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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND INDEPENDENT AUDITOR'S REPORT

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

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Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper Limited

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key Audit Matter	• First time adoption of International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia

Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper Limited (continued)

Our audit approach (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matter

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

Key audit matter	How our audit addressed the Key audit matter
First time adoption of International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia	
For all periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with generally accepted accounting principles as issued by SOCPA ("previous GAAP"). The Group prepared its first annual consolidated financial statements for the year ended December 31, 2017 in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. In preparing the consolidated financial statements, the Group's opening statement of consolidated financial position was prepared as of January 1, 2016, which is the Group's date of transition to IFRS. We considered the transition from previous GAAP to IFRS, that are endorsed in the Kingdom of Saudi Arabia, as a key audit matter due to its pervasive impact on the consolidated financial statements in terms of measurement and disclosure.	We performed the following procedures: • Obtained an understanding of the transition differences identified by the management between the previous GAAP and IFRS, that are endorsed in the Kingdom of Saudi Arabia, and assessed its completeness and appropriateness; • Assessed the competence, objectivity and independence of the management's experts involved in the IFRS transition process; • Evaluated the key decisions made by the Group with respect to accounting policies, estimates and judgements in relation to transition to IFRS, that are endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Group's business and its operations;

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Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper Limited (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the Key audit matter
Refer to Note 2 for basis of preparation and adoption of IFRS, Note 3 for accounting policies adopted by the Group and Note 4 for the transition adjustments and other details in connection with transition from previous GAAP to IFRS.	• Tested the adjustments made as part of the transition process based on the differences identified; and • Evaluated the adequacy and appropriateness of disclosures made in the consolidated financial statements in relation to transition to IFRS that are endorsed in the Kingdom of Saudi Arabia.

Other information

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of management and those charged with governance for the consolidated financial statements (continued)

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper Limited (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

PricewaterhouseCoopers

Ali A. Alotaibi
License Number 379

March 4, 2018

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محاسبون قانونيون
ترخيص رقم ٢٥
س.ت ٤٠٣٠٢٨٩٠٠٢
PRICE WATER HOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R. 4030289002

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2017
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2017	December 31, 2016	January 1, 2016
Assets				
Non-current assets				
Property, plant and equipment	6	**1,064,989,269**	1,087,099,482	1,040,353,369
Intangible assets	7	**5,143,778**	5,581,962	6,335,584
Derivative financial instruments	8	**1,357,238**	2,715,795	83,682
Total non-current assets		**1,071,490,285**	1,095,397,239	1,046,772,635
Current assets				
Inventories	9	**180,172,467**	175,673,920	199,298,861
Trade receivables	10	**209,617,581**	174,324,793	184,536,337
Prepayments and other receivables	11	**12,189,151**	14,614,638	13,477,061
Other current assets	12	**44,037,269**	45,350,911	87,734,616
Investments at fair value through profit or loss	13	**512,303**	-	-
Cash and cash equivalents	14	**31,015,660**	34,379,773	30,005,552
Total current assets		**477,544,431**	444,344,035	515,052,427
Total assets		**1,549,034,716**	1,539,741,274	1,561,825,062
Equity and Liabilities				
Equity				
Share capital	15	**500,000,000**	500,000,000	500,000,000
Statutory reserve	16	**73,663,228**	66,850,116	57,359,377
Retained earnings	17	**148,716,962**	126,615,343	67,599,140
Total equity		**722,380,190**	693,465,459	624,958,517
Liabilities				
Non-current liabilities				
Long-term borrowings	18	**358,354,589**	390,024,783	427,644,708
Employees' end of service benefits	19	**35,330,773**	29,837,970	26,625,198
Total non-current liabilities		**393,685,362**	419,862,753	454,269,906
Current liabilities				
Zakat payable	20	**3,006,659**	1,630,533	1,769,856
Current portion of long-term borrowings	18	**124,333,703**	113,548,364	194,236,262
Short-term borrowings	21	**223,253,221**	242,070,059	213,654,589
Trade and other payables	22	**77,688,708**	67,158,902	71,020,893
Other current liabilities	23	**4,686,873**	2,005,204	1,915,039
Total current liabilities		**432,969,164**	426,413,062	482,596,639
Total liabilities		**826,654,526**	846,275,815	936,866,545
Total equity and liabilities		**1,549,034,716**	1,539,741,274	1,561,825,062

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

H.S

Chief Financial Officer	Chief Executive Officer	Chairman of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2017
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2017	December 31, 2016
Sales		**771,008,091**	634,404,523
Cost of sales	24	**(584,898,147)**	(503,121,781)
Gross profit		**186,109,944**	131,282,742
Selling and distribution expenses	25	**(34,634,837)**	(39,370,626)
General and administrative expenses	26	**(56,704,237)**	(59,391,336)
Fair value (loss)/gain on derivative financial instruments		**(1,358,557)**	2,632,113
Other income/(expenses)	27	**2,421,167**	(1,260,225)
Operating profit		**95,833,480**	33,892,668
Net gain on claim for expropriated land and premises	28	**-**	91,963,702
Finance costs		**(26,288,287)**	(29,636,242)
Profit before zakat		**69,545,193**	96,220,128
Zakat expense	20	**(1,414,078)**	(1,312,740)
Profit for the year		**68,131,115**	94,907,388
Other comprehensive income *items that will never be reclassified to profit or loss:*			
Actuarial losses	19	**(1,716,384)**	(1,400,446)
Total comprehensive income		**66,414,731**	93,506,942
Earnings per share :			
Basic and diluted	30	**1.36**	1.90

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chief Financial Officer — Chief Executive Officer — Chairman of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2017
(Expressed in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance as at January 1, 2017		**500,000,000**	**66,850,116**	**126,615,343**	**693,465,459**
Profit for the year		**-**	**-**	**68,131,115**	**68,131,115**
Other comprehensive loss for the year		**-**	**-**	**(1,716,384)**	**(1,716,384)**
Total comprehensive income for the year		**-**	**-**	**66,414,731**	**66,414,731**
Transfer to statutory reserve	16	**-**	**6,813,112**	**(6,813,112)**	**-**
Dividends	34	**-**	**-**	**(37,500,000)**	**(37,500,000)**
Balance as at December 31, 2017		**500,000,000**	**73,663,228**	**148,716,962**	**722,380,190**
Balance as at January 1, 2016		500,000,000	57,359,377	67,599,140	624,958,517
Profit for the year		-	-	94,907,388	94,907,388
Other comprehensive loss for the year		-	-	(1,400,446)	(1,400,446)
Total comprehensive income for the year		-	-	93,506,942	93,506,942
Transfer to statutory reserve	16	-	9,490,739	(9,490,739)	-
Dividends	34	-	-	(25,000,000)	(25,000,000)
Balance as at December 31, 2016		500,000,000	66,850,116	126,615,343	693,465,459

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

H.S

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2017
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2017	December 31, 2016
Cash flows from operating activities			
Profit before zakat		69,545,193	96,220,128
Adjustments for:			
Depreciation and amortization	6, 7	90,650,381	79,986,214
Finance costs		26,288,287	29,636,242
Gain on sale of property and equipment	27	(431,492)	(144,729)
Allowance for impairment of trade receivables	10	620,376	1,050,000
Allowance for slow moving inventories	9	1,900,000	1,950,000
Employees' end of service benefits provision	19	5,255,361	4,921,947
Fair value loss (gain) on derivative financial instruments		1,358,557	(2,632,113)
Net gain on claim for expropriated land and premises	28	-	(91,963,702)
Changes in working capital:			
Inventories		(6,398,547)	21,674,941
Trade receivables		(35,913,164)	9,161,544
Prepayments and other receivables		2,425,487	(1,137,577)
Other current assets		1,313,642	11,893,075
Trade and other payables		10,509,503	(3,814,582)
Other current liabilities		2,681,669	90,165
Cash generated from operations		169,805,253	156,891,553
Finance costs paid		(25,686,475)	(33,269,703)
Zakat paid	20	(37,952)	(1,452,063)
Employees' end of service benefit paid	19	(1,478,942)	(3,109,621)
Net cash inflow from operating activities		142,601,884	119,060,166
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	6, 7	(67,103,633)	(124,842,164)
Proceeds from sale of property and equipment		565,998	165,659
Acquisition of investment at fair value through profit or loss	13	(512,303)	-
Net proceeds on claim against expropriated land and premises	28	-	122,454,332
Net cash outflow from investing activities		(67,049,938)	(2,222,173)
Cash flows from financing activities			
Net change in short-term borrowings		(19,092,952)	29,206,228
Proceeds from long-term borrowings	18	110,340,753	201,449,000
Repayments of long-term borrowings	18	(132,663,860)	(318,119,000)
Dividends paid		(37,500,000)	(25,000,000)
Net cash outflow from financing activities		(78,916,059)	(112,463,772)
Net change in cash and cash equivalents		(3,364,113)	4,374,221
Cash and cash equivalents at beginning of period		34,379,773	30,005,552
Cash and cash equivalents at end of period	14	31,015,660	34,379,773

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Chairman of the 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 the 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 December 31, 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

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by Saudi Organization for Certified Public Accountants (SOCPA) in the Kingdom of Saudi Arabia as well as other standards and pronouncements issued by SOCPA.

For all periods up to and including the year ended December 31, 2016 the Group has prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in KSA issued by the Saudi Organization for Certified Public Accountants (SOCPA) ("previous GAAP") and the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the financial statements.

These are the Group's first consolidated financial statements prepared in accordance IFRS 1 *First-time Adoption of International Financial Reporting Standards*. In preparing these financial statements, the Group's opening statement of financial position was prepared as at January 1, 2016 the Group's date of transition to IFRS. An explanation of how the transition to IFRSs has affected the reported financial position, statement of comprehensive income and cash flows of the Group is provided in Note 4.

2.2 Accounting convention / Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments and investment at fair value through profit or loss which are measured at fair value.

(Expressed in Saudi Riyals unless otherwise stated)

2.3 Changes in accounting policies

Following are the new standards and interpretation, which are not, yet effective up to the date of issuance of these Group consolidated financial statements and earlier application is permitted, however, the Group has not early adopted them in preparing these Consolidated Financial Statements.

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 de-recognition 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 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 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 recognize most leases on the statements of financial position as lease liabilities with corresponding right of use assets.
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.

(Expressed in Saudi Riyals unless otherwise stated)

Effective for annual periods beginning on or after	Standard, amendment or Interpretation	Summary of requirements
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.

As per its initial assessment, the followings is the possible implications related to the standards, which are effective for annual periods beginning on or after 1 January 2018;

IFRS 9 – Financial instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The current and prospective classification and measurement of financial assets and financial liabilities is as follows:

	IAS 39 (Current presentation)		**IFRS 9**	
	Classification	**Measurement**	**Classification**	**Measurement**
Financial assets				
Trade and other receivables Cash and cash equivalent	Loans and receivables	Amortized cost	At amortized cost	Amortized cost
Derivatives Investment at fair value through profit or loss	At fair value through profit or loss	Fair value through profit or loss	At fair value through profit or loss	Fair value through profit or loss
Financial liabilities				
Trade and other payables Borrowings	Other financial liabilities at amortized cost	Amortized cost	At amortized cost	Amortized cost

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group’s management has assessed that adoption of IFRS 9 will not have any material impact on impairment assessment.

IFRS 15 – Revenue from contracts with customers

There is not going to be a significant impact on the Group’s revenue recognition policy because the Group’s existing policy already meets the requirements of the new standard, as the Group records its sales at a point in time when control is transferred on inventories sold and upon completion of promises in sales orders with customers.

The Group is currently assessing the implications of adopting the other standards and interpretations on the Group’s consolidated financial statements on adoption.

2.4 Functional and presentation currency

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

2.5 Use of judgments and estimates

The preparation of Group's consolidated financial statements 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 consolidated financial statements 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 recognised in the consolidated financial statements, are discussed below:

(a) *<u>Allowance for impairment of trade receivables</u>*

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 at each reporting date adjusts the closing balance of the allowance by reassessing the ageing of receivables and the detailed analysis of receivable from each customer, based on probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired.

(b) *<u>Allowance for inventory obsolescence</u>*

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 Group provides an amount as an allowance for obsolete and slow moving inventories on a monthly basis and reassesses the closing balance at each reporting date based on the result of a physical count and the outcome of the periodic inspections of inventory undertaken by its technical team. 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, change in technology, possible change in usage, their expiry, sales expectation and other qualitative factors of the portfolio of inventory from year to year.

(c) *<u>Useful lives and residual values of property, plant and equipment</u>*

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) *Employee benefits – defined benefit plan*

Employee benefits present the employee termination benefits. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The cost of post-employment defined benefits are the present value of the related obligation, as determined using projects and unit credit method. The present value of defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates or high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have term approximating the terms of the related obligation. Where there is no deep market in such bonds, then market rates on government bonds are used or the rates from international bond market are used which are adjusted for country risk premium. Since there is no deep corporate bonds or government bonds in Saudi Arabia, the discount rate was selected using the yield available on Citi Pension Liability Index (CPLI) of the duration equal to the duration of the liability and adjusted for the country risk premium of 100 basis points. 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 at each reporting date.

The parameter most subject to change is the discount rate. With respect to determining the appropriate discount rate, yield and duration of high quality bonds obligation, as designated by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. Please see Note 19 for assumptions used.

3. Significant accounting policies

The accounting policies set out below have been applied consistently in the preparation of these consolidated financial statements 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 transition adjustments 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 consolidated statement of comprehensive income from the date of the acquisition or up to the date of disposal, as appropriate.

(b) *Eliminations on consolidation*

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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, 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, plant 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. Land and capital work in progress are not depreciated.

The estimated useful lives for the current and comparative years 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 3.10.

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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary assets measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

3.7 Financial instruments

3.7.1 Non- derivative financial instruments

a) Financial assets

(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

The Group initially recognises financial assets on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. 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.

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 of financial assets at fair value through profit or loss are recognised in profit or loss within other income or other expenses.

(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.

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.

b) Financial Liabilities

Financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Non-derivative financial liabilities of the group comprises of borrowings and trade and other payables.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.7.2 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 recognised 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.

3.8 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 the 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 recognised as an expense in the period in which termination takes place.

Impairment of assets

The carrying amounts of the Group's non-financial assets (other than goodwill and intangible assets with indefinite useful lives, if any which are tested at least annually for impairment), 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, if any, 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.

3.9 Employee benefits

Short term employee benefits

Short term employee benefits are expensed as the related services are provided. A liability is recognised 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 profit or loss.

3.10 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.

3.11 Revenue

Sale of goods is recognised when the significant risks and rewards of ownership has been transferred to the customer, and the amount of revenue can be measured reliably and it is probable that future economic benefits will flow to the Group. 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.

3.12 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 amortised 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. General and specific borrowing cost directly related for any qualifying assets are capitalised as part of the cost of the asset.

3.13 Zakat

The Company and its subsidiaries are 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 subsidiaries 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.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

3.14 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, if any.

3.15 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.

3.16 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.

4. First time adoption of IFRS

These consolidated financial statements for the year ended December 31, 2017 are the first consolidated financial statements the Group has prepared in compliance with International Financial Reporting Standards ("IFRS") and other pronouncements an issued by SOCPA in the Kingdom of Saudi Arabia under the guidelines provided in IFRS "First time adoption of International Financial Reporting Standards". For periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with the previous GAAP.

Accordingly, the Group has prepared consolidated financial statements that comply with IFRS as endorsed by SOCPA as at and for the year ended December 31, 2017, together with the comparative statement of financial position as of and for the year ended December 31, 2016. In preparing the consolidated financial statements, the Group's opening statement of financial position was prepared as at January 1, 2016 which is the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its previous GAAP financial statements.

(Expressed in Saudi Riyals unless otherwise stated)

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

	Note	Previous GAAP	Effect of transition to IFRS	IFRSs
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 reserves		57,359,377	-	57,359,377
Retained earnings		100,645,272	(33,046,132)	67,599,140
Total equity		658,004,649	(33,046,132)	624,958,517
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	2,182,365	26,625,198
Total non-current liabilities		452,122,919	2,146,987	454,269,906
Current liabilities				
Zakat payable		1,769,856	-	1,769,856
Current portion of long-term borrowings	b	195,028,401	(792,139)	194,236,262
Short-term borrowings	b	213,654,589	-	213,654,589
Trade and other payables		71,020,893	-	71,020,893
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	1,419,500	936,866,545
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	Previous GAAP	Effect of transition to IFRS	IFRS
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 receivable		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 reserves		65,344,763	1,505,353	66,850,116
Retained earnings		147,513,750	(20,898,407)	126,615,343
Total equity		712,858,513	(19,393,054)	693,465,459
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	113,955,806	(407,442)	113,548,364
Short-term borrowings	b	242,070,059	-	242,070,059
Trade and other payables		67,158,902	-	67,158,902
Other current liabilities	d	1,693,106	312,098	2,005,204
Total current liabilities		426,508,406	(95,344)	426,413,062
Total liabilities		843,805,526	2,470,289	846,275,815
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 statement of comprehensive income for the year ended December 31, 2016.

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
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)
Operating profit		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	c	-	(1,400,446)	(1,400,446)
Total comprehensive income		79,853,864	13,653,078	93,506,942

4.4 Notes to the reconciliations

a) Componentization of property, plant and equipment

Under the previous GAAP, 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 under the previous GAAP. 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 recognised in the opening retained earnings.

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

b) Re-measurement of loan

Under the previous GAAP, the Group measured the outstanding amount of loan at amortized cost using the straight line method. The Group has re-measured the outstanding amount of loan at amortized cost using effective interest rate method under IFRS at the date of transaction. 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.

(Expressed in Saudi Riyals unless otherwise stated)

c) Re-measurement of employee defined benefits obligation

Under previous GAAP, the Group recognised 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 recognised by discounting the future expected payments using projected unit credit method based on actuarial assumptions. The change of Saudi Riyals 2.18 million at the date of transition between the current provision and provision based on actuarial valuation is recognised in the opening retained earnings.

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

d) Deferred rent

Under the previous GAAP, 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 consolidated statement of cash flows.

5. Segment information

The Group has two operating and reportable segments, i.e. manufacturing and trading, 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 of the 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:

Results for the year ended December 31, 2017	**Manufacturing**	**Trading**	**Elimination**	**Total**
Revenues	729,574,867	323,357,754	(281,924,530)	771,008,091
External revenues	729,574,867	41,433,224	-	771,008,091
Segment profit before zakat	69,527,328	1,202,477	(1,184,612)	69,545,193
Zakat	1,396,213	17,865	-	1,414,078
Financial charges	25,366,179	922,108	-	26,288,287
Acquisition of property and equipment	53,764,371	13,542,902	-	67,307,273
Acquisition of intangible assets	-	929,217		929,217
Depreciation and amortization	79,221,762	11,428,619	-	90,650,381

(Expressed in Saudi Riyals unless otherwise stated)

	Manufacturing	Trading	Elimination	Total
Results for the year ended December 31, 2016				
Revenues	591,497,239	240,869,786	(197,962,502)	634,404,523
External revenues	591,497,239	42,907,284	-	634,404,523
Segment profit (loss) before zakat	95,754,431	(11,264,950)	11,730,646	96,220,128
Zakat	1,634,588	(321,848)	-	1,312,740
Financial charges	28,022,042	1,614,200	-	29,636,242
Acquisition of property and equipment	95,965,157	29,919,936	-	125,885,093
Acquisition of intangible assets	-	114,542	-	114,542
Depreciation and amortization	69,349,303	10,636,911	-	79,986,214
As of December 31, 2017				
Total assets	1,513,201,448	135,738,321	(99,905,053)	1,549,034,716
Total liabilities	790,821,258	71,230,801	(35,397,533)	826,654,526
As of December 31, 2016				
Total assets	1,483,116,261	153,246,835	(96,621,822)	1,539,741,274
Total liabilities	789,650,801	89,463,692	(32,838,678)	846,275,815
As of January 1, 2016				
Total assets	1,491,751,882	150,019,153	(79,945,973)	1,561,825,062
Total liabilities	866,793,365	74,356,432	(4,283,252)	936,866,545

The Group makes sales in local market and foreign markets in Middle East, Africa, Asia and Europe. Export external sales during the year ended December 31, 2017 amounted to Saudi Riyals 315.69 million (2016: Saudi Riyals 273.48 million). Local external sales during the year ended December 31, 2017 amounted to Saudi Riyals 455.31 million (2016: Saudi Riyals 360.92).

(Expressed in Saudi Riyals unless otherwise stated)

6. Property, plant and equipment

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and office equipment	Motor vehicles	Capital work in progress	Total
At January 1, 2016							
Cost	66,770,400	160,188,157	1,203,105,768	25,584,026	41,421,057	73,336,544	1,570,405,952
Accumulated depreciation	-	35,578,573	444,592,868	18,932,378	30,948,764	-	530,052,583
Net book value	66,770,400	124,609,584	758,512,900	6,651,648	10,472,293	73,336,544	1,040,353,369
Year ended December 31, 2016							
Opening net book value	66,770,400	124,609,584	758,512,900	6,651,648	10,472,293	73,336,544	1,040,353,369
Additions	-	7,683,676	18,980,167	2,164,097	1,832,483	95,224,670	125,885,093
Transfers							
- Cost	-	1,594,397	85,788,248	-	-	(87,382,645)	-
- Accumulated depreciation	-	-	-	-	-	-	-
Disposals							
- Cost	-	-	(688,100)	(39,507)	(688,225)	-	(1,415,832)
- Accumulated depreciation	-	-	688,000	39,500	667,402	-	1,394,902
Depreciation charge	-	(5,101,357)	(67,975,504)	(2,912,011)	(3,129,178)	-	(79,118,050)
Closing net book value	66,770,400	128,786,300	795,305,711	5,903,727	9,154,775	81,178,569	1,087,099,482
At December 31, 2016							
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	511,880,372	21,804,889	33,410,540	-	607,775,731
Net book value	66,770,400	128,786,300	795,305,711	5,903,727	9,154,775	81,178,569	1,087,099,482

(Expressed in Saudi Riyals unless otherwise stated)

6 Property, plant and equipment (continued)

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and office equipment	Motor vehicles	Capital work in progress	Total
Year ended December 31, 2017							
Opening net book value	66,770,400	128,786,300	795,305,711	5,903,727	9,154,775	81,178,569	**1,087,099,482**
Additions	31,100,000	323,481	13,680,759	450,198	759,950	20,992,885	**67,307,273**
Transfers							
- Cost	-	9,659,690	59,127,934	22,897	1,564,500	(70,375,021)	**-**
- Accumulated depreciation	-	-	-	-	-	-	**-**
Disposals							
- Cost	-	-	(189,000)	-	(1,874,374)	-	**(2,063,374)**
- Accumulated depreciation	-	-	188,997	-	1,739,871	-	**1,928,868**
Depreciation charge	-	(5,549,032)	(78,323,277)	(2,376,676)	(3,033,995)	-	**(89,282,980)**
Closing net book value	**97,870,400**	**133,220,439**	**789,791,124**	**4,000,146**	**8,310,727**	**31,796,433**	**1,064,989,269**
At December 31, 2017							
Cost	97,870,400	179,449,401	1,379,805,776	28,181,711	43,015,391	31,796,433	**1,760,119,112**
Accumulated depreciation	-	46,228,962	590,014,652	24,181,565	34,704,664	-	**695,129,843**
Net book value	**97,870,400**	**133,220,439**	**789,791,124**	**4,000,146**	**8,310,727**	**31,796,433**	**1,064,989,269**

During 2017, finance costs of Saudi Riyals 1.1 million is capitalized as part of property, plant and equipment (2016: Saudi Riyals 1.2 million).

Capital work-in-progress at December 31, 2017 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during 2018. See also Note 32 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 (see Note 18).

(Expressed in Saudi Riyals unless otherwise stated)

7. Intangible asset

Computer software and ERP

At January 1, 2016	
Cost	6,769,667
Accumulated amortization	(434,083)
Net book value	6,335,584
Year ended December 31, 2016	
Opening net book value	6,335,584
Additions	114,542
Amortization	(868,164)
Closing net book value	5,581,962
At December 31, 2016	
Cost	6,884,209
Accumulated amortization	(1,302,247)
Net book value	5,581,962
Year ended December 31, 2017	
Opening net book value	**5,581,962**
Additions	**929,217**
Amortization	**(1,367,401)**
Closing net book value	**5,143,778**
At December 31, 2017	
Cost	**7,813,426**
Accumulated amortization	**(2,669,648)**
Net book value	**5,143,778**

8. Derivative financial instruments

	December 31, 2017	**December 31, 2016**	**January 1, 2016**
Interest rate swaps - Positive fair value	**1,357,238**	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 220 million at December 31, 2017 (2016: Saudi Riyals 260 million).

9. Inventories

	December 31, 2017	**December 31, 2016**	**January 1, 2016**
Raw materials	**74,829,577**	79,083,022	96,758,443
Finished goods	**31,620,531**	28,595,827	41,942,839
Goods in transit	**8,956,901**	6,331,604	5,336,102
Work-in-progress	**1,746,119**	560,329	-
Consumable spare parts	**64,334,726**	64,904,041	58,687,077
	181,487,854	179,474,823	202,724,461
Less: Allowance for slow moving inventories	**(1,315,387)**	(3,800,903)	(3,425,600)
	180,172,467	175,673,920	199,298,861

(Expressed in Saudi Riyals unless otherwise stated)

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 corresponding period ended June 30, 2017.

Movement in allowance for slow moving inventories is as follows:

	2017	**2016**	**January 1, 2016**
January 1	**3,800,903**	3,425,600	3,091,190
Additions	**1,900,000**	1,950,000	2,442,550
Write-offs	**(4,385,516)**	(1,574,697)	(2,108,140)
December 31	**1,315,387**	3,800,903	3,425,600

During the year Saudi Riyals 1.90 million (2016: Saudi Riyals 1.95 million) were recognized as an expense under cost of sales for inventory carried at net realizable value.

10. Trade receivables

	December 31, 2017	**December 31, 2016**	**January 1, 2016**
Trade receivables - gross	**214,959,561**	179,198,695	188,647,456
Allowance for impairment	**(5,341,980)**	(4,873,902)	(4,111,119)
	209,617,581	174,324,793	184,536,337

Movement in allowance for impairment of trade receivables is as follows:

	2017	**2016**	**January 1, 2016**
January 1	**4,873,902**	4,111,119	5,651,362
Additions	**620,376**	1,050,000	(1,540,243)
Write-offs	**(152,298)**	(287,217)	-
December 31	**5,341,980**	4,873,902	4,111,119

Following is the ageing matrix used by the Group for analysis of trade receivables:

	Neither past due nor impaired	**Past due but not impaired**				**Past due impaired**				**Total**
		Less than 3 months	**3 to 6 months**	**6 to 12 months**	**Above 12 months**	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**Above 12 months**	
Balance	160,276,715	37,335,897	5,494,061	3,973,489	45,867	-	1,498,630	2,820,393	3,514,509	214,959,561
Less: Allowance for impairment loss	-	-	-	-	-	-	(173,659)	(1,981,255)	(3,187,066)	(5,341,980)
December 31, 2017	**160,276,715**	**37,335,897**	**5,494,061**	**3,973,489**	**45,867**	**-**	**1,324,971**	**839,138**	**327,443**	**209,617,581**
December 31, 2016	121,999,672	35,186,337	6,222,746	4,110,942	29,011	2,677,933	3,161,702	870,473	65,977	174,324,793
January 1, 2016	131,384,711	30,968,072	6,329,692	5,354,371	4,880,033	2,894,267	-	-	2,725,191	184,536,337

(Expressed in Saudi Riyals unless otherwise stated)

11. Prepayments and other receivables

	Note	December 31, 2017	December 31, 2016	January 1, 2016
Prepaid expenses		**9,303,124**	10,217,178	9,064,358
Prepaid contribution to Higher Institute for Paper and Industrial Technology (HIPIT)	12(a)	**-**	-	1,806,391
Deposits with suppliers		**792,743**	900,743	958,212
Others		**2,093,284**	3,496,717	1,648,100
		12,189,151	**14,614,638**	**13,477,061**

12. Other current assets

	Note	December 31, 2017	December 31, 2016	January 1, 2016
Advance to suppliers		**27,083,138**	26,675,167	51,093,342
Advances to employees		**5,819,096**	4,507,298	6,150,644
Receivable from National Water Company against expropriated land and premises	28	**-**	-	30,490,630
Receivable from HIPIT	(a)	**11,135,035**	14,168,446	-
		44,037,269	**45,350,911**	**87,734,616**

(a) This balance represents the expenses paid by the Company on behalf of HIPIT. HIPIT is an independent not-for-profit vocational training and administrative training institute, which is supported by the Group along with other companies as part of their Corporate Social Responsibility project.

13. Investment at fair value through profit or loss

During 2017, the Company acquired the units of an unlisted open-ended mutual fund. As at December 31, 2017, the fair value of investment is Saudi Riyals 512,303 (2016: Nil).

14. Cash and cash equivalents

	December 31, 2017	December 31, 2016	January 1, 2016
Cash in hand	**5,691,387**	4,546,076	4,053,543
Cash at bank	**25,324,273**	29,833,697	25,952,009
	31,015,660	34,379,773	30,005,552

15. Share capital

At 31 December 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.

	December 31, 2017	December 31, 2016
In issue at the beginning of the reporting period	**50,000,000**	50,000,000
Issued for cash	**-**	-
In issue at the end of the reporting period	**50,000,000**	50,000,000
Authorized – Par value Saudi Riyals 10	**50,000,000**	50,000,000

(Expressed in Saudi Riyals unless otherwise stated)

The Company has only one class of equity shares having a par value of Saudi Riyals 10 per share. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

16. 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.

17. Retained earnings

Other comprehensive loss accumulated in retained earnings.

	December 31, 2017	December 31, 2016	January 1, 2016
Actuarial losses on re-measurements of defined benefits liability	**5,895,448**	4,179,064	2,778,618

18. Long-term borrowings

	December 31, 2017	December 31, 2016	January 1, 2016
Saudi Industrial Development Fund (SIDF)	**135,622,655**	141,838,602	133,518,397
Islamic banking facilities (Tawarruq)	**347,065,637**	361,734,545	488,362,573
Long-term borrowings	**482,688,292**	503,573,147	621,880,970
Less: Current portion shown under current liabilities	**(124,333,703)**	(113,548,364)	(194,236,262)
Long term borrowings shown under non-current liabilities	**358,354,589**	390,024,783	427,644,708

Reconciliation of cash movement of borrowings	December 31, 2017	December 31, 2016
Balance at the beginning of year	**503,573,147**	621,880,970
Disbursements	**110,340,753**	201,449,000
Repayment of principal instalments	**(132,663,860)**	(318,119,000)
Movement in accrued financial charges	**(1,186,313)**	(2,227,473)
Movement in deferred financial charges	**2,624,565**	589,650
Balance at end of year	**482,688,292**	503,573,147

(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 semi-annual instalments ending in May 2018.

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. This loan is also fully utilized as of December 31, 2017 (2016: Saudi Riyals 99.70 million). The loan is repayable in unequal semi-annual instalments up to March 2022.

Upfront fees were deducted at the time of receipt of the loans. These fees are amortised over the periods of respective loans. The loans bear a follow up fee to be paid on periodic basis.

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 and United Kingdom (LIBOR). Upfront fees were deducted at the time of receipt of loans from commercial banks, which are amortised over the period of the respective loans. These loans are repayable up to the year 2021.

During the year ended December 31, 2017, the Company capitalised finance charges in property, plant and equipment amounting to Saudi Riyals 1.1 million (2016: Saudi Riyals 1.2 million).

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 loans are denominated in Saudi Riyals and US Dollars as follows:

	December 31, 2017	**December 31, 2016**	**January 1, 2016**
Long term borrowings			
Saudi Riyals	**432,813,292**	503,573,147	621,880,970
US Dollars	**49,875,000**	-	-
Total	**482,688,292**	503,573,147	621,880,970

The scheduled maturities of the long-term borrowings outstanding are as follows:

2017 Year ending December 31:	**Loan's principal**	**Deferred financial charges**	**Accrued financial charges**	**Net loan amount**
2018	126,167,438	(2,485,928)	652,193	**124,333,703**
2019	127,167,438	(1,249,131)	-	**125,918,307**
2020	119,167,438	(339,427)	-	**118,828,011**
2021	97,115,579	(7,308)	-	**97,108,271**
2022	16,500,000	-	-	**16,500,000**
	486,117,893	(4,081,794)	652,193	**482,688,292**

2016 Year ending December 31:	**Loan's principal**	**Deferred financial charges**	**Accrued financial charges**	**Net loan amount**
2017	114,789,000	(3,079,142)	1,838,506	113,548,364
2018	103,000,000	(2,116,965)	-	100,883,035
2019	104,000,000	(1,137,790)	-	102,862,210
2020	96,000,000	(364,845)	-	95,635,155
2021	84,560,000	(7,617)	-	84,552,383
2022	6,092,000	-	-	6,092,000
	508,441,000	(6,706,359)	1,838,506	503,573,147

January 1, 2016	**Loan's principal**	**Deferred financial charges**	**Accrued financial charges**	**Net loan amount**
2016	193,000,000	(2,829,717)	4,065,979	194,236,262
2017	276,000,000	(2,455,332)	-	273,544,668
2018	56,000,000	(1,476,090)	-	54,523,910
2019	60,111,000	(514,874)	-	59,596,126
2020	40,000,000	(19,996)	-	39,980,004
	625,111,000	(7,296,009)	4,065,979	621,880,970

(Expressed in Saudi Riyals unless otherwise stated)

19. Employees' end of service benefits

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

	December 31, 2017	December 31, 2016	January 1, 2016
At the beginning of the year	**29,837,970**	26,625,198	23,723,453
Current year charge:			
- Current service cost	4,123,613	4,241,767	3,287,083
- Interest cost	1,131,748	680,180	620,236
	5,255,361	4,921,947	3,907,319
Re-measurement losses:			
- Financial assumptions	44,270	143,772	-
- Experience adjustment	1,672,114	1,256,674	525,351
	1,716,384	1,400,446	525,351
Payments	**(1,478,942)**	(3,109,621)	(1,530,925)
At the end of the year	**35,330,773**	29,837,970	26,625,198

Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date:

	December 31, 2017	December 31, 2016	January 1, 2016
Discount rate	**3.40% to 3.60 %**	3.85 % to 4.10 %	2.50 % to 3.25 %
Future salary growth	**4.00 % to 4.35 %**	4.35 % to 4.85 %	3.00 % to 4.00 %
Mortality rate	**0.11 % to 0.25%**	0.11 % to 0.25%	0.11 % to 0.25 %

Sensitivity analysis

	31 December 2017		31 December 2016	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	**(458,272)**	**2,457,235**	(1,190,212)	1,282,876
Future salary growth (1% movement)	**2,592,959**	**(610,130)**	1,397,639	(1,318,528)
Future mortality (1% movement)	**949,399**	**940,067**	(4,930)	4,901

The expected maturity analysis of undiscounted employee benefits obligations is as follows:

	December 31, 2017	December 31, 2016	January 1, 2016
Less than a year	**6,693,903**	5,614,572	4,826,018
Between 1 – 5 years	**17,087,766**	16,283,870	12,349,348
Over 5 years	**17,401,764**	25,004,056	13,058,741

(Expressed in Saudi Riyals unless otherwise stated)

20. Zakat

20.1 Components of zakat base

The Company and its subsidiaries file separate zakat declarations which are filed on unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulations are principally comprised of shareholder's equity, provisions at the beginning of the year, long-term borrowings and adjusted net income, less deductions for the adjusted net book value of property, plant and equipment and certain other items.

20.2 Provision for zakat

	December 31, 2017	**December 31, 2016**
At the beginning of the year	**1,630,533**	1,769,856
Provisions		
- Provision for current year	**3,006,659**	1,630,533
- Adjustment related to prior years	**(1,592,581)**	(317,793)
Payments	**(37,952)**	(1,452,063)
At the end of the year	**3,006,659**	1,630,533

20.3 Status of final assessments

The zakat position for the Group is finalized till December 31, 2008.

During 2016 the Company received additional zakat assessments amounting Saudi Riyals 16.54 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. The zakat declarations of the Company for the years 2013 to 2016 are filed with the GAZT and unrestricted zakat certificates have been obtained.

The zakat declarations of WASCO and SACO for the years 2009 to 2016 are currently under review by the GAZT.

21. Short-term borrowings

	December 31, 2017	**December 31, 2016**	**January 1, 2016**
Islamic banking facilities (Tawarruq)	**217,236,875**	198,181,059	209,068,159
Accrued financial charges	**1,330,576**	1,054,462	1,845,220
Notes payable	**4,685,770**	42,834,538	2,741,210
	223,253,221	242,070,059	213,654,589

The Group has short-term credit facilities from commercial banks comprising of short-term loans,letters of credit and guarantees. These borrowings bear financing charges at the prevailing market rates. These facilities include certain financial covenants which require the Group to maintain certain levels of ratios. The Group is in compliance with these debt covenants at December 31, 2017.

(Expressed in Saudi Riyals unless otherwise stated)

22. Trade and other payables

	Note	December 31, 2017	December 31, 2016	January 1, 2016
Trade payables - third parties		**49,542,221**	37,794,793	46,829,491
Trade payables - related parties	33	**-**	61,088	315,545
Employees related accruals		**15,678,734**	17,837,695	15,229,310
Accrued rent expense		**288,013**	5,175,698	2,405,922
Accrued transportation expenses		**4,180,240**	2,313,241	2,900,660
Accrued sales services expenses		**875,234**	1,496,760	61,812
Accrued legal and consultancy fees		**1,483,663**	832,562	1,248,790
Accrued directors' remuneration		**210,667**	-	-
Others		**5,429,936**	1,647,065	2,029,363
		77,688,708	67,158,902	71,020,893

23. Other current liabilities

	December 31, 2017	December 31, 2016	January 1, 2016
Advances from customers	**4,481,543**	1,693,106	1,850,387
Deferred rent payables	**205,330**	312,098	64,652
	4,686,873	2,005,204	1,915,039

24. Cost of sales

	December 31, 2017	December 31, 2016
Material and employees cost	**413,201,406**	344,493,270
Depreciation and maintenance cost	**124,453,146**	111,432,549
Transportation cost	**18,025,498**	14,514,753
Rent	**9,305,586**	11,141,212
Other overheads	**19,912,511**	21,539,997
	584,898,147	503,121,781

25. Selling and distribution expenses

	December 31, 2017	December 31, 2016
Transportation and shipping	**27,303,329**	29,773,729
Salaries and related benefits	**3,552,611**	3,691,825
Sales commission	**1,398,475**	1,733,100
Credit insurance	**466,988**	536,467
Sales services expenses	**359,793**	1,919,374
Depreciation and amortization	**255,343**	238,737
Repair and maintenance	**17,804**	58,280
Others	**1,280,494**	1,419,114
	34,634,837	39,370,626

(Expressed in Saudi Riyals unless otherwise stated)

26. General and administrative expenses

	Note	December 31, 2017	December 31, 2016
Salaries and related benefits		**38,489,890**	39,291,510
Training		**3,645,833**	704,993
Depreciation and amortization		**2,639,479**	5,673,306
Directors' remuneration	33	**2,410,748**	340,100
Consultation fee		**2,086,063**	1,815,175
Bank charges		**1,658,585**	2,246,536
Insurance expenses		**946,681**	1,079,208
Professional fee		**762,725**	752,558
Allowance for doubtful debts		**620,376**	1,350,000
Government fee		**527,869**	1,341,615
Travel expenses		**517,685**	758,319
Repairs and maintenance		**496,998**	843,177
Communication		**370,234**	751,840
Stationery		**21,650**	103,446
Others		**1,509,421**	2,339,553
		56,704,237	59,391,336

27. Other income/(expenses)

	December 31, 2017	December 31, 2016
Scrap sales	**1,026,793**	702,713
Gain on sale of property and equipment	**431,492**	144,729
Foreign currency exchange gain / (loss)	**111,180**	(736,905)
Amortization of HIPIT contribution	**-**	(1,806,891)
Others	**851,702**	436,129
	2,421,167	(1,260,225)

28. 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 was 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 the Company and 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.

(Expressed in Saudi Riyals unless otherwise stated)

The above transaction is summarized as follows:

	December 31, 2016
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

29. Operating leases

The Group has various operating leases for its buildings, warehouses and employees' accommodation. Rental expenses for the year ended December 31, 2017 amounted to Saudi Riyals 10.1 million (2016: Saudi Riyals 11.6 million). Future rental commitments under such leases at December 31 are as follows:

	Undiscounted value	
	December 31, 2017	**December 31, 2016**
Less than a year	**6,552,629**	2,066,133
Between 1 – 5 years	**10,839,094**	11,974,476
Over 5 years	**19,322,554**	21,955,323
	36,714,277	35,995,932

30. 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.

	December 31, 2017	**December 31, 2016**
Net profit for the year	**68,131,115**	94,907,388
Weighted average number of shares	**50,000,000**	50,000,000
Basic and diluted earnings per share	**1.36**	1.90

31. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group holds various financial instruments in the ordinary course of its activities.

31.1 Financial instruments by category

(a) Loans and receivables

	Note	**December 31, 2017**	**December 31, 2016**
Trade receivables	10	**209,617,581**	174,324,793
Other current assets (Advances to employees and receivable from HIPIT)	12	**16,954,131**	18,675,744
Cash and cash equivalents	14	**31,015,660**	34,379,773
		257,587,372	227,380,310

(Expressed in Saudi Riyals unless otherwise stated)

(b) Assets at fair value through profit or loss

	Note	December 31, 2017	December 31, 2016
Derivative financial instrument – interest rate swaps	8	**1,357,238**	2,715,795
Investments at fair value through profit or loss	13	**512,303**	-
		1,869,541	2,715,795

(c) Other financial liabilities at amortized cost

	Note	December 31, 2017	December 31, 2016
Borrowings	18, 21	**705,941,513**	745,643,206
Trade and other payables	22	**77,688,708**	67,158,902
		783,630,221	812,802,108

The carrying amount of financial assets approximates their fair value. Financial assets are not considered to pose a significant credit risk. Trade receivables are due from customers who have been assessed for credit worthiness prior to entering into transactions with them.

31.2 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 and investment at fair value through profit or loss.

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 value of investment at fair value through profit or loss is based on the net assets value (NAV) communicated by the fund manager. The fair values under Level 2 were as follows:

	December 31, 2017	December 31, 2016	January 1, 2016
Level 2			
Derivative financial instruments	**1,357,238**	2,715,795	83,682
Investments at fair value through profit or loss	**512,303**	-	-

During the year ended December 31, 2017, there were no movements between the levels.

(Expressed in Saudi Riyals unless otherwise stated)

32. Commitments and contingencies

i. At December 31, 2017, the Group had outstanding letters of credit of Saudi Riyals 5.06 million (2016: Saudi Riyals 4.5 million) and letters of guarantee of Saudi Riyals 1.96 million (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 December 31, 2017 was approximately Saudi Riyals 15.1 million (2016: Saudi Riyals 8.4 million).

33. Related parties' matters

i. Transactions with key management personnel

Key management personnel compensation comprised the following:

	December 31, 2017	December 31, 2016
Short term benefits	**10,312,017**	**9,278,929**
Post-employment benefits	**276,787**	**226,342**
Termination benefits	**546,158**	**486,789**
	11,134,962	**9,992,060**

Compensation to key management personnel includes salaries, and contributions to post-employment defined benefit plan.

ii. Related parties' transactions

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

Related party	Description of transaction	Relationship	December 31, 2017	December 31, 2016
MASDAR Building Materials	Purchase of materials / services	Subsidiary of a significant shareholder	**245,235**	529,751
Directors	Directors remuneration	Directors	**2,410,748**	340,100

iii. Related parties' balances

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

Related party	December 31, 2017	December 31, 2016	January 1, 2016
MASDAR Building Materials	**-**	(61,088)	(235,360)
Al-Muhaidib Technical Supplies Company	**-**	-	(80,185)

34. Dividends

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

35. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

i. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is represented by: interest rate risk, currency risk and other price risk.

ii. Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest bearing financial instruments.

At December 31, 2017, if interest rates had been 1% higher/lower with all other variables held constant, future interest on outstanding loans will increase/decrease by Saudi Riyals 5,644,587 (2016: Saudi Riyals 5,961,902).

iii. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year and accordingly the Group has no significant exposure to other foreign currencies at the year ended December 31, 2017. Since the Saudi Riyal is pegged to the US dollar, the Group is not exposed to significant foreign currency risk.

iv. 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. To reduce exposure to credit risk the Group has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. To mitigate the risk, the Group has a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored. Some customers are also secured, where possible, by way of inland letters of credit, cash security deposit, bank guarantees and insurance guarantees. As at December 31, 2017, 98% of the Group's customers did not have a history of default with the Group (2016: 96%).

(Expressed in Saudi Riyals unless otherwise stated)

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

	December 31, 2017	**December 31, 2016**	**January 1, 2016**
Financial assets			
Trade receivables	**209,617,581**	174,324,793	184,536,337
Other current assets (*)	**16,954,131**	18,675,744	36,641,274
Cash and cash equivalents	**31,015,660**	34,379,773	30,005,552
Short term investments	**512,303**	-	-
Derivative financial instrument – interest rate swaps	**1,357,238**	2,715,795	83,682
	259,456,913	230,096,105	251,266,845

(*) Other current assets comprise of advances to employees, receivable from HIPIT and receivable from National Water Company (see Note 12).

Trade receivables are due from customers who have been assessed for credit worthiness prior to entering into transactions with them. Cash at bank and short-term investments are placed with reputable local banks. There were no past due or impaired receivables from related parties.

v. Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. The Group has no significant concentration of liquidity risk. For instance, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowings or reliance on a particular market in which to realize liquid assets. The following is contractual undiscounted maturity analysis of the financial liabilities of the Group as at December 31, 2017. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis.

	1 year or less	**Above 1 year to 5 years**	**More than 5 years**	**Total**
31 December 2017				
Non derivative financial liabilities				
Borrowings	**369,132,023**	**381,531,776**	**-**	**750,663,799**
Trade and other payables	**77,688,708**	**-**	**-**	**77,688,708**
	446,820,731	**381,531,776**	**-**	**828,352,507**
31 December 2016				
Non derivative financial liabilities				
Borrowings	378,597,311	415,894,114	6,787,000	801,278,425
Trade and other payables	67,158,902	-	-	67,158,902
	445,756,213	415,894,114	6,787,000	868,437,327

(Expressed in Saudi Riyals unless otherwise stated)

	1 year or less	Above 1 year to 5 years	More than 5 years	Total
January 1, 2016				
Non derivative financial liabilities				
Borrowings	431,248,637	457,909,111	-	889,157,748
Trade and other payables	71,020,893	-	-	71,020,893
	502,269,530	457,909,111	-	960,178,641

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

36. Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Group manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares. The Group also monitors capital using a gearing ratio, which is net debt, interest bearing loans and borrowings including finance cost thereon, trade and other payables, less cash and bank balances. Capital signifies equity as shown in the statement of financial position plus net debt. The gearing ratio is as follows:

	December 31, 2017	December 31, 2016	January 1, 2016
Borrowings	**705,941,513**	745,643,206	835,535,559
Trade and other payables	**77,688,708**	67,158,902	71,020,893
Other current liabilities	**4,686,873**	2,005,204	1,915,039
Total debt	**788,317,094**	814,807,312	908,471,491
Cash and cash equivalents	**31,015,660**	34,379,773	30,005,552
Net debt	**757,301,434**	780,427,539	878,465,939
Share capital	**500,000,000**	500,000,000	500,000,000
Statutory reserve	**73,663,228**	66,850,116	57,359,377
Retained earnings	**148,716,962**	126,615,343	67,599,140
Equity	**722,380,190**	693,465,459	624,958,517
Capital gearing ratio - %	**0.954**	0.889	0.711

37. Post balance sheet date event

The Company’s Board of Directors in their meeting held on March 4, 2018 resolved to propose a dividend of Saudi Riyals 37.5 million as cash dividends (Saudi Riyal 0.75 per share).

38. Date of authorization for issue

These consolidated financial statements were authorized for issue by the Company’s Board of Directors on March 4, 2018.