



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

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**Opinion**

We have audited the financial statements of Saudi Airlines Catering Company (“the Company”), which comprise the statement of financial position as at December 31, 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Revenue recognition**

Refer to note 3 for the accounting policy and note 21 for the related disclosure

Key audit matter	How the matter was addressed in our audit
<p>As at December 31, 2017, the Company recognized total revenue of SR 2.223 million (2016: SR 2.256 million).</p> <p>There continues to be pressure on the Company to meet expectations and targets, which may cause misstatement of revenue.</p> <p>Revenue recognition is considered a key audit matter as there is a risk that management may override controls to misstate revenue transactions, either through inappropriate assessment of the sales return or by recording fictitious revenue transactions.</p>	<p>We performed the following procedures in relation to revenue recognition:</p> <ul style="list-style-type: none"> <li>Assessed the appropriateness of the Company’s revenue recognition accounting policies by considering the requirements of relevant accounting standards ;</li> <li>Assessed the design and implementation, and tested the effectiveness of the Company’s controls, including anti-fraud controls, over the recognition of revenue as per the Company’s policy;</li> <li>Inspected sales transactions, on sample basis taking place at either side of the year-end to assess whether revenue was recognized in the correct period;</li> <li>Developed an expectation of the current year revenue balance for different segments based on trend analysis or other available information, taking into account sales volume, average prices and our understanding of the market. We then compared this expectation to actual revenue and, where relevant, completed further inquiries and testing;</li> <li>Tested manual journals posted to revenue to identify unusual or irregular items.</li> </ul>

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matters (continued)

Change in financial reporting framework

Refer to note 2 for the basis of accounting and note 28 for the related disclosure of effects of IFRS adoption

Key audit matter	How the matter was addressed in our audit
<p>For all periods up to and including the year ended December 31, 2016, the Company prepared and presented its statutory Financial Statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA.</p> <p>For the financial periods commencing January 1, 2017, the applicable regulations require the Company to prepare and present its Financial Statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA (IFRS as endorsed in Kingdom of Saudi Arabia).</p> <p>Accordingly, the Company has prepared its Financial Statements, for the year ended December 31, 2017, under IFRS as endorsed in Kingdom of Saudi Arabia using IFRS 1 – “First time Adoption of International Financial Reporting Standards” (IFRS 1).</p> <p>As part of this transition to IFRS as endorsed in the Kingdom of Saudi Arabia, the Company's management performed a detailed gap analysis to identify differences between previous reporting framework and IFRS as endorsed in Kingdom of Saudi Arabia, determined the transition adjustments in light of this gap analysis and relevant requirements of IFRS 1, and assessed the additional disclosures required in the financial statements.</p> <p>We considered this as a key audit matter as the transitional adjustments due to change in framework and transition related disclosures in the financial statements required additional attention during our audit.</p>	<p>We performed the following procedures in relation to change in financial reporting framework:</p> <ul style="list-style-type: none"> <li>• Considered the Company's governance process around the adoption of IFRS as endorsed in the Kingdom of Saudi Arabia, especially, in relation to matters requiring management to exercise its judgment;</li> <li>• Obtained an understanding of the analysis performed by management to identify all significant differences between previous reporting framework and IFRS as endorsed in the Kingdom of Saudi Arabia which can impact the Company's financial statements;</li> <li>• Evaluated the results of management's analysis and key decisions taken in respect of the transition using our knowledge of the relevant requirements of the IFRS as endorsed in the Kingdom of Saudi Arabia and our understanding of the Company's business and its operations;</li> <li>• Tested the transition adjustments by considering management's gap analysis, the underlying financial information and the computation of these adjustments; and</li> <li>• Evaluated the disclosures made in relation to the transition to IFRS as endorsed in the Kingdom of Saudi Arabia by considering the relevant requirements of IFRS 1.</li> </ul>

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Saudi Airlines Catering Company** ("the Company").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners

Certified Public Accountants

Ebrahim Oboud Baeshen  
License No: 382

Jeddah, Rajab 12, 1439H  
Corresponding to March 29, 2018