MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED
JUNE 30, 2017
AND REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2017

Table of contents **Page**

Report on review of condensed consolidated interim financial information	1
Condensed consolidated interim statement of financial position	2
Condensed consolidated interim statement of comprehensive income	3
Condensed consolidated interim statement of changes in equity	4
Condensed consolidated interim statement of cash flows	5
Notes to the condensed consolidated interim financial information	6 - 24

Report on review of Condensed Consolidated Interim Financial Information

To the shareholders of
Middle East Company for Manufacturing and Producing Paper

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Middle East Company for Manufacturing and Producing Paper and its subsidiaries (the "Group") as of June 30, 2017 and the related condensed consolidated statement of comprehensive income for the three-month and six-month periods then ended and the condensed consolidated statements of changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Ali A. Alotaibi
License Number 379

July 30, 2017

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MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of financial position
As at June 30, 2017
(Expressed in Saudi Riyals unless otherwise stated)

	Note	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)	January 1, 2016 (Unaudited)
Assets				
Non-current assets				
Property, plant and equipment	6	**1,060,288,214**	1,087,099,482	1,040,353,369
Intangible assets	7	**5,466,347**	5,581,962	6,335,584
Derivative financial instruments	8	**1,590,595**	2,715,795	83,682
Total non-current assets		**1,067,345,156**	1,095,397,239	1,046,772,635
Current assets				
Inventories		**181,064,489**	175,673,920	199,298,861
Trade receivables		**199,689,311**	174,324,793	184,536,337
Prepayments and other receivables		**15,650,126**	14,614,638	13,477,061
Other current assets	6	**77,122,299**	45,350,911	87,734,616
Cash and cash equivalents		**14,977,627**	34,379,773	30,005,552
Total current assets		**488,503,852**	444,344,035	515,052,427
Total assets		**1,555,849,008**	1,539,741,274	1,561,825,062
Equity and liabilities				
Equity				
Share capital	9	**500,000,000**	500,000,000	500,000,000
Statutory reserve	10	**68,992,933**	66,850,115	57,359,377
Retained earnings		**108,400,710**	126,615,345	67,599,141
Total equity		**677,393,643**	693,465,460	624,958,518
Liabilities				
Non-current liabilities				
Long-term borrowings	11	**378,341,343**	390,024,783	427,644,708
Employees' end of service benefits	12	**32,024,989**	29,837,970	26,625,197
Total non-current liabilities		**410,366,332**	419,862,753	454,269,905
Current liabilities				
Zakat payable		**2,128,396**	1,630,533	1,769,856
Current portion of long-term borrowings	11	**109,528,663**	111,709,858	190,170,283
Short-term borrowings		**263,555,736**	241,015,597	211,809,369
Trade and other payables		**81,357,453**	70,051,870	76,932,092
Other current liabilities		**11,518,785**	2,005,203	1,915,039
Total current liabilities		**468,089,033**	426,413,061	482,596,639
Total liabilities		**878,455,365**	846,275,814	936,866,544
Total equity and liabilities		**1,555,849,008**	1,539,741,274	1,561,825,062

The accompanying notes from 1 to 20 form an integral part of these consolidated interim financial information.

M.S

Chief Financial Officer

Chief Executive Officer

Authorized Member of Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of comprehensive income
For the three-month and six-month periods ended June 30, 2017
(Expressed in Saudi Riyals unless otherwise stated)

	Note	Three-month period ended June 30, 2017 (Unaudited)	Three-month period ended June 30, 2016 (Unaudited)	Six-month period ended June 30, 2017 (Unaudited)	Six-month period ended June 30, 2016 (Unaudited)
Sales		**186,718,860**	164,820,262	**353,218,476**	341,360,699
Cost of sales		**(141,300,273)**	(136,448,347)	**(276,130,200)**	(264,191,819)
Gross profit		**45,418,587**	28,371,915	**77,088,276**	77,168,880
Selling and distribution expenses		**(7,163,781)**	(11,094,741)	**(16,726,784)**	(21,876,483)
General and administrative expenses		**(12,741,556)**	(14,272,111)	**(23,780,742)**	(27,763,138)
Fair value (loss) gain on derivative financial instruments		**(322,317)**	3,572,646	**(1,125,200)**	3,223,124
Other income (expenses), net		**865,382**	(147,784)	**1,334,032**	(1,418,696)
Operating profit		**26,056,315**	6,429,925	**36,789,582**	29,333,687
Net gain on claim for expropriated land and premises	19	**-**	91,963,702	**-**	91,963,702
Finance costs		**(7,453,968)**	(7,392,170)	**(14,832,199)**	(13,008,383)
Profit before zakat		**18,602,347**	91,001,457	**21,957,383**	108,289,006
Zakat expense		**(426,831)**	(2,687,058)	**(529,200)**	(3,199,664)
Profit for the period		**18,175,516**	88,314,399	**21,428,183**	105,089,342
Other comprehensive income items that will never be reclassified to profit or loss:					
Actuarial losses	12	**-**	(350,111)	**-**	(700,223)
Total comprehensive income		**18,175,516**	87,964,288	**21,428,183**	104,389,119
Earnings per share					
Basic and diluted	13	**0.36**	1.77	**0.43**	2.10

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Authorized Member of Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
A Saudi Joint Stock Company)
Condensed consolidated interim statement of changes in equity
For the six-month period ended June 30, 2017
(Expressed in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance as at January 1, 2017 (Unaudited)		**500,000,000**	**66,850,115**	**126,615,345**	**693,465,460**
Profit for the period		-	-	**21,428,183**	**21,428,183**
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		-	-	**21,428,183**	**21,428,183**
Transfer to statutory reserve	10	-	**2,142,818**	**(2,142,818)**	-
Dividends	17	-	-	**(37,500,000)**	**(37,500,000)**
Balance as at June 30, 2017 (Unaudited)		**500,000,000**	**68,992,933**	**108,400,710**	**677,393,643**
Balance as at January 1, 2016 (Unaudited)		500,000,000	57,359,377	67,599,141	624,958,518
Profit for the period		-	-	105,089,342	105,089,342
Other comprehensive loss for the period		-	-	(700,223)	(700,223)
Total comprehensive income for the period		-	-	104,389,119	104,389,119
Transfer to statutory reserve	10	-	10,508,934	(10,508,934)	-
Dividends	17	-	-	(25,000,000)	(25,000,000)
Balance as at June 30, 2016 (Unaudited)		500,000,000	67,868,311	136,479,326	704,347,637

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M.S

Chief Financial Officer

Chief Executive Officer

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MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of cash flows
For the six-month period ended June 30, 2017
(Expressed in Saudi Riyals unless otherwise stated)

	Note	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Cash flows from operating activities			
Profit before zakat		**21,957,383**	108,289,006
Adjustments for:			
Depreciation and amortization	6, 7	**44,589,721**	38,569,065
Finance costs		**14,832,199**	13,008,383
Gain on sale of property and equipment		**(287,160)**	(128,830)
(Reversal of allowance) allowance for doubtful accounts		**(365,711)**	116,419
Allowance for slow moving inventories		**1,600,000**	2,350,000
Employees' end of service benefits provision	12	**2,974,542**	2,460,974
Fair value loss (gain) on derivative financial instruments		**1,125,200**	(3,223,124)
Net gain on claim for expropriated land and premises	19	**-**	(91,963,702)
Changes in working capital:			
Inventories		**(6,990,569)**	20,146,404
Trade receivables		**(24,998,807)**	1,833,147
Prepayments and other receivables		**(1,035,488)**	(4,523,795)
Other current assets		**(31,771,388)**	(7,477,154)
Trade and other payables		**10,222,120**	16,443,334
Other current liabilities		**9,513,582**	1,348,860
Cash generated from operations		**41,365,624**	97,248,987
Finance costs payments		**(12,139,124)**	(17,814,979)
Zakat payments		**(31,337)**	-
Employees' end of service benefit payments	12	**(787,523)**	(1,897,874)
Net cash inflow from operating activities		**28,407,640**	77,536,134
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	6, 7	**(17,676,148)**	(94,226,065)
Proceeds from sale of property and equipment		**300,470**	149,658
Net cash outflow from investing activities		**(17,375,678)**	(94,076,407)
Cash flows from financing activities			
Net change in short-term borrowings		**22,540,139**	12,290,556
Proceeds from long-term borrowings		**46,373,753**	164,039,000
Repayments of long-term borrowings		**(61,848,000)**	(168,709,000)
Dividends paid	17	**(37,500,000)**	-
Net cash (outflow) inflow from financing activities		**(30,434,108)**	7,620,556
Net change in cash and cash equivalents		**(19,402,146)**	(8,919,717)
Cash and cash equivalents at beginning of period		**34,379,773**	30,005,552
Cash and cash equivalents at end of period		**14,977,627**	21,085,835

The accompanying notes from 1 to 20 form an integral part of these consolidated interim financial information.

M.S

Chief Financial Officer | Chief Executive Officer | Authorized Member of Board

(Expressed in Saudi Riyals unless otherwise stated)

1. General information

Middle East Company for Manufacturing and Producing Paper (“MEPCO” or the “Company”) and its subsidiaries (collectively “the Group”) are engaged in production and sale of container board and industrial paper. MEPCO is a Saudi Joint stock Company incorporated and operating in the Kingdom of Saudi Arabia.

The Company obtained its Commercial Registration No. 4030131516 on Rajab 3, 1421H, corresponding to December 31, 2000. During the year 2012, the legal status of the Company converted from a limited liability company into a Saudi Closed Joint Stock Company. The Ministry of Commerce approved the conversion of the Company to a Saudi Closed Joint Stock Company by Ministerial Decision No. 44 dated Safar 14, 1433H (January 8, 2012). The Company’s application for its initial public offering was accepted by the Capital Market Authority (CMA) on Jumad-ul-Awal 25, 1436H (March 16, 2015). The Company was converted to Saudi Joint Stock Company on Rajab 14, 1436H (May 3, 2015).

At June 30 2017, the Company had investments in the following subsidiaries (collectively referred to as “Group”).

Subsidiary name	Country of incorporation	Principal business activity	Ownership interest
Waste Collection and Recycling Company Limited	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	97% Directly 3% indirectly Effectively 100%
Special Achievements Company Limited	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	97% Directly 3% indirectly Effectively 100%

2. Basis of preparation

2.1 Statement of compliance

These condensed consolidated interim financial information of the Company have been prepared in compliance with IAS 34 “Interim Financial Reporting” and IFRS 1 “First time adoption of International Financial Reporting Standards” as endorsed by Saudi Organization for Certified Public Accountants (SOCPA) in the Kingdom of Saudi Arabia as well as other standards and pronouncements endorsed by SOCPA.

For all periods up to and including the year ended December 31, 2016, the Group prepared its financial statements in accordance with local generally accepted accounting principles as issued by SOCPA (“previous GAAP”). The Group will prepare its first annual consolidated financial statements for the year ending December 31, 2017 in accordance with IFRS as endorsed by SOCPA in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA. Also see Note 4.

These condensed consolidated interim financial information does not include all the information and disclosures required in the annual consolidated financial statements. IAS 34 states that the interim condensed financial information is intended to provide an update on the latest complete set of annual financial statements. Hence, IAS 34 requires less disclosure in interim financial information than IFRSs requires in annual financial statements. However, since the Group’s latest annual financial statements were prepared using previous GAAP, this (first) condensed consolidated interim financial information includes some additional disclosures to enable the users to understand how the transition to IFRSs have affected previously reported amounts.

a) Accounting convention / Basis of measurement

This condensed consolidated interim financial information has been prepared on a historical cost basis except for derivative financial instruments which are measured at fair value.

(Expressed in Saudi Riyals unless otherwise stated)

b) Changes in accounting policies

Standards issued but not yet effective up to the date of issuance of the Group's condensed consolidated interim financial information are listed below.

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted	IFRS 9 – Financial instruments	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
Annual reporting periods beginning on or after 1 January 2019, early adoption is permitted	IFRS 16 – Leases	IFRS 16 proposes a lease classification that would be based on the nature of asset that was the subject of the lease. Accordingly, all leases would be classified as Type A or Type B leases. The standard features a right of use (ROU) model that would require lessees to recognise most leases on the balance sheets as lease liabilities with corresponding right of use assets.
Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted	IFRS 15 – Revenue from contracts with customers	IFRS 15 establishes a five step model for all types of revenue contracts, accordingly revenue can either be recognised at appoint in time or over a period of time. The standard replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for Construction of Real Estate and IFRIC 18 Transfer of Assets from Customers.
Annual reporting periods beginning on or after January 1, 2021, early adoption is permitted	IFRS 17 - Insurance contracts	IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.
Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted	IFRIC 22 - Foreign currency transactions and advance consideration	IFRIC 22 addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.
Annual reporting periods beginning on or after January 1, 2019, early adoption is permitted	IFRIC 23 - Uncertainty over income tax treatments	IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

The Group is currently assessing the implications of adopting the above mentioned standards on the Group's consolidated financial statements on adoption.

c) Functional and presentation currency

These condensed consolidated interim financial information of the Group are presented in Saudi Arabian Riyals which is the functional and presentation currency of all of the entities in the Group.

2.2 Use of judgments and estimates

The preparation of Group's condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below. The Group based its assumptions and estimates on parameters available when the condensed consolidated interim financial information was prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Information about estimates and judgments made in applying accounting policies that could potentially have an effect on the amounts recognized in the condensed consolidated interim financial information, are discussed below:

(a) *Allowance for impairment of trade receivables*

An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group provides an amount as allowance for doubtful trade receivables on a monthly basis and reassesses the closing balance at each reporting date based on ageing of receivables and the detailed analysis of receivable from each customers on a case to case basis and adjusts the closing balance of the allowance accordingly.

(b) *Allowance for inventory obsolescence*

The Group determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to sales or use. The estimate of the Group's allowance for inventory obsolescence could change from period to period, which could be due to differing remaining useful life of the portfolio of inventory from year to year.

(c) *Useful lives and residual values of property, plant and equipment*

The management determines the estimated useful lives and residual values of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the useful lives and residual value annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

(d) *Impairment of non-financial assets with definite useful lives*

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell, or its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

(e) *Employee benefits – defined benefit plan*

The value of post-employment defined benefits are the present value of the related obligation, as determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed annually.

3. Significant accounting policies

The accounting policies set out below have been applied consistently in the preparation of this condensed consolidated interim financial information and in preparing the opening statement of financial position at January 1, 2016 for the purposes of transition to IFRS, except for the application of relevant exceptions or available exemptions as stipulated in IFRS 1. Details of such exceptions and exemption are disclosed in Note 4.

3.1 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be met:

i) the Group has power over the entity;
ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii) the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the year, if any, are included in the condensed consolidated statement of comprehensive income from the date of the acquisition or up to the date of disposal, as appropriate.

(b) Transactions eliminated on consolidation

Intra-group balances and transactions, arising from intra-group transactions, are eliminated in preparing the condensed consolidated interim financial information. Income, expenses and unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Property, plant and equipment

a) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within other income in profit or loss.

b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

c) Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Years
• Buildings and mobile cabinets	6 – 33
• Machinery and equipment	2 – 30
• Furniture and fixtures	5 – 20
• Motor vehicles	4 – 5

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively if required. For discussion on impairment assessment of property, plant and equipment, please refer note 3.9.

3.3 Intangible assets

Intangible assets comprise software, which have finite lives and are amortised over five years from the implementation date. These are tested for impairment whenever there is an indication that the intangible may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least annually. Any change in the estimated useful life is treated as a change in accounting estimate and accounted for prospectively.

3.4 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average method, and includes expenditure 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 costs of completion and selling expenses.

3.5 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other highly liquid investments with original maturities of three months or less from the date of acquisition.

3.6 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

3.7 Financial instruments

(i) Classification

The Group classifies its financial assets, to the extent applicable, in the following categories:

- financial assets at fair value through profit or loss (FVTPL)
- loans and receivables
- held-to-maturity investments
- available-for-sale financial assets (AFS)

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(ii) Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at fair value through profit or loss' – in profit or loss within other income or other expenses
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

(v) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.
Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(vi) Income recognition

Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividends

Dividends are recognised as income in other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

3.8 Derivative financial instruments

Derivative financial instruments, principally representing profit rate swap, are initially recorded at cost and re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instrument, as it does not qualify for hedge accounting, are recognized in profit or loss as part of “Fair value (loss)/gain on derivative financial instruments“ as they arise and the resulting positive and negative fair values are reported under assets and liabilities, respectively, in the consolidated statement of financial position.

3.9 Leases

Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the asset or assets subject to the lease arrangement. Payments made under operating leases are charged to profit or loss on a Straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognized as an expense in the period in which termination takes place.

3.10 Impairment of assets

The carrying amounts of the Group’s non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit (“CGU”) exceeds the recoverable amount, which is the higher of the fair value less costs of disposal and value in use. The fair value less costs of disposal is arrived based on available data from binding sales transactions at arm’s length, for similar assets. The value in use is arrived based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre- tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

3.11 Employee benefits

Short-term employee benefits

Short term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment benefits

Defined benefit plans

The Group’s obligation under employee end of service benefit plan is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Remeasurements of the defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Group determines the interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

3.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.13 Revenue

Sale of goods is recognised when the significant risks and rewards of ownership has been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measure net of returns, trade discounts and volume rebates. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement.

3.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

IAS 23, Borrowing cost requires any incremental transaction cost to be amortized using the Effective Interest Rate (EIR). The Group accounts for finance cost (Interest cost and amortization of transaction cost) as per the effective interest rate method. For floating rate loans, EIR determined at initial recognition of loan liabilities is used for the entire contract period. Borrowing cost incurred for any qualifying assets are capitalized as part of the cost of the asset.

3.15 Zakat

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiary is charged to the profit or loss. Additional amounts payable, if any, at the finalization of final assessments are accounted for in the period in which these are determined.

Zakat expense are recognized in each interim period based on the best estimate of the weighted average annual zakat rate expected for the full financial year. Amounts accrued for zakat expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual zakat rate changes.

3.16 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3.17 Segment reporting

Operating Segment

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

An operating segment is group of assets and operations:

(i) engaged in revenue producing activities;
(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
(iii) financial information is separately available.

3.18 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(Expressed in Saudi Riyals unless otherwise stated)

4. First time adoption of IFRS

This condensed consolidated interim financial information for the three-month and six-month periods ended June 30, 2017 has been prepared in compliance with IAS 34 “Interim Financial Reporting” and IFRS 1 “First time adoption of International Financial Reporting Standards” as endorsed by SOCPA in the Kingdom of Saudi Arabia. For periods up to and including the year ended December 31, 2016, the Company prepared its interim financial statements in accordance with the previous GAAP as issued by SOCPA.

Accordingly, the Group has prepared condensed consolidated interim financial information that comply with IAS 34 “Interim Financial Reporting” as endorsed by SOCPA as at June 30, 2017, together with the comparative condensed consolidated statement of financial position as of December 31, 2016 and January 1, 2016 and condensed consolidated interim statement of comprehensive income for the three-month and six month periods ended June 30, 2016, as described in the summary of significant accounting policies (see Note 3). In preparing the condensed consolidated interim financial information, the Company’s opening statement of financial position was prepared as at January 1, 2016 which is the Company’s date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its previous GAAP financial statements, including the statement of financial position as at January 1, 2016 and the financial statements for the periods ended June 30, 2016 and December 31, 2016.

4.1 Reconciliation of equity as at January 1, 2016 (date of transition to IFRS)

	Note	SOCPA January 1, 2016 (Audited)	IFRS adjustments	IFRS January 1, 2016 (Unaudited)
Assets				
Non-current assets				
Property, plant and equipment	a	**1,071,980,001**	(31,626,632)	1,040,353,369
Intangible assets		**6,335,584**	-	6,335,584
Derivative financial instruments		**83,682**	-	83,682
Total non-current assets		**1,078,399,267**	(31,626,632)	1,046,772,635
Current assets				
Inventories		**199,298,861**	-	199,298,861
Trade receivables		**184,536,337**	-	184,536,337
Prepayments and other receivables		**13,477,061**	-	13,477,061
Other current assets		**87,734,616**	-	87,734,616
Cash and cash equivalents		**30,005,552**	-	30,005,552
Total current assets		**515,052,427**	-	515,052,427
Total assets		**1,593,451,694**	(31,626,632)	1,561,825,062
Equity and liabilities				
Equity				
Share capital		**500,000,000**	-	500,000,000
Statutory reserve		**57,359,377**	-	57,359,377
Retained earnings		**100,645,272**	(33,046,131)	67,599,141
Total equity		**658,004,649**	(33,046,131)	624,958,518
Liabilities				
Non-current liabilities				
Long-term borrowings	b	**427,680,086**	(35,378)	427,644,708
Employees’ end of service benefits	c	**24,442,833**	2,182,364	26,625,197
Total non-current liabilities		**452,122,919**	2,146,986	454,269,905
Current liabilities				
Zakat payable		**1,769,856**	-	1,769,856
Current portion of long-term borrowings	b	**190,962,422**	(792,139)	190,170,283
Short-term borrowings		**211,809,369**	-	211,809,369
Trade and other payables		**76,932,092**	-	76,932,092
Other current liabilities	d	**1,850,387**	64,652	1,915,039
Total current liabilities		**483,324,126**	(727,487)	482,596,639
Total liabilities		**935,447,045**	1,419,499	936,866,544
Total equity and liabilities		**1,593,451,694**	(31,626,632)	1,561,825,062

(Expressed in Saudi Riyals unless otherwise stated)

4.2 Reconciliation of equity as at December 31, 2016

	Note	SOCPA December 31, 2016 (Audited)	IFRS adjustments	IFRS December 31, 2016 (Unaudited)
Assets				
Non-current assets				
Property, plant and equipment	a	**1,104,022,247**	(16,922,765)	1,087,099,482
Intangible assets		**5,581,962**	-	5,581,962
Derivative financial instruments		**2,715,795**	-	2,715,795
Total non-current assets		**1,112,320,004**	(16,922,765)	1,095,397,239
Current assets				
Inventories		**175,673,920**	-	175,673,920
Trade receivables		**174,324,793**	-	174,324,793
Prepayments and other receivables		**14,614,638**	-	14,614,638
Other current assets		**45,350,911**	-	45,350,911
Cash and cash equivalents		**34,379,773**	-	34,379,773
Total current assets		**444,344,035**	-	444,344,035
Total assets		**1,556,664,039**	(16,922,765)	1,539,741,274
Equity and liabilities				
Equity				
Share capital		**500,000,000**	-	500,000,000
Statutory reserve		**65,344,763**	1,505,352	66,850,115
Retained earnings		**147,513,750**	(20,898,405)	126,615,345
Total equity		**712,858,513**	(19,393,053)	693,465,460
Liabilities				
Non-current liabilities				
Long-term borrowings	b	**389,695,972**	328,811	390,024,783
Employees' end of service benefits	c	**27,601,148**	2,236,822	29,837,970
Total non-current liabilities		**417,297,120**	2,565,633	419,862,753
Current liabilities				
Zakat payable		**1,630,533**	-	1,630,533
Current portion of long-term borrowings	b	**112,117,300**	(407,442)	111,709,858
Short-term borrowings		**241,015,597**	-	241,015,597
Trade and other payables		**70,051,870**	-	70,051,870
Other current liabilities	d	**1,693,106**	312,097	2,005,203
Total current liabilities		**426,508,406**	(95,345)	426,413,061
Total liabilities		**843,805,526**	2,470,288	846,275,814
Total equity and liabilities		**1,556,664,039**	(16,922,765)	1,539,741,274

(Expressed in Saudi Riyals unless otherwise stated)

4.3 Reconciliation of equity as at June 30, 2016

	Note	SOCPA June 30, 2016 (Unaudited)	IFRS adjustments	IFRS June 30, 2016 (Unaudited)
Assets				
Non-current assets				
Property, plant and equipment	a	**1,122,658,576**	(25,192,024)	1,097,466,552
Intangible assets		**6,016,044**	-	6,016,044
Derivative financial instruments		**3,306,806**	-	3,306,806
Total non-current assets		**1,131,981,426**	(25,192,024)	1,106,789,402
Current assets				
Inventories		**176,802,457**	-	176,802,457
Trade receivables		**182,586,771**	-	182,586,771
Prepayments and other receivables		**18,000,856**	-	18,000,856
Other current assets		**197,454,110**	-	197,454,110
Cash and cash equivalents		**21,085,835**	-	21,085,835
Total current assets		**595,930,029**	-	595,930,029
Total assets		**1,727,911,455**	(25,192,024)	1,702,719,431
Equity and liabilities				
Equity				
Share capital		**500,000,000**	-	500,000,000
Statutory reserve		**67,229,653**	638,658	67,868,311
Retained earnings		**164,477,754**	(27,998,428)	136,479,326
Total equity		**731,707,407**	(27,359,770)	704,347,637
Liabilities				
Non-current liabilities				
Long-term borrowings	b	**464,138,142**	206,113	464,344,255
Employees' end of service benefits	c	**25,428,077**	2,460,443	27,888,520
Total non-current liabilities		**489,566,219**	2,666,556	492,232,775
Current liabilities				
Zakat payable		**4,969,520**	-	4,969,520
Dividend payable		**25,000,000**	-	25,000,000
Current portion of long-term borrowings	b	**148,328,300**	(632,710)	147,695,590
Short-term borrowings		**224,099,925**	-	224,099,925
Trade and other payables		**101,110,085**	-	101,110,085
Other current liabilities	d	**3,129,999**	133,900	3,263,899
Total current liabilities		**506,637,829**	(498,810)	506,139,019
Total liabilities		**996,204,048**	2,167,746	998,371,794
Total equity and liabilities		**1,727,911,455**	(25,192,024)	1,702,719,431

(Expressed in Saudi Riyals unless otherwise stated)

4.4 Reconciliation of interim statement of comprehensive income for the three-month period ended June 30, 2016

	Note	SOCPA June 30, 2016 (Unaudited)	IFRS adjustments	IFRS June 30, 2016 (Unaudited)
Sales		**164,820,262**	-	164,820,262
Cost of sales	a,c,d	**(139,597,503)**	3,149,156	(136,448,347)
Gross profit		**25,222,759**	3,149,156	28,371,915
Selling and distribution expenses	c	**(11,116,010)**	21,269	(11,094,741)
General and administrative expenses	c	**(14,443,608)**	171,497	(14,272,111)
Fair value gain on derivative financial instruments		**3,572,646**	-	3,572,646
Other expenses, net		**(147,784)**	-	(147,784)
Income from operations		**3,088,003**	3,341,922	6,429,925
Net gain on claim for expropriated land and premises		**91,963,702**	-	91,963,702
Finance costs	b	**(6,744,357)**	(647,813)	(7,392,170)
Profit before Zakat		**88,307,348**	2,694,109	91,001,457
Zakat expense		**(2,687,058)**	-	(2,687,058)
Profit for the period		**85,620,290**	2,694,109	88,314,399
Other comprehensive income items that will never be reclassified to profit or loss:				
Actuarial losses		**-**	(350,111)	(350,111)
Total comprehensive income		**85,620,290**	2,343,998	87,964,288

4.5 Reconciliation of interim statement of comprehensive income for the six-month period ended June 30, 2016

	Note	SOCPA June 30, 2016 (Unaudited)	IFRS adjustments	IFRS June 30, 2016 (Unaudited)
Sales		**341,360,699**	-	341,360,699
Cost of sales	a,c,d	**(270,816,399)**	6,624,580	(264,191,819)
Gross profit		**70,544,300**	6,624,580	77,168,880
Selling and distribution expenses	c	**(21,890,539)**	14,056	(21,876,483)
General and administrative expenses	c	**(27,912,006)**	148,868	(27,763,138)
Fair value gain on derivative financial instruments		**3,223,124**	-	3,223,124
Other expenses, net		**(1,418,696)**	-	(1,418,696)
Income from operations		**22,546,183**	6,787,504	29,333,687
Net gain on claim for expropriated land and premises		**91,963,702**	-	91,963,702
Finance costs	b	**(12,607,463)**	(400,920)	(13,008,383)
Profit before Zakat		**101,902,422**	6,386,584	108,289,006
Zakat expense		**(3,199,664)**	-	(3,199,664)
Profit for the period		**98,702,758**	6,386,584	105,089,342
Other comprehensive income items that will never be reclassified to profit or loss:				
Actuarial losses		**-**	(700,223)	(700,223)
Total comprehensive income		**98,702,758**	5,686,361	104,389,119

(Expressed in Saudi Riyals unless otherwise stated)

4.6 Reconciliation of statement of comprehensive income for the year ended December 31, 2016

	Note	SOCPA December 31, 2016 (Audited)	IFRS adjustments	IFRS December 31, 2016 (Unaudited)
Sales		**634,404,523**	-	634,404,523
Cost of sales	a,c,d	**(518,416,649)**	15,294,868	(503,121,781)
Gross profit		**115,987,874**	15,294,868	131,282,742
Selling and distribution expenses	c	**(39,400,152)**	29,526	(39,370,626)
General and administrative expenses	c	**(59,869,352)**	478,016	(59,391,336)
Fair value gain on derivative financial instruments		**2,632,113**	-	2,632,113
Other expenses, net		**(1,260,225)**	-	(1,260,225)
Income from operations		**18,090,258**	15,802,410	33,892,668
Net gain on claim for expropriated land and premises		**91,963,702**	-	91,963,702
Finance costs	b	**(28,887,356)**	(748,886)	(29,636,242)
Profit before Zakat		**81,166,604**	15,053,524	96,220,128
Zakat expense		**(1,312,740)**	-	(1,312,740)
Profit for the period		**79,853,864**	15,053,524	94,907,388
Other comprehensive income items that will never be reclassified to profit or loss:				
Actuarial losses		**-**	(1,400,446)	(1,400,446)
Total comprehensive income		**79,853,864**	13,653,078	93,506,942

a) Componentization of property, plant and equipment

Under SOCPA, the Group has not analyzed property, plant and equipment into major components with different useful lives, as there is no specific requirements to do so by SOCPA. However, under IFRS, such componentization exercise is mandatory which resulted in decrease in net book value of Saudi Riyals 31.63 million at the date of transition. This adjustment was recognized in the opening retained earnings.

In the subsequent periods presented, the Group has not recognized depreciation on these fixed assets.

b) Re-measurement of loan

The Group has re-measured the outstanding amount of loan using effective interest rate method. The change of Saudi Riyals 0.83 million at the date of transition due to re-measurement is recognised in the opening retained earnings at the date of transition as financial charges.

In the subsequent periods presented, the Group has recognised unwinding of discounted value.

c) Re-measurement of employee defined benefits obligation

Under SOCPA, the Group recognized costs related to its employees' defined benefits as current value of vested benefits to which the employee is entitled whereas under IFRS, such obligation is recognized on actuarial basis. The change of Saudi Riyals 2.18 million at the date of transition between the current provision and provision based on actuarial valuation is recognized in the opening retained earnings.

In the subsequent periods presented, current services and interest costs are recognized in the statement of profit or loss whereas actuarial gains / losses are recognised in the other comprehensive income.

d) Deferred rent

Under SOCPA, the Group accounted for lease rentals payable as and when accrued. Upon transition to IFRS, the Group accounts for the lease rentals on a straight line basis over the period of lease. As at transition date, an amount of Saudi Riyals 0.06 million is recognised as deferred rent payable.

e) Statement of cash flows

The transition from previous GAAP to IFRS did not have a material impact on the presentation of interim statement of cash flows.

(Expressed in Saudi Riyals unless otherwise stated)

5. Operating segments

The Group has two operating and reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's top management reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Manufacturing segment – represents manufacturing of container board and industrial paper. Trading segment - represents wholesale and retail sales of paper, carton and plastic waste.

Segment results that are reported to the top management (Chairman Board of Directors, Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO)) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues and profit (loss) before zakat, as included in the internal management reports that are reviewed by the top management. The following table presents segment information for the three-month and six-month periods ended June 30, 2017:

	Manufacturing	Trading	Elimination	Total
Operating segment results for the six-months ended June 30, 2017 (Unaudited)				
Revenues	326,337,414	155,473,473	(128,592,411)	**353,218,476**
External revenues	326,337,414	26,881,062	-	**353,218,476**
Segment profit (loss) before zakat	21,951,887	580,965	(575,469)	**21,957,383**
Operating segment results for the three-months ended June 30, 2017 (Unaudited)				
Revenues	175,551,677	79,951,128	(68,783,945)	**186,718,860**
External revenues	175,551,677	11,167,183	-	**186,718,860**
Segment profit (loss) before zakat	18,596,851	1,616,945	(1,611,449)	**18,602,347**
Operating segment results for the six-months ended June 30, 2016 (Unaudited)				
Revenues	315,209,101	119,785,779	(93,634,181)	341,360,699
External revenues	315,209,101	26,151,598	-	341,360,699
Segment profit (loss) before zakat	107,556,263	548,083	184,660	108,289,006
Operating segment results for the three-months ended June 30, 2016 (Unaudited)				
Revenues	147,304,358	58,382,223	(40,866,319)	164,820,262
External revenues	147,304,358	17,515,904	-	164,820,262
Segment profit (loss) before zakat	90,541,439	(601,204)	1,061,222	91,001,457
As of June 30, 2017 (Unaudited)				
Total assets	1,496,145,569	152,795,939	(93,092,500)	**1,555,849,008**
Total liabilities	818,751,926	88,437,326	(28,733,887)	**878,455,365**
As of December 31, 2016 (Unaudited)				
Total assets	1,483,116,261	153,246,835	(96,621,822)	1,539,741,274
Total liabilities	789,650,801	89,463,691	(32,838,678)	846,275,814
As of January 1, 2016 (Unaudited)				
Total assets	1,491,751,882	150,019,153	(79,945,973)	1,561,825,062
Total liabilities	866,793,364	74,356,432	(4,283,252)	936,866,544

The Group makes sales in local market and foreign markets in Middle East, Africa, Asia and Europe. Export sales during the three-months and six-months period ended June 30, 2017 amounted to Saudi Riyals 65.7 million and Saudi Riyals 147.9 million respectively (three-months and six-months period ended June 30, 2016: Saudi Riyals 71.4 million and Saudi Riyals 141.6 million, respectively).

(Expressed in Saudi Riyals unless otherwise stated)

6. Property, plant and equipment

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and fixtures	Motor vehicles	Capital work-in-progress	Total
January 1, 2017							
Cost	66,770,400	169,466,230	1,307,186,083	27,708,616	42,565,315	81,178,569	1,694,875,213
Accumulated depreciation	-	(40,679,930)	(511,880,378)	(21,804,889)	(33,410,534)	-	(607,775,731)
Net book value	66,770,400	128,786,300	795,305,705	5,903,727	9,154,781	81,178,569	1,087,099,482
Net book value – January 1, 2017	66,770,400	128,786,300	795,305,705	5,903,727	9,154,781	81,178,569	1,087,099,482
Additions	-	275,481	5,382,098	280,251	291,550	11,128,301	17,357,681
Disposals	-	-	(3)	-	(13,307)	-	(13,310)
Transfers	-	1,987,296	55,809,281	-	-	(57,796,577)	-
Depreciation charge	-	(2,705,313)	(38,619,806)	(1,394,444)	(1,436,076)	-	(44,155,639)
Net book value – June 30, 2017	**66,770,400**	**128,343,764**	**817,877,275**	**4,789,534**	**7,996,948**	**34,510,293**	**1,060,288,214**
June 30, 2017							
Cost	66,770,400	171,729,007	1,368,188,462	27,988,867	41,502,079	34,510,293	1,710,689,108
Accumulated depreciation	-	(43,385,243)	(550,311,187)	(23,199,333)	(33,505,131)	-	(650,400,894)
Net book value	**66,770,400**	**128,343,764**	**817,877,275**	**4,789,534**	**7,996,948**	**34,510,293**	**1,060,288,214**

During the three-month period ended March 31, 2017, the Company paid an advance amounting to Saudi Riyals 30 million for acquisition of a plot of land and accordingly such advance was initially included in capital work-in-progress as at March 31, 2017. During the three-month period ended June 30, 2017 the Implementation Court held the transaction of the auction of land and accordingly such advance is reclassified to other receivables as the amount is expected to be paid back to the Company in 2017.

Capital work-in-progress at June 30, 2017 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during 2017. See also Note 15 for capital commitments.

All land, buildings and mobile cabinets, machinery and equipment and furniture and office equipment relating to the Company are pledged as collateral to Saudi Industrial Development Fund (SIDF) as a first degree pledge and to a commercial bank as a second degree pledge (see Note 11).

7. Intangible asset

Computer software and ERP	**June 30, 2017 (Unaudited)**
Cost	
Balance at January 1, 2017	6,884,209
Additions	318,467
Balance at June 30, 2017	7,202,676
Amortization	
Balance at January 1, 2017	1,302,247
Charge for the period	434,082
Balance at June 30, 2017	1,736,329
Carrying value:	
at June 30, 2017	5,466,347
at December 31, 2016	5,581,962

8. Derivative financial instruments

	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)	January 1, 2016 (Unaudited)
Interest rate swaps - Positive fair value	**1,590,595**	2,715,795	83,682

The Company entered into interest rate swap (IRS) agreements with commercial banks to convert floating rate interest to fixed rate interest arrangement. The total contracts' amount is Saudi Riyals 300 million (2016: Saudi Riyal 300 million) out of which the outstanding value is Saudi Riyals 240 million at June 30, 2017 (2016: Saudi Riyals 260 million).

9. Share capital

At June 30, 2017, the Company's issued share capital of Saudi Riyals 500 million (2016: Saudi Riyals 500 million) consists of 50 million (2016: 50 million) fully paid shares of Saudi Riyals 10 each.

10. Statutory reserve

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of profit until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

11. Long-term borrowings

	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)	January 1, 2016 (Unaudited)
Long-term borrowings	**487,870,006**	501,734,641	617,814,991
Less: Current portion	**109,528,663**	111,709,858	190,170,283
	378,341,343	390,024,783	427,644,708

(a) The Company signed a loan agreement with SIDF amounting to Saudi Riyals 255 million in 2012 to partially finance the construction of manufacturing lines within the Company's production facility. This loan was fully utilized as of December 31, 2015. The loan is repayable in unequal semiannual installments ending in November 2017.

During the year 2013, the Company signed another loan agreement with SIDF amounting to Saudi Riyals 124.7 million to finance the construction of manufacturing facilities. Out of this loan agreement, Saudi Riyals 110.7 million was drawn as of June 30, 2017 (2016: Saudi Riyals 99.7 million). The loan is repayable in unequal semiannual installments up to September 2021.

Upfront fees were deducted at the time of receipt of the loans. These fees are amortized over the periods of respective loans. The loans bear a follow up fee to be paid on periodic basis. During the six-month period ended June 30, 2017, the Group capitalised finance charges in property, plant and equipment amounting to Saudi Riyals Nil (2016: Saudi Riyals 1.2 million).

Under the terms of the SIDF loan agreement, the Company's property, plant and equipment are pledged as collateral to SIDF.

(b) The Company has also obtained long-term credit facilities from commercial banks. These loans bear financial charges based on prevailing market rates in Saudi Arabia. One of the loan facilities from a commercial bank is also secured by a second class mortgage on the Company's property, plant and equipment.

Upfront fees were deducted at the time of receipt of loans from commercial banks which are amortized over the period of the respective loans. The loans are repayable up to the year 2022.

The above loans and facilities include certain financial covenants which require the Company to maintain certain levels of current and leverage ratios and certain restriction on dividend distribution. The Company is in compliance with these debt covenants at June 30, 2017. The loans are denominated in Saudi Riyals.

(Expressed in Saudi Riyals unless otherwise stated)

12. Employees' end of service benefits

The Company operates an approved unfunded employees' end of service benefits plan ("EOSB") for its employees as required by the Saudi Arabian Labor Law.

	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)	January 1, 2016 (Unaudited)
Employees' end of service benefits	**32,024,989**	29,837,970	26,625,197

Movement in provision for employees' end of service benefits is summarized as follows:

	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)	January 1, 2016 (Unaudited)
Opening	**29,837,970**	26,625,197	23,652,550
Provisions	**2,974,542**	4,921,948	4,503,572
Actuarial loss on defined benefit obligation	**-**	1,400,446	-
Payments	**(787,523)**	(3,109,621)	(1,530,925)
Closing	**32,024,989**	29,837,970	26,625,197

13. Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

	Three-month period ended June 30,		Six-month period ended June 30,	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
Net profit for the period	**18,175,516**	88,314,399	**21,428,183**	105,089,342
Weighted average number of shares	**50,000,000**	50,000,000	**50,000,000**	50,000,000
Basic and diluted earnings per share	**0.36**	1.77	**0.43**	2.10

14. Fair value of assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group fair values the derivative financial instruments.

The fair value of derivative financial instrument is calculated as the present value of the estimated future cash flows based on observable yield curves.

The fair values under Level 2 were as follows:

	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)	January 1, 2016 (Unaudited)
Level 2			
Derivative financial instruments	**1,590,595**	2,715,795	83,682

During the three-month and six-month periods ended June 30, 2017, there were no movements between the levels.

(Expressed in Saudi Riyals unless otherwise stated)

15. Contingencies and commitments

i. At June 30, 2017, the Group had outstanding letters of credit of Saudi Riyals 3.2 million (December 31, 2016: Saudi Riyals 4.5 million) and letters of guarantee of Saudi Riyals 2.0 million (December 31, 2016: Saudi Riyals 3.7 million) that were issued in the normal course of the business.

ii. The capital expenditure contracted by the Group but not incurred till June 30, 2017 was approximately Saudi Riyals 6.6 million (December 31, 2016: Saudi Riyals 8.4 million).

iii. During the year 2017, the Company has received additional zakat assessments amounting Saudi Riyals 16.5 million for the years 2009 to 2012. The Company has submitted the objection against such assessments to GAZT which is currently under review. Management believes that the ultimate outcome of this matter will not result in any material additional liability to the Company as the management has submitted all the underlying information and documents in support of its position. Accordingly, no provision for such outstanding assessment has been made.

16. Related party transactions

16.1 Related party transactions

Significant transactions with related parties in the ordinary course of business included in the condensed consolidated interim financial information is summarized below:

Related party	Description of transaction	Relationship	Three-month period ended June 30, 2017 (Unaudited)	Three-month period ended June 30, 2016 (Unaudited)	Six-month period ended June 30, 2017 (Unaudited)	Six-month period ended June 30, 2016 (Unaudited)
MASDAR Building Materials	Purchase of materials / services	Common Board of Directors	**12,375**	262,365	**179,077**	343,591
Industrial Cities Development and Operating Company	Purchase of materials / services	Common Shareholders	**992,629**	1,596,385	**1,948,613**	2,818,685
United Mining Industries	Sale of finished goods	Common Shareholders	**3,473,136**	1,243,209	**3,826,363**	3,782,500
A. Abunayyan Electric Corporation	Purchase (reversal) of materials / services	Common Board of Directors	**-**	(22,806)	-	171,156
Key management Personnel	Compensation	Management	**3,088,448**	4,094,876	**5,514,137**	6,509,394

16.2 Related party balances

Significant due from (to) balances with related parties are summarized below:

Related party	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)	January 1, 2016 (Unaudited)
United Mining Industries	**3,826,363**	-	5,713,244
Industrial Cities Development and Operating Company	**(666,928)**	(342,811)	(4,052)
MASDAR Building Materials	**(10,248)**	(61,088)	(235,360)
Al-Muhaidib Technical Supplies Company	**-**	-	(80,185)
A.Abunayyan Electric Corporation	**-**	-	(6,568)

17. Dividends

During the three-month period ended June 30, 2017, the General Assembly of the Company approved a dividend of Saudi Riyal 0.75 per share (June 30, 2016: Saudi Riyal 0.5 per share) aggregating to Saudi Riyals 37.5 million (June 30, 2016: Saudi Riyals 25 million). The dividend was paid in June 2017.

18. Inventories

On April 17, 2017, a fire broke out in one of the storage yard of used paper. The fire did not affect Company's assets except for certain inventories amounting to Saudi Riyals 1.3 million. The Company has written-off fully the inventories during the three-month period ended June 30, 2017.

(Expressed in Saudi Riyals unless otherwise stated)

19. Net gain on claim for expropriated land and premises

During 2008, the Ministry of Environment, Water and Agriculture (the "Ministry") (formerly, the General Authority of Water) expropriated a plot of land and premises constructed on the land that belonged to the Company and offered a compensation amounting to Saudi Riyals 28.9 million. The Company contested the compensation offered and raised a claim amounting to what is believed to be the fair value of the expropriated land and premises. During 2008, the Ministry assigned this plot of land and premises to National Water Company ("NWC"). During 2010, the Company obtained a court ruling ordering NWC to pay Saudi Riyals 80.2 million, which was disputed by NWC. During 2015, a new valuation was conducted by a committee that comprised various Saudi Arabian government officials. The committee finalized the valuation and determined the value of the expropriated land and premises to be approximately Saudi Riyals 132.7 million which was accepted by NWC.

During the fourth quarter of 2016, the Company received the full amount of Saudi Riyals 132.7 million from NWC and the Company, accordingly, transferred the title deed of the expropriated land and premises to NWC.

The above transaction is summarized as follows:

	Three-month and six-month periods ended June 30, 2016 (Unaudited)
Compensation value of the expropriated land and premises	**132,732,970**
Receivable earlier recognized for the compensation for expropriated land and premises	**(30,490,630)**
	102,242,340
Legal fees paid by the Company	**(10,278,638)**
Net gain on claim for expropriated land and premises	**91,963,702**

20. Authorization of financial information

This condensed consolidated interim financial information was authorized for issue by the Company's Board of Directors on July 30, 2017.