

**ASTRA INDUSTRIAL GROUP COMPANY  
AND ITS SUBSIDIARIES**

**(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

<b>INDEX</b>	<b>PAGE</b>
Auditors' Report	2
Consolidated Balance Sheet	3
Consolidated Statement of Income	4
Consolidated Statement of Cash Flows	5
Consolidated Statement of Changes in Shareholders' Equity	6
Notes to the Consolidated Financial Statements	7 – 24

ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES  
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET  
AS AT 31 December 2016

	<i>Notes</i>	<b>2016 SR</b>	<b>2015 SR</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	<b>154,446,605</b>	292,870,529
Accounts receivable, net	5	<b>901,793,754</b>	945,668,492
Prepayments and other current assets	7	<b>187,728,125</b>	196,978,219
Inventories, net	6	<b>676,353,837</b>	773,175,590
Amounts due from related parties	9	<b>14,665,289</b>	29,546,378
<b>Total current assets</b>		<b>1,934,987,610</b>	2,238,239,208
<b>Non-current assets</b>			
Investment in associates	8	<b>2,016,790</b>	1,452,850
Property, plant and equipment	10	<b>1,360,038,729</b>	1,387,916,692
Goodwill	11	<b>25,206,754</b>	25,206,754
Other intangible assets	12	<b>6,278,724</b>	11,159,154
<b>Total non-current assets</b>		<b>1,393,540,997</b>	1,425,735,450
<b>TOTAL ASSETS</b>		<b>3,328,528,607</b>	3,663,974,658
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Short term murabaha and tawaroq loans	13	<b>358,767,877</b>	431,201,396
Current portion of murabaha loan	14	<b>183,640,000</b>	128,640,000
Notes payable		<b>3,444,657</b>	8,009,643
Accounts payable		<b>166,761,132</b>	161,200,221
Amounts due to related parties	9	<b>10,912,488</b>	9,414,853
Accrued expenses and other current liabilities	15	<b>228,794,190</b>	219,682,023
Zakat and income tax payable	16	<b>87,078,724</b>	32,873,325
<b>Total current liabilities</b>		<b>1,039,399,068</b>	991,021,461
<b>Non-current liabilities</b>			
Murabaha loan	14	<b>594,702,500</b>	767,403,809
Amounts due to related parties	9	<b>423,963,760</b>	388,891,941
Employees' terminal benefits	17	<b>108,194,713</b>	100,108,090
<b>Total non-current liabilities</b>		<b>1,126,860,973</b>	1,256,403,840
<b>TOTAL LIABILITIES</b>		<b>2,166,260,041</b>	2,247,425,301
<b>EQUITY</b>			
<b>Shareholders' equity</b>			
Share capital	18	<b>800,000,000</b>	800,000,000
Statutory reserve	19	<b>406,568,677</b>	406,568,677
Retained earnings		<b>597,854,760</b>	630,344,934
Foreign currency translation reserve		<b>(227,571,609)</b>	(105,884,797)
Effect of acquisition transaction with minority interest without change in control		<b>(14,338,537)</b>	(14,338,537)
<b>Total shareholders' equity</b>		<b>1,562,513,291</b>	1,716,690,277
<b>Minority interests</b>		<b>(400,244,725)</b>	(300,140,920)
<b>Total equity</b>		<b>1,162,268,566</b>	1,416,549,357
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,328,528,607</b>	3,663,974,658

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME  
YEAR ENDED 31 DECEMBER 2016

	Notes	2016 SR	2015 SR
Revenues		<b>1,753,907,059</b>	1,760,092,959
Cost of revenues		<b>(1,089,495,586)</b>	(1,174,338,570)
<b>GROSS PROFIT</b>		<b>664,411,473</b>	585,754,389
<b>EXPENSES</b>			
Selling and marketing	20	<b>(409,141,790)</b>	(379,504,687)
General and administrative	21	<b>(222,625,726)</b>	(184,446,878)
Research and development		<b>(20,234,737)</b>	(19,116,072)
<b>TOTAL EXPENSES</b>		<b>(652,002,253)</b>	(583,067,637)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>12,409,220</b>	2,686,752
Financing charges	13,14	<b>(74,911,135)</b>	(54,376,655)
Other income/(expenses), net	22	<b>7,785,970</b>	(50,685,693)
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(54,715,945)</b>	(102,375,596)
Minority interests in the net results of subsidiaries		<b>99,926,934</b>	109,088,439
<b>NET INCOME FOR THE YEAR</b>		<b>45,210,989</b>	6,712,843
<b>EARNINGS PER SHARE:</b>	23		
Attributable to income from main operations		<b>0.16</b>	0.03
Attributable to net income for the year		<b>0.57</b>	0.08

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

**ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
YEAR ENDED 31 DECEMBER 2016

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
<b>OPERATING ACTIVITIES</b>		
Net income for the year	<b>45,210,989</b>	6,712,843
Adjustments for:		
Depreciation	<b>119,214,125</b>	128,019,270
Amortisation	<b>3,278,979</b>	8,074,411
Provision for doubtful debts	<b>49,696,733</b>	27,800,029
Reversals/ written-off of doubtful debts	<b>(9,690,581)</b>	(848,519)
Provision for obsolete and slow moving inventories	<b>52,136,416</b>	50,364,216
Written-off of obsolete and slow moving inventories	<b>(66,840,263)</b>	(23,425,852)
Minority interests in the net results of subsidiaries	<b>(99,926,934)</b>	(109,088,439)
Changes in operating assets and liabilities:		
Accounts receivable	<b>3,868,587</b>	73,512,068
Amounts due from related parties	<b>14,881,089</b>	27,189,763
Inventories	<b>111,525,602</b>	(81,047,238)
Prepayments and other current assets	<b>9,250,094</b>	3,350,037
Accounts payable	<b>5,560,911</b>	1,487,770
Amounts due to related parties	<b>1,497,635</b>	(1,520,007)
Accrued expenses and other current liabilities	<b>13,207,126</b>	3,971,487
Employees' terminal benefits, net	<b>3,991,663</b>	11,094,936
Cash from operations	<b>256,862,171</b>	125,646,775
Zakat and income tax paid	<b>(23,495,764)</b>	(25,748,920)
<b>Net cash from operating activities</b>	<b>233,366,407</b>	99,897,855
<b>INVESTING ACTIVITIES</b>		
Investment in associate	<b>(563,940)</b>	—
Purchase of property, plant and equipment, net	<b>(91,336,162)</b>	(151,026,809)
Other intangible assets, net	<b>1,601,449</b>	(3,954,547)
<b>Net cash used in investing activities</b>	<b>(90,298,653)</b>	(154,981,356)
<b>FINANCING ACTIVITIES</b>		
Proceeds from (Repayment of) short term murabaha and tawaroq loans, net	<b>(72,433,519)</b>	(634,932,029)
Proceeds from murabaha loan	<b>(117,701,309)</b>	845,877,833
Notes payable	<b>(4,564,986)</b>	663,395
Due to related parties	<b>35,071,819</b>	22,677,498
Dividends paid	<b>0</b>	(55,588,235)
Board members' remuneration	<b>0</b>	(1,800,000)
Minority interests, net	<b>(176,871)</b>	1,744,880
<b>Net cash from financing activities</b>	<b>(159,804,866)</b>	178,643,342
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(16,737,112)</b>	123,559,841
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>292,870,529</b>	207,707,829
Foreign currency translation reserve	<b>(121,686,812)</b>	(38,397,141)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>154,446,605</b>	292,870,529
<b>Major non-cash transaction</b>		
Write-off of capitalised borrowing costs pertaining to minority interests' loan (note 10)		73,723,400

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
YEAR ENDED 31 DECEMBER 2016

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Effect of acquisition transaction with non- controlling interest without change in control SR</i>	<i>Foreign currency translation reserve SR</i>	<i>Total SR</i>
Balance at 31 December 2014	741,176,470	406,568,677	780,368,442	(14,338,537)	(67,487,656)	1,846,287,396
Tanmiya goodwill charged to equity			(18,848,057)			(18,848,057)
<b>Balance at 31 December 2014- Restated</b>	<b>741,176,470</b>	<b>406,568,677</b>	<b>761,520,385</b>	<b>(14,338,537)</b>	<b>(67,487,656)</b>	<b>1,827,439,339</b>
Net income for the year	-	-	6,712,843	-	-	6,712,843
Dividends (note 27)	-	-	(55,588,235)	-	-	(55,588,235)
Board members' remuneration (note 27)	-	-	(1,800,000)	-	-	(1,800,000)
Currency translation difference of consolidated subsidiaries	-	-	-	-	(38,397,141)	(38,397,141)
Increase in share capital (note 18)	58,823,530	-	(58,823,530)	-	-	-
Zakat and income tax (note 16)	-	-	(21,676,529)	-	-	(21,676,529)
<b>Balance at 31 December 2015</b>	<b>800,000,000</b>	<b>406,568,677</b>	<b>630,344,934</b>	<b>(14,338,537)</b>	<b>(105,884,797)</b>	<b>1,716,690,277</b>
Net income for the year			45,210,989			45,210,989
Dividends (note 27)						0
Board members' remuneration (note 27)						0
Currency translation difference of consolidated subsidiaries					(121,686,812)	(121,686,812)
Increase in share capital (note 18)						0
Zakat and income tax (note 16)			(77,701,163)			(77,701,163)
<b>Balance at 31 December 2016</b>	<b>800,000,000</b>	<b>406,568,677</b>	<b>597,854,760</b>	<b>(14,338,537)</b>	<b>(227,571,609)</b>	<b>1,562,513,291</b>

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

#### 1. ORGANIZATION AND ACTIVITIES

Astra Industrial Group Company (the "Company") is a Saudi Joint Stock Company licensed under foreign investment license number 030114989-01 issued in Riyadh by SAGIA and operating under commercial registration number 1010069607 issued in Riyadh on 9 Muharram 1409H (August 22, 1988).

The Company is engaged in the following activities:

- Building, managing, operating and investing in industrial plants after obtaining approvals from the Saudi Arabian General Investment Authority (SAGIA) for each project.
- The wholesale and retail trade in clothing, towels, blankets, fertilizers, animal feed, insecticides, irrigation equipment, agricultural machinery and equipment, greenhouses, agricultural and animal products and gardening contracts.

The principal activities of the subsidiaries are as follows:

- Production, marketing and distribution of medicine and pharmaceutical products.
- Production of polymer compounds, plastic additives, color concentrates and other plastic products.
- Metal based construction of industrial buildings and building frames.
- Production of compounded fertilizers and agriculture pesticides and the wholesale and retail trading of fertilizers, forages and insecticides. Also, execution of agricultural projects contracts.
- Production of steel pallets and steel rebar and generation of the required power of such activity.
- Exploration of all ores and minerals in all regions of the Kingdom of Saudi Arabia except for those land and marine areas that are out of the scope of application of the mining investment regulations as stipulated in Article (8) of the said regulation.

#### 2. BASIS OF CONSOLIDATION

The consolidated financial statements are comprised of the financial statements of the Company and its subsidiaries ("Group"), as adjusted by the elimination of significant inter-company balances and transactions. A subsidiary is an entity in which the Company has a direct or indirect equity investment of more than 50% or over which it exerts effective control. Minority interests represent the portion of equity, in the Company's subsidiaries, which are not attributable, directly or indirectly, to the Company. Minority interests are shown separately under equity in the consolidated balance sheet. The minority interests in the net results of subsidiaries are shown separately in the consolidated statement of income.

The financial statements of the subsidiaries are prepared using accounting policies which are consistent with those of the Company.

The subsidiary companies incorporated into these consolidated financial statements are as follows:

<i>Subsidiary Company</i>	<i>Country of incorporation</i>	<i>Percentage of ownership (directly or indirectly)</i>	
		<i>%</i>	<i>%</i>
		<b>2016</b>	<b>2015</b>
<b>Tabuk Pharmaceutical Manufacturing Company ("TPMC")</b>	Kingdom of Saudi Arabia	<b>100</b>	100
TPMC has the following subsidiaries:			
- Tabuk Pharmaceutical Research Company	Kingdom of Jordan	<b>100</b>	100
- Tabuk Pharmaceutical Company Limited	Republic of the Sudan	<b>100</b>	100
- Tabuk Pharmaceutical Manufacturing Company	Arab republic of Egypt	<b>100</b>	100
	People's Democratic		
- Tabuk Eurl Algeria	Republic of Algeria	<b>100</b>	100
- Al Bareq Pharmaceutical Manufacturing Factory Company Limited	Kingdom of Saudi Arabia	<b>100</b>	100

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 2. BASIS OF CONSOLIDATION (continued)

<i>Subsidiary Company</i>	<i>Country of incorporation</i>	<i>Percentage of ownership (directly or indirectly)</i>	
		<i>2016</i>	<i>2015</i>
		<i>%</i>	
<b>Astra Polymer Compounding Company Limited (“Polymer”)</b>	Kingdom of Saudi Arabia	<b>100</b>	100
Polymer has the following subsidiaries:			
- Astra Polymers free zone Imalat Sanayi Ve Ticaret Anonim Sirketi.	Republic of Turkey	<b>100</b>	100
- Astra Polymer Pazarlama San. Ve Tic. A.Ş	Republic of Turkey	<b>100</b>	100
- Astra Specialty Compounds India Private Limited	Republic of India	<b>100</b>	100
<b>International Building Systems Factory Company Limited (“IBSF”)</b>	Kingdom of Saudi Arabia	<b>100</b>	100
IBSF has the following subsidiary:			
- Astra Heavy Industries Factory Limited (“AHI”)	Kingdom of Saudi Arabia	<b>100</b>	100
<b>Astra Industrial Complex Co. Ltd. for Fertilizer and Agrochemicals (“AstraChem”)</b>	Kingdom of Saudi Arabia	<b>100</b>	100
AstraChem has the following foreign subsidiaries:			
- AstraChem Saudia	People's Democratic Republic of Algeria	<b>100</b>	100
- AstraChem Morocco	Kingdom of Morocco	<b>100</b>	100
- Aggis International Limited	British Virgin Islands	<b>100</b>	100
- AstraChem Turkey	Republic of Turkey	<b>100</b>	100
- AstraChem Syria	Syrian Arab Republic	<b>100</b>	100
- AstraChem Tashqand	Republic of Uzbekistan	<b>100</b>	100
- Astra Industrial Complex Co. Ltd. for Fertilizer and Agrochemicals, Jordan	Kingdom of Jordan	<b>50</b>	50
- Astra Nova, Turkey	Republic of Turkey	<b>92.4</b>	92.4
- AstraChem Ukraine Ltd.	Ukraine	<b>100</b>	100
- AstraChem Saudi Jordan Co.	Arab republic of Egypt	<b>100</b>	100
- Astra Agricultural Saudi Jordan Co.	Arab republic of Egypt	<b>100</b>	100
- Astra Industrial Complex for Fertilizers and Agrochemicals and Investments	Sultanate of Oman	<b>99</b>	99
- Green Highland Seeds Company Limited - Jordon	Kingdom of Jordan	<b>100</b>	100
<b>Al-Tanmiya Company for Steel Manufacturing (“Tanmiya”)</b>	Kingdom of Jordan	<b>51</b>	51
Tanmiya has the following subsidiary:			
- Al Inma’a Company (Note 24)	Republic of Iraq	<b>100</b>	100
<b>Astra Energy LLC (“Astra Energy”)</b>	Kingdom of Jordan	<b>76</b>	<b>76</b>
Astra Energy has the following subsidiary:			
- Fertile Crescent for Electricity Generation Company	Republic of Iraq	<b>100</b>	100
<b>Astra Mining Company Limited (“Astra Mining”)</b>	Kingdom of Saudi Arabia	<b>60</b>	60



# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted by the Group in preparing these consolidated financial statements are summarised below.

#### **Accounting convention**

These consolidated financial statements are prepared under the historical cost convention.

#### **Use of estimates**

The preparation of these consolidated financial statements by management requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. The actual results ultimately may differ from these estimates.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash, demand deposits, and highly liquid investments with original maturities of three months or less.

#### **Accounts receivable**

Accounts receivable are stated at the invoiced amount less provision for any doubtful debts. An estimate for doubtful debts is made when the collection of the receivable amount is considered doubtful and charged to the consolidated statement of income. Bad debts are written off as incurred.

#### **Inventories**

Inventories are stated at the lower of cost or market value. Cost of raw and packing materials, spare parts and consumables, and finished goods is principally determined on a weighted average cost basis. Inventories of work in progress and finished goods include cost of materials, labor and an appropriate proportion of direct overheads. When inventories become old or obsolete, a provision for slow moving and obsolete inventories is provided and charged to the consolidated statement of income.

#### **Investment in associates**

The Group's investment in associates are accounted for using equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted by the changes in the Group's share of net assets of the associate. The consolidated statement of income reflects the share of the results of operation of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any change and discloses this, when applicable, in shareholders' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of interest in an associate.

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation except for land and construction work in progress which are stated at cost. Expenditure for maintenance and repairs is expensed, while expenditure for improvements is capitalised. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method.

Leasehold improvements are amortised over the shorter of the estimated useful life or the remaining term of the lease. The capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

The estimated useful lives of the principal classes of assets for the calculation of depreciation are as follows:

	Years
Buildings	10 - 33
Leasehold improvements	4 - 10
Machinery and equipment	5 - 20
Furniture, fixtures and office equipment	3 - 10
Vehicles	4

#### Intangible assets

##### *Goodwill*

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill. Goodwill is periodically re-measured and reported in the consolidated financial statements at carrying value after being adjusted for impairment, if any.

##### *Other intangible assets/amortisation*

Costs which have a long term future benefits are treated as other intangible assets and are amortised over the estimated period of benefit. Other intangible assets represent registration and license fees and are amortized on a straight-line method over a period of 4 to 7 years and charged to the consolidated statement of income.

The carrying values of other intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being their value in use. The excess of carrying value over the estimated recoverable amount is charged to the consolidated statement of income.

#### Impairment

The Group periodically reviews the carrying amounts of its long term tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment is recognised in the consolidated statement of income.

Except for goodwill, where impairment subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset or cash generating unit in prior years. A reversal of impairment is recognised immediately in the consolidated statement of income.

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Group.

#### **Provision**

Provision is recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

#### **Loans and borrowings**

Loans and borrowings are recognised at the proceeds received, net of transaction costs incurred, if any. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of those assets. Other borrowing costs are charged to the consolidated statement of income.

#### **Murabaha investments**

Murabaha investments are short-term highly liquid investments with original maturities of three months or more but not more than one year from the purchase date. Commission income is recognised on an accrual basis using agreed commission rates.

#### **Zakat and income tax**

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to retained earnings. Additional amounts, if any, that may become due on finalisation of an assessment are recorded in the year in which the assessment is finalised.

Taxation of foreign subsidiaries, if any, are provided for in accordance with income tax regulations of the countries in which they operate and charged to the consolidated statement of income.

Deferred income taxes are recognised on all major temporary differences between financial income and taxable income during the year in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax assets on carry forward losses are recognised to the extent that it is probable that future taxable income will be available against which such carry-forward tax losses can be utilised. Deferred income taxes are determined using tax rates which have been enacted by the consolidated balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income taxes arising out of such temporary differences were not significant and, accordingly, were not recorded at year end.

The Group and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

#### **Employees' terminal benefits**

Provision is made for amounts payable related to the accumulated periods of service at the balance sheet date in accordance with the employees' contracts of employment.

#### **Statutory reserve**

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income in each year until it has built up a reserve equal to one half of the capital. Also, the share premium is added to the statutory reserve. The reserve is not available for distribution.

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Revenue recognition**

Sales represent the invoiced value of goods supplied and services rendered by the Group during the year. Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably; normally on delivery to the customer. Revenues from rendering of services are recognised when contracted services are performed.

Royalty income is recognized on an accrual basis in accordance with the substance of agreements.

Contract revenue comprises the accrued value of work executed during the year. For long term contracts, revenue is recognised on the basis of costs incurred to date, using the percentage of completion method. In the case of unprofitable contracts, provision is made for foreseeable losses in full.

#### **Expenses**

Selling and marketing expenses are those that mainly relate to salesmen and sales department, where research and development expenses specifically relate to costs related to the research and development department. All other expenses are allocated on a consistent basis to cost of sales and general and administration expenses in accordance with allocation factors determined as appropriate by the Group.

#### **Operating leases**

Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the term of the lease.

#### **Earnings per share**

Basic earnings per share from main operations are calculated by dividing income (loss) from main operations for the year by the weighted average of number of shares outstanding during the year.

Basic earnings per share from net income are calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year. The outstanding number of shares is retrospectively adjusted for prior year to reflect the number of bonus shares issued during the year.

#### **Segmental reporting**

A segment is a distinguishable component of the Group that is engaged either 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.

#### **Foreign currencies**

##### *Transactions*

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated balance sheet date. All differences are taken to the consolidated statement of income.

##### *Foreign currency translations*

Financial statements of foreign operations are translated into Saudi Riyals using the exchange rate at each balance sheet date, for assets and liabilities, and the average exchange rate for each year for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component of shareholders' equity. Revaluation gain or loss arising on monetary items which form part of the net investment in the foreign operations are also included in the foreign currency translation adjustment.

**ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

**4. CASH AND CASH EQUIVELANTS**

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
Bank balances	<b>142,310,613</b>	290,292,202
Cash in hand	<b>12,135,992</b>	2,578,327
	<b>154,446,605</b>	292,870,529

Bank balances includes short term deposits of SR nil (2014: SR 44,645,193)

**5. ACCOUNTS RECIEVABLE, NET**

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
Trade receivables	<b>1,022,711,790</b>	997,986,799
Unbilled revenue	<b>0</b>	28,593,577
	<b>1,022,711,790</b>	1,026,580,376
Provision for doubtful debts	<b>(120,918,036)</b>	(80,911,884)
	<b>901,793,754</b>	945,668,492

Movements in the provision for doubtful debts are as follows:

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
At the beginning of the year	<b>80,911,884</b>	53,960,374
Provision for the year	<b>49,696,733</b>	27,800,029
Reversals/ written-off during the year	<b>(9,690,581)</b>	(848,519)
At the end of the year	<b>120,918,036</b>	80,911,884

**6. INVENTORIES, NET**

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
Raw and packing materials	<b>354,411,166</b>	429,224,164
Finished goods	<b>250,957,171</b>	269,793,546
Work-in-process	<b>38,778,745</b>	55,391,209
Goods in transit	<b>19,607,045</b>	20,728,197
Spare parts and consumables	<b>44,904,121</b>	45,046,732
	<b>708,658,248</b>	820,183,848
Provision for obsolete and slow moving inventories	<b>(32,304,411)</b>	(47,008,258)
	<b>676,353,837</b>	773,175,590

**ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

**6. INVENTORIES, NET (continued)**

Movements in the provision for obsolete and slow moving inventories are as follows:

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
At the beginning of the year	<b>47,008,258</b>	20,069,894
Provision for the year	<b>52,136,416</b>	50,364,216
Written-off during the year	<b>(66,840,263)</b>	(23,425,852)
At the end of the year	<b>32,304,411</b>	47,008,258

**7. PREPAYMENTS AND OTHER CURRENT ASSETS**

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
Prepaid expenses	<b>64,424,356</b>	78,746,669
Advances to suppliers	<b>74,555,618</b>	78,726,338
Employees' receivables	<b>19,448,825</b>	19,706,037
Value added tax and others	<b>7,510,045</b>	10,738,288
Refundable deposits, insurance claims and others	<b>21,789,281</b>	9,060,887
	<b>187,728,125</b>	196,978,219

**8. INVESTMENT IN ASSOCIATES**

	<i>Ownership interest</i>	
	<i>2016</i>	<i>2015</i>
<b>Associates:</b>		
Mastra Agricultural Company – Egypt	<b>49%</b>	49%
Astra Agricultural Company Limited- Republic of Yemen	<b>49%</b>	49%

Movement of the Group's share in associate is as follows:

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
Balance at the beginning and end of the year	<b>2,016,790</b>	1,452,850

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 9. RELATED PARTY TRANSACTIONS AND BALANCES

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

	2016 SR	2015 SR
Sales	8,068,121	20,946,273
Purchases	5,707,392	7,162,570
Financial charges	18,001,314	17,342,805

The breakdown of amounts due from and to related parties is as follows:

a) Due from related parties comprises of the following as of 31 December:

	2016 SR	2015 SR
Munir Sukhtian Group – Jordan	-	9,922,757
United Pharmaceutical Manufacturing Company	-	9,117,999
Zenith Pharma	9,031,434	9,031,434
Astra Food	2,243,363	1,119,941
Arab Supply and Trading Company	-	117,670
Astra Tramaron (Associate entity)	2,208,270	-
Others	1,182,222	236,577
	<u>14,665,289</u>	<u>29,546,378</u>

b) Due to related parties comprises of the following as of 31 December:

	2016 SR	2015 SR
<b>Current</b>		
Tharawat Mining Company	7,629,345	8,292,858
Nour Communications Company	2,163,230	659,372
Others	1,119,913	462,623
	<u>10,912,488</u>	<u>9,414,853</u>
<b>Non-current</b>		
Al Maseera International Company	381,584,909	346,513,090
Mr. Ali Shamara ( partner in a subsidiary)	42,378,851	42,378,851
	<u>423,963,760</u>	<u>388,891,941</u>

Non-current amounts above represent interest based long-term loans from the minority shareholders in Al-Tanmiya Company for Steel Manufacturing and Astra Energy Company (subsidiaries), to finance the construction of the steel factory and a power station. These balances are not scheduled for repayment during next twelve month.

**ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

**10. PROPERTY, PLANT AND EQUIPMENT**

	<i>Land SR</i>	<i>Buildings SR</i>	<i>Leasehold improvements SR</i>	<i>Machinery and equipment SR</i>	<i>Furniture, fixtures and office equipment SR</i>	<i>Vehicles SR</i>	<i>Projects under construction SR</i>	<i><b>Total 2016 SR</b></i>	<i><b>Total 2015 SR</b></i>
<i>Cost:</i>									
At the beginning of the year	46,504,638	313,524,829	11,245,232	1,205,441,857	61,684,928	44,179,803	289,586,054	<b>1,972,167,341</b>	1,879,679,638
Additions/transfers	818,956	111,302,504	772,745	69,956,109	11,686,984	3,613,775	87,966,078	<b>286,117,151</b>	216,831,347
Disposals/transfers/written off	(2,288,322)	(9,021,373)	(503,511)	(25,109,991)	(6,715,238)	(8,870,906)	(161,097,181)	<b>(213,606,522)</b>	(165,275,757)
At the end of the year	<u>45,035,272</u>	<u>415,805,960</u>	<u>11,514,466</u>	<u>1,250,287,975</u>	<u>66,656,674</u>	<u>38,922,672</u>	<u>216,454,951</u>	<b><u>2,044,677,970</u></b>	<u>1,931,235,228</u>
<i>Accumulated depreciation:</i>									
At the beginning of the year	-	85,953,781	9,497,829	413,748,334	42,113,126	32,937,579	-	<b>584,250,649</b>	441,047,085
Charge for the year	-	12,795,258	457,245	94,774,568	7,027,491	4,159,563	-	<b>119,214,125</b>	128,019,270
Disposals/transfer/written off	-	(545,719)	(121,099)	(2,478,587)	(6,761,936)	(8,918,190)	-	<b>(18,825,531)</b>	(25,747,819)
At the end of the year	<u>-</u>	<u>98,203,320</u>	<u>9,833,975</u>	<u>506,044,315</u>	<u>42,378,681</u>	<u>28,178,952</u>	<u>-</u>	<b><u>684,639,243</u></b>	<u>543,318,536</u>
<i>Net book value:</i>									
<b>At 31 December 2016</b>	<b><u>45,035,272</u></b>	<b><u>317,602,640</u></b>	<b><u>1,680,491</u></b>	<b><u>744,243,660</u></b>	<b><u>24,277,993</u></b>	<b><u>10,743,720</u></b>	<b><u>216,454,951</u></b>	<b><u>1,360,038,727</u></b>	
At 31 December 2015	<u>46,504,638</u>	<u>220,622,481</u>	<u>2,080,836</u>	<u>793,288,073</u>	<u>22,239,828</u>	<u>11,145,538</u>	<u>292,035,298</u>		<u>1,387,916,692</u>

Some of the buildings and plant facilities of the Company's subsidiaries are constructed on land leased under various operating lease agreements at nominal annual rent under renewable operating leases. Projects under construction mainly represent the expansion of existing plants and new projects.



# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 11. GOODWILL

The recoverable amount of goodwill is determined based on fair value calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period.

The key assumptions used for fair value calculations are as follows:

- 1 Budgeted gross margin.
- 2 Weighted average growth rate
- 3 Discount rate applied to the cash flow projections.

Management determined budgeted gross margin and weighted average growth rates based on past performance and its expectations of market development. The discount rates used are pre-zakat and pre-income tax reflecting specific risks relating to the industry. The results of impairment test at year end indicated no impairment charge.

### 12. OTHER INTANGIBLE ASSETS, NET

	2016 SR	2015 SR
<b>Cost</b>		
At the beginning of the year	36,514,873	32,612,700
Additions	1,547,030	4,034,612
Disposals	(4,585,128)	(132,439)
At the end of the year	33,476,775	36,514,873
<b>Accumulated amortization</b>		
At the beginning of the year	25,355,719	17,333,682
Charge for the year	3,278,979	8,074,411
Disposals	(1,436,647)	(52,374)
At the end of the year	27,198,051	25,355,719
<b>Net book value</b>		
At the end of the year	6,278,724	11,159,154

### 13. SHORT TERM MURABAHA AND TAWAROQ LOANS

The Group has bank facilities in the form of murabaha, short-term tawaroq and other credit facilities to meet the working capital requirements. As at the consolidated balance sheet date, SR 358.77 million was utilised (31 December 2015: SR 431 million). The facilities bear special commission at prevailing market rates. These facilities are secured by corporate guarantees.

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 14. MURABAHA LOAN

The Group has a long-term Murabaha loan facility (the “facility”) with a local bank to finance its capital expenditure. At the consolidated balance sheet date, SR 778.34 million was utilised (31 December 2015: SR 896.04 million). The facility is primarily denominated in Saudi Riyal, secured by corporate guarantees and bears special commission charges at an agreed fixed rate plus SIBOR. The loan is repayable within six years by semi-annual equal installments from the date the facility was availed, including one year grace period.

As at the balance sheet date, current portion of the long-term Murabaha loan is SR 183.64 million (2015: SR 128.64).

### 15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2016 SR	2015 SR
Accrued expenses	92,000,285	104,681,710
Employees’ benefits	75,178,676	48,973,463
Customers advances, retentions and sales commission	61,615,229	66,026,850
	<b>228,794,190</b>	<b>219,682,023</b>

### 16. ZAKAT AND INCOME TAX

#### *Components of zakat base*

The Group’s Saudi Arabian subsidiaries file separate zakat and income tax declarations on an unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulation are principally comprised of equity, provisions at the beginning of year and estimated taxable income, less deduction for the net book value of property, plant and equipment, investments and certain other items.

#### *Movement in provision during the year*

The movement in zakat provision for the year ended 31 December 2016 and 2015 is as follows:

	Zakat SR	Income Tax SR	Total SR
Movement for the year ended 31 December 2016			
At the beginning of the year	26,519,297	6,354,028	<b>32,873,325</b>
Provided during the year	63,145,732	14,555,431	<b>77,701,163</b>
Payments during the year	(15,596,470)	(7,899,294)	<b>(23,495,764)</b>
At end of the year	<b>74,068,559</b>	<b>13,010,165</b>	<b>87,078,724</b>
Movement for the year ended 31 December 2015			
At the beginning of the year	29,804,544	7,141,172	36,945,716
Provided during the year	17,499,049	4,177,480	21,676,529
Payments during the year	(20,784,296)	(4,964,624)	(25,748,920)
At end of the year	<b>26,519,297</b>	<b>6,354,028</b>	<b>32,873,325</b>

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 16. ZAKAT AND INCOME TAX (continued)

#### Statue of assessments

The Company and its subsidiaries filed zakat/income tax returns for the years through 31 December 2015. The following are the final zakat and income tax assessments of the Company and its subsidiaries that have been agreed with the DZIT as of 31 December 2016:

<i>Name of Subsidiary/company</i>	<i>Final Zakat assetment</i>
Astra Industrial Group Company	2005
Tabuk Pharmaceutical Manufacturing Company	2002
Astra Polymer Compounding Company Limited	2002
International Building Systems Factory Company Limited	2006
Astra Industrial Complex Ltd. for Fertilizers and Agrochemicals	2004
Astra Mining Company Limited	Not yet issued
Astra Heavy Industries Factory Company Limited	Not yet issued

### 17. EMPLOYEES' TERMINAL BENEFITS

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
At the beginning of the year	<b>100,108,090</b>	80,934,251
Provided during the year	<b>22,489,334</b>	29,889,705
Payments during the year	<b>(14,402,711)</b>	(10,715,866)
At the end of the year	<b>108,194,713</b>	100,108,090

### 18. SHARE CAPITAL

The share capital of the Company as of 31 December 2016 comprises of 80,000,000 shares (31 December 2015: 80,000,000 shares) of SR 10 each. The share capital is held as follows:

<b>Shareholders</b>	<b>Shareholding %</b>	
	<i>31 December</i> <i>2016</i>	<i>31 December</i> <i>2015</i>
Saudi founding shareholders	<b>64.25%</b>	57.59%
Non-Saudi founding shareholders	<b>4.52%</b>	11.54%
Public	<b>31.23%</b>	30.87%
	<b>100.00%</b>	100.00%

The Extraordinary General Assembly, in its meeting held on 9 Rajab 1436H (corresponding to 28 April 2015), resolved to increase the share capital by SR 58,823,530 from the retained earnings (by issuing five bonus shares for every 63 shares held). The legal formalities required to enforce the increase the share capital are completed.

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 19. STATUTORY RESERVE

In accordance with the Regulations for Companies in Saudi Arabia and the Company's By-laws, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals at least 50% of the share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve is not available for dividend distribution.

### 20. SELLING AND MARKETING EXPENSES

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
Employees' salaries and benefits	<b>201,810,152</b>	177,812,842
Marketing, advertising and promotions	<b>80,561,174</b>	93,764,259
Distribution, travel and freight charges	<b>23,109,100</b>	31,358,265
Doubtful receivables provision and written off	<b>48,351,375</b>	28,240,102
Expired and damaged inventory	<b>17,642,422</b>	18,859,149
Rent and utilities	<b>11,521,862</b>	9,401,837
Depreciation	<b>4,831,159</b>	6,028,350
Others	<b>21,314,546</b>	14,039,883
	<b>409,141,790</b>	379,504,687

### 21. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
Employees' salaries and benefits	<b>140,348,051</b>	110,614,883
Professional fees	<b>24,940,880</b>	17,253,613
Rent, insurance and utilities	<b>10,636,815</b>	11,400,461
Depreciation and amortization	<b>15,007,357</b>	9,497,844
Travel and transportation	<b>6,542,772</b>	8,874,800
Repair and maintenance	<b>4,453,625</b>	5,171,891
Others	<b>20,696,226</b>	21,633,386
	<b>222,625,726</b>	184,446,878

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 22. OTHER EXPENSES, NET

	2016 SR	2015 SR
Other expenses	(43,524,454)	(61,388,544)
Other income	51,310,424	10,702,851
	<b>7,785,970</b>	<b>(50,685,693)</b>

### 23. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2016 and 2015 have been computed by dividing the income from main operations and net income for each year by weighted average number of shares outstanding during said years.

### 24. SEGMENT INFORMATION

Consistent with the Group's internal reporting process, business segments have been approved by board of directors in respect of the Group's activities. Transactions between the business segments are recorded based on the Group's transfer pricing policy. The Group operates principally through the following major business segments:

- (i) Pharmaceuticals;
- (ii) Specialty chemicals;
- (iii) Power and steel industries; and
- (iv) Company and other.

The Group's consolidated revenues, gross profit, net income, property, plant and equipment, total assets and total liabilities by business segments, are as follows:

	Pharmaceuticals SR	Specialty chemical SR	Power and steel industries SR	Company and other SR	Total SR
<b><u>31 December 2016</u></b>					
Revenues	893,863,147	600,329,191	259,714,721	-	<b>1,753,907,059</b>
Gross profit (loss)	525,793,257	178,510,854	(39,892,638)		<b>664,411,473</b>
Net income (loss) for the year	59,716,828	53,704,603	(29,462,701)	(38,747,741)	<b>45,210,989</b>
Property, plant and equipment	496,246,508	171,272,444	614,075,662	78,444,115	<b>1,360,038,729</b>
Total assets	1,362,925,630	794,721,241	1,069,725,867	101,155,869	<b>3,328,528,607</b>
Total liabilities	826,515,353	442,812,684	683,011,230	213,920,774	<b>2,166,260,041</b>
<b><u>31 December 2015</u></b>					
Revenues	835,826,233	592,546,081	331,720,645	-	1,760,092,959
Gross profit (loss)	499,619,801	175,036,940	(88,902,352)	-	585,754,389
Net income (loss) for the year	28,593,954	45,524,901	(42,944,828)	(24,461,184)	6,712,843
Property, plant and equipment	520,002,621	162,793,491	665,647,826	39,472,754	1,387,916,692
Total assets	1,598,089,320	765,740,022	1,235,816,148	64,329,168	3,663,974,658
Total liabilities	933,843,511	404,911,431	728,076,483	180,593,876	2,247,425,301

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### 24. SEGMENT INFORMATION (continued)

The Group's operations are conducted principally in Saudi Arabia, in addition to Iraq, Africa and other areas. Selected financial information as of 31 December and for the year then ended are summarised by geographic area, as follows:

	<i>Kingdom of Saudi Arabia SR</i>	<i>Republic of Iraq SR</i>	<i>Africa SR</i>	<i>Other areas SR</i>	<i>Total SR</i>
<b><u>31 December 2016</u></b>					
Revenues	1,054,714,292	43,179,443	230,003,532	426,009,792	<b>1,753,907,059</b>
Total assets	2,068,233,513	731,202,221	253,377,703	275,715,170	<b>3,328,528,607</b>
<b><u>31 December 2015</u></b>					
Revenues	1,011,212,931	83,771,010	339,495,947	325,613,071	1,760,092,959
Total assets	2,247,526,448	823,273,224	301,250,547	291,924,439	3,663,974,658

During the year, the Group has decided to suspend the production in Al Inma'a Company facility, which is owned by Tanmiya (a subsidiary company), and will likely resume production once a relative stability in the Republic of Iraq and recovery in demand is anticipated.

### 25. COMMITMENTS

The Group in the normal course of business has entered into arrangements with suppliers for the purchase of machines and equipment and other services. The capital commitments at 31 December 2016 are amounting to Saudi Riyals 15 million (2015: SR 45 million).

### 26. CONTINGENCIES

As at 31 December 2016, the Group had contingent liabilities arising in the normal course of business. The Group's bankers have issued letters of credit amounting to SR 119.28 million (31 December 2015: SR 56 million) and letters of guarantee amounting to SR 149.06 million (31 December 2015: SR 106.8 million) in the normal course of business.

### 27. DIVIDEND DISTRIBUTIONS

The Extraordinary General Assembly approved the following distributions from the retained earnings:

- No dividends during the year (2015: SR 55.59 million at SR 0.75 per share).
- Payment of SR nil (2015: SR 1.8 million) as Board of Directors' remuneration.

### 28. RISK MANAGEMENT

#### Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Group is subject to commission rate risk on its commission bearing short term bank deposits and loans. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

#### Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups.

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

---

### 28. RISK MANAGEMENT (continued)

#### **Liquidity risk**

Liquidity risk is the risk that the Group 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 Group manages its liquidity risk by ensuring that bank facilities are available.

#### **Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group's transactions are principally in Saudi Riyals, US dollars, Turkish Lira, Euro, UAE Dirham, Jordanian Dirham, Egyptian Pound, and Sudanese Pound.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group also has investments in foreign subsidiaries and associates, whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between Saudi Riyals against Sudanese Pound, Turkish Lira, Jordanian Dinar and other.

#### **Fair value**

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

### 29. KEY SOURCES OF ESTIMATION UNCERTAINTY

#### **Impairment of accounts receivable**

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of the past due.

At the reporting date, gross trade accounts receivable were SR 1,022.71 million (2015: SR 997.98 million) with SR 120.92 million (2015: SR 80.91 million) allowance for doubtful receivables. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

#### **Impairment of inventories**

Inventories are held at the lower of cost or market value. When inventories become old or obsolete, an estimate is made for their market value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

At the balance sheet date, gross inventories were SR 708.66 million (2015: SR 820.18 million) with allowance for old and obsolete inventories amounting to SR 32.01 million (2015: SR 47.01 million). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of income.

#### **Useful lives of property, plant and equipment**

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

# ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES

## (A Saudi Joint Stock Company)

---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
31 DECEMBER 2016

### **30. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and financial liabilities.

The Group's financial assets consist of cash and cash equivalents and receivables, its financial liabilities consist of loans, borrowings and payables.

The fair values of financial instruments are not materially different from their carrying values at the balance sheet date.

### **31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors has approved the consolidated financial statements for the year ended 31 December 2016 on XX XXX 1438H (corresponding to XX March 2017).

### **32. COMPARITIVE FIGURES**

Certain of the prior year figures have been reclassified to conform to the current year's presentation.