NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
<u>FOR THE YEAR ENDED DECEMBER 31, 2016</u>

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Najran Cement Company
(a Saudi Joint Stock Company)
Najran, Kingdom of Saudi Arabia

Scope of Audit
We have audited the accompanying balance sheet of Najran Cement Company "A Saudi Joint Stock Company" ("the Company") as of December 31, 2016, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, including the related notes from 1 to 25 forming an integral part of these financial statements prepared by the Company's management. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements, based on our audit.

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

Opinion
In our opinion, the accompanying financial statements, taken as a whole:

- present fairly, in all material respects, the financial position of Najran Cement Company as of December 31, 2016 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia; and

- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For BDO Dr. Mohamed Al-Amri & Co.,

Jamal M. Al-Amri
Certified Public Accountant
Registration No 331

Jumaada al-Awwal 23, 1438
February 19, 2017

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET
AS AT DECEMBER 31, 2016

	Note	2016 SR'000	2015 SR'000
ASSETS			
Current assets			
Cash and cash equivalents	3	48,812	162,061
Accounts receivable – net	4	52,651	92,406
Inventories – net	5	423,737	361,902
Prepayments and other receivables - net	6	18,707	21,890
Total current assets		**543,907**	**638,259**
Non-current assets			
Property, plant and equipment	7	2,321,748	2,430,434
Intangible assets	8	3,547	4,579
Total non-current assets		**2,325,295**	**2,435,013**
TOTAL ASSETS		**2,869,202**	**3,073,272**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long term financing	9	100,000	100,000
Trade creditors		29,760	51,699
Accruals and other payables	10	32,964	56,251
Provision for zakat	11	24,993	22,154
Total current liabilities		**187,717**	**230,104**
Non-current liabilities			
Long term financing	9	600,000	700,000
End-of-service indemnities	12	17,415	14,808
Total non-current liabilities		**617,415**	**714,808**
Total liabilities		**805,132**	**944,912**
Shareholders' equity			
Share capital	1	1,700,000	1,700,000
Statutory reserve		103,059	90,588
Retained earnings		261,011	337,772
Total shareholders' equity		**2,064,070**	**2,128,360**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,869,202**	**3,073,272**

The accompanying notes form an integral part of these financial statements.

NAJRAN CEMENT COMPANY
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STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016 SR'000	2015 SR'000
Revenues	4	710,462	1,086,649
Cost of revenues	13	(425,808)	(565,052)
Gross profit		**284,654**	**521,597**
Selling and distribution expenses	14	(91,156)	(181,028)
General and administrative expenses	15	(33,389)	(31,303)
Net operating income		**160,109**	**309,266**
Finance expenses	16	(29,423)	(28,867)
Other income	17	2,529	5,364
Net income before zakat		**133,215**	**285,763**
Zakat - current year	11	(13,500)	(22,154)
Zakat - prior year adjustments	11	4,995	(7,985)
Net income for the year		**124,710**	**255,624**

Earnings per share:	SR	SR
From net operating income	0.94	1.82
From other activities, including zakat	(0.21)	(0.32)
From net income for the year	**0.73**	**1.50**

The accompanying notes form an integral part of these financial statements.

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 SR'000	2015 SR'000
Cash flows from operating activities:		
Net income before zakat	133,215	285,763
Adjustments to reconcile net income before zakat with net cash provided by operating activities:		
Depreciation	117,600	121,171
Amortization	1,032	7,449
Loss on disposal of property, plant and equipment	-	286
Provision for slow moving consumable spares	2,000	2,000
Provision against refundable custom duties	2,726	4,130
Finance charges	29,423	23,052
End-of-service indemnities	4,184	4,541
Changes in operating assets and liabilities:		
Accounts receivable	39,755	(8,163)
Inventories	(63,835)	32,534
Prepayments and other receivables	457	2,472
Trade creditors	(21,939)	8,812
Accruals and other payables	(20,737)	10,067
Cash from operations	**223,881**	**494,114**
Zakat paid	(5,666)	(28,586)
Finance charges paid	(32,102)	(20,433)
End-of-service indemnities paid	(1,577)	(395)
Net cash provided by operating activities	**184,536**	**444,700**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(8,478)	(11,844)
Movements in spares held for capital use (strategic)	411	(6,729)
Payments to contractors (capital work in progress)	(1,082)	(192)
Proceeds received from disposal of property, plant and equipment	235	126
Sukuk issuance expenses (intangibles)	-	(5,162)
Net cash used in investing activities	**(8,914)**	**(23,801)**
Cash flows from financing activities:		
Net short term financing movements	-	(100,000)
Proceeds from long term loans	-	25,000
Repayment of long term loans	(100,000)	(426,757)
Sukuk proceeds	-	400,000
Dividends paid	(186,871)	(186,803)
Board of Directors' remuneration	(2,000)	(2,000)
Net cash (used in) financing activities	**(288,871)**	**(290,560)**
Net change in cash and cash equivalents	**(113,249)**	**130,339**
Cash and cash equivalents, beginning of the year	162,061	31,722
Cash and cash equivalents, end of the year	**48,812**	**162,061**
Material non-cash transactions:		
Reclassification of custom duties to property, plant and equipment	-	6,867
Capitalization of spare parts as property, plant and equipment	-	6,951

The accompanying notes form an integral part of these financial statements.

NAJRAN CEMENT COMPANY
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2016		**1,700,000**	**90,588**	**337,772**	**2,128,360**
Net income for the year		-	-	124,710	124,710
Transferred to statutory reserve		-	12,471	(12,471)	-
Dividends	18	-	-	(187,000)	(187,000)
Board of Directors' remuneration	20	-	-	(2,000)	(2,000)
Balance as at December 31, 2016		**1,700,000**	**103,059**	**261,011**	**2,064,070**
Balance at January 1, 2015		**1,700,000**	**65,026**	**296,710**	**2,061,736**
Net income for the year		-	-	255,624	255,624
Transferred to statutory reserve		-	25,562	(25,562)	-
Dividends	18	-	-	(187,000)	(187,000)
Board of Directors' remuneration	20	-	-	(2,000)	(2,000)
Balance as at December 31, 2015		**1,700,000**	**90,588**	**337,772**	**2,128,360**

The accompanying notes form an integral part of these financial statements.

1. ORGANIZATION AND ACTIVITIES

Najran Cement Company ("the Company") is a Saudi Joint Stock Company which was registered on Ramadan 5, 1426 (corresponding to October 9, 2005) under Commercial Registration number 595001047. On Shaaban 10, 1437 (corresponding to May 17, 2016), the Company was granted a new Industrial License, number 2446.

The share capital of the Company is SR 1,700,000, divided into 170 million shares of SR ten per share.

The principal activities of the Company are manufacturing and marketing of diversified qualities of cement. In addition, the Company is authorized to manufacture and market building materials, and become involved in establishing or participating in establishing industrial service companies to provide maintenance and services for factories as well as management and operations of cement factories, acquisition of land and real estate, patents and commercial trademarks to achieve its purposes, in addition to land transportation and shipping services, also cooling and storages.

The Company's financial year starts on January 1 each Gregorian year and ends on December 31 of the same year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting convention
The accompanying financial statements have been prepared under the historical cost convention on the accruals basis of accounting in accordance with generally accepted accounting principles in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are set out below.

Use of estimates
The preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that might affect the valuation of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of current events and activities, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years. The significant areas of estimation uncertainty and critical adjustments in applying accounting policies that have most significant effect on the amounts recognized in the financial statements are as follows:

- provisions for doubtful debts and slow-moving inventory
- estimated useful economic lives and residual values of property, plant and equipment
- estimated useful lives of intangible assets
- provisions and accruals

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments of less than three months maturity at their acquisition date.

Restricted cash represents amounts in respect of unclaimed dividends and which have been transferred to a specifically designated bank account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable and advances from customers

Accounts receivable are stated in the balance sheet at net realizable value after deducting provision for doubtful debts (if any). The provision is re-estimated based on an analysis of the collectible amounts of the accounts receivable balances at the end of the year.

The Company has a policy of requiring certain customers to pay in advance of receipt of goods. Where advances have been received but goods not delivered as at the year end, this is classified as advances from customers and included in current liabilities.

Where the Company is entitled to any third party claim, such as clinker subsidies or custom duties refundable, the agreed amount is included in other receivables and other income, net of any provisions.

Offsetting

In the normal course of business, the Company provides cement to certain companies, and receives services from such companies as well. For purposes of financial statements disclosures and based on an understanding between the relevant parties, these balances are offset against each other.

Inventories (stock in trade and stores and spares)

Inventories are stated at the lower of cost or net realizable value, and include goods where risks and rewards of ownership have been transferred to the Company. Cost is determined on the weighted average basis. Cost of stock in trade (raw materials, fuel and packing materials, and goods in process and finished goods) includes, where applicable, cost of materials, labor and an appropriate proportion of direct overheads. Net realizable value is selling price less costs to sell.

Spare parts for plant and machinery are categorized as either capital parts in which case they are included as part of non-current assets, or consumables, in which case they are accounted for as current assets, net of provisions for slow moving items.

Property, plant and equipment and capital work in progress

Property, plant and equipment, except land which is not depreciated, are stated at cost less accumulated depreciation and impairment, if any. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the declining balance method and appropriate residual values. The estimated annual rates of depreciation of the principal classes of assets are as follows:

	Percentage
Buildings	4%
General plant, machinery and equipment	5%
Quarry machinery and equipment	15%
Vehicles	25%
Furniture, fixtures and office equipment	10% - 12.5%
Computers and related software	15%
Strategic spare parts	5%

Capital work in progress includes all costs (including advance payments) which have not been reclassified as one of the asset classes noted above. Capital work in progress is re-classified as property, plant and equipment when the relevant performance tests have been satisfactorily completed. No depreciation is provided for in respect of capital work in progress.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and capital work in progress (continued)

Borrowings costs incurred to finance the construction of property, plant and equipment are capitalized as part of the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use.

Impairment of non-current assets

At each balance sheet date, the Company reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount, and the impairment loss is recognized as an expense immediately in the statement of income. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

Intangible assets

Intangible assets comprise the Sukuk issuance costs which are being amortized over the period of the term (5 years) and charge to the statement of income as finance expenses.

Accounts payable, amounts due to contractors, accrued expenses and advances to suppliers

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether claimed by the suppliers or not. Appropriate provisions are made for production related charges in accordance with service contract arrangements.

Amounts payable to contractors in respect of capital works completed as at the year-end but not paid for at that date are shown as due to contractors and included in accruals and other payables.

During the normal course of business, the Company is required to pay in advance for certain goods or services so as to guarantee production and delivery of goods or services. Where advances have been made but goods or services not received as at the year end, this is classified as advances to suppliers and included in current assets. Where the risks and rewards of ownership have transferred to the Company, but goods have yet to be received, provision is made to recognize both the goods in transit and the resultant liability.

End-of-service indemnities

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

Borrowings

Borrowings are recognized based on gross proceeds received. Borrowings are drawn-down either specifically to finance capital works in progress or for general purposes. Commissions on borrowings drawn-down for capital works in progress are capitalized. Commission relating to other borrowings is reported within finance expenses in the statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings are classified as current liabilities (either as short term financing or as current portion of long term financing) unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Where the Company has a long term facility agreement operated on a Tawarroq mechanism of roll-overs through individual deals, and it is the Company's intention to roll-over these facilities, such amounts are classified as long term borrowings. For statement of cash flow purposes, these roll-over transactions are treated as one transaction.

Statutory reserve
In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the issued share capital. During the year the Company amended its articles of association, based on the new Regulations for Companies.

Revenue recognition
Revenues are recognized upon delivery of goods to customers and are stated net of trade and quantity discounts.

Cost of revenues
Cost of revenues includes direct costs of production, including costs of materials, contract services, labor, depreciation of production related property, plant and equipment, amortization of production related intangible assets and directly attributable production overheads. Costs of production are attributed to cost of sales and inventories based on units of production.

Expenses
Selling and distribution expenses comprise costs incurred in the distribution and sale of the Company's products, including employee costs and transportation costs (including area discounts). All other operating expenses are classified as general and administrative expenses.

Zakat
The Company is subject to the Regulations of the General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat is provided for on the accruals basis. Any difference in the estimate is recorded when the final assessment is approved, or an assessment order received.

Derivative financial instruments
The Company has not designated its derivatives as hedging instruments and accordingly, the net impact of the changes in cash flows for Murabaha and Tawarroq profits is recognized in the statement of income at the corresponding settlement dates.

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

Contingent liabilities
Contingent liabilities are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(All amounts in SR 000's unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share

Earnings per share is calculated by dividing operating income, other activities and net income for the relevant year by the weighted average of ordinary shares issued and outstanding during the year (1,700,000 shares).

Dividends

Dividends are recorded in the financial statements in the year in which they are approved. In the case of interim dividends, this is when recommended by directors, whilst for final dividends, this is when approved by the shareholders of the Company.

3. CASH AND CASH EQUIVALENTS

	2016	2015
Cash at banks	48,812	162,061

Cash at banks include unclaimed dividends of SR 1,350 (2015: SR 1,221).

4. ACCOUNTS RECEIVABLE - NET

	2016	2015
Trade accounts receivable	54,807	93,776
Less provision for doubtful debts	(2,156)	(1,370)
	52,651	**92,406**

Three customers, whose sales exceeded 40% of total revenues, accounted for a combined total of SR 286,997 (2015: 3 customers account of SR 558,066, 51%). These customers had receivables balances as at December 31, 2016 totaling SR 39,310 (2015: SR 83,070).

5. INVENTORIES - NET

	2016	2015
Raw materials, fuel and packing materials	31,597	24,352
Goods in process	266,280	209,624
Finished goods	8,923	6,465
Stock in trade	306,800	240,441
Consumables spare parts	120,937	123,461
Less: provision for slow moving items	(4,000)	(2,000)
	423,737	**361,902**

Strategic spares held for future capital use amounting to SR 40,171 (2015: SR 41,350) are classified within property, plant and equipment. (see note 7)

6. PREPAYMENTS AND OTHER RECEIVABLES - NET

	2016	2015
Advances to suppliers	9,447	8,681
Prepaid expenses	3,965	3,863
Refundable custom duties -net	2,721	5,746
Others	2,574	3,600
	18,707	**21,890**

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2016
(All amounts in SR 000's unless otherwise noted)

7. PROPERTY, PLANT AND EQUIPMENT ("PPE")

	Land	Buildings	Plant, quarry machinery and other equipment	Vehicles	Furniture and fixtures, and office equipment	Computers	Assets held for future use (strategic)	Capital works in progress	Total
Cost									
January 1, 2016	2,563	1,162,563	1,835,991	20,715	12,591	10,741	41,350	-	3,086,514
Additions	-	-	3,940	3,135	510	893	-	1,082	9,560
Disposals	-	-	-	(1,353)	-	-	(411)	-	(1,764)
December 31, 2016	**2,563**	**1,162,563**	**1,839,931**	**22,497**	**13,101**	**11,634**	**40,939**	**1,082**	**3,094,310**
Accumulated depreciation									
January 1, 2016	-	205,882	422,949	15,252	6,838	5,159	-	-	656,080
Charge for the year	-	38,372	75,228	1,764	600	868	768	-	117,600
Disposals	-	-	-	(1,118)	-	-	-	-	(1,118)
December 31, 2016	-	**244,254**	**498,177**	**15,898**	**7,438**	**6,027**	**768**	-	**772,562**
Net book value									
December 31, 2016	**2,563**	**918,309**	**1,341,754**	**6,599**	**5,663**	**5,607**	**40,171**	**1,082**	**2,321,748**
December 31, 2015	**2,563**	**956,681**	**1,413,042**	**5,463**	**5,753**	**5,582**	**41,350**	-	**2,430,434**

The Company's PPE, except the headquarters building at Najran, are constructed on two separate leased lands from the Government at Sultanah and Aakfah areas in Najran region for periods of 30 and 25 years respectively and are renewable at the option of the Company.

Additions to plant, quarry machinery and other equipment, includes capitalization of approximately SR nil of spare parts (2015: SR 6,951).

(All amounts in SR 000's unless otherwise noted)

8. INTANGIBLE ASSETS

Intangible assets comprise Sukuk related costs amounting to SR 5,162 with current year amortization being at SR 1,032 (2015: SR 583), as mentioned in Note (16), with a carrying amount as of December 31, 2016 of SR 3,547 (2015: SR 4,579).

9. LONG TERM FINANCING

	2016	2015
Balance at January 1	800,000	801,757
Commercial loans drawn-down during the year	-	25,000
Sukuk proceeds	-	400,000
Repaid during the year	(100,000)	(426,757)
Balance at December 31	**700,000**	**800,000**
Shown as:		
Current portion of long term financing	100,000	100,000
Long-term portion	600,000	700,000
	700,000	**800,000**
Amounts repayable:		
Within one year	100,000	100,000
Within one to two years	200,000	200,000
Within two to five years	400,000	500,000
Total	**700,000**	**800,000**

Commercial Banks Facilities (Tawarroq)

The Company has signed bank facility agreements with commercial banks (some of which replace old facility agreements) as follows:

- The specific facility against the third production line for SR 500,000 has a profit rate of SIBOR plus 1.75% to be serviced on a quarterly basis, repayable in twenty quarterly installments which started on September 30, 2014 and ends on June 30, 2018. As at December 31, 2016, an amount of SR 150,000 (2015: SR 250,000) was outstanding against this facility.
- The specific facility to finance the waste heat recovery project for SR 150,000 at a profit rate of SIBOR plus 1.75% to be repaid on equal quarterly basis installments amounts to 25,000 starting on September 30, 2018 and ending on 2019.

The Company has other facilities for a total amount of SR 200 million that are available but not utilized by the Company.

The facilities are secured by, inter alia, four order notes amounting to SR 540,550 and assignment of the insurance policy for the third production line.

All of the above agreements contain conditions to maintain certain financial ratios and relating to the payment of dividends.

(All amounts in SR 000's unless otherwise noted)

Sukuk
In June 2015, the Company privately placed an unrated but registered Sukuk of SR 400,000 for five years maturing in June 2020, with a profit rate of 1.4% plus three month SIBOR, payable quarterly. The proceeds were applied towards part settlement of the existing indebtedness of the Company.

Derivatives
The Company has entered into derivative contracts with notional value of SR 387,500 to manage the exposure to profit rate risks associated with the above long term financing. The indicative marked to market valuations as at December 31, 2016 showed that the Company had an additional liability of approximately 165 SR (2015: SR 1,781).

10. ACCRUALS AND OTHER PAYABLES

	2016	2015
Due to contractors	3,385	5,834
Accrued expenses	3,477	9,365
Raw material royalties	16,518	25,723
Dividends payable (see note 18)	1,350	1,221
Advances from customers	6,852	11,520
Others	1,382	2,587
	32,964	**56,251**

11. PROVISION FOR ZAKAT

	2016	2015
Balance at January 1	22,154	20,601
Provision for the year	13,500	22,154
Adjustment in respect of prior years	(4,995)	7,985
Paid during the year	(5,666)	(28,586)
Balance at December 31	**24,993**	**22,154**

The principal elements of the zakat base were as follows:

Shareholders' equity – beginning balance	2,128,360	2,061,736
Adjusted net income before zakat	(114,132)	163,583
Dividends	(186,871)	(185,779)
Others	18,634	8,267
Non-current assets and spare parts (capital)	(2,023,034)	(1,764,636)
Non-current liabilities (financing) strategic	700,000	603,000
Zakat base	**522,957**	**886,171**
Provision for zakat	**13,074**	**22,154**

(All amounts in SR 000's unless otherwise noted)

Adjusted net income comprised:

Net income before zakat	138,210	285,763
Additions	9,793	10,958
Deductions – depreciation adjustments	(262,135)	(133,138)
Adjusted net income	**(114,132)**	**163,583**

During the year ended in 2015, the financial impact of applying the methodology used by the GAZT in their assessment orders is an additional charge of SR 7,985 for years 2012 to 2014 and during the current year excess provision of SR 4,995 has been reversed. The Company has submitted their zakat return for the year ended 2015 and obtained a restricted zakat certificate.

12. END OF SERVICE INDEMNITIES

	2016	2015
Balance at January 1	14,808	10,662
Provision for the year	4,184	4,541
Payments made during the year	(1,577)	(395)
Balance at December 31	**17,415**	**14,808**

13. COST OF REVENUES

Cost of revenues includes indirect cost which related to the non-operating part of the Company's production line(s) during the period due to the unavailability of fuel in amount of SR 52,177 (2015:SR 37,256).

14. SELLING AND DISTRIBUTION EXPENSES

	2016	2015
Employees' salaries and benefits	5,826	5,436
Depreciation	578	582
Area incentives and transportation charges	83,070	174,341
Others	1,682	669
	91,156	**181,028**

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Wages, salaries and related costs	20,082	18,745
Depreciation	1,769	1,917
Professional fees	2,443	1,758
Donations	1,763	1,720
Information technology	1,667	1,393
Others	5,665	5,770
	33,389	**31,303**

16. FINANCE EXPENSES

Amortization of Sukuk issuance fees amounting to SR 1,032 (2015: SR 5,816) and SIDF follow-up fees of SR nil (2015: SR 3,540) are included in finance expenses in the statement of income (see note 8). The Company has entered into profit rate swap arrangements with different commercial banks with equivalent notional values of SAR 387,500 million to manage the exposure to profit rate risks associated with its long term financing. During the year ended December 31, 2016, the net impact of the changes in cash flow recognized as finance expenses, at different settlement dates, was SR 139 (2015: SR 332).

17. OTHER INCOME

This mainly includes insurance claims, while for the year 2015 it represents a settlement for the withholding tax claim for certain transactions related to the assessment periods 2006 through 2011 for an aggregate amount of SR 4,076 with the GAZT.

18. DIVIDENDS

The shareholders of the Company, in their General Assembly held on March 29, 2016 (corresponding to Jumaada al Thaany 20, 1437), approved a final dividend of SR 85,000 (50 Halala per share) (2015: SR 102,000 (60 Halala per share) that was paid on April 21, 2016.

The board of directors of the Company recommended on May 11, 2016 (corresponding to Shaaban 24, 1437), an interim dividend for the half year amounting to SR 102,000 (60 Halala per share) (2015: SR 85,000 (50 halala per share)) that was paid on June 9, 2016.

19. CONTINGENT LIABILITIES

As of December 31, 2016, the Company had commitments in the form of letters of credit and bills for collection amounting to SR 430 (2015: SR 1,861) and performance bonds amounting to SR 2,304 (2015: SR 2,351).

During the year, one of the Company's customers filed a law suit against the Company for compensation in the amount of SR 16 million. The Company did not recognize any provision because the Company's management is confident that the final result will be in favor of the Company. Also, during the year 2016, the Company commenced arbitration with one of its customers, where the customer is claiming additional discounts. The Company did not recognize any provision as the Company's management believes that no significant loss will arise.

20. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions include Directors' fees for the year ended December 31, 2016 amounting to SR 2,000 (2015: SR 2,000).

21. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT

Financial instruments comprise of financial assets and financial liabilities. The Company's financial assets consist of cash and cash equivalents and account receivables and other receivables and its financial liabilities consist of Sukuk, other long term financing, and trade and other accounts payable.

Currency risk:
Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies. The Company does not believe it is materiality exposed to currency risk as the majority of the Company's transactions and balances are denominated in Saudi Riyals, or in US Dollars, which currency is fixed to the Saudi Riyal. Certain transactions are in Euros, but these are not material.

Liquidity risk:
Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately, or by breach of funding covenants. To mitigate this risk, management monitors the maturity profile of its financial assets and liabilities to ensure that adequate liquidity is maintained or made available, as necessary.

Credit risk:
The Company's credit risk is primarily attributable to its liquid funds and receivables. Cash balances are deposited with major banks with good credit standings. Whilst a small number of customers account for a significant proportion of both revenues and accounts receivable balances, these customers have all provided appropriate guarantees ensuring that their debts will be recoverable. All major customers are high profile customers within the Kingdom of Saudi Arabia and there is no reason to suggest that there will be a loss of revenue from these sources. The amounts presented in the balance sheet are stated at net realizable value, estimated by the Company's management based on experience. Accordingly, the management does not believe that the Company is materially exposed to credit risk.

Fair values of financial assets and liabilities:
Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair value of the Company's financial assets and liabilities are not materially different from their carrying values.

Fair value and cash flow profit rate risks:
Fair value and cash flow profit rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing profit rates on the Company's financial position and cash flows. The Company's profit rate risk arises from the Sukuk and long term financing, which are at floating rates of profit rates, based on SIBOR. All debts with floating profit rates are subject to re-pricing on a regular basis. The Company has entered into derivative contracts to manage the profit rate risk associated with the Sukuk and long term financing, in addition, Management monitors the changes in profit rates on long term borrowings and believes that the fair value and cash flow rate risks to the Company are not significant.

22. SEGMENTAL REPORTING

The Company operates in one trading segment and all sales are within the Kingdom of Saudi Arabia.

23. COMPARATIVE FIGURE

Certain prior period figures have been reclassified to conform to the current period presentation.

24. TRANSITION TO IFRS

SOCPA has approved a plan for transition to International Financial Reporting Standards. The plan requires that effective from January 1, 2017 all the companies listed on Saudi Stock Exchange ("Tadawul") shall prepare their financial statements in accordance with the International Financial Reporting Standards as endorsed in Saudi Arabia and other standards and pronouncements endorsed by the SOCPA ("IFRS"). Accordingly, effective from January 1, 2017, the Company shall prepare its financial statements in accordance with IFRS.

25. FINANCIAL STATEMENTS APPROVAL

These financial statements were approved by the Board of Directors of the Company on February 19, 2017.