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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
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, 2018

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

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 (the "Company") and its subsidiaries (together the "Group") as at December 31, 2018, 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, 2018;
- 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.

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

Our audit approach

Overview

Key audit matters	• Implementation of International Financial Reporting Standard 15 *Revenue from Contracts with Customers* (IFRS 15) • Implementation of International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9)

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 matters

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.

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

Key audit matter	How our audit addressed the Key audit matter

Implementation of IFRS 15

The Group adopted IFRS 15 with effect from January 1, 2018 and which supersedes International Accounting Standard 18 *Revenue* (IAS 18) and certain other standard and interpretations.

Management performed a detailed analysis of its revenue contracts to identify differences between the requirements of the new and previous standards, assess the changes required to be made to the accounting policies, determine the transition adjustments and to assess the additional disclosures required under the new standard in the accompanying consolidated financial statements.

Management also determined and implemented the consequential changes to processes and controls required particularly in connection with the separation of different performance obligations that may exist within a given contract and allocation of transaction price to the performance obligations.

We considered this as a key audit matter as revenue is a key financial statement item and performance metric and the application of IFRS 15 may require use of assumptions and judgment.

Refer to Note 2.3(a) which explains the impact of the adoption of the new accounting standard and Note 3.12 for the accounting policy in the accompanying consolidated financial statements.

We performed the following procedures in relation to implementation of IFRS 15:

- Reviewed management's detailed analysis of its revenue contracts and the impact of the requirements of the new accounting standard;
- Gained an understanding of management's approach towards implementation of any changes to the accounting policy;
- Obtained an understanding of nature of revenue contracts and, tested a sample of representative revenue contracts to confirm our understanding and evaluated whether management's application of the new standard was in accordance with the requirements of IFRS 15;
- Understood and evaluated relevant processes and controls established by management to ensure appropriate recognition of revenue; and
- Reviewed adequacy of disclosures with respect to the impact of adoption of the new accounting standard included in Note 2.3(a) and Note 3.12 to the accompanying consolidated financial statements.

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

Key audit matter	How our audit addressed the Key audit matter
Implementation of IFRS 9	
The Group adopted IFRS 9 with effect from January 1, 2018 and this new standard supersedes International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 addresses classification and measurement of financial assets and financial liabilities and introduces new requirements for impairment of financial assets and hedge accounting. Management has determined that the most significant impact of the new standard on the accompanying consolidated financial statements is with respect to determination of impairment of trade receivables. Management elected to apply the simplified Expected Credit Loss ("ECL") model under the requirements of IFRS 9 to determine impairment of trade receivables. The ECL model involves use of various assumptions such as macro-economic factors, probability of default and subsequent loss on default, study of historical trends with respect to the collection of trade receivables and forward looking information. We considered this as a key audit matter due to the judgements and estimates involved in the application of ECL model. Refer to Note 2.3(b) which explains the impact of the adoption of the new accounting standard, Note 3.7 for the accounting policy and Note 9 for the related disclosure in the accompanying consolidated financial statements.	We performed the following procedures in relation to implementation of IFRS 9: • Reviewed management's assessment of the impact of IFRS 9 with respect to classification and measurement of its financial assets and liabilities. We also evaluated management's conclusion that the main area of impact was in respect of impairment of trade receivables, based on our experience with the Group and the industry in which the Group operates; • Assessed the reasonableness of the methodology adopted by the management with respect to the ECL model based on requirements of IFRS 9 and acceptable best practices. We also tested the arithmetical accuracy of the ECL model and logical integrity of the underlying calculations; • Evaluated key assumptions, such as probability of default and subsequent loss on default, in comparison to historical data. We also assessed the reasonableness of forward looking factors considered by management on the ECL model; • Involved our accounting subject matter specialists to evaluate the reasonableness of methodology and assumptions used and to check accuracy of computations in the ECL model; and • Reviewed adequacy of disclosures included in Note 2.3(b), Note 3.7 and Note 9 to the accompanying consolidated financial statements.

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

Other information

Management is responsible for the other information. The other information comprises the information included in the Board of Director's 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 Board of Director's Report of the Group, 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 they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

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

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.

- 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.

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

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

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 10, 2019

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محاسبون قانونيون
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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, 2018
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2018	December 31, 2017
Assets			
Non-current assets			
Property, plant and equipment	5	**1,040,868,466**	1,064,989,269
Intangible assets	6	**3,580,821**	5,143,778
Derivative financial instruments	7	**2,064,063**	1,357,238
Total non-current assets		**1,046,513,350**	1,071,490,285
Current assets			
Inventories	8	**213,933,195**	180,172,467
Trade receivables	9	**156,877,366**	209,617,581
Prepayments and other receivables	10	**15,046,939**	12,189,151
Other current assets	11	**43,948,837**	44,037,269
Financial asset at fair value through profit or loss	12	**524,256**	512,303
Cash and cash equivalents	13	**28,842,546**	31,015,660
Total current assets		**459,173,139**	477,544,431
Total assets		**1,505,686,489**	1,549,034,716
Equity and liabilities			
Equity			
Share capital	14	**500,000,000**	500,000,000
Statutory reserve	15	**83,607,622**	73,663,228
Treasury shares	16	**(6,816,812)**	-
Retained earnings	17	**174,522,254**	148,716,962
Total equity		**751,313,064**	722,380,190
Liabilities			
Non-current liabilities			
Long-term borrowings	18	**360,361,646**	358,354,589
Employees' end of service benefits	19	**39,912,063**	35,330,773
Total non-current liabilities		**400,273,709**	393,685,362
Current liabilities			
Zakat payable	20	**4,020,197**	3,006,659
Current portion of long-term borrowings	18	**128,352,211**	124,333,703
Short-term borrowings	21	**128,301,031**	223,253,221
Trade and other payables	22	**90,097,948**	77,688,708
Other current liabilities	23	**3,328,329**	4,686,873
Total current liabilities		**354,099,716**	432,969,164
Total liabilities		**754,373,425**	826,654,526
Total equity and liabilities		**1,505,686,489**	1,549,034,716

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

M.S

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2018
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2018	December 31, 2017
Revenue	4	**833,613,856**	771,008,091
Cost of revenue	24	**(597,939,514)**	(584,898,147)
Gross profit		**235,674,342**	186,109,944
Selling and distribution expenses	25	**(44,107,432)**	(34,634,837)
General and administrative expenses	26	**(61,714,260)**	(56,083,861)
Impairment losses on financial assets	9	**(1,394,492)**	(620,376)
Fair value gain / (loss) on derivative financial instruments		**706,825**	(1,358,557)
Other operating (expenses) / income - net	27	**(934,689)**	2,421,167
Operating profit		**128,230,294**	95,833,480
Finance costs - net	28	**(26,013,446)**	(26,288,287)
Profit before zakat		**102,216,848**	69,545,193
Zakat expense	20	**(2,772,913)**	(1,414,078)
Profit for the year		**99,443,935**	68,131,115
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial losses on re-measurement of employee benefit obligations	19	**(1,194,249)**	(1,716,384)
Total comprehensive income		**98,249,686**	66,414,731
Earnings per share :			
Basic and diluted	30	**2.00**	1.36

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

M.S

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, 2018
(Expressed in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Treasury shares	Retained earnings	Total
Balance as at January 1, 2018		**500,000,000**	**73,663,228**	**-**	**148,716,962**	**722,380,190**
Profit for the year		-	-	-	**99,443,935**	**99,443,935**
Other comprehensive loss for the year		-	-	-	**(1,194,249)**	**(1,194,249)**
Total comprehensive income for the year		-	-	-	**98,249,686**	**98,249,686**
Transfer to statutory reserve	15	-	**9,944,394**	-	**(9,944,394)**	-
Purchase of treasury shares	16	-	-	**(6,816,812)**	-	**(6,816,812)**
Dividends	34	-	-	-	**(62,500,000)**	**(62,500,000)**
Balance as at December 31, 2018		**500,000,000**	**83,607,622**	**(6,816,812)**	**174,522,254**	**751,313,064**
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	15	-	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

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

M-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, 2018
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2018	December 31, 2017
Cash flows from operating activities			
Profit before zakat		**102,216,848**	69,545,193
Adjustments for:			
Depreciation and amortization	5,6	**86,797,813**	90,650,381
Finance costs	28	**26,013,446**	26,288,287
Loss/(gain) on disposal of property and equipment	27	**526,421**	(431,492)
Allowance for impairment of trade receivables	9	**1,394,492**	620,376
Allowance for slow moving inventories	8	**3,067,797**	1,900,000
Employees' end of service benefits	19	**5,630,936**	5,255,361
Fair value (gain) / loss on derivative financial instruments		**(706,825)**	1,358,557
Fair value gain on financial asset at fair value through profit or loss	12	**(11,953)**	(212,303)
Changes in operating assets and liabilities:			
Inventories		**(36,828,525)**	(6,398,547)
Trade receivables		**51,345,723**	(35,913,164)
Prepayments and other receivables		**(2,857,788)**	2,425,487
Other current assets		**88,432**	1,313,642
Trade and other payables		**12,511,678**	10,509,503
Other current liabilities		**(1,358,544)**	2,681,669
Cash generated from operations		**247,829,951**	169,592,950
Finance costs paid		**(23,875,071)**	(25,686,475)
Zakat paid	20	**(1,759,375)**	(37,952)
Employees' end of service benefits paid	19	**(2,243,895)**	(1,478,942)
Net cash inflow from operating activities		**219,951,610**	142,389,581
Cash flows from investing activities			
Acquisition of property and equipment	5	**(60,484,680)**	(67,103,633)
Proceeds on disposal of property and equipment		**139,951**	565,998
Acquisition of investment at fair value through profit or loss	12	**-**	(300,000)
Net cash outflow from investing activities		**(60,344,729)**	(66,837,635)
Cash flows from financing activities			
Net change in short-term borrowings		**(94,244,433)**	(19,092,952)
Proceeds from long-term borrowings	18	**162,000,000**	110,340,753
Repayments of long-term borrowings	18	**(160,218,750)**	(132,663,860)
Purchase of treasury shares		**(6,816,812)**	-
Dividends paid	34	**(62,500,000)**	(37,500,000)
Net cash outflow from financing activities		**(161,779,995)**	(78,916,059)
Net change in cash and cash equivalents		**(2,173,114)**	(3,364,113)
Cash and cash equivalents at beginning of period		**31,015,660**	34,379,773
Cash and cash equivalents at end of period	13	**28,842,546**	31,015,660

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

M.S

(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 September 30, 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, 2018, 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 ("WASCO")	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	100%
Special Achievements Company Limited ("SACO")	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	97% directly, 3% indirectly, effectively 100%

During the current year, the Company had started the process to transfer the 3% shareholding of WASCO and SACO in each other to the Company. The transfer of SACO's 3% shareholding in WASCO to the Company was completed during the year. However, the legal formalities for the transfer of WASCO's 3% shareholding in SACO to the Company are under process as of the date of the issuance of the consolidated financial statements.

2. Basis of preparation

2.1 Statement of compliance

These consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia ("IFRS") and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Accounting convention / Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the measurement of derivative financial instruments and financial assets at fair value through profit or loss which are measured at fair value, and the defined benefit obligation which is recognised at the present value of future obligations using the Projected Unit Credit Method.

(Expressed in Saudi Riyals unless otherwise stated)

2.3 New and ammended standards adopted by the Group

The Group has adopted International Financial Reporting Standard 15 *Revenue from Contracts with Customers* (IFRS 15) and International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9) from January 1, 2018.

(a) IFRS 15 - Revenue from contracts with customers

The Group has adopted IFRS 15 using the modified retrospective method with the effect of applying this standard at the date of initial application (i.e. January 1, 2018). Accordingly, information stated for 2017 has not been restated (i.e. it is presented, as previously reported under IAS 18 - Revenue). The application of IFRS 15 was not material and did not require any adjustments to the retained earnings as at January 1, 2018.

The accounting policies relating to revenue from contracts with customers are disclosed in Note 3.12.

(b) IFRS 9 - Financial instruments

IFRS 9 replaces the provisions of IAS 39 - Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has adopted IFRS 9 with the effect of applying this standard at the date of initial application (i.e. January 1, 2018). The Group has taken an exemption not to restate the comparative information for prior periods with respect to the classification and measurement (including impairment) requirements. The adoption of IFRS 9 resulted in certain change in classification of financial assets, however, it did not have any significant impact on the measurement and recognition of the financial instruments.

The following table shows changes in classification and measurement in accordance with IAS 39 and IFRS 9 for the Group's financial assets and financial liabilities as of January 1, 2018:

	Original classification under IAS 39	**New classification under IFRS 9**	**Original measurement under IAS 39**	**New measurement under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets						
Trade receivables	Loans and receivables	At amortized cost	Amortized cost	Amortized cost	209,617,581	209,617,581
Other current assets	Loans and receivables	At amortized cost	Amortized cost	Amortized cost	16,954,131	16,954,131
Cash and cash equivalents	Loans and receivables	At amortized cost	Amortized cost	Amortized cost	31,015,660	31,015,660
Derivative financial instruments	At fair value through profit or loss	At fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	1,357,238	1,357,238
Investment at fair value through profit or loss	At fair value through profit or loss	At fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	512,303	512,303
Financial liabilities						
Borrowings	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	705,941,513	705,941,513
Trade and other payables	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	77,688,708	77,688,708

2.3 New and ammended standards adopted by the Group (continued)

(b) IFRS 9 - Financial instruments (continued)

Impact of the new impairment model

The Group has determined that the application of IFRS 9's impairment requirements at January 1, 2018 has not resulted in a material difference to the impairment allowance.

The accounting policies relating to classification and measurement of financial assets and financial liabilities and impairment of financial assets are disclosed in Note 3.7.

2.4 Standards and interpretations issued but not yet applied by the Group

The following are the new standards and interpretations, which are either not yet effective or early adopted up to the date of issuance of the Group's consolidated financial information or applicable in preparing the consolidated financial information.

IFRS 16 – *Leases*

The Group intends to apply the standard from its mandatory adoption date of January 1, 2019.

Under IFRS 16, a lessee is required to:

- recognize all right-of-use (RoU) assets and lease liabilities, with the exception of short term (under twelve months) and low value leases, on the statement of financial position. The liability is initially measured at the present value of future lease payments for the lease term. RoU assets reflects the lease liability, initial direct cost, any lease payments made before the commencement date of the lease, less any lease incentives and, where applicable, provisions for dismantling and restoration;
- recognize the depreciation of the RoU assets and interest on lease liabilities in the consolidated statement of profit or loss over the lease term; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and an interest portion (which the Group presents in operating activities) in the consolidated statement of cash flows.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for a consideration.

Currently the Group is in the final stages of its IFRS 16 impact assessment process, and has not yet determined the expected impact on assets, liabilities, and equity with sufficient certainty to disclose amounts at this stage.

2. 4 Standards and interpretations issued but not yet applied by the Group (continued)

At the end of 2018, the following main policy choices have been made and form the basis for the Group's IFRS 16 implementation and application work:

IFRS 16 transition choices:

- IFRS 16 will be implemented with the cumulative effect of initially recognizing the standard as an adjustment to the opening consolidated retained earnings at the date of initial application, and without restatement of prior periods' reported figures (the "modified retrospective method").
- Contracts already classified either as leases under IAS 17 - Leases or as non-lease service arrangements will maintain their respective classifications upon the implementation of IFRS 16.
- Leases with a less than 12 months remaining lease term at year-end 2018 will not be reflected as leases under IFRS 16.
- RoU assets will for most contracts initially be reflected at an amount equal to the corresponding lease liability.
- Short term leases (less than 12 months) and leases of low value assets will not be reflected in the consolidated statement of financial position, but will be expensed as incurred.
- Non-lease components within lease contracts will be accounted for separately for all underlying classes of assets, and reflected in the relevant expense category as incurred.

There are no other relevant standards, amendments or interpretations issued IFRS Interpretation Committee interpretations that are not yet effective that would be expected to have a material impact on the Group's consolidated financial statements.

2.5 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.

2.6 Use of judgments and estimates

The preparation of the 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:

2.6 **Use of judgments and estimates** (continued)

(a) Allowance for impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(b) Allowance for inventory obsolescence

The Group determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to sales or use. The 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) Useful lives and residual values of property, plant and equipment

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

(d) Employee benefits – defined benefit plan

Employee benefits represent 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 projected unit credit method. The present value of the 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 a 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 markets are used which are adjusted for the 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. 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.

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.

3.2 Property, plant and equipment (continued)

(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 office equipment	5 – 20
• Motor vehicles	4 – 5

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

3.3 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets comprise software, which have finite lives and are amortised over five years from the implementation date. The amortization expense on intangible assets is recognized in the profit or loss in the expense category consistent with the function of the intangible asset. 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

Raw materials and spares, work in progress and finished goods are measured at the lower of cost and net realisable value.

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs.

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.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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

IFRS 9 largely retains the previous requirements under IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets classified as held to maturity, loans and receivables and available for sale.

(i) Financial assets

<u>Classification</u>

On initial recognition, a financial asset is classified in the following categories:

- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income (“FVOCI”) – debt instrument;
- subsequently measured at fair value through other comprehensive income (“FVOCI”) – equity instrument; or
- subsequently measured at fair value through profit and loss (“FVPL”).

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Debt instruments

A ‘debt instrument’ is classified as subsequently measured at amortised cost if both the following conditions are met:

(a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and

(b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

If the above two conditions are not met, the ‘debt instrument’ is classified as subsequently measured at fair value, either at FVPL or FVOCI, based on the business model.

3.7 Financial instruments (continued)

(a) Measurement

Initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Debt instruments subsequently measured at amortised cost

This category is the most relevant to the Group. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss. This category generally applies to trade and other receivables, bank balances, security deposits, advances to employees.

Debt instruments subsequently measured at fair value

For this category, if applicable, such financial assets are subsequently measured at fair value at the end of each reporting period, with all changes recognized either in profit or loss for equity instruments classified as FVPL, or within other comprehensive income for equity instruments classified as FVOCI.

(b) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or,

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.7 Financial instruments (continued)

(c) Impairment

The Group applies the expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets that are debt instruments, and are measured at amortised cost (e.g. deposits, trade receivables and bank balances). The Group follows 'simplified approach' for recognition of impairment loss allowance on trade receivables, if they do not contain a significant financing component.

The application of a simplified approach does not require the Group to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECL at each reporting date, right from its initial recognition. Lifetime ECL is the expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The Group uses a provision matrix in the calculation of the ECL on financial assets to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix was developed considering probability of default and loss given default which were derived from historical data of the Group and are adjusted to reflect the expected future outcome.

ECL impairment loss allowance (or reversal) recognized during the period is recognized as income/ expense in profit or loss.

(ii) 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 classifies non-derivative financial liabilities as 'financial liabilities at amortized cost'. 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 EIR method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

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.

(iii) Offsetting

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.

(iv) Derivative financial instruments

Derivative financial instruments, principally representing profit rate swaps, are initially recorded at fair value on the date a derivative contract is entered into and re-measured to their fair value at the end of each subsequent reporting periods. Changes in the fair value of derivative financial instruments, as these are not designated as a hedging instrument, are recognised in profit or loss 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 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.

3.9 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 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.

3.10 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 operates a single post-employment benefit scheme of defined benefit plan, driven by the Labor Laws and Workman Laws of the Kingdom of Saudi Arabia, which is based on most recent salary and number of service years. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the Labor Law of Saudi Arabia.

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. Re-measurements of the defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. 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 Employee benefits (continued)

Proposed Employee Share Option Scheme (ESOP)

The Company has a proposed ESOP scheme for which required approvals were still in progress as of December 31, 2018. See also Note 3.18.

3.11 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.

3.12 Revenue

Revenue comprises of sales to customers and is measured based on the considerations specified in contracts with customers and excludes rebates and amounts, if any, collected on behalf of third parties. Certain customers are eligible for volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Revenue is recognised, when (or as) the Company satisfies the performance obligations as specified in the contract with the customer (buyer), when the seller has transferred to the customer control over the promised goods and services, either:

- at a point in time or
- over a time basis equivalent to the stage of completion of the service.

The Group recognizes revenue from the following major sources:

a) Sale of the following goods directly to the customers:
   - Sale of container board and industrial paper
   - Whole and retail sales of paper, carton and plastic waste

b) Rendering of the following services directly to the customers:
   - Transportation of goods

The timing and measurement of revenue recognition for the above-mentioned main sources of revenue (i.e. sales of goods and rendering of services directly to customers) are as follows:

Sale of goods directly to the customers

Revenue is recognized when a customer obtains control of the goods or services (i.e. when it has the ability to direct the use of and obtain benefits from the goods or services). Customers obtain control when goods are delivered to and have been accepted by the customers as per the applicable delivery terms, and accordingly, revenue is recognised at that point-in-time.

Invoices are usually payable within the credit period agreed with the customer which may vary from one customer to another. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

3.12 Revenue (continued)

Rendering of services – transportation of goods to customers

The Group sells a significant proportion of its goods on Cost and Freight ocean transport ("CFR") and Cost, Insurance and Freight ocean transport ("CIF") as per the International Commercial Terms ("Incoterms") and therefore, the Group is responsible for providing shipping services after the date at which control over the promised goods have passed to the customer at the loading port. The Group is therefore, responsible for the satisfaction of two performance obligations under its CFR and CIF contracts with the customers and recognizes revenue as follows:

- sale and delivery of goods at the loading port resulting in the transfer of control over such promised goods to the customer and recognizing the related revenue at a point in time basis; and
- shipping services for the delivery of the promised goods to the customer's port of destination and recognizing the related revenue over a time basis, equivalent to the stage of completion of the services.

The physical loading of the approved promised goods on the vessel, satisfies the Group's performance obligation and triggers the recognition of revenue at a point in time. The Group has full discretion over the price to sell the goods.

The selling price includes revenue generated for the sale of goods and transportation services depending on the Incoterms contained in the contract with the customer. The selling price is therefore unbundled or disaggregated into these two performance obligations, being the sale of the promised goods and the transportation thereof and it is being disclosed separately.

The Group recognizes a trade receivable for the sale and delivery of the promised goods when the goods, delivered to the loading port, are loaded on to the vessel as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. However, the trade receivable related to the transportation service are recognized over time, if material, based on the stage of completion of service which is assessed at the end of each reporting period. The disaggregation between separate performance obligations is done based on the standalone selling price.

All shipping and handling costs incurred by the Group, in relation to the satisfaction of performance obligation for the transportation of the promised goods, under CFR and CIF contracts with the customers, are recognized as selling expenses in the consolidated statement of comprehensive income.

3.13 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 costs 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.

3.14 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 zakat, if any, is accounted for when determined to be required for payment.

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.

3.15 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.

3.16 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.

3.17 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.

3.18 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost. Treasury shares are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium or discount which is presented in equity. These treasury shares are purchased in advance for the proposed Employee Share Option Programme ("ESOP") for which required approvals were still in progress as of December 31, 2018.

3.19 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Company.

(Expressed in Saudi Riyals unless otherwise stated)

4. 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 Chairman of the Board of Directors and top management (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:

	Manufacturing	**Trading**	**Elimination**	**Total**
Results for the year ended December 31, 2018				
Revenues	**811,635,826**	**293,697,265**	**(271,719,235)**	**833,613,856**
External revenues	**811,635,826**	**21,978,030**	**-**	**833,613,856**
Segment profit before zakat	**102,211,667**	**(10,247,450)**	**10,252,631**	**102,216,848**
Zakat	**2,767,732**	**5,181**	**-**	**2,772,913**
Financial costs	**25,603,718**	**409,728**	**-**	**26,013,446**
Additions to property and equipment	**57,017,625**	**4,762,800**	**-**	**61,780,425**
Depreciation and amortization	**76,784,893**	**10,012,920**	**-**	**86,797,813**
Results for the year ended December 31, 2017				
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 (loss) before zakat	69,527,328	1,202,477	(1,184,612)	69,545,193
Zakat	1,396,213	17,865	-	1,414,078
Financial costs	25,366,179	922,108	-	26,288,287
Additions to property and equipment	53,764,371	13,542,902	-	67,307,273
Additions to intangible assets	-	929,217		929,217
Depreciation and amortization	79,221,762	11,428,619	-	90,650,381
As of December 31, 2018				
Total assets	**1,468,929,782**	**113,672,108**	**(76,915,401)**	**1,505,686,489**
Total liabilities	**717,616,718**	**59,767,370**	**(23,010,663)**	**754,373,425**
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

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, 2018 amounted to Saudi Riyals 359.16 million (2017: Saudi Riyals 315.69 million). Local external sales during the year ended December 31, 2018 amounted to Saudi Riyals 474.45 million (2017: Saudi Riyals 455.31).

(Expressed in Saudi Riyals unless otherwise stated)

5. 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, 2017							
Cost	66,770,400	169,466,230	1,307,186,083	27,708,616	42,565,315	81,178,569	1,694,875,213
Accumulated depreciation	-	(40,679,930)	(511,880,372)	(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
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

(Expressed in Saudi Riyals unless otherwise stated)

5. 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, 2018							
Opening 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**
Additions	150,000	555,985	22,844,564	659,650	1,532,200	36,038,026	**61,780,425**
Transfers							
- Cost	-	391,756	14,817,242	15,550	880,000	(16,104,548)	**-**
- Accumulated depreciation	-	-	-	-	-	-	**-**
Disposals							
- Cost	-	-	(781,466)	-	(907,975)	-	**(1,689,441)**
- Accumulated depreciation	-	-	206,661	-	816,408	-	**1,023,069**
Depreciation charge	-	(6,201,413)	(74,808,823)	(1,469,317)	(2,755,303)	-	**(85,234,856)**
Closing net book value	**98,020,400**	**127,966,767**	**752,069,302**	**3,206,029**	**7,876,057**	**51,729,911**	**1,040,868,466**
At December 31, 2018							
Cost	98,020,400	180,397,142	1,416,686,116	28,856,911	44,519,616	51,729,911	**1,820,210,096**
Accumulated depreciation	-	(52,430,375)	(664,616,814)	(25,650,882)	(36,643,559)	-	**(779,341,630)**
Net book value	**98,020,400**	**127,966,767**	**752,069,302**	**3,206,029**	**7,876,057**	**51,729,911**	**1,040,868,466**

During 2018, finance costs of Saudi Riyals 1.3 million is capitalized as part of property, plant and equipment (2017: Saudi Riyals 1.1 million).

Capital work-in-progress at December 31, 2018 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during 2019. 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)

6. Intangible asset

Computer software and ERP

At January 1, 2017	
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
Year ended December 31, 2018	
Opening net book value	5,143,778
Amortization	(1,562,957)
Closing net book value	**3,580,821**
At December 31, 2018	
Cost	**7,813,426**
Accumulated amortization	**(4,232,605)**
Net book value	**3,580,821**

7. Derivative financial instruments

	December 31, 2018	**December 31, 2017**
Interest rate swaps - Positive fair value	**2,064,063**	1,357,238

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 (2017: Saudi Riyal 300 million) out of which the outstanding value is Saudi Riyals 180 million at December 31, 2018 (2017: Saudi Riyals 220 million).

8. Inventories

	December 31, 2018	**December 31, 2017**
Raw materials	**69,502,782**	74,829,577
Finished goods	**82,374,970**	31,620,531
Goods in transit	**5,885,777**	8,956,901
Work-in-progress	**2,281,262**	1,746,119
Consumable spare parts	**57,297,579**	64,334,726
	217,342,370	181,487,854
Less: Allowance for slow moving inventories	**(3,409,175)**	(1,315,387)
	213,933,195	180,172,467

(Expressed in Saudi Riyals unless otherwise stated)

8. Inventories (continued)

During 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 prior period ended December 31, 2017.

Movement in allowance for slow moving inventories is as follows:

	2018	2017
January 1	**1,315,387**	3,800,903
Additions	**3,067,797**	1,900,000
Write-offs	**(974,009)**	(4,385,516)
December 31	**3,409,175**	1,315,387

During the year Saudi Riyals 3.07 million (2017: Saudi Riyals 1.90 million) were recognized as an expense under cost of sales for inventory carried at net realizable value.

9. Trade receivables

	December 31, 2018	December 31, 2017
Trade receivables - gross	**163,613,838**	214,959,561
Allowance for impairment	**(6,736,472)**	(5,341,980)
	156,877,366	209,617,581

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

	2018	2017
January 1	**5,341,980**	4,873,902
Additions	**1,394,492**	620,376
Write-offs	**-**	(152,298)
December 31	**6,736,472**	5,341,980

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. The average credit period on sales of goods is less than one year and therefore are all classified as current, and are mostly secured through trade insurance. Trade receivables are recognised at the amount of consideration that is unconditional. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Before accepting any new credit customer, the Group uses an internal credit review system to assess the potential customer's credit quality and defines credit limits by customer.

No interest is charged on trade receivables balances that are overdue. The overdue amounts are constantly monitored by the management and a provision towards expected credit loss is made in the books if required.

(Expressed in Saudi Riyals unless otherwise stated)

9. Trade receivables (Continued)

The Group has applied IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on a provision matrix. The provision matrix takes into account historical credit loss experience and is adjusted for average historical recovery rates. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and is based on the ageing of the days the receivables are past due and the rates as calculated in the provision matrix. On that basis, the loss allowance as at December 31, 2018 was determined as follows:

Ageing	Gross carrying amount	Expected Credit loss range (%)	Loss allowance
Within the credit period	93,814,820	0.28% - 0.36%	341,791
1-90 days past due	42,388,725	0.28% - 10.76%	517,772
91-180 days past due	14,097,190	0.35% - 13.40%	1,467,461
181- 270 days past due	2,544,222	0.50% - 24.25%	307,471
271- 360 days past due	2,558,282	0.50% - 96.87%	912,363
More than 1 year past due	8,210,599	9% - 97.00%	3,189,614
Total	**163,613,838**		**6,736,472**

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses in profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Group considers the held to collect business model to remain appropriate for all other trade receivables and hence continues measuring them at amortised cost.

10. Prepayments and other receivables

	December 31, 2018	December 31, 2017
Prepaid expenses	**9,725,764**	9,303,124
Net Value Added Tax (VAT) receivables	**2,748,069**	-
Deposits with suppliers	**533,998**	792,743
Others	**2,039,108**	2,093,284
	15,046,939	12,189,151

(Expressed in Saudi Riyals unless otherwise stated)

11. Other current assets

	Note	December 31, 2018	December 31, 2017
Advances to suppliers		**28,459,059**	27,083,138
Receivable from Higher Institute for Paper and Industrial Technology (HIPIT)	(a)	**9,727,398**	11,135,035
Advances to employees		**5,762,380**	5,819,096
		43,948,837	44,037,269

(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.

12. Financial asset 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, 2018, the fair value of the investment is Saudi Riyals 524,256 (2017: 512,303).

Fair value gains of Saudi Riyals 11,953 (2017: 212,303) have been recognized in profit or loss.

13. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash in hand	**4,502,278**	5,691,387
Cash at bank	**24,340,268**	25,324,273
	28,842,546	31,015,660

14. Share capital

At 31 December 2018, the Company's issued share capital of Saudi Riyals 500 million (2017: Saudi Riyals 500 million) consists of 50 million (2017: 50 million) fully paid shares of Saudi Riyals 10 each.

	December 31, 2018	December 31, 2017
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

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.

15. 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.

16. Treasury shares

Treasury shares are shares bought back by the Company in advance for the purpose of issuing shares under the proposed ESOP for which required approvals were still in progress as of December 31, 2018. The Company purchased 300,000 shares at prevailing market rates during the current year.

(Expressed in Saudi Riyals unless otherwise stated)

17. Retained earnings

Other comprehensive loss accumulated in retained earnings.

	December 31, 2018	December 31, 2017
Actuarial losses on re-measurements of defined benefits liability	**7,089,697**	5,895,448

18. Long-term borrowings

	December 31, 2018	December 31, 2017
Saudi Industrial Development Fund (SIDF)	**106,379,698**	135,622,655
Islamic banking facilities (Tawarruq)	**382,334,159**	347,065,637
Long-term borrowings	**488,713,857**	482,688,292
Less: Current portion shown under current liabilities	**(128,352,211)**	(124,333,703)
Long term borrowings shown under non-current liabilities	**360,361,646**	358,354,589

Reconciliation of cash movement of borrowings	December 31, 2018	December 31, 2017
Balance at the beginning of year	**482,688,292**	503,573,147
Disbursements	**162,000,000**	110,340,753
Repayment of principal instalments	**(160,218,750)**	(132,663,860)
Movement in accrued financial charges	**1,758,388**	(1,186,313)
Movement in deferred financial charges	**2,485,927**	2,624,565
Balance at end of year	**488,713,857**	482,688,292

(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 was fully repaid during the year 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 was fully utilized as of December 31, 2017.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 year end 2023.

During the year ended December 31, 2018, the Company capitalised finance charges in property, plant and equipment amounting to Saudi Riyals 1.3 million (2017: Saudi Riyals 1.1 million).

18. Long-term borrowings (continued)

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 Group is in compliance with these debt covenants at December 31, 2018. The loans are denominated in Saudi Riyals and US Dollars as follows:

	December 31, 2018	December 31, 2017
Long term borrowings		
Saudi Riyals	**452,989,475**	432,813,292
US Dollars	**35,724,382**	49,875,000
Total	**488,713,857**	482,688,292

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

2018 Year ending December 31:	Loan's principal	Deferred financial charges	Accrued financial charges	Net loan amount
2019	127,190,761	(1,249,131)	2,410,581	**128,352,211**
2020	140,440,761	(339,427)	-	**140,101,334**
2021	122,171,903	(7,309)	-	**122,164,594**
2022	67,083,334	-	-	**67,083,334**
2023	31,012,384	-	-	**31,012,384**
	487,899,143	(1,595,867)	2,410,581	**488,713,857**

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**

19. Employees' end of service benefits

The Group operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plans are unfunded plans and the benefit payment obligation are met when they fall due upon termination of employment.

(Expressed in Saudi Riyals unless otherwise stated)

19. Employees' end of service benefits (Continued)

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

	December 31, 2018	December 31, 2017
At the beginning of the year	**35,330,773**	29,837,970
Current year charge:		
- Current service cost	**4,457,050**	4,123,613
- Interest cost	**1,173,886**	1,131,748
	5,630,936	5,255,361
Re-measurement losses:		
- Financial assumptions	**99,206**	44,270
- Demographic assumptions	**(1,162,073)**	-
- Experience adjustment	**2,257,116**	1,672,114
	1,194,249	1,716,384
Payments	**(2,243,895)**	(1,478,942)
At the end of the year	**39,912,063**	35,330,773

Actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate	**4.00 % to 4.20 %**	3.40 % to 3.60 %
Future salary growth	**4.60 % to 4.95 %**	4.00 % to 4.35 %
Mortality rate	**0.11 % to 0.25%**	0.11 % to 0.25%

Sensitivity analysis

	31 December 2018		31 December 2017	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	**(1,602,354)**	**1,727,826**	(458,272)	2,457,235
Future salary growth (1% movement)	**1,882,199**	**(1,776,454)**	2,592,959	(610,130)
Future mortality (1 year change in mortality age)	**6,974**	**(6,921)**	949,399	940,067

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

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

	December 31, 2018	December 31, 2017
Less than a year	**7,026,753**	6,693,903
Between 1 – 5 years	**20,219,512**	17,087,766
Over 5 years	**20,623,480**	17,401,764

20. Zakat

20.1 Components of zakat base

The Company and its subsidiaries file separate zakat declarations which are filed on an 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, 2018	December 31, 2017
At the beginning of the year	**3,006,659**	1,630,533
Provisions		
- Provision for current year	**4,020,197**	3,006,659
- Adjustment related to prior years	**(1,247,284)**	(1,592,581)
Payments	**(1,759,375)**	(37,952)
At the end of the year	**4,020,197**	3,006,659

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 2017 are filed with the GAZT and unrestricted zakat certificates have been obtained.

The zakat declarations of WASCO and SACO for the years 2009 to 2017 are currently under review by the GAZT.

21. Short-term borrowings

	December 31, 2018	December 31, 2017
Islamic banking facilities (Tawarruq)	**126,499,317**	217,236,875
Notes payable	**1,178,895**	4,685,770
Accrued financial charges	**622,819**	1,330,576
	128,301,031	223,253,221

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, 2018. The loans are denominated in Saudi Riyals, US Dollars and Euro as follows:

	December 31, 2018	December 31, 2017
Short-term borrowings		
Saudi Riyals	**120,800,221**	191,733,462
US Dollars	**7,500,810**	24,836,680
Euro	**-**	6,683,079
Total	**128,301,031**	223,253,221

(Expressed in Saudi Riyals unless otherwise stated)

22. Trade and other payables

	December 31, 2018	December 31, 2017
Trade payables - third parties	**62,983,468**	49,542,221
Employees related accruals	**19,679,301**	15,678,734
Accrued transportation expenses	**2,992,154**	4,180,240
Accrued sales services expenses	**1,939,651**	875,234
Accrued rent expense	**325,762**	288,013
Accrued legal and consultancy fees	**212,072**	1,483,663
Accrued directors' remuneration	**258,583**	210,667
Others	**1,706,957**	5,429,936
	90,097,948	77,688,708

23. Other current liabilities

	December 31, 2018	December 31, 2017
Advances from customers	**2,984,484**	4,481,543
Deferred rent payables	**343,845**	205,330
	3,328,329	4,686,873

24. Cost of revenue

	December 31, 2018	December 31, 2017
Material and employees cost	**431,996,647**	413,201,406
Depreciation and maintenance cost	**112,976,370**	124,453,146
Transportation cost	**14,604,181**	18,025,498
Rent	**11,246,001**	9,305,586
Other overheads	**27,116,315**	19,912,511
	597,939,514	584,898,147

25. Selling and distribution expenses

	December 31, 2018	December 31, 2017
Transportation and shipping	**32,705,899**	27,303,329
Salaries and related benefits	**5,013,787**	3,552,611
Sales commission	**2,100,840**	1,398,475
Sales services expenses	**1,395,871**	359,793
Credit insurance	**260,506**	466,988
Depreciation and amortization	**197,715**	255,343
Repair and maintenance	**89,387**	17,804
Others	**2,343,427**	1,280,494
	44,107,432	34,634,837

(Expressed in Saudi Riyals unless otherwise stated)

26. General and administrative expenses

	Note	December 31, 2018	December 31, 2017
Salaries and related benefits		**42,931,614**	38,489,890
Training		**3,220,073**	3,645,833
Depreciation and amortization		**2,605,720**	2,639,479
Directors' remuneration	33	**2,391,196**	2,410,748
Bank charges		**1,869,313**	1,658,585
Consultation fee		**1,316,442**	2,086,063
Government fee		**1,296,791**	527,869
Insurance expenses		**945,210**	946,681
Travel expenses		**707,733**	517,685
Professional fee		**549,760**	762,725
Communication		**467,742**	370,234
Repairs and maintenance		**430,758**	496,998
Others		**2,981,908**	1,531,071
		61,714,260	56,083,861

27. Other operating (expenses) / income - net

	December 31, 2018	December 31, 2017
Foreign currency exchange (loss) / gain	**(1,663,841)**	111,180
(Loss) / gain on disposal of property and equipment	**(526,421)**	431,492
Scrap sales	**674,579**	1,026,793
Others	**580,994**	851,702
	(934,689)	2,421,167

28. Finance costs

	Note	December 31, 2018	December 31, 2017
Finance costs on long-term borrowings:	18		
- Tawarruq		**13,074,979**	11,139,384
- SIDF charges		**2,732,002**	2,784,000
- Amortisation of deferred financial charges		**2,485,927**	2,624,565
- Interest rate swap settlements		**(6,738)**	1,051,922
Finance costs on short-term borrowings:	21		
- Tawarruq		**7,727,276**	8,688,416
		26,013,446	26,288,287

(Expressed in Saudi Riyals unless otherwise stated)

29. Operating leases

The Group has various operating leases for its buildings, warehouses and employees' accommodation. Rental expenses for the year ended December 31, 2018 amounted to Saudi Riyals 10.9 million (2017: Saudi Riyals 10.1 million). Future rental commitments under such leases at December 31 are as follows:

	Undiscounted value	
	December 31, 2018	**December 31, 2017**
Less than a year	**9,869,217**	6,552,629
Between 1 – 5 years	**23,283,080**	10,839,094
Over 5 years	**27,069,930**	19,322,554
	60,222,227	36,714,277

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, 2018	**December 31, 2017**
Net profit for the year	**99,443,935**	68,131,115
Weighted average number of shares	**49,817,130**	50,000,000
Basic and diluted earnings per share	**2.00**	1.36

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) Financial assets subsequently measured at amortised cost:

	Note	**December 31, 2018**	**December 31, 2017**
Trade receivables	9	**156,877,366**	209,617,581
Other current assets			
(Advances to employees and receivable from HIPIT)	11	**15,489,778**	16,954,131
Cash and cash equivalents	13	**28,842,546**	31,015,660
		201,209,690	257,587,372

(b) Financial assets at fair value through profit or loss:

	Note	**December 31, 2018**	**December 31, 2017**
Derivative financial instrument – interest rate swaps	7	**2,064,063**	1,357,238
Investments at fair value through profit or loss	12	**524,256**	512,303
		2,588,319	1,869,541

(Expressed in Saudi Riyals unless otherwise stated)

31. Financial instruments (continued)

31.1 Financial instruments by category (continued)

(c) Financial liabilities at amortised cost:

	Note	December 31, 2018	December 31, 2017
Borrowings	18, 21	**617,014,888**	705,941,513
Trade and other payables	22	**90,097,948**	77,688,708
		707,112,836	783,630,221

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, 2018	December 31, 2017
Level 2		
Derivative financial instruments	**2,064,063**	1,357,238
Investments at fair value through profit or loss	**524,256**	512,303

During the year ended December 31, 2018, there were no movements between the levels.

32. Commitments and contingencies

i. At December 31, 2018, the Group had outstanding letters of credit of Saudi Riyals 11.51 million (2017: Saudi Riyals 5.06 million) and letters of guarantee of Saudi Riyals 1.62 million (2017: Saudi Riyals 1.96 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, 2018 was approximately Saudi Riyals 45.1 million (2017: Saudi Riyals 15.1 million).

(Expressed in Saudi Riyals unless otherwise stated)

33. Related parties' matters

33.1 Transactions with key management personnel

Key management personnel compensation comprised the following:

	December 31, 2018	**December 31, 2017**
Short term benefits	**12,084,511**	10,312,017
Post-employment benefits	**280,321**	276,787
Termination benefits	**571,583**	546,158
	12,936,415	11,134,962

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

33.2 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, 2018**	**December 31, 2017**
MASDAR Building Materials	Purchase of materials / services	Subsidiary of a significant shareholder	**15,330**	245,235
Directors	Directors remuneration	Directors	**2,391,196**	2,410,748

33.3 Related parties' balances

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

Related party	**December 31, 2018**	**December 31, 2017**
Accrued directors remuneration	**258,583**	210,667
Advances to key management personnel	**1,194,089**	948,906

34. Dividends

On April 22, 2018, the General Assembly of the Company approved a dividend of Saudi Riyals 0.75 per share (2017: Saudi Riyals 0.75 per share) aggregating to Saudi Riyals 37.5 million (2017: Saudi Riyals 37.5 million). The dividend was paid in June 2018 (2017: June 2017).

Further, the Company has distributed an interim dividend based on General Assembly authorization to the Board of Directors for the first half of financial year ended December 31, 2018 of Saudi Riyals 0.50 per share aggregating to Saudi Riyals 25 million. The dividend was paid in November 2018.

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.

35.1 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.

35.2 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 as and entering into interest rates swap arrangements.

At December 31, 2018, if interest rates had been 1% higher/lower with all other variables held constant, future interest on outstanding loans (excluding loans hedged through interest rates swaps arrangements) will increase/decrease by Saudi Riyals 3,278,985 (2017: Saudi Riyals 3,444,587).

35.3 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, 2018 and 2017. Since Saudi Riyal is pegged to the US Dollar, the Group is not exposed to significant foreign currency risk. Exposure to Euro at the end of 2017 was immaterial.

35.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The management continuously monitors the credit exposure towards the customers and makes allowances against those balances considered doubtful of recovery using the expected credit loss model. To mitigate the risk, the Group has developed 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. Most of the customers are secured, where possible, by way of inland letters of credit, cash security deposit, bank guarantees and insurance guarantees. As at December 31, 2018, the Group has assigned credit insured trade receivables of Saudi Riyals 31.82 million (2017: Nil) to a commercial bank as the Group transferred all risks and rewards related to those receivable balances.

(Expressed in Saudi Riyals unless otherwise stated)

35. Financial risk management (continued)

35.4 Credit risk (continued)

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

	December 31, 2018	December 31, 2017
Financial assets		
Trade receivables	**156,877,366**	209,617,581
Other current assets (*)	**15,489,778**	16,954,131
Cash and cash equivalents	**28,842,546**	31,015,660
Short term investments	**524,256**	512,303
Derivative financial instrument – interest rate swaps	**2,064,063**	1,357,238
	203,798,009	259,456,913

(*) Other current assets comprise of advances to employees and receivable from HIPIT (see Note 11).

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.

35.5 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, 2018. 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 2018				
Non derivative financial liabilities				
Borrowings	278,395,419	386,830,661	-	**665,226,080**
Trade and other payables	90,097,948	-	-	**90,097,948**
	368,493,367	386,830,661	-	**755,324,028**
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**

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

(Expressed in Saudi Riyals unless otherwise stated)

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 capital gearing ratio is as follows:

	December 31, 2018	December 31, 2017
Borrowings	**617,014,888**	705,941,513
Trade and other payables	**90,097,948**	77,688,708
Other current liabilities	**3,328,329**	4,686,873
Total debt	**710,441,165**	788,317,094
Cash and cash equivalents	**28,842,546**	31,015,660
Net debt	**681,598,619**	757,301,434
Share capital	**500,000,000**	500,000,000
Statutory reserve	**83,607,622**	73,663,228
Treasury shares	**(6,816,812)**	-
Retained earnings	**174,522,254**	148,716,962
Equity	**751,313,064**	722,380,190
Capital gearing ratio - %	**1.102**	0.954

37. Post balance sheet date event

Based on General Assembly’s authorisation to the Board of Directors, the Company’s Board of Directors, in their meeting held on March 7, 2019, resolved to distribute a dividend of Saudi Riyals 25 million for the second half of the financial year ended December 31, 2018 as cash dividends (Saudi Riyal 0.5 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 7, 2019**.**