

**SAUDI CEMENT COMPANY
(SAUDI JOINT STOCK COMPANY)**

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

Saudi Cement Company
(Saudi Joint Stock Company)
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FOR THE YEAR ENDED 31 DECEMBER 2017

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Saudi Cement Company – Joint Stock Company
Dammam – Kingdom of Saudi Arabia

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Saudi Cement Company (a Saudi Joint Stock Company) ("the Company") and which comprise the statement of financial position as at December 31, 2017 and the statement of income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 Financial Statements* section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters are as follows:

First time adoption of International Financial Reporting Standards (IFRS)	
Refer to note 2 for the first time adoption of IFRS and note 6 for the related disclosures.	
Key audit matter	How the matter was addressed in our audit
<p>For all periods up to and including the year ended December 31, 2016, the Company prepared and published its financial statements in accordance with generally accepted accounting standards in Kingdom of Saudi Arabia (KSA) issued by SOCPA. With effect from January 01, 2017, the Company is required to prepare and present its financial statements in accordance with IFRS as endorsed by SOCPA and other pronouncements and standards issued by the SOCPA (IFRS as endorsed in KSA). Accordingly, the Company has prepared its financial statements for the year ended December 31, 2017 under IFRS as endorsed in KSA.</p> <p>As part of this transition to IFRS as endorsed in KSA, the management, with the assistance of external Consultants, performed a detailed gap analysis to identify differences between previous reporting framework and IFRS as endorsed in KSA, determined the transition adjustments in the light of said gap analysis and relevant requirements of <i>IFRS 1 – First time adoption</i> and assessed the additional disclosures required in the financial statements. We considered it as a key audit matter as it requires additional attention during our audit.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - considering the process to identify all necessary adjustments as of transition date i.e. January 1, 2016 and on subsequent periods especially where the adjustments required management to exercise judgment. - evaluating the results of management's analysis and key decisions taken in respect of the transition using our knowledge of the relevant requirements of the IFRS as endorsed in KSA and our understanding of the Company's operations and business. - assessing the appropriateness of accounting policies adopted and testing samples of adjustments made to respective balances and transactions to bring these in line with the requirement of IFRS as endorsed in KSA; - evaluating the disclosures made in the annexed financial statements and ensuring that these are appropriate, accurate and in line with the requirements of IFRS as endorsed in KSA.
Existence and valuation of inventories	
Refer to note 5 for the accounting policy relating existence and valuation of inventory and note 9 for the related disclosures.	
Key audit matter	How the matter was addressed in our audit
<p>The inventory of the Company mainly comprises Clinker, Bauxite, limestone, and gypsum which are stored in stockpiles. As the weighing of these inventories is not practicable, management assesses the reasonableness of the quantities on hand by obtaining measurements of the stockpiles and converting these measurements to unit of volumes by using angle of repose and bulk density.</p> <p>Due to the significance of inventory balances and related estimations involved, this is considered as a key audit matter</p>	<p>Our audit procedures to assess the existence and valuation of inventory included the following:</p> <ul style="list-style-type: none"> - attending physical inventory counts performed by the Company; - assessing management's measurements of stockpiles during the physical count and reviewing the conversion volumes and density to total weight and then to value; - obtaining and reviewing the inventory count report of an external surveyor on sample basis.

Revenue recognition	
Refer to note 5 for the accounting policy	
Key audit matter	How the matter was addressed in our audit
<p>Company recognized revenue for the year ended December 31, 2017 amounting to SR 1.18 billion which was mainly generated from domestic sales.</p> <p>Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been passed to the buyer, usually on delivery of the goods.</p> <p>We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Company and therefore, there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> - obtaining an understanding of and assessing the design and implementation of management's key internal controls in relation to revenue recognition; - inspecting customer contracts, on a sample basis, to identify terms and conditions relating to the transfer of risks and rewards of the ownership of the products sold and assessing the Company's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; - comparing revenue transactions recorded during the current year, on a sample basis, with invoices, sales contracts and goods delivery notes to assess whether the related revenue was recognised in accordance with the Company's revenue recognition accounting policies; - comparing, on a sample basis, revenue transactions recorded before and after the financial year end date with goods delivery notes and other relevant documentation to assess whether the revenue had been recognised in the appropriate financial period; and - inspecting underlying documentation for journal entries relating to revenue raised during the year to identify irregular or unusual items.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to communicate the matter to those charged with governance.

Responsibilities of management and Those Charged with Governance (“TCWG”) for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia, other standards and pronouncements endorsed by SOCPA and Regulations of Companies requirements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

Report on other legal and regulatory requirements

In our opinion these financial statements, taken as a whole, comply with the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of financial statements.

For Dr. Mohamed Al-Amri & Co.

M. A. Amir

Dr. Mohamed A. Al-Amri
Certified Public Accountant
Registration No. 60



February 27, 2018 G
Jumada 'II' 11, 1439 H.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	31 December 2017 SR '000	31 December 2016 SR '000 (note 6)	1 January 2016 SR '000 (note 6)
ASSETS				
Non-current assets				
Property, plant and equipment	7	2,739,808	2,894,671	3,012,494
Investments in associates	8	59,838	60,100	82,800
Total non-current assets		2,799,646	2,954,771	3,095,294
Current assets				
Inventories	9	741,454	723,144	665,111
Trade receivables	10	237,283	259,357	226,922
Prepayments and other receivables	11	37,509	40,139	51,375
Cash and cash equivalents	12	119,876	183,820	383,000
Total current assets		1,136,122	1,206,460	1,326,408
TOTAL ASSETS		3,935,768	4,161,231	4,421,702
EQUITY AND LIABILITIES				
Equity				
Share capital	13	1,530,000	1,530,000	1,530,000
Statutory reserve		459,000	765,000	765,000
General reserve		-	-	20,000
Retained earnings		888,867	894,577	844,336
Total equity		2,877,867	3,189,577	3,159,336
LIABILITIES				
Non-current liabilities				
Employees' benefits	14	78,919	87,451	95,915
Current liabilities				
Current portion of Saudi Industrial Development Fund loans		-	-	120,000
Islamic financing	15	550,000	400,000	600,000
Trade payables		91,744	103,958	90,818
Dividends payable	16	196,601	210,350	172,395
Accruals and other payables	17	107,558	132,701	150,393
Provision for zakat	20	33,079	37,194	32,845
Total current liabilities		978,982	884,203	1,166,451
TOTAL LIABILITIES		1,057,901	971,654	1,262,366
TOTAL EQUITY AND LIABILITIES		3,935,768	4,161,231	4,421,702

Designated Member / CEO

Finance Manager

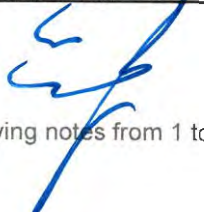
The accompanying notes from 1 to 29 form integral part of these financial statements.

Saudi Cement Company
(Saudi Joint Stock Company)


STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
For the Year ended 31 December 2017

	Note	2017 SR '000	2016 SR '000 (note 6)
Sales		1,184,531	1,778,139
Cost of sales		(615,733)	(747,557)
GROSS PROFIT		568,798	1,030,582
Selling and distribution expenses	18	(28,013)	(35,501)
General and administrative expenses	19	(67,266)	(62,966)
OPERATING PROFIT		473,519	932,115
Other income		3,042	4,274
Share in net results of associates	8	1,347	5,045
Follow up fees in respect of Saudi Industrial Development Fund loans		-	(3,715)
Islamic financial charges		(12,913)	(13,222)
INCOME BEFORE ZAKAT		464,995	924,497
Zakat	20	(11,546)	(23,523)
NET INCOME FOR THE YEAR		453,449	900,974
Other comprehensive income item that will not be reclassified to profit or loss:			
Re-measurement gain / (loss) on defined benefit plan		(159)	9,017
TOTAL COMPREHENSIVE INCOME		453,290	909,991
Earnings per share (Saudi Riyals)			
Basic and diluted earnings per share attributable to the equity holders of the Company	21	2.96	5.89

Designated Member / CEO



Finance Manager



The accompanying notes from 1 to 29 form integral part of these financial statements.

Saudi Cement Company
(Saudi Joint Stock Company)

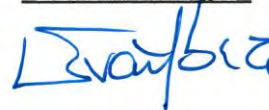
STATEMENT OF CHANGES IN EQUITY
For the Year ended 31 DECEMBER 2017

	Share capital SR '000	Statutory reserve SR '000	General reserve SR '000	Retained earnings SR '000	Total SR '000
Balance as at 1 January 2016 (note 6)	1,530,000	765,000	20,000	844,336	3,159,336
Net income for the year	-	-	-	900,974	900,974
Other comprehensive income	-	-	-	9,017	9,017
Total comprehensive income	-	-	-	909,991	909,991
Transferred to retained earnings	-	-	(20,000)	20,000	-
Dividends (note 16)	-	-	-	(879,750)	(879,750)
Balance at 31 December 2016	1,530,000	765,000	-	894,577	3,189,577
Balance as on 01 January 2017 (note 6)	1,530,000	765,000	-	894,577	3,189,577
Net income for the period	-	-	-	453,449	453,449
Other comprehensive income	-	-	-	(159)	(159)
Total comprehensive income	-	-	-	453,290	453,290
Transferred to retained earnings	-	(306,000)	-	306,000	-
Dividends (note 16)	-	-	-	(765,000)	(765,000)
Balance as at 31 December 2017	1,530,000	459,000	-	888,867	2,877,867

Designated Member / CEO



Finance Manager



The accompanying notes from 1 to 29 form integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the Year ended 31 December 2017

	2017 SR '000	2016 SR '000 (note 6)
Cash flow from operating activities:		
Income before zakat	464,995	924,497
Adjustment to reconcile income before zakat to net cash provided by operating activities:		
Depreciation of property, plant and equipment	208,281	226,075
Property, plant and equipment written-off	-	2,048
Gain on disposal of property, plant and equipment	(84)	(70)
Share in net results of associates	(1,347)	(5,045)
Employees' benefits, net	(8,691)	553
Gain on disposal of investment in associated company	-	(322)
Islamic financial charges	12,913	13,222
	676,067	1,160,958
Working capital changes:		
Inventories	(18,310)	(58,033)
Trade receivables	22,074	(32,435)
Prepayments and other receivables	2,630	11,236
Trade payables	(12,214)	13,140
Accruals and other payables	(38,892)	20,263
	(44,712)	(45,829)
Islamic financial charges paid	(12,913)	(13,222)
Zakat paid	(15,661)	(19,174)
Net cash generated from operating activities	602,781	1,082,733
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(53,425)	(110,302)
Proceeds from disposal of property, plant and equipment	91	72
Proceeds from disposal of investment in associated company	-	24,310
Dividends received from associates	1,609	3,757
Net cash used in investing activities	(51,725)	(82,163)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net movements in Islamic financing	150,000	(200,000)
Repayment of Saudi Industrial Development Fund loans	-	(120,000)
Dividends paid	(765,000)	(879,750)
Net cash used in financing activities	(615,000)	(1,199,750)

STATEMENT OF CASH FLOWS (continued)

For the Year ended 31 December 2017

	2017 SR '000	2016 SR '000
Net Change in cash and cash equivalents	(63,944)	(199,180)
Cash and cash equivalents at the beginning of the year	183,820	383,000
Cash and cash equivalents at the end of the year	119,876	183,820

Designated Member / CEO



Finance Manager



The accompanying notes from 1 to 29 form integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 Corporate information

Saudi Cement Company ("the Company") is a Saudi Joint Stock Company incorporated under Royal Decree number 6/6/10/726 dated 8 Rabi' II 1375 H (corresponding to 23 November 1955) and registered in the Kingdom of Saudi Arabia, in the city of Dammam under Commercial Registration number 2050000602 dated 6 Dhul Qaidah 1377 H (corresponding to 24 May 1958). The Company is engaged in manufacturing and selling cement and its related products.

The Company has obtained under the Royal Decree number 10/6/6/8500 dated 26 Rajab 1370H (corresponding to 3 May 1951) the right of the mining concession for the extraction of limestone, gypsum and clay and all the necessary materials for the manufacture of cement in Al Hassa for 30 years period. The Company has also obtained under the Ministerial Resolution number 45 dated 4 Rabi' I 1405 H (corresponding to 27 November 1984) from the Council of Ministers, the right of the mining concession for the extraction of limestone, gypsum and clay and all the necessary materials for the manufacture of cement in Al Jadidah (Khashem Em Houidah), with an area of nineteen square kilometres for 30 years period, where the Company has to fulfil certain contractual obligations related to these agreements. The Company is in the process to renew this for another period.

2 Basis of preparation

2.1 First-time adoption of International Financial Reporting Standards ("IFRS")

For all years up to and including the year ended 31 December, 2016, the Company prepared its financial statements in accordance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants (SOCPA). These financial statements for the year ended December 31, 2017 are the first annual financial statements, the Company has prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia.

Refer to note 6 for information on the first time adoption of IFRS by the Company.

2.2 Statement of compliance

These financial statements have been prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

2.3 Basis of measurement

The financial statements are prepared under the historical cost convention, using the accruals basis of accounting, except for certain employees' benefits which are measured at present value.

All values are rounded to the nearest thousand (SR '000), except when otherwise indicated.

2.4 Functional and presentation currency

The financial statements are presented in Saudi Riyals (SR) which is also the functional currency of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 Significant accounting estimates, assumptions and judgments

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

3.1 Key sources of estimation uncertainty

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 carrying amounts of assets and liabilities within the financial year include:

- Useful lives of property, plant and equipment
- Impairment test of non-financial assets
- Provisions
- Long-term assumptions for employee benefits

3.2 Critical judgments in applying accounting standards

The following critical judgments have the most significant effect on the amounts recognized in the financial statements:

- Component parts of property, plant and equipment
- Cash generating unit (CGU)
- Homogeneity of the inventory
- Decommissioning and restoration costs

4 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Company does not expect to adopt the new standard before 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The International Accounting Standard Board (IASB) has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4 Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

IFRS 16 Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and lease assets; however, this exemption can only be applied by lessees.

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 of time in exchange for consideration. The mandatory date for adoption for the standard is 1 January 2019.

5 Summary of significant accounting policies

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met. Where such assets are constructed in-house, their cost includes all amounts necessary to bring the asset to the present condition and location to be ready for intended use by management and excludes all costs such as general and administrative expenses and training costs. Any feasibility study costs are expensed as incurred unless they relate to specifically identifiable asset being constructed in-house and are directly attributable to it. Pre-operating costs during startup period net of proceeds from sale of trial production, are included as part of cost of the relevant item of property, plant and equipment, provided it is a directly attributable cost which meets the recognition criteria, and only up to the point the asset is in a condition ready for intended use.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/components have a useful life different than other parts and are required to be replaced at different intervals, the Company shall recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its directly attributable cost is recognized in the carrying amount of the property, plant and equipment if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of income and other comprehensive income as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. The Company will periodically assess the expectation and estimation for the decommissioning liability.

Environment, health, safety and security (EHS&S) related expenditures, including contamination treatment costs, are capitalized if they meet the recognition criteria, mainly, that such costs are required by prevailing applicable legislation and are required to continue the license to operate or is imposed by the Company's own mandatory requirements relating to EHS&S. These are capitalized together with the cost of the relevant item of property, plant and equipment to which they relate.

Depreciation is calculated from the date the item of property, plant and equipment are available for its intended use or in respect of self-constructed assets, from the date such assets are ready for the intended use.

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings and civil works	13 to 33 years
Plant and equipment	3 to 30 years
Tools and transportation equipment	4 to 10 years
Furniture, fixtures and office equipment	4 to 10 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year-end.

Land and assets under construction, which are not ready for its intended use, are not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income and other comprehensive income.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Associates

Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. This is generally the case where the Company holds between 20% and 50% of the voting rights.

Equity method of accounting is used for the investment in associates. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses of the investee in the statement of income, and the Company's share of movements in other comprehensive income (OCI) of the investee in other comprehensive income.

Dividends received or receivable from associate are recognized as a reduction in the carrying amount of the investment.

When the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as 'Share in net result of associates' in the statement of income and other comprehensive income.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (pre-zakat) that reflects current market assessment of the time value of money and the risks specific to the asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

The Company's impairment calculation is based on detailed budgets and forecast calculations which are prepared for the Company as whole, as the Company considered as single CGU. These budgets and forecast calculations are generally covering a five-year period. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the budget period.

Impairment losses of continuing operations, including impairment on working capital, if applicable, are recognized in the statement of income and other comprehensive income in those expense categories consistent with the function of the impaired asset.

Irrespective of whether there is any indication of impairment, the Company shall also test intangible assets with an indefinite useful life (including goodwill) for impairment on annual basis.

For assets other than above, an assessment is made at each financial year-end as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. This reversal is limited such that the recoverable amount doesn't exceed what the carrying amount would have been, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income and other comprehensive income.

Inventories

Inventories, including raw materials, finished goods and consumables (spares) are valued at the lower of cost i.e. historical purchase prices based on the weighted average principle plus directly attributable costs (primarily duty and transportation), or the net realizable value.

Inventories of finished goods include cost of materials, labor and an appropriate proportion of variable and fixed direct overheads.

The cost of inventories is assigned by using weighted average cost formula. The Company is using the same cost formula for all inventories having a similar nature and use to the Company. For inventories with a different nature or use, different cost formulas are used.

Abnormal inventory losses due to quality or other issues and overheads incurred during unplanned maintenance / shut down period are excluded from inventory costs. The allocation of overheads at period end for the purpose of inventory valuation are based on the higher of normal capacity or actual production for the period. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Inventories (continued)

Consumable spare parts

Consumables are ancillary materials which are consumed in the production of semi-finished and finished products. Consumables may include engineering materials, one-time packaging materials and certain catalysts.

Spare parts are the interchangeable parts of property, plant and equipment, which are considered to be essential to support routine maintenance, repair and overhaul of plant and equipment or to be used in emergency situations for repairs. The Company maintains the following different types of spare parts:

- Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalized as part of property, plant and equipment and depreciated from purchase date over a period which is shorter of the component's useful life or the remaining useful life of the plant in which it is to be utilized. These do not form part of inventory provided capitalization criteria under property, plant and equipment is met.
- Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalized as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the related property, plant and equipment in which it is installed. These do not form part of inventory.
- General spares and other consumables items which are not of a critical nature and are of a general nature, i.e., not plant specific and can be used in multiple plants or production lines and any other items which may be required at any time for facilitating plant operations. They are generally classified as 'consumables and spare parts' under inventory, unless they exceed the capitalisation threshold and have a useful life of more than one year, under which case they are recorded under property, plant and equipment. Items recorded under inventory are subject to assessment for obsolescence provision and are charged to the statement of income and other comprehensive upon their installation or use. Where such items meet criteria for capitalization, their depreciation method is similar to repairable items as noted above.

Trade receivables

Trade receivables are stated at the amortized cost, which generally correspond to face value (original invoice amount), do not bear interest, and generally have a 30 to 90 days term, less any provision for doubtful debts and impairment. An allowance for doubtful debts is made based upon Company's best estimate of expected credit losses related to those receivables. Such estimate is based on customers' financial status and historical write-off experience. Account balances are written off against such allowance after all means of collection have been exhausted and potential of recovery is remote. Bad debts written off as such are recorded in the statement of income and other comprehensive income as incurred.

Other receivables include supplier advances, employee receivables and other such receivables which are not 'trade' receivables. Other receivables are stated at amortized cost which generally corresponds to their face value. Allowance for doubtful receivables is assessed as per methodology noted above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include bank balances and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Statutory reserve

In accordance with the regulations for companies in the kingdom of Saudi Arabia and the Company's articles of association, the Company established a statutory reserve by the appropriation of 10% of net income until the reserve equaled 30% of the share capital.

Employees' benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves, air fare, child education allowance, furniture allowance that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in statement of financial position.

Employees' terminal benefits

The liability or asset recognized in the statement of financial position in respect of the defined end of service benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method.

The net interest cost is calculated by applying the discount rate to the net balance of the defined end of service benefit obligation. This cost is included in employee benefit expense in the statement of income and other comprehensive income. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in statement of income and other comprehensive income as past service costs.

Employees' Saving Fund

The Company operates a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Company's normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance and for purpose of presentation in the financial statements, it is offset with the related liability under the savings plan and net liability to employees is reported under the employee benefits liability.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of income and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and on accrual basis and is based on the period share of the estimated zakat for the whole year. The provision is charged to the statement of income and other comprehensive income.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as accounts receivables, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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 recognized on the trade date i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified as Loans and receivables:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized 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 amortization is included in finance income in the statement of income and other comprehensive income.

Derecognition

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Derecognition (continued)

- The contractual rights to receive cash flows from the asset have expired,
- or the Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified under either of the two classes at initial recognition:

- Financial liabilities at fair value through profit or loss
- Other financial liabilities measured at amortized cost using the effective interest rate method.

The category of financial liability at fair value through profit or loss has two subcategories:

- Designated: a financial liability that is designated by the entity as a liability at fair value through profit or loss upon initial recognition
- Held for trading: a financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

All financial liabilities are recognized initially when the Company becomes party to a contractual provisions and obligations under the financial instrument. The liabilities are recorded at fair value, and in the case of loans and borrowings and payables, the proceeds received net of directly attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Subsequent measurement

Financial liabilities at fair value through profit and loss will continue to be recorded at fair value with changes being recorded in the statement of income and other comprehensive income.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. Gain and losses are recognized in statement of income and other comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortization is included as finance costs in the statement of income and other comprehensive income.

De-recognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in the statement of income and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Fair value measurement

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The policies and procedures for both recurring fair value measurement are evaluated periodically.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding any taxes or duty. Amounts disclosed as revenue are net of returns.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenues represent the invoiced value of goods shipped by the Company during the year, net of any trade and quantity discounts.

Where the Company assesses itself as the principal, it records all relevant sales and costs of sale for the goods sold.

Expenses

Cost of sales

All expenses are recognized on an accrual basis. Operating costs are recognized on a historical cost basis. Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material, direct labor and other attributable overhead costs. Other costs such as selling costs are recorded as selling and distribution expenses while all remaining other costs are presented as general and administrative expenses.

Selling and distribution expenses

These include any costs incurred to carry out or facilitate all selling activities at the Company. These costs typically include marketing and distribution and logistics expenses as well as commissions. These also include allocations of certain general overheads.

General and administrative expenses

These pertain to operation expenses which are not directly related to the production of any goods or services. These also include allocations of general overheads which are not specifically attributed to cost of sales or selling and distribution expenses.

Allocation of overheads between cost of sales, selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis based on predetermined rates as appropriate by the Company.

Finance income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of income and other comprehensive income. Earnings on time deposits are recognized on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 Summary of significant accounting policies (continued)

Earnings per share

Basic earnings per share are calculated by dividing:

- the net income attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares, if any.

Diluted EPS is calculated by dividing the net profit attributable to ordinary shareholders of the company (after adjusting for interest on the convertible preference shares, if any) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion, (if any) of all the dilutive potential ordinary shares into ordinary shares.

Dividend

Interim dividends are recorded as liability in the period in which these are approved by the Board of directors. Final dividends are recorded in the financial statements in the period in which these are approved by the shareholders.

6 First-time adoption of IFRS

For all periods up to and including the year ended 31 December 2016, the Company prepared and published its financial statements only in accordance with generally accepted accounting standards in Kingdom of Saudi Arabia ("SOCPA" or "Previous GAAP"). These are the Company's, "*First-time Adoption of International Financial Reporting Standards*" that are endorsed in Kingdom of Saudi Arabia.

Accordingly, the Company has prepared financial statements, which comply with IFRS that are endorsed in Kingdom of Saudi Arabia applicable for periods beginning on or before 1 January 2017, together with the comparative period data. In preparing the accompanying financial statements, the Company's opening statement of financial position was prepared as at 1 January 2016 after incorporating certain adjustments made as required due to the first time adoption of IFRS as endorsed in Kingdom of Saudi Arabia.

In preparing its opening statement of financial position as at 1 January 2016 in accordance with IFRS that are endorsed in Kingdom of Saudi Arabia, the financial statements for the year ended 31 December 2016, the Company has analyzed the impact and noted certain adjustments that are required to the amounts reported previously in the financial statements prepared in accordance with SOCPA.

Exemptions applied:

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Company has applied the following exemption:

The Company has applied the transitional provisions in IAS 23 Borrowing Costs and capitalizes borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Company has not restated for borrowing costs capitalized under SOCPA on qualifying assets prior to the date of transition to IFRS.

The notes below explain the principal adjustments made by the Company in restating its SOCPA financial statements to IFRS:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6 First-time adoption of IFRS (continued)

6.1 The following is a reconciliation of the Company's statement of financial position reported in accordance with SOCPA to its statement of financial position under IFRS at 31 December 2016:

	Note	SOCPA as at 31 December 2016 SR '000	Re- classificati ons SR '000	Re- measurements SR '000	IFRS as at 31 December 2016 SR '000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	A,B	2,729,940	254,444	(89,713)	2,894,671
Construction work in progress		160,119	(160,119)	-	-
Investments in associates		60,100	-	-	60,100
TOTAL NON-CURRENT ASSETS		2,950,159	94,325	(89,713)	2,954,771
CURRENT ASSETS					
Inventories	A	817,469	(94,325)	-	723,144
Trade receivables		259,357	-	-	259,357
Prepayments and other receivables		40,139	-	-	40,139
Cash and cash equivalents		183,820	-	-	183,820
TOTAL CURRENT ASSETS		1,300,785	(94,325)	-	1,206,460
TOTAL ASSETS		4,250,944	-	(89,713)	4,161,231
EQUITY AND LIABILITIES					
EQUITY					
Share capital		1,530,000	-	-	1,530,000
Statutory reserve		765,000	-	-	765,000
Retained earnings	6.2	980,464	-	(85,887)	894,577
TOTAL EQUITY		3,275,464	-	(85,887)	3,189,577
LIABILITIES					
NON-CURRENT LIABILITY					
Employees' benefits	C	91,277	-	(3,826)	87,451
CURRENT LIABILITIES					
Islamic financing		400,000	-	-	400,000
Trade payables		103,958	-	-	103,958
Current portion of liability for charitable contribution		20,000	(20,000)	-	-
Dividends payable		210,350	-	-	210,350
Accruals and other payables		112,701	20,000	-	132,701
Zakat provision		37,194	-	-	37,194
TOTAL CURRENT LIABILITIES		884,203	-	-	884,203
TOTAL LIABILITIES		975,480	-	(3,826)	971,654
TOTAL EQUITY AND LIABILITIES		4,250,944	-	(89,713)	4,161,231

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6 First-time adoption of IFRS (continued)

6.2 Reconciliation of retained earnings as at 31 December 2016

Following is the analysis of the impact of IFRS re-measurements on retained earnings:

	Note	Impact on retained earnings at 31 December 2016 <u>SR '000</u>
Retained earnings as per SOCPA		960,464
IFRS adjustments related to:		
Difference in depreciation as a result of componentization of property, plant and equipment	B	(86,340)
Depreciation adjustment of spare parts	A	(15,318)
Actuarial valuations of employee benefits	C	3,826
Reversal of capital spare parts utilized	A	<u>11,945</u>
Retained earnings as per IFRS		<u>894,577</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6 First-time adoption of IFRS (continued)

6.3 The following is a reconciliation of the Company's statement of financial position reported in accordance with SOCPA to its statement of financial position under IFRS at the transition date 1 January 2016:

	Note	SOCPA as at 1 January 2016 SR '000	Re- classificati ons SR '000	Re- measure ments SR '000	IFRS as at 1 January 2016 SR '000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	A,B	2,876,424	227,957	(91,887)	3,012,494
Construction work in progress		138,134	(138,134)	-	-
Investments in associates		82,800	-	-	82,800
TOTAL NON-CURRENT ASSETS		3,097,358	89,823	(91,887)	3,095,294
CURRENT ASSETS					
Inventories	A	754,934	(89,823)	-	665,111
Trade receivables		226,922	-	-	226,922
Prepayments and other receivables		51,375	-	-	51,375
Cash and cash equivalents		383,000	-	-	383,000
TOTAL CURRENT ASSETS		1,416,231	(89,823)		1,326,408
TOTAL ASSETS		4,513,589	-	(91,887)	4,421,702
EQUITY AND LIABILITIES					
EQUITY					
Share capital		1,530,000	-	-	1,530,000
Statutory reserve		765,000	-	-	765,000
General reserve		20,000	-	-	20,000
Retained earnings	6.4	940,822	-	(96,486)	844,336
TOTAL EQUITY		3,255,822	-	(96,486)	3,159,336
LIABILITIES					
NON-CURRENT LIABILITY					
Employees' benefits	C	91,316	-	4,599	95,915
CURRENT LIABILITIES					
Current portion of Saudi Industrial Development Fund loans		120,000	-	-	120,000
Islamic financing		600,000	-	-	600,000
Trade payables		90,818	-	-	90,818
Current portion of liability for charitable contribution		30,000	(30,000)	-	-
Dividends payable		172,395	-	-	172,395
Accruals and other payables		120,393	30,000	-	150,393
Zakat provision		32,845	-	-	32,845
TOTAL CURRENT LIABILITIES		1,166,451	-	-	1,166,451
TOTAL LIABILITIES		1,257,767	-	4,599	1,262,366
TOTAL EQUITY AND LIABILITIES		4,513,589	-	(91,887)	4,421,702

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6 First-time adoption of IFRS (continued)

6.4 Reconciliation of retained earnings as at 1 January 2016

Following is the analysis of the impact of IFRS re-measurements on retained earnings:

	Note	Impact on retained earnings at 1 January 2016 SR '000
Retained earnings as per SOCPA		940,822
IFRS adjustments related to:		
Difference in depreciation as a result of componentization of property, plant and equipment	B	(82,988)
Depreciation adjustment of spare parts	A	(8,899)
Actuarial valuations of employee benefits	C	(4,599)
Retained earnings as per IFRS		<u>844,336</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6 First-time adoption of IFRS (continued)

6.5 The following is a reconciliation of the Company's statement of income and other comprehensive income for the year ended 31 December 2016 from SOCPA to IFRS:

	Note	SOCPA for year ended 31 December 2016 SR '000	Re- measuremen ts SR '000	IFRS for the year ended 31 December 2016 SR '000
Sales		1,778,139	-	1,778,139
Cost of sales	6.6	(749,139)	1,582	(747,557)
GROSS PROFIT		1,029,000	1,582	1,030,582
Selling and distribution expenses		(35,501)	-	(35,501)
General and administrative expenses	6.6	(60,766)	(2,200)	(62,966)
OPERATING PROFIT		932,733	(618)	932,115
Other income		4,274	-	4,274
Share in net results of associates		5,045	-	5,045
Follow-up fees in respect of Saudi Industrial Development Fund loans		(3,715)	-	(3,715)
Islamic financial charges		(13,222)	-	(13,222)
INCOME BEFORE ZAKAT		925,115	(618)	924,497
Zakat		(23,523)	-	(23,523)
NET INCOME FOR THE YEAR		901,592	(618)	900,974
Other comprehensive income				
<i>Other comprehensive income not to be reclassified to income in subsequent periods:</i>				
Re-measurement gain on defined benefit plans	6.6	-	9,017	9,017
TOTAL COMPREHENSIVE INCOME		901,592	8,399	909,991

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6 First-time adoption of IFRS (continued)

6.6 The following table illustrates the reconciliation of statement of income and other comprehensive income from SOCPA to IFRS for Company on adoption of IFRS:

Reconciliation of statement of income and other comprehensive income

	Note	For the year ended 31 December 2016 SR '000
Net income and other comprehensive income under SOCPA		901,592
IFRS adjustments related to:		
Difference in depreciation as a result of componentization of property, plant and equipment	B	(3,352)
Depreciation adjustment of spare parts	A	(6,419)
Employees' end-of-service-benefits	C	(592)
Reversal of capital spare parts utilized	A	11,945
Board of Directors' remuneration	D	(2,200)
Net income under IFRSs		900,974
Other comprehensive income		
Re-measurement gain on actuarial valuations of employee benefits	C	9,017
Total comprehensive income under IFRS		909,991

A Property, Plant and equipment and inventories

Under SOCPA, the Company capitalized the cost of capital spare parts under inventory, which used to serve for more than one accounting year. However, under IFRS, such cost is capitalized under property, plant and equipment, and therefore the depreciation has been estimated for such cost and recognized through the retained earnings. This change resulted in a decrease in both the net book value of property, plant and equipment balances and retained earnings on the transition date.

B Component change for the property, plant and equipment

Under IFRS, the property, plant and equipment should be componentized and the components' useful lives identified separately. The componentization concept was not a followed practice in Saudi Arabia. As part of the transition to IFRS, the Company has applied the concept of assets components and accounted for its impact on the useful lives, which resulted in a decrease in property, plant and equipment and decrease in retained earnings on the IFRS transition date amounting to SR 83 million. The net impact as of 31 December 2016 has been adjusted accordingly

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6 First-time adoption of IFRS (continued)

C Employees benefits

Under IFRS, end of service benefits ("EOSB") are required to be calculated using actuarial assumptions. Historically, the Company has calculated these obligations based on the current provision. This change resulted in an increase in the EOSB liability balances on the transition date and a decrease in retained earnings.

D Board of Directors' remuneration

Under SOCPA, accepted practice was to charge the Board of Directors' remuneration in the statement of changes in equity. However, under IFRS, the Board of Directors' remuneration is charged to statement of income and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7 Property, plant and equipment

	Land SR '000	Buildings and civil works SR '000	Plant and equipment SR '000	Tools and transportation equipment SR '000	Furniture, fixtures and office equipment SR '000	Construction work in progress SR '000	Total 2017 SR '000
Cost:							
At the beginning of the year	69,607	1,868,999	5,009,500	295,715	85,901	160,119	7,489,841
Additions	-	-	13,775	1,058	448	38,144	53,425
Transfer from construction work in progress	-	-	15,891	-	-	(15,891)	-
Disposals	-	-	-	(2,429)	(79)	-	(2,508)
At the end of the year	69,607	1,868,999	5,039,166	294,344	86,270	182,372	7,540,758
Accumulated depreciation:							
At the beginning of the year	-	1,177,382	3,099,495	260,584	57,709	-	4,595,170
Charge for the year	-	36,669	156,927	7,831	6,854	-	208,281
Disposals	-	-	-	(2,427)	(74)	-	(2,501)
At the end of the year	-	1,214,051	3,256,422	265,988	64,489	-	4,800,950
Net book amounts:							
At 31 December 2017	69,607	654,948	1,782,744	28,356	21,781	182,372	2,739,808
At 31 December 2016	69,607	691,617	1,910,005	35,131	28,192	160,119	2,894,671
At 01 January 2016	69,607	721,012	2,018,127	52,323	13,291	138,134	3,012,494

7.1 Certain property, plant and equipment are constructed on the land provided under the right of the mining concession provided by the government (note 1).

7.2 Construction work in progress represents the ongoing construction work of a bulk railway loading facility and its railway link which are expected to be finalized in 2018, in addition to other construction projects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8 Investment in associates

The movement of investments in associated companies was as follows:

	United Cement Company SR '000	Cement Product Industry Company Limited SR '000	Total 2017 SR '000	Total 2016 SR '000
Percentage of ownership	36%	33.33%		
At the beginning of the year	27,942	32,158	60,100	82,800
Share in net income	924	423	1,347	5,045
Dividends received from associates	(1,609)	-	(1,609)	(3,757)
Sold during the year	-	-	-	(23,988)
At the end of the year	27,257	32,581	59,838	60,100

United Cement Company is a Bahraini closed joint stock company registered and operating in the Kingdom of Bahrain. The company is engaged in the import, storage and selling of cement in different forms.

Cement Product Industry Company Limited is a limited liability company registered and operating in the Kingdom of Saudi Arabia. The company is engaged in the manufacturing of cement derivative products and other products necessary for manufacturing and packing cement.

9 Inventories

	31 December 2017 SR '000	31 December 2016 SR '000	January 01 2016 SR '000
Spare parts	110,815	120,395	159,178
Less: provision for slow moving and obsolete spare parts	(1,082)	(1,082)	(23,353)
	109,733	119,313	135,825
Raw materials	122,665	132,130	252,155
Work in progress	496,882	470,468	274,995
Finished goods	12,174	1,233	2,136
At 31 December	741,454	723,144	665,111

The movement of provision for slow moving and obsolete spare parts is as follows:

	31 December 2017 SR '000	31 December 2016 SR '000	January 01 2016 SR '000
At the beginning of the year	1,082	23,353	29,858
Provision for the year	-	10,000	14,517
Write-off	-	(32,271)	(21,022)
At the end of the year	1082	1,082	23,353

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

10 Trade receivables	31 December 2017 SR '000	31 December 2016 SR '000	01 January 2016 SR '000
Trade accounts receivable due from third parties	237,283	238,261	202,951
Trade accounts receivable due from a related party (note 22)	-	21,096	23,971
	237,283	259,357	226,922

As at December 31 and January 1, aging of trade receivables are as follows:

	31 December 2017 SR '000	31 December 2016 SR '000	01 January 2016 SR '000
Not due yet	176,644	190,899	185,544
Past due but not impaired- 1 to 120 days	57,433	63,402	39,975
Past due but not impaired- 121 days or more	3,206	5,056	1,403
	237,283	259,357	226,922

11 Prepayments and other receivables	31 December 2017 SR '000	31 December 2016 SR '000	01 January 2016 SR '000
Advances to suppliers	15,820	29,101	32,708
Custom deposits	1,077	404	6176
Advance to a related party (note 22)	3,450	3,450	3,950
Prepaid expenses	3,179	3,839	4,665
Others	13,983	3,345	3,876
	37,509	40,139	51,375

12 Cash and cash equivalent	31 December 2017 SR '000	31 December 2016 SR '000	01 January 2016 SR '000
Cash at banks	119,556	183,500	382,680
Cash in hand	320	320	320
	119,876	183,820	383,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13 Share capital

The authorized issued and paid up share capital is SR 1,530 million, which is divided into 153 million shares (31 December 2016: 153 million shares, 01 January 2016: 153 million shares) of SR 10 each.

14 Employees' benefits

The following table represents the movement of the employees' benefits:

	31 December 2017 SR '000	31 December 2016 SR '000	01 January 2016 SR '000
At the beginning of the year	87,451	95,915	91,366
Current service cost	6,502	7,040	15,101
Interest cost	2,848	3,389	
Payments during the year	(18,041)	(9,876)	(10,552)
Actuarial adjustments during the year	159	(9,017)	
At the end of the year	78,919	87,451	95,915

(i) The significant actuarial assumptions are as follows:

	December 31, 2017	December 31, 2016
Discount rate used for calculation of interest cost	3.05%	3.20%
Salary increment rate		
Year 1 – 5	2.00%	2.00%
Mortality rates	WHO SA 15-75%	SLIC (2001-05)-1
Long term salary increase rate for the sixth year and onwards	3.50%	3.50%
Rate of employee turnover	Moderate	Moderate

(ii) The weighted average duration of the defined benefit obligation is 9.41 years (2016: 8.97 years).

(iii) The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions for year ended December 31, 2017 is as follows:

Discount rate +0.5%	75,206,891	83,527,420
Discount rate -0.5%	82,924,686	91,677,776
Long term salary increases +0.5%	81,288,625	89,923,315
Long term salary increases -0.5%	76,678,428	85,110,130

15 Islamic financing

The Islamic facilities have been obtained from various local banks to meet the working capital requirements with a total amount of 31 December 2017: SR 1,800 million (31 December 2016: SR 1,800 million, 01 January 2016: SR 1,850), the utilized balance as of 31 December 2017: SR 550 million (31 December 2016: SR 400 million, 01 January 2016: SR 600). These Islamic facilities carry varying financial costs in excess of SIBOR and are consistent with the terms of each facility agreement that are secured by promissory notes issued by the Company and carry charges agreed with the facilities' providers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

15 Islamic financing (continued)

The outstanding Islamic financing is classified under current liabilities in the statement of financial position as it is repayable within 12 months from the financial position date.

The facility agreements contained certain covenants, which requires among other things, certain financial ratios to be maintained.

16 Dividends

On 28 Shaban 1438H (corresponding to 24 May 2017), the Board of Directors has resolved to distribute interim cash dividends amounting to SR 2.25 per share (SR 344.25 million in total) for the first half of 2017.

On 12 Rajab 1438H (corresponding to 9 April 2017), the General Assembly approved the Board of Directors' proposal to distribute cash dividends amounting to SR 2.75 per share (SR 420.75 million in total) for the second half of 2016.

On 17 Shaban 1437H (corresponding to 24 May 2016), the Board of Directors has resolved to distribute interim cash dividends amounting to SR 2.75 per share (SR 420.75 million in total) for the first half of 2016. General Assembly approved this distribution during its meeting on 12 Rajab 1438H (corresponding to 9 April 2017).

On 15 Jumada' II 1437H (corresponding 24 March 2016), the General Assembly approved the Board of Directors' proposal to distribute cash dividends amounting to SR 3 per share (SR 459 million in total) for the second half of 2015.

Subsequent to year end, on 21 Jamada I 1439 (7 February 2018), the Board of Directors proposed to distribute cash dividends amounting to SR 1.75 per share (SR 267.75 million in total) for the second half of 2017.

17 Accruals and other payables

	31 December 2017 SR '000	31 December 2016 SR '000	01 January 2016 SR '000
Accrued expenses	76,276	104,287	98,045
Liability for charitable contribution	20,000	20,000	30,000
Advances from customers	11,282	8,414	22,348
	107,558	132,701	150,393

18 Selling and distribution expenses

	2017 SR '000	2016 SR '000
Employees' costs	11,143	12,796
Depreciation	9,747	9,715
Transportation fees	4,246	8,073
Others	2,877	4,917
	28,013	35,501

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

19 General and administrative expenses

	2017 SR '000	2016 SR '000
Employees' costs	36,938	44,978
Depreciation	6,480	4,591
Board of directors' remunerations	11,159	2,200
Professional fees	2,434	1,406
Donation	776	1,285
Publication fees	221	420
Training	131	184
Other	9,127	7,902
	67,266	62,966

20 Zakat provision

A The principal elements of the zakat base are as follows

	2017 SR '000	2016 SR '000
Non-current assets	(2,799,646)	(2,954,771)
Non-current liabilities	78,919	87,451
Opening shareholders' equity	3,189,577	3,159,336
Net income before zakat	464,995	924,497

The zakat for the year ended December 2016 was based on financial statements for the year ended December 31, 2016 prepared under SOCPA.

B The movement in Company's zakat is as follows:

	2017 SR '000	2016 SR '000
At beginning of the year	37,194	32,845
Provision made during the year	11,546	23,523
Paid during the year	(15,661)	(19,174)
At the end of the year	33,079	37,194

C Status of zakat assessment

The Company has submitted its zakat declarations and obtained certificates till the year 2016. The last Zakat assessment received by the Company was for the year 2012.

21 Earnings per share

Basic earnings per share amounts are calculated by dividing net income for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2017 SR '000	2016 SR '000
Net Income attributable to equity holders	453,449	900,974
Number of shares outstanding	153,000	153,000
Earnings per share	2.96	5.89

There has been no item of dilution affecting the weighted average number of ordinary shares.

22 Related party transactions and balances

Related party	Relationship	Nature of transaction	<u>Amount of transaction</u>		<u>Ending balance</u>		1 January 2016
			31 December 2017	31 December 2016	31 December 2017	31 December 2016	
			SR '000	SR '000	SR '000	SR '000	SR '000
i) Trade receivables due from a related party							
United Cement Company	Associate	Sales	18,040	102,911	-	21,096	23,971
ii) Advances to a related party							
Cement Product Industry Company Limited	Associate	Advance paid	-	500	3,450	3,450	3,950
iii) Trade payables due to a related party							
Cement Product Industry Company Limited	Associate	Purchases of raw material	23,835	36,970	1,361	617	-
Wataniya Insurance Company	Affiliate	Insurance on property plant and equipment	6,706	7,427	-	-	17
					1,361	617	17

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made in the ordinary course of business. Outstanding balances at the year ended 31 December 2017 are unsecured and settled in cash. There have been no guarantees provided to amounts due to related parties. However, amounts due from related parties were fully covered by bank guarantees. For the year ended 31 December 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Prices and terms of payments for the above transactions are approved by the Company's management.

Key management personnel	2017	2016
	SR '000	SR '000
Total compensation		
Short term employment benefits	16,300	16,800
Post-employment benefits	823	817
	17,123	17,617

23 Contingencies and commitments

(a) The capital expenditure contracted by the Company but not incurred till year end was approximately SR 10.36 million (2016: SR 23.7 million).

(b) The Company's bankers have given guarantees, on behalf of the Company, amounting to SR 3.25 million (2016: SR 21.25 million) in respect of performance guarantees.

24 Segment information

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

All of the Company's operations are related to one operating segment which is cement manufacturing and are substantially sold to local customers. Accordingly, segmental analysis by geographical and operating segment has not been presented.

25 Employees' Saving Plan

The Company has established an employees' saving plan for its employees, which was approved by the Ministry of Labour on 11 Jumada' I 1414H (corresponding to 27 October 1993). The contributions from the Company and the participants are deposited in separate bank accounts as thrift saving accounts. These bank accounts with a total balance of SR 16.6 million (2016: SR 17.1 million) do not form part of the Company's available cash resources and have been accounted for, together with the related liability against the contributions, in its own standalone accounting records, as required by the saving plan's by-laws, and has not been integrated with the Company's accounting records.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

26 Financial risk management objectives and policies

The Company's principal financial liabilities comprise Islamic financing, trade payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include trade and other receivables, and cash and bank balances that derive directly from its operations. The Company's management reviews and agrees policies for managing each of these risks which are summarized below.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives. The Company does not engaged into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk and commodity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's Islamic financing with floating interest rates. The Company manages its exposure to interest rate risk by continuously monitoring movements in interest rates.

Foreign Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company deals mainly in US \$ and Saudi Riyal (SR). As the SR is pegged to the US \$, balances in SR are not considered to represent significant currency risk.

Commodity price risk

The Company is exposed to the impact of market fluctuations of the price of various inputs to production including oil, natural gas and electricity. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices to manage the risk.

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 Company is exposed to credit risk on its bank balances, deposits and receivables as follows:

	31 December 2017 SR '000	31 December 2016 SR '000	01 January 2016 SR '000
Cash and cash equivalent	119,876	183,820	383,000
Trade receivables	237,283	259,357	226,922
Advances to a related party	3,450	3,450	3,950

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

26 Financial risk management objectives and policies (continued)

The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and obtaining bank guarantees from certain customers. Funds are placed in banks with sound credit ratings.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

Liquidity risk

Liquidity risk is the risk that the Company 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. The Company manages its liquidity risk by ensuring bank facilities are available when required. The Company's terms of sales require amounts to be paid within 60 to 90 days of the date of sale. Trade payables are normally settled within 60 to 120 days of the date of purchase.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at 31 December 2017, based on contractual payment dates and current market interest rates:

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Islamic financing	-	550,000	-	-	550,000
Dividends payable	-	196,601	-	-	196,601
Trade payables	38,771	52,973	-	-	91,744
Accrued expenses	30,000	77,558	-	-	107,558
Zakat provision	33,079	-	-	-	33,079
	101,850	877,132	-	-	978,982

Capital management

For purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management is to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares. In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

27 Fair values of financial instruments

As of 31 December 2017, 31 December 2016 and 01 January 2016, all of the Company's financial instruments have been carried at amortized cost and the Company does not hold any financial instruments measured at fair value. However, the carrying value of the financial assets and liabilities in the statement of financial position approximates to their fair value.

28 Subsequent events

There have been no significant subsequent events since the year ended 31 December 2017 that would have a material impact on the financial position of the Company as reflected in these financial statements except as mentioned in note 16.

29 Approval of financial statements

These financial statements were authorized for issue and approved on February 27, 2018 G by the Board of Directors of the Company.