) and hospitals.

In addition to catering, the company provides customers a diversity of services including room housekeeping, security, cleaning, garbage collection, pest control, tree and lawn care and the management of some service units such as gyms and barber shops.

Achievements

The following favourable decisions were taken in 2012:

- Commencement of the housing compound project for the company's workers and investing in such compounds by leasing them to workers of Saudi Arabian Airlines.
- Approval of operating a laundry at King Fahd Medical City in Riyadh.
- Commencement of procedures for establishing an industrial laundry in King Abdullah Economic Zone in Rabegh.
- Supplying provisions to Princess Nora in Riyadh and operating the central kitchen there.
- The first class and business class lounge was operated at King Abdulaziz International Airport (Northern lounges-foreign flights).



Board of Directors (BOD)

A. Members of the Board of Directors

The Board of Directors has on board an elite group of highly qualified experts with good reputation in world business.

BOD Members as on December 31st, 2012

Name	Nationality	Position	Status	Independency	Other shareholding Saudi companies having seats in the Board of Directors
Khalid Abdullah Al-Molhem	Saudi	Chairman	Non-executive	Dependent	Emaar, The Economic City-Emaar TASI- The Saudi British Bank-Riyadh Cement Company
Sami Abdulmohsen Al Hokair	Saudi	Member	Non-executive Dependent	Dependent	Al Hokair Group *
Shawgi Mohammed Mushtag	Saudi	Member	Non-executive	Dependent	None
Basel Mohammed Algadhib	Saudi	Member	Non-executive	Dependent	United Electronic Co. (Extra)- (Al Yusr Instalment Company –Abdulqader Al Muhaidib & Sons Company- Bawan Company, The First Real Estate Holding Company– Al Fozan Holding Company – Al Faisaliah Group –Abdullatif Alissa Group Holding Company)*
Yousef Abdul Sattar El Maimani	Saudi	Member	Non-executive	Dependent	The National Commercial Bank
Jonathan Stent-Torriani	Swiss	Member	Non-executive	Dependent	None
Abdul Aziz Saif Al-Saif (Retired Major General)	Saudi	Member	Non-executive Dependent	Independent	None
Fahd Abdulmohsen Al Rasheed	Saudi	Member	Non-executive Dependent	Independent	Emaar The Economic City-Emaar-Ports Development*
Hasan Shakib Al Jabri	Saudi	Member	Non-executive Dependent	Independent	(Dar Al Tamleek-Ebdaa Bank- Saudi Foras Investment Company- Ahmad Muhammad Salem Bashen & Co.-Arab Roots Group- SEDCO Capital - SEDCO International Fund- SEDCO Capital Luxembourg)*

* (Not listed on the stock exchange)

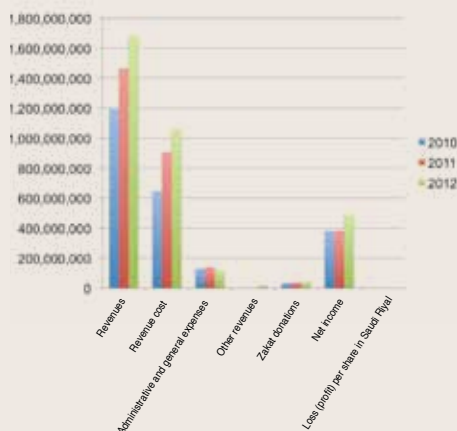
B. BOD's Meetings

The Board of Directors held seven meetings in 2012 as shown in the table below:

Date of Meeting	10/1/2012	7/3/2012	8/5/2012	2/8/2012	15/10/2012	15/11/2012	15/12/2012
Khalid Abdullah Al-Molhem Chairman	✓	✓	✓	✓	✓	✓	✓
Sami Abdulmohsen Al Hokair Member	✓	✓	x	✓	✓	✓	✓
Basel Mohammed Algadhib Member	✓	✓	✓	✓	✓	✓	✓
Jonathan Stent-Torriani Member	✓	✓	✓	✓	✓	✓	✓
Yousef Abdul Sattar El Maimani Member	✓	✓	x	✓	✓	x	✓
Shawgi Mohammed Mushtag Member	✓	✓	✓	✓	✓	✓	✓
Abdul Aziz Saif Al-Saif (Retired Major General) Member	✓	✓	✓	x	✓	✓	✓
Fahd Abdulmohsen Al Rasheed Memb	✓	✓	x	✓	✓	✓	✓
Hasan Shakib Al Jabri Member	✓	x	✓	✓	✓	x	✓

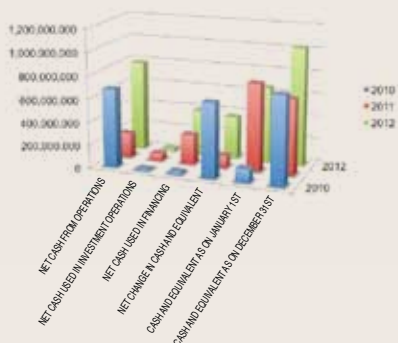
Financial Results

Income Statements for the Years 2010, 2011 and 2012



Account	2010	2011	2012
Revenues	1,193,161,075	1,465,271,088	1,687,392,692
Revenue cost	647,746,582	906,809,548	1,059,393,454
Administrative and general expenses	131,426,198	139,823,782	121,217,226
Other revenues	3,101,387	1,924,001	19,730,787
Zakat donations	34,680,474	38,219,602	45,355,099
Net income	382,409,208	420,561,759	487,051,225
Loss (profit) per share in Saudi Riyal	4,66	5,13	5,94

Cash Flows for the for the Years 2010, 2011 and 2012



ACCOUNT	2010	2011	2012
NET CASH FROM OPERATIONS	682,293,224	214,255,491	786,183,121
NET CASH USED IN INVESTMENT OPERATIONS	13,092,710	58,728,299	20,196,793
NET CASH USED IN FINANCING	23,990,345	261,298,301	398,916,751
NET CHANGE IN CASH AND EQUIVALENT	645,210,169	105,771,109	367,069,577
CASH AND EQUIVALENT AS ON JANUARY 1ST	115,613,858	760,824,027	655,052,918
CASH AND EQUIVALENT AS ON DECEMBER 31ST	760,824,027	655,052,918	1,022,122,495

The Dividend Policy

The Board of Directors recommends the announcement and payment of profits, prior to their approval by the shareholders in the General Assembly meeting. If the company decides to announce for profits, which is not obligatory anyway, it must first consider previous and anticipated profits, the cash flow available with, financing, capital requirements, the market, the general economic conditions and the Zakat payments by the company, as well as the applicable legal and regulatory considerations. The distribution of dividends is subject to certain restrictions stipulated in the company's Articles of Association, and if the profits are announced they will be distributed in Saudi Riyal.

The Board of Directors intends to adopt a policy for the distribution of dividends, which provides for the distribution of 60% - 80% of the company's annual net profits, taking into account the company's objects. The aforementioned commercial, legal and regulatory considerations should be noted in addition to the company's current financial position and income.

Bank Debts

The Company does not have any outstanding loans as of December 31st, 2012.

Regular and Zakat Payments

Answerable to the Zakat and Income Acts enforceable in the Kingdom, the company pays out its zakat after relevant pending matters are settled and inquiries sent to the Zakat and Income Authority are answered.

● **Nomination and Remuneration Committee:**

The Nomination and Remuneration Committee was created in October 2011. It is composed of three non-executive BOD members. It recommends to the Board of Directors new members in accordance with the policies and standards in place, provided that it will not nominate any person who was convicted of a crime involving a breach of honour or integrity. It carries out an annual review of necessary skills for appointment of BOD members. It writes down descriptions of BOD members' required skills and qualifications including the time needed to be spared by the prospective member to serve in the Board. Other responsibilities include the review and formation of the Board of Directors, making recommendations on necessary changes, identifies strengths and weaknesses in the Board and recommends how to deal with them as deemed fit for the company's interest. It verifies, on an annual basis the status of independent members to ensure that there is no conflict of interest in case a given member serves in another company's board of directors. It draws up clear policies on the compensation and remuneration of BOD members and senior executives taking into account the use of performance based standards. Finally, it prepares monthly and annual reports on the works of the committee and another annual disclosure report in accordance with the Articles of Association and presents such a report to the Board of Directors.



Members of the Nomination and Remuneration Committee

Name	Position
Yousef Abdul Sattar El Maimani	Chairman
Basel Mohammed Algadhib	Member
Fahd Abdulmohsen Al Rasheed	Member
Jonathan Stent-Torriani	Member



Schedule of Nomination and Remuneration Committee's meetings

Date of Meeting	10/1/2012	8/5/2012	2/8/2012	25/9/2012
Yousef Abdul Sattar El Maimani Chairman	✓	x	✓	x
Basel Mohammed Algadhib Member	✓	✓	✓	✓
Fahd Abdulmohsen Al Rasheed Member	✓	x	✓	✓
Jonathan Stent-Torriani Member	✓	✓	✓	✓



C. BOD's Committees

In observance of corporate governance, the Board of Directors has two main committees: Audit Committee and the Nomination and Remuneration Committee.

- **The Audit Committee:**

The Audit Committee is made up of three members (2 non-executives and 1 external expert in finance and accounting). The committee supervises the internal control system and internal audit in the company to verify its efficiency in carrying out the jobs and tasks defined by the Board of Directors. It reviews internal control reports and follow up with any necessary recommendation for correction measures in light of the remarks given by the committee. Other responsibilities include making recommendations to the Board of Directors to appoint, dismiss, and define the remunerations of chartered accountants and follow up with their works and reviews the audit plan with such accountants. It further examines his opinion on the company's financial statements, follow up necessary action. It also examines adopted accounting policies, gives opinion on them, send relevant recommendations to the Board of Directors and assess the company's efficiency in understanding serious risks and measures taken to monitor and face up to such risks.



Audit committee members:

Name	Position
Hasan Shakib Al Jabri	Chairman
Shawgi Mohammed Mushtag	Member
Matthew Gendal	Member

Schedule of Audit Committee's meetings

Date of Meeting	9/1/2012	25/2/2012	6/3/2012	17/7/2012	15/10/2012
Hasan Shakib Al Jabri Chairman	✓	✓	✓	✓	✓
Shawgi Mohammed Mushtag Member	✓	✓	✓	✓	✓
Matthew Gendall Member	✓	✓	✓	✓	✓

Remunerations of BOD Members

Remunerations of BoD's members and senior executives

Details	Non-Executives	Five executives getting the highest remunerations and compensations
Salaries and remunerations	1,800,000	2,764,704
Allowances	201,000	250,260
Annual periodical remunerations	Nill	-
Incentives	Nill	-
Any other compensations or in-kind privileges paid out monthly or annually	Nill	-
Total	2,001,000	3,014,964

Organizational Chart

The company is run by a team of trained cadres, who enjoy a high standard of knowledge and skills required to manage the company's operations through three administrations all of which are coordinated by the CEO.



Human Resources

The HR department assumes a central position in the whole production process. It follows, therefore, that product expansion is achieved not only by the increase of quantity (horizontal expansion), but also by improving quality of production (vertical expansion). To that end, the company recruits competent and experienced HR staff and retains high calibre personnel.

Committing itself to Saudisation as a prime interest, the company is increasingly recruiting Saudi nationals particularly persons with disabilities and women. The recruited persons with disabilities were trained and they showed good personal and mental preparation to work particularly in the production and handling processes.

Saudi girls made several successes in the company, the company's kitchens having been once a monopoly for men. They were also recruited to work at gifts and sales department under the umbrella of Saudi Women Employment Project and they work in separate departments special for women. Female performance was marked with excellence with girls managing, in several instances, to outmatch men in productivity.



D. Description of shares owned by BOD's members or by their spouses and minors

Member's Name	Owned shares	Shared owned by first degree relatives (if any)	Difference from 31/12/2011 to 31/12/2012
Khalid Abdullah Al-Molhem	1,000	Nil	0
Sami Abdulmohsen Al Hokair	1,000	Nil	0
Shawgi Mohammed Mushtag	1,000	Nil	0
Basel Mohammed Algadhib	1,000	Nil	0
Yousef Abdul Sattar El Maimani	1,000	Nil	0
Jonathan Stent-Torriani	1,000	Nil	0
Abdul Aziz Saif Al-Saif (Retired Major General)	1,000	Nil	0
Fahd Abdulmohsen Al Rasheed	1,000	Nil	0
Hasan Shakib Al Jabri	1,000	Nil	0

E. Description of shares owned by senior executives or by their spouses or minors

Member's Name	Owned shares	Shared owned by first degree relatives (if any)	Difference from 31/12/2011 to 31/12/2012
Gerhard Marschitz CEO	Nil	Nil	0
Wajdy Mohamed Al-Ghabban Deputy Chief Executive Officer	Nil	Nil	0
Amr Mohammed Sager Chief Corporate Affairs & Secretary General	Nil	Nil	0
Tarek Mohamed Tharwat Chief Audit Executive	Nil	Nil	0
Mohamed Nabi General Manager Shared Services	Nil	Nil	0
Abdelwahab Ahmed Saati Chief Commercial Officer	Nil	Nil	0
Fahad Ali Khayat GM ICPI & Performance Improvement	Nil	Nil	0
Tariq Yahya Al-Idhe Manager of HR Policy & Procedures	Nil	Nil	0
Mohamed Huzayfa Hasan Chueb Head of Procurement & Supply Chain	Nil	Nil	0
Bruno Jean Charles Heriche Chief Operations Officer	Nil	Nil	0

Saudi Airlines Catering Company
(Saudi Joint Stock Company)

Financial Statements and Auditors' Report
Year Ended December 31, 2012

Transactions with Stakeholders

Saudi Arabian Airlines holds the largest number of shares in SACC. Services given to the airline company include serving meals to its passengers and crews, preparing food menus, attending to any increase or decrease in the number of Saudi Arabian Airlines passengers and cope with such changes and providing similar services to the employees of the Airlines ground service department.

SACC concluded an agreement with Newrest Co and Strategic Catering Co under which the former will provide technical assistance and other administrative services. In return, Newrest will be paid only if certain criteria are met in accordance with the agreement. Payments made to Newrest amount to SR12 million each year.



Prospective Risks

The company's activities, financial position, operational results, cash flows and future transactions may be severely affected by any of the risks identified by the Board of Directors as critical or by any other unforeseen risk. Main risks are:

- New competitors' entry in the Saudi Market.
- Contracts with airline companies that can be terminated.
- The fierce competition in non-airline service sector.

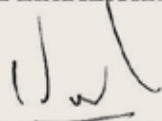
Fines


SACC was never fined for the year 2012 for any violations neither by the Ministry of Industry and Trade or by any other entity.

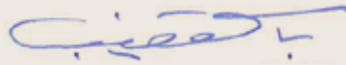
SAUDI AIRLINES CATERING COMPANY
(SAUDI JOINT STOCK COMPANY)

BALANCE SHEET
AS OF DECEMBER 31, 2012
(Expressed in Saudi Riyals)

	Note	2012	2011
ASSETS			
Current assets			
Cash and cash equivalents	3	1,022,122,495	655,052,918
Accounts receivable - trade	4	53,791,898	52,118,786
Due from related parties	9	256,147,161	511,816,225
Inventories	5	73,280,130	65,540,117
Prepaid expenses and other receivables		61,384,302	30,165,441
Total current assets		1,466,725,986	1,314,693,487
Non-current assets			
Property, plant and equipment	6	90,046,477	109,769,825
Total non-current assets		90,046,477	109,769,825
TOTAL ASSETS		1,556,772,463	1,424,463,312
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable - trade		151,631,390	115,581,607
Dividends payable		689,006	-
Accrued expenses and other liabilities	7	237,320,274	233,253,008
Total current liabilities		389,640,670	348,834,615
Non-current liabilities			
End-of-service indemnities	8	105,433,190	94,626,220
Total non-current liabilities		105,433,190	94,626,220
Shareholders' equity			
Share capital	1	820,000,000	820,000,000
Statutory reserve	11	94,421,618	45,716,496
Retained earnings		147,276,985	115,285,981
Total shareholders' equity		1,061,698,603	981,002,477
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,556,772,463	1,424,463,312


Chief Financial Officer


Chief Executive Officer


Authorized Board of Directors' Member

The accompanying notes form an integral part of these financial statements

AUDITORS' REPORT

Deloitte.

Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants
P.O. Box 442
Jeddah 21411
Kingdom of Saudi Arabia
Tel: +966 (0) 2 657 2725
Fax: +966 (0) 2 657 2722
www.deloitte.com
License No. 96
Head Office: Riyadh

AUDITORS' REPORT

To the shareholders
Saudi Airlines Catering Company
Jeddah, Saudi Arabia

Scope of Audit

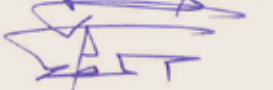
We have audited the balance sheet of SAUDI AIRLINES CATERING COMPANY (a Saudi Joint Stock Company) ("the Company") as of December 31, 2012, and the related statements of income, shareholders' equity and cash flows for the year then ended, and notes 1 to 21 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia and appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the Company's bylaws as these relate to the preparation and presentation of these financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.



Al-Mutahhar Y. Hamiduddin
License No. 296
24 Rabi'I, 1434
February 5, 2013

SAUDI AIRLINES CATERING COMPANY
(SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

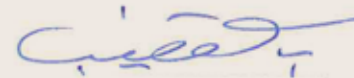
	Note	Share capital	Statutory reserve	Retained earnings	General reserve	Total
January 1, 2011	1	100,767,000	50,383,500	658,791,392	13,718,428	823,660,320
Increase in share capital	1	719,233,000	(46,723,180)	(658,791,392)	(13,718,428)	-
Net income for the year		-	-	420,561,759	-	420,561,759
Transfer to statutory reserve	11	-	42,056,176	(42,056,176)	-	-
Zakat and income tax	10	-	-	(38,219,602)	-	(38,219,602)
Dividends	12	-	-	(225,000,000)	-	(225,000,000)
December 31, 2011		820,000,000	45,716,496	115,285,981	-	981,002,477
Net income for the year		-	-	487,051,225	-	487,051,225
Transfer to statutory reserve	11	-	48,705,122	(48,705,122)	-	-
Zakat and income tax	10	-	-	(45,355,099)	-	(45,355,099)
Dividends	12	-	-	(361,000,000)	-	(361,000,000)
December 31, 2012		820,000,000	94,421,618	147,276,985	-	1,061,698,603



Chief Financial Officer



Chief Executive Officer




Authorized Board of Directors' Member

The accompanying notes form an integral part of these financial statements

SAUDI AIRLINES CATERING COMPANY
(SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

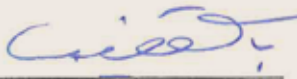
	Note	2012	2011
Revenues			
In-flight catering revenue		1,301,374,793	1,172,451,082
Sky sales revenue		176,886,061	147,052,010
Business lounge revenue		51,049,938	39,980,130
Non-airlines revenue		69,920,455	44,844,701
Other revenues		88,161,445	60,943,165
Total revenues	9	1,687,392,692	1,465,271,088
Cost of revenues			
Cost of materials and goods		688,811,950	578,395,699
Personnel costs		169,609,121	162,787,231
Rent and maintenance of production units		71,995,548	64,809,480
Depreciation		13,506,914	13,864,780
Other costs		115,469,921	86,952,358
Total cost of revenues		1,059,393,454	906,809,548
Gross profit		627,999,238	558,461,540
General and administrative expenses	13	121,217,226	139,823,782
Operating income		506,782,012	418,637,758
Other (expenses) and revenues, net	18	(19,730,787)	1,924,001
NET INCOME		487,051,225	420,561,759
Earnings per share from net operations	15	5.94	5.13



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors' Member

The accompanying notes form an integral part of these financial statements

SAUDI AIRLINES CATERING COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES

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

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

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

Accordingly the share capital of the Company became as follows:

	Shares	Value
Strategic Catering Company Limited	4,937,583	49,375,830
Saudi Arabian Airlines Corporation	4,836,816	48,368,160
Saudi Airlines Company Limited	100,767	1,007,670
Saudia Private Aviation Company Limited	100,767	1,007,670
Saudia Real Estate and Development Company Limited	100,767	1,007,670
	10,076,700	100,767,000

On March 19, 2011 the shareholders resolved to increase the share capital by SR 719,233,000 by transferring SR 658,791,392 from the retained earnings, SR 13,718,428 from general reserve and SR 46,723,180 from statutory reserve. Consequently, the current shareholding of the Company after these changes became as follows:

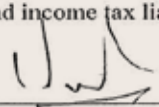
	Shares	Value
Strategic Catering Company Limited	40,180,000	401,800,000
Saudi Arabian Airlines Corporation	39,360,000	393,600,000
Saudi Airlines Company Limited	820,000	8,200,000
Saudia Private Aviation Company Limited	820,000	8,200,000
Saudia Real Estate and Development Company Limited	820,000	8,200,000
	82,000,000	820,000,000

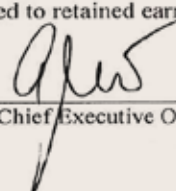
The Company finalized the related formalities and obtained the amended commercial registration on 26 Jamad’I, 1432 (April 30, 2011).

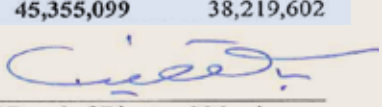
SAUDI AIRLINES CATERING COMPANY
(SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

	2012	2011
OPERATING ACTIVITIES		
Net income	487,051,225	420,561,759
Adjustments for:		
Depreciation	15,859,218	16,100,647
Allowance for doubtful debts	(3,487,883)	26,115,366
Allowance for slow moving inventories	1,536,373	(475,542)
Loss from disposal of property, plant and equipment	24,060,923	140,474
Provision for end-of-service indemnities	19,169,839	17,614,179
Changes in operating assets and liabilities:		
Accounts receivable - trade	(4,056,044)	(25,283,520)
Due from related parties	261,539,879	(261,553,347)
Inventories	(9,276,386)	(12,545,123)
Prepaid expenses and other receivables	(31,218,861)	(5,865,460)
Accounts payable - trade	36,049,783	26,125,365
Accrued expenses and other liabilities	(2,682,076)	21,184,133
Cash generated from operations	794,545,990	222,118,931
End-of-service indemnities paid	(8,362,869)	(7,863,440)
Net cash from operating activities	786,183,121	214,255,491
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(20,366,343)	(58,810,474)
Proceeds from disposal of property, plant and equipment	169,550	82,175
Net cash used in investing activities	(20,196,793)	(58,728,299)
FINANCING ACTIVITIES		
Zakat and income tax paid	(38,605,757)	(36,298,301)
Dividends paid	(360,310,994)	(225,000,000)
Net cash used in financing activities	(398,916,751)	(261,298,301)
Net change in cash and cash equivalents	367,069,577	(105,771,109)
Cash and cash equivalents, January 1	655,052,918	760,824,027
CASH AND CASH EQUIVALENTS, DECEMBER 31	1,022,122,495	655,052,918
Additional disclosure for non-cash transactions		
Capital increase from retained earnings, general reserve and statutory reserve	-	719,233,000
Bad debts written-off	5,186,407	3,966,804
Inventory written-off	480,375	475,915
Unpaid dividends	689,006	-
Zakat and income tax liabilities debited to retained earnings	45,355,099	38,219,602


Chief Financial Officer


Chief Executive Officer


Authorized Board of Directors' Member

The accompanying notes form an integral part of these financial statements

SAUDI AIRLINES CATERING COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis. An allowance is also established for items deemed to be slow moving or obsolete.

Property, plant and equipment

Land is recorded at cost. Property, plant and equipment other than land are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. The estimated useful lives of the principal classes of assets are as follows:

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

The carrying amount of all property, plant and equipment is reduced to recognize other than temporary diminution in value.

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

Impairment of non-current assets

At each balance sheet date, the Company assesses whether there are any indications, whether internal or external, of impairment in the value of non-current assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

A non-current asset is considered impaired if its carrying amount is higher than its recoverable amount. To determine impairment, the Company compares the non-current asset's carrying amount with the undiscounted estimated cash flow from the asset's use. If the carrying amount exceeds the undiscounted cash flow from the asset, the Company estimates the present value of the estimated future cash flows from the asset. The excess of the carrying amount over the present value of the estimated future cash flows from the assets is considered an impairment loss.

An impairment loss is recognized immediately in the statement of income. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior years. A reversal of an impairment loss is recognized immediately in the statement of income.

Financial assets and financial liabilities

The Company's financial assets comprise cash and cash equivalents, accounts receivable - trade and due from related parties. These financial assets are stated at their nominal values as reduced by an appropriate allowance for estimated irrecoverable amounts.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities which include accounts payable - trade are stated at their nominal values.

SAUDI AIRLINES CATERING COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

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

	Shares	Value
Saudi Arabian Airlines Corporation	29,274,000	292,740,000
Strategic Catering Company Limited	28,126,000	281,260,000
Public shareholders	24,600,000	246,000,000
	82,000,000	820,000,000

The Company is in the process of obtaining the amended bye-laws and commercial registration 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 operation and management of restaurants and groceries at airports.

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.

On August 2, 2012, the board of directors resolved to establish a limited liability company with a share capital of SR 30 million to be mainly owned and controlled by the Company. The new established company 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The following is a summary of significant accounting policies applied by the Company:

Use of estimates

The preparation of the financial statements in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Revenue recognition

Revenues are recognized when goods are delivered and services are rendered to customers and are stated net of discounts.

Expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under accounting standards generally accepted in the Kingdom of Saudi Arabia. Allocations between general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

SAUDI AIRLINES CATERING COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

Segmental analysis

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

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

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, demand deposits and highly liquid investments with original maturities of three months or less.

	2012	2011
Cash on hand	2,115,533	2,169,153
Bank balances	1,020,006,962	652,883,765
	1,022,122,495	655,052,918

4. ACCOUNTS RECEIVABLE - TRADE

	2012	2011
Trade receivables	144,996,232	146,126,595
Less: Allowance for doubtful debts	(91,204,334)	(94,007,809)
	53,791,898	52,118,786

Balances from 5 customers represent 68% (2011: 73%) of total trade receivables.

5. INVENTORIES

	2012	2011
Catering (food, beverages and other items)	27,302,845	32,125,004
Sky sales items	40,382,534	28,063,378
Packing and other materials	8,222,884	6,663,190
Spare parts	3,410,358	3,671,038
Allowance for slow moving and obsolete inventories	(6,038,491)	(4,982,493)
	73,280,130	65,540,117

SAUDI AIRLINES CATERING COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Expressed in Saudi Riyals)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

Certain categories of financial assets, such as accounts receivable, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced through the use of an allowance account with a corresponding charge to the statement of income. When a financial asset is not considered recoverable, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to the statement of income.

Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

End-of-service indemnities

End-of-service indemnities, required by Saudi Arabian Labor Law, are provided in the financial statements based on the employees' length of service.

Zakat and income tax

The Company is subject to the Regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accruals basis. The zakat charge is computed on the zakat base. Income tax is computed on adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the operating lease.

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8. END-OF-SERVICE INDEMNITIES

	2012	2011
January 1	94,626,220	84,875,481
Provision for the year	19,169,839	17,614,179
Payment during the year	(8,362,869)	(7,863,440)
December 31	105,433,190	94,626,220

9. RELATED PARTY TRANSACTIONS

During the year, the Company transacted with the following related parties:

Name	Relationship
Saudi Arabian Airlines Corporation ("Saudia")	Shareholder
Newrest Group Holding S.L.	One of the ultimate shareholders
Saudi Airlines Cargo Company	Affiliate
Saudi Ground Services Company	Affiliate
Board of directors	Connected persons

The significant transactions and the related approximate amounts are as follows:

	2012	2011
Catering and other services rendered to Saudia	1,177,176,000	1,026,241,000
Services and other expenses charged by Saudia	5,171,000	23,963,000
Net services charged and expenses re-allocated to Saudi Ground Services Company	40,687,000	29,472,000
Net services rendered to/charged by Saudi Airlines Cargo Company	16,509,000	14,238,000
Management fees	12,000,000	12,000,000
Board of directors' fees and expenses	2,001,000	1,990,000

Due from related parties as of December 31 are comprised of the following:

	2012	2011
Saudi Arabian Airlines Corporation ("Saudia")-trade account (net of allowance for doubtful debts of SR 9,134,054 – SR 10,912,147 in 2011)	245,092,434	462,952,611
Saudi Ground Services Company (net of allowance for doubtful debts of SR nil - SR 4,092,722 in 2011)	8,669,801	40,248,378
Saudi Airlines Cargo Company	2,384,926	8,615,236
	256,147,161	511,816,225

The Company's revenue and receivables are concentrated with Saudia which is a shareholder and Governmental Party.

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6. PROPERTY, PLANT AND EQUIPMENT

	January 1	Additions	Disposals	Transfers	December 31
Cost:					
Land	33,786,058	-	-	-	33,786,058
Buildings	33,315,142	465,484	(33,780,626)	-	-
Leasehold improvements	18,931,078	3,281,956	(1,636,288)	-	20,576,746
Equipment	34,191,516	12,377,754	(271,600)	-	46,297,670
Motor vehicles	26,947,935	2,653,880	(2,187,550)	13,464,593	40,878,858
Capital work-in-progress	13,464,593	1,587,269	-	(13,464,593)	1,587,269
Total Cost	160,636,322	20,366,343	(37,876,064)	-	143,126,601
Accumulated Depreciation:					
Buildings	8,891,622	2,094,346	(10,985,968)	-	-
Leasehold improvements	8,995,249	1,149,097	(402,043)	-	9,742,303
Equipment	16,217,962	7,059,992	(243,283)	-	23,034,671
Motor vehicles	16,761,664	5,555,783	(2,014,297)	-	20,303,150
Total Depreciation	50,866,497	15,859,218	(13,645,591)	-	53,080,124
Net Book Value at January 1	109,769,825				
Net Book Value at December 31					90,046,477

The buildings were constructed on land leased by Saudia from the Ministry of Defense and Civil Aviation for a period of 20 years which started from 1992 for an annual amount of SR 527,000. On assignment of the lease on incorporation of the Company, it was management's intention to renew the lease contract and accordingly, the buildings were depreciated over their estimated useful life. However, following the expiry of the contract during the year and following changes to the new lease contract to include a right by the General Authority of Civil Aviation to terminate the lease contract at any point in time with no compensation, management believes that as the future benefit is doubtful, it has decided to write-off the carrying value of SR 22.8 million.

Capital-in-progress represents the cost of machines under installation.

7. ACCRUED EXPENSES AND OTHER LIABILITIES

	2012	2011
Employees' accruals	23,308,516	20,722,956
Accrued expenses and other liabilities	153,091,217	156,260,996
Provision for restructuring	25,937,949	28,035,806
Zakat and income tax (note 10)	34,982,592	28,233,250
	237,320,274	233,253,008

Accrued expenses and other liabilities include services provided by Saudia but not invoiced amounting to SR 71,790,601 (2011: SR 59,304,380) and management fees due to Newrest Group Holding S.L amounting to SR10,200,000 (2011: SR 10,200,000) net of withholding tax of SR 1,800,000 (2011: SR 1,800,000).

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11. STATUTORY RESERVE

In accordance with the Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

12. DIVIDENDS

On 15th October 2012, the Board of Directors resolved to distribute interim dividends amounting to SR 82 million, which is equivalent to SR 1 per share, from the Company's interim profit.

On 2nd August 2012, the Board of Directors resolved to distribute interim dividends amounting to SR 164 million, which is equivalent to SR 2 per share, from the Company's interim profit.

In their annual general meeting on March 7, 2012, the shareholders ratified the interim dividends distributed during the year ended December 31, 2011 amounting to SR 225 million from the retained earnings. The shareholders also approved at the meeting, the additional distribution of SR 115 million from the Company's retained earnings as of December 31, 2011 which was paid during the year.

13. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Salaries and other benefits	60,992,892	58,666,354
Depreciation	2,352,304	2,235,867
Allowance for doubtful debts	(3,487,883)	26,115,366
Professional and technical fees	-	9,511,675
Rents	10,309,203	8,786,208
Marketing and promotional expenses	5,411,143	3,213,460
Utilities	9,014,400	5,356,206
Stationery and printing	615,293	555,636
Repair and maintenance	409,340	220,796
Travel expenses	2,708,474	2,035,517
Management fees	12,000,000	12,000,000
Board of directors' fees and expenses	2,001,000	1,989,574
Service agreement	6,234,902	1,906,249
Insurance	2,173,625	1,639,208
Others	10,482,533	5,591,666
	121,217,226	139,823,782

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The details of these transactions and balances are as follows:

	2012	2011
Revenue from Saudia	1,177,176,000	1,026,240,990
Percentage of revenue from Saudia	70%	70%
Saudia's receivable	245,092,434	462,952,611
Percentage of Saudia's receivables to the total receivables	79%	82%

10. ZAKAT AND INCOME TAX

The zakat base is comprised of the following:

	2012	2011
Non-current assets	90,046,477	109,769,825
Non-current liabilities	105,433,190	94,626,220
Shareholders' equity	981,002,477	823,660,320
Net income	487,051,225	420,561,759

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

The movement in zakat provision is as follows:

	2012	2011
January 1	24,514,069	21,328,688
Payments during the year	(24,808,674)	(21,623,293)
Provision for the year	32,757,570	24,808,674
December 31	32,462,965	24,514,069

The movement in income tax provision is as follows:

	2012	2011
January 1	3,719,181	4,983,261
Payments during the year	(13,797,083)	(14,675,008)
Provision for the year	12,597,529	13,410,928
December 31	2,519,627	3,719,181

The Company has finalized its zakat position for the year 2008.

The Company has submitted its zakat and income tax declarations for the years 2009, 2010 and 2011. The Company has paid the amounts due according to the declarations which are currently under review by the DZIT.

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17. SEGMENTAL INFORMATION

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

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

The Company's activities consist of the following business segments:

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

December 31, 2012 and 2011 by business segments are detailed below:

	Catering	Sky sales	Total
2012			
Assets	1,480,783,279	75,989,184	1,556,772,463
Liabilities	449,709,225	45,364,635	495,073,860
Sales and revenues	1,510,506,631	176,886,061	1,687,392,692
Net income	431,316,802	55,734,423	487,051,225
2011			
Assets	1,218,717,892	205,745,420	1,424,463,312
Liabilities	409,633,356	33,827,479	443,460,835
Sales and revenues	1,318,219,078	147,052,010	1,465,271,088
Net income	380,567,499	39,994,260	420,561,759

The Company operates in the principal geographical area of the Kingdom of Saudi Arabia.

18. OTHER EXPENSE AND REVENUES, NET

During the year ended December 31, 2012 the Company has written-off the carrying value of the buildings amounting to SR 22.8 million (note 6).

19. RISK MANAGEMENT

a) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. This risk is managed by the Company by monitoring the maturity profile of its financial assets and liabilities to ensure that adequate liquidity is maintained or made available, as necessary to the Company.

The Company's financial liabilities primarily consist of accounts payable and other liabilities. The majority of the financial liabilities are expected to be settled within 12 months from the balance sheet date and the Company expects to have adequate liquid funds to do so.

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14. OPERATING LEASE ARRANGEMENTS

	2012	2011
Payments under operating leases recognized as an expense during the year	55,146,055	47,069,150

Operating lease payments represent rentals payable 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 and are renewable on an annual basis.

During 2010, the Company leased a central kitchen in Riyadh from the General Authority of Civil Aviation for a period of 10 years which started 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 the lessor. As per the lease agreement the lessor is entitled to 8% of the lessee's annual sales that exceeds SR 290,000,000 to be paid in the first month of the following year.

The Company re-allocates certain leasing charges to Saudia Ground Services Company for an annual amount of SR 4,533,232 (2011: SR 4,533,232).

15. EARNINGS PER SHARE

	2012	2011
<i>EPS from net operations</i>		
Net income	487,051,225	420,561,759
Weighted average number of shares	82,000,000	82,000,000
Earnings per share	5.94	5.13
<i>EPS from continuing operations</i>		
Operating income	506,782,012	418,637,758
Weighted average number of shares	82,000,000	82,000,000
Earnings per share	6.18	5.11
<i>EPS from non-operating operations</i>		
Non-operating income	(19,730,787)	1,924,001
Weighted average number of shares	82,000,000	82,000,000
(Loss)/earnings per share	(0.24)	0.02

16. COMMITMENTS AND CONTINGENCIES

As of December 31, the Company had the following commitments:

	2012	2011
Commitments for future capital expenditure	34,868,122	4,337,537

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b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's principal financial assets are cash, accounts receivable and due from related parties.

Credit risk arises from the possibility of asset impairment occurring because counter parties cannot meet their obligations in transactions involving financial instruments. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers. The Company's credit risk is primarily attributable to its accounts receivables. The Company has established procedures to manage credit exposure by including credit approvals and credit limits and guarantees, where necessary. These procedures are mainly due to the Company's internal guidelines. An allowance for potential doubtful receivables is maintained at a level which, in the judgement of management, is adequate to provide for losses on delinquent receivables. Amounts due from related parties are principally due from Saudia, a majority shareholder and consequently management believes that its exposure to credit risk is limited on this amount.

The amounts presented in the balance sheet are net of allowance for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

20. FAIR VALUE

The fair value of the Company's financial assets and liabilities approximate their carrying amounts.

21. COMPARATIVE FIGURES

Certain figures for 2011 have been reclassified to conform with the presentation in the current year.

SAUDI AIRLINES
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