ZAMIL INDUSTRIAL INVESTMENT COMPANY (A SAUDI JOINT STOCK COMPANY) AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

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Independent Auditor's Report on the Consolidated Financial Statements to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Zamil Industrial Investment Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Independent Auditor's Report on the Consolidated Financial Statements to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
First time adoption of international financial reporting standards (IFRS) As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organisation for Certified Accountants ("IFRS as endorsed in KSA"). For all periods up to and including the year ended 31 December 2016, the Group prepared and published its audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA (Saudi GAAP). The consolidated financial statements for the year ended 31 December 2017 are the Group's first financial statements in accordance with IFRS as endorsed in KSA. Accordingly, the Group has applied IFRS as endorsed in KSA for preparation of its financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative period data. In compliance with requirements of IFRS 1 as endorsed in KSA, the Group's opening statement of financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous Saudi GAAP. The Group has assessed the impact and significant adjustments are made on transitioning from Saudi GAAP to IFRS as endorsed in KSA in the Group's consolidated financial statements as at 1 January 2016 and 31 December 2016. We considered this as a key audit matter since the first time adoption of IFRS has significant impact on the consolidated financial statements from the recognition, measurement and disclosure perspective. Refer to note 40 to the consolidated financial statements for the details of transition and reconciliation adjustments between Saudi GAAP and IFRS as endorsed in KSA.	We performed the following procedures in respect of the transition to IFRS as endorsed in KSA: ▪ Assessed the appropriateness of the implementation of IFRS as endorsed in KSA in accordance with the provisions of IFRS 1. ▪ Assessed the appropriateness of the accounting policies adopted. ▪ Evaluated the position papers on technical matters, detailed implementation plans (DIPs) and GAAP differences identified by the Company's Management. ▪ Tested the sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA. ▪ Assessed the appropriateness of disclosures made in relation to transition impact from Saudi GAAP to IFRS as endorsed in KSA. ▪ Assessed the appropriateness of exceptions to retrospective application of other IFRS as endorsed in KSA and optional exemptions availed by the Company from full retrospective application of certain IFRS as endorsed in KSA, in preparing the financial statements

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Independent Auditor's Report on the Consolidated Financial Statements to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of accounts receivables The Group has accounts receivable of SR 2,102 million as at 31 December 2017 including certain overdue balances amounting to SR 1,304 million against which the Group has maintained allowance for doubtful debts of SR 150.5 million. Assessing the provision for impairment of receivables requires management to make subjective judgements and, therefore, considered as key audit matter. Impairment of accounts receivables is highly subjective due to the significant judgement applied by the management in determining the provision for impairment of receivables. The management is required to identify those accounts receivables that are deteriorating and the specific factors management considers in this regard include the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of customer. Moreover, there is a significant judgement involved in calculating the provision for impairment of receivables, particularly regarding the estimation of future cash collection and allocation of cash collection towards outstanding invoices. Refer to note 19 for further details.	In order to assess the appropriateness of the management's judgment and estimates, following procedures were performed: ▪ Reviewed the appropriateness of the provisioning methodology used by management in determining the provision for impairment of receivables. Also assessed the reasonableness of the assumptions used in the provisioning methodology by comparing them with historical data adjusted for current market conditions. ▪ Challenged management's assessment of the recoverability of aged and overdue receivables and evaluated the information used by the management to determine the allowance for bad and doubtful debts by considering if payments had been received since the year-end, reviewing historical payment patterns and any correspondence with customers on expected settlement dates. ▪ Tested the accounts receivables aging on a sample basis. ▪ Circularised the balance confirmation to the customers, on a sample basis. ▪ Tested a sample of accounts receivables and assessed the criteria for determining whether an impairment event had occurred, by focusing on those with the most significant potential for impairment due to increased uncertainty of recovery in the current market circumstances and specifically evaluated management's assessment of the recoverable amount. ▪ Assessed the adequacy of the Group's disclosure regarding impairment of accounts receivables and the management's assessment of the credit risk and their responses to such risks.

Independent Auditor's Report on the Consolidated Financial Statements to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of long-term contracts One of the Group's significant revenue streams is derived from long-term contracts. The Group recognises revenue from long-term contracts using percentage of completion method. The determination of the percentage of completion requires significant judgement by the management. The recoverability of value of work executed in excess of billings on long-term contracts is therefore based on management's evaluation and best estimate of the ultimate realisation of these balances.	Our audit procedures in relation to revenue recognition of long term contracts included: ▪ Reviewed the Group's estimation process (including the approval of project budget, monitoring of project costs and activities, and management's review and customer's approval of project's stage of completion and milestones achieved) used in determining the amounts of revenue and costs recognised in the consolidated financial statements. ▪ On a sample basis, reviewed the contractual terms and work status of the customer contracts, along with discussions with management and checked that contract revenue was recognised according to the percentage of completion of each project measured by the stage of completion of physical activities. ▪ Performed analytical procedures to compare revenue and gross margin with those reported in prior periods for identifying significant fluctuations, and obtaining explanations from management about such fluctuations. ▪ Reviewed the re-forecast of each contract cost arising from contract modifications and analysed current on-going negotiations and settlements that may impair the profitability of such contracts as well as the collectability of significant contracts by reference to the recent credit review assessment of each customer prepared by management. ▪ Challenged the recoverability of value of work executed in excess of billings by considering if work is physically certified and progress billings have been raised since the year-end. ▪ Assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition and work executed in excess of billings.

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Independent Auditor's Report on the Consolidated Financial Statements to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Other information included in The Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2017 annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Group's 2017 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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Independent Auditor's Report on the Consolidated Financial Statements to the Shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company) - continued

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

Waleed G. Tawfiq
Certified Public Accountant
Registration No. 437

9 Rajab 1439 H
26 March 2018

Al Khobar

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2017

	Notes	*31 December 2017 SR'000*	*31 December 2016 SR'000*
REVENUES			
Sales		3,520,995	3,982,064
Contracts revenue		866,042	929,492
Finance lease income		16,813	17,674
		4,403,850	4,929,230
DIRECT COSTS			
Cost of sales	5	(2,850,729)	(3,125,290)
Contracts cost	6	(665,544)	(732,869)
		(3,516,273)	(3,858,159)
GROSS PROFIT		887,577	1,071,071
EXPENSES			
Selling and distribution	7	(248,893)	(295,885)
General and administration	8	(412,144)	(441,629)
OPERATING INCOME		226,540	333,557
Share in results of associates and a joint venture	14	(893)	(6,299)
Other (expenses) income, net	9	(1,405)	36,909
Financial charges		(87,102)	(97,388)
Impairment losses on non-current assets	10	(10,880)	(91,469)
INCOME BEFORE ZAKAT AND INCOME TAX		126,260	175,310
Zakat and income tax	33	(14,752)	(26,932)
Deferred tax	33	(1,061)	(16,120)
NET INCOME FOR THE YEAR		110,447	132,258
NET INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		105,018	146,381
Non-controlling interests		5,429	(14,123)
		110,447	132,258
EARNINGS PER SHARE:			
Basic and diluted, earnings per share attributable to the shareholders of the parent company	11	1.75	2.44

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	*31 December 2017 SR'000*	*31 December 2016 SR'000*
Net income for the year		110,447	132,258
Other comprehensive income			
Other comprehensive income to be reclassified to income in subsequent periods:			
Foreign currency differences on translation of foreign operations		(1,808)	(23,620)
Net other comprehensive income to be reclassified to income in subsequent periods		(1,808)	(23,620)
Other comprehensive income not to be reclassified to income in subsequent periods:			
Actuarial gains on defined benefit schemes	28	2,937	2,251
Share in other comprehensive income of an associate		131	(88)
Net other comprehensive income not to be reclassified to income in subsequent periods		3,068	2,163
Other comprehensive income for the year		1,260	(21,457)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		111,707	110,801
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		106,504	124,521
Non-controlling interests		5,203	(13,720)
		111,707	110,801

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	*31 December 2017 SR'000*	*31 December 2016 SR'000*	*1 January 2016 SR'000*
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	12	1,089,888	1,132,783	1,227,026
Other intangible assets	13	5,575	6,016	6,397
Investments in associates and a joint venture	14	80,773	79,314	90,848
Available-for-sale investments	15	77,466	88,346	89,496
Net investments in finance lease	16	363,283	384,945	405,710
Goodwill	17	21,126	21,126	80,126
Deferred tax assets	33	6,899	4,957	22,888
TOTAL NON-CURRENT ASSETS		1,645,010	1,717,487	1,922,491
CURRENT ASSETS				
Inventories	18	1,248,557	1,452,760	1,723,700
Accounts receivable	19	1,951,955	1,861,268	1,663,689
Advances, other receivables and prepayments	20	237,602	223,685	221,288
Value of work executed in excess of billings	21	361,412	262,266	284,009
Current portion of net investment in finance lease	16	21,663	20,765	19,904
Cash and cash equivalents	22	215,524	272,393	352,812
TOTAL CURRENT ASSETS		4,036,713	4,093,137	4,265,402
TOTAL ASSETS		5,681,723	5,810,624	6,187,893
EQUITY AND LIABILITIES				
EQUITY				
Share capital	23	600,000	600,000	600,000
Statutory reserve	24	180,000	300,000	280,471
Retained earnings		910,136	801,819	793,207
Foreign currency translation reserve		(25,433)	(23,620)	-
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		1,664,703	1,678,199	1,673,678
NON-CONTROLLING INTERESTS	26	211,677	209,984	221,499
TOTAL EQUITY		1,876,380	1,888,183	1,895,177
NON-CURRENT LIABILITIES				
Term loans	27	67,255	195,246	313,338
Employees' defined benefit liabilities	28	294,964	329,056	354,047
Deferred tax liabilities	33	8,366	5,458	4,647
TOTAL NON-CURRENT LIABILITIES		370,585	529,760	672,032
CURRENT LIABILITIES				
Accounts payable	29	365,874	364,759	542,119
Accruals and provisions	30	408,009	478,505	517,811
Short term loans	31	2,331,034	2,059,749	1,956,147
Current portion of term loans	27	34,669	141,088	138,350
Billings in excess of value of work executed	32	23,218	58,288	94,876
Advances from customers		226,305	234,871	312,660
Zakat and income tax provision	33	45,649	55,421	58,721
TOTAL CURRENT LIABILITIES		3,434,758	3,392,681	3,620,684
TOTAL LIABILITIES		3,805,343	3,922,441	4,292,716
TOTAL EQUITY AND LIABILITIES		5,681,723	5,810,624	6,187,893

The attached notes 1 to 41 form part of these consolidated financial statements.

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributed to shareholders of the parent company						
	Share capital	*Statutory reserve*	*Retained earnings*	*Foreign currency translation reserve*	*Total*	*Non-controlling interests*	*Total equity*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance at 1 January 2016	600,000	280,471	793,207	-	1,673,678	221,499	1,895,177
Net income for the year	-	-	146,381	-	146,381	(14,123)	132,258
Other comprehensive income	-	-	1,760	(23,620)	(21,860)	403	(21,457)
Total comprehensive income	-	-	148,141	(23,620)	124,521	(13,720)	110,801
Transfer to statutory reserve	-	19,529	(19,529)	-	-	-	-
Dividends (note 25)	-	-	(120,000)	-	(120,000)	-	(120,000)
Movement in non-controlling interests	-	-	-	-	-	2,205	2,205
Balance at 31 December 2016	**600,000**	**300,000**	**801,819**	**(23,620)**	**1,678,199**	**209,984**	**1,888,183**
Net income for the year	-	-	105,018	-	105,018	5,429	110,447
Other comprehensive income	-	-	3,299	(1,813)	1,486	(226)	1,260
Total comprehensive income	-	-	108,317	(1,813)	106,504	5,203	111,707
Transfer (note 24)	-	(120,000)	120,000	-	-	-	-
Dividends (note 25)	-	-	(120,000)	-	(120,000)	-	(120,000)
Movement in non-controlling interests	-	-	-	-	-	(3,510)	(3,510)
Balance at 31 December 2017	**600,000**	**180,000**	**910,136**	**(25,433)**	**1,664,703**	**211,677**	**1,876,380**

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	31 December 2017 SR'000	31 December 2016 SR'000
OPERATING ACTIVITIES		
Income before zakat and tax	126,260	175,310
Adjustments to reconcile income before zakat and income tax to net cash flows:		
Depreciation	133,289	146,368
Amortisation of other intangible assets	535	953
Amortisation of prepaid financial charges	2,550	2,736
Provision for employees' defined benefit liabilities	43,393	48,404
Impairment loss on non-current assets	10,880	91,469
Financial charges	87,102	97,388
Gains on disposal of property, plant and equipment	(395)	(515)
Share in results of associates and a joint venture	893	6,299
	404,507	568,412
Working capital adjustments:		
Inventories	204,203	270,940
Accounts receivable	(90,687)	(197,579)
Advances, other receivables and prepayments	(13,917)	(2,397)
Value of work executed in excess of billings	(99,146)	21,743
Net investment in finance lease	20,764	19,904
Accounts payable	1,115	(177,360)
Accruals and provisions	(70,496)	(34,248)
Billings in excess of value of work executed	(35,070)	(36,588)
Advances from customers	(8,566)	(77,789)
Cash from operations	312,707	355,038
Financial charges paid	(87,102)	(97,388)
Zakat and income tax paid	(24,598)	(29,591)
Employees' defined benefit liabilities paid	(74,548)	(67,184)
Net cash from operating activities	126,459	160,875
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(90,213)	(110,450)
Proceeds from disposal of property, plant and equipment	2,183	2,982
Additions to other intangible assets	(94)	(572)
Dividends received from joint venture	-	5,147
Net cash used in investing activities	(88,124)	(102,893)
FINANCING ACTIVITIES		
Net movement in short term loans	271,285	103,602
Net movement in term loans	(236,960)	(118,090)
Dividends paid	(120,000)	(120,000)
Movement in non-controlling interests	(3,510)	2,205
Net cash used in financing activities	(89,185)	(132,283)
DECREASE IN CASH AND CASH EQUIVALENTS	(50,850)	(74,301)
Cash and cash equivalents at the beginning of the year	272,393	352,812
Movement in foreign currency translation reserve, net	(6,019)	(6,118)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	215,524	272,393

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2017

	31 December 2017 SR'000	*31 December 2016 SR'000*
NON-CASH TRANSACTIONS:		
Remeasurement gains on employees' defined benefit liabilities	2,937	2,251
Exchange differences on investment in associates	(2,221)	-
Exchange differences on property, plant and equipment	(1,969)	15,521
Exchange differences on deferred tax assets	(95)	2,622
Exchange differences on zakat and income tax provision	74	(641)
Share in other comprehensive income of an associate	131	(88)

1 CORPORATE INFORMATION

Zamil Industrial Investment Company ("the Company") was converted to a Saudi Joint Stock Company in accordance with the Ministerial Resolution number 407 dated 14 Rabi' I 1419 H (corresponding to 9 July 1998). Prior to that the Company was operating as a limited liability company under the name of Zamil Steel Buildings Company Limited. The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration number 2050004215 dated 19 Ramadan 1396 H (corresponding to 14 September 1976) with the following branches in the Kingdom of Saudi Arabia:

Commercial registration number	*Date*	*Location*
2050099363	8 Jumada' II 1435H	Dammam
2050033721	1 Safar 1419H	Dammam

The Company has investment in the following subsidiaries:

	Effective ownership percentage	
	31 December 2017	*31 December 2016*
Zamil Steel Holding Company Limited - Saudi Arabia	**100%**	100%
- Zamil Steel Pre-Engineered Buildings Company Limited - Saudi Arabia	**100%**	100%
- Zamil Structural Steel Company Limited - Saudi Arabia	**100%**	100%
- Zamil Towers & Galvanizing Company - Saudi Arabia	**100%**	100%
- Zamil Process Equipment Company Limited - Saudi Arabia	**100%**	100%
- Building Component Solutions Company Limited - Saudi Arabia	**100%**	100%
- Zamil Steel Construction Company Limited - Saudi Arabia	**100%**	100%
- Zamil Inspection & Maintenance of Industrial Projects Company Limited - Saudi Arabia	**100%**	100%
- Metallic Construction and Contracting Company Limited - Egypt	**100%**	-
Zamil Air Conditioners Holding Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioners & Home Appliances Company Limited - Saudi Arabia	**100%**	100%
- Zamil Central Air Conditioners Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioning & Refrigeration Services Company Limited - Saudi Arabia	**100%**	100%
- Ikhtebar Company Limited - Saudi Arabia	**100%**	100%
- Eastern District Cooling Company Limited - Saudi Arabia	**100%**	100%
- Zamil Energy Services Company Limited - Saudi Arabia	**100%**	100%
- Zamil Air Conditioning and Refrigeration Services Company W.L.L - Bahrain	**100%**	100%
Zamil Steel Building Company - Egypt	**100%**	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	**100%**	100%
Cooling Europe Holdings GmbH - Austria	**100%**	100%
Zamil Steel Buildings India Private Limited - India	**100%**	100%
Zamil Steel Engineering India Private Limited - India	**100%**	100%
Arabian Stonewool Insulation Company - Saudi Arabia	**100%**	100%
Zamil Industrial Investment Company - UAE	**100%**	100%
Zamil Steel Industries Abu Dhabi (LLC) - UAE	**100%**	100%
Zamil Structural Steel Company - Egypt	**100%**	100%
Zamil Construction India Private Limited - India	**100%**	100%
Zamil Information Technology Global Private Limited - India	**100%**	100%
Zamil Higher Institute for Industrial Training - Saudi Arabia	**100%**	100%
Second Insulation Company Limited - Saudi Arabia	**100%**	100%
Zamil Air Conditioners India Private Limited - India	**100%**	100%
Saudi Central Energy Company Limited - Saudi Arabia	**100%**	100%
Zamil Industrial Investment Company Asia Pte. Limited - Singapore	**100%**	100%
Zamil Steel Buildings Vietnam Company Limited - Vietnam	**92.27%**	92.27%
Gulf Insulation Group - Saudi Arabia	**51%**	51%
Saudi Preinsulated Pipes Industries - Saudi Arabia	**51%**	51%
Zamil Hudson Company Limited - Saudi Arabia	**50%**	50%
Petro-Chem Zamil Company Limited - Saudi Arabia	**50%**	50%

1 CORPORATE INFORMATION (continued)

The Company and its subsidiaries listed above (collectively referred to as the "Group") are engaged in design and engineering, manufacturing and fabrication of construction materials, pre-engineering steel buildings, steel structures, air conditions and climate control systems for commercial, industrial and residential applications, telecom and broadcasting towers, process equipment, fiberglass, rockwool and engineering plastic foam insulation, and solar power projects.

The consolidated financial statements of the Group as of 31 December 2017 were authorised for issuance in accordance with the Board of Directors' resolution on 26 March 2018 (corresponding to 9 Rajab1439H).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
Effective 1 January 2017, all entities listed in Saudi Stock Exchange are required to prepare their financial statements in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia ("KSA') and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA"). These consolidated financial statements have been prepared in accordance with the IFRSs as endorsed in KSA" and represent the Group's first annual financial statements prepared in accordance with IFRSs as endorsed in KSA. The preparation of these consolidated financial statements resulted in changes to the significant accounting policies as compared to those presented in the consolidated financial statements of the Group for the year ended 31 December 2016, which were prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia ("Saudi GAAP"). IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") endorsed in KSA requires that an entity's accounting policies used in its opening statement of financial position and throughout all periods presented in its first IFRS financial statements comply with IFRSs as endorsed in KSA effective at the end of its first IFRS reporting period. Accordingly, the IFRSs endorsed in KSA issued and effective as at 31 December 2017 have been applied in preparing the consolidated financial statements as at and for the year ended 31 December 2017, the comparative information presented as at and for the year ended 31 December 2016, and in preparation of the opening consolidated IFRS Statement of Financial Position as at 1 January 2016. The impacts of the transition to IFRSs as endorsed in KSA for the comparative information are presented in note 40.

These consolidated financial statements are prepared using historical cost convention except for the remeasurement of available-for-sale investments at fair value, using the accrual basis of accounting. For employees and other post-employment benefits, actuarial present value calculation is used.

These consolidated financial statements are presented in Saudi Riyals ("SR") which is also the functional currency of the Group. All values are rounded to the nearest thousands ("SR '000"), expect when otherwise indicated.

Basis of consolidation
These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Income and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of income. Any investment retained is recognised at fair value.

Non-controlling interest represents the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of financial position and within shareholders' equity in the consolidated statement of financial position, separately from the equity attributable to the shareholders of the Company.

Property, plant and equipment /depreciation
Construction in progress, property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated statement of 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.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Buildings on leasehold lands	20 to 40 years
- Machinery	5 to 20 years
- Furniture, fixtures and equipment	3 to 5 years
- Motor vehicles	3 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets /amortisation
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated statement of income in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets /amortisation (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Costs which have a long term future benefit are treated as other intangible assets and are amortized over the estimated period of benefit.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

Investments in associates and a joint venture

An associate is an entity over which the Group 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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of income. Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Net investment in finance lease
Where the Group determines a long term cooling water arrangement to be or to contain a lease and where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item, the arrangement is considered as a finance lease. A finance lease is presented as net investment in finance lease and is recognised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments received are apportioned between finance income and the reduction of the net investment in finance lease so as to achieve a constant rate of commission on the remaining balance of the asset.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through income statement, loans and receivables, or AFS financial assets, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through income statement, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification, as described below:

Financial assets at fair value through income statement
Financial assets at fair value through income statement include financial assets held for trading and financial assets designated upon initial recognition at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. For investments to be designated as at FVPL, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in ‘Fair value gains and losses’. Finance income is accrued and presented in ‘Investment income’, using the effective interest rate (EIR). Dividend income is recorded in ‘Investment income’ when the right to the payment has been established.

Loans and receivables
This category is the most relevant to the Group. 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 are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income in finance costs for loans and in other operating expenses for receivables. This category generally applies to trade and other receivables and net investment in finance lease.

Available for sale (AFS) financial assets
AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through income statement. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statement of income. Finance income earned whilst holding AFS financial assets is reported as finance income using the EIR method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Available for sale (AFS) financial assets (continued)

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of 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 derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating 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 assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)
Financial assets carried at amortised cost (continued)
The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of income. Finance income (recorded as finance income in the consolidated statement of income) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of income.

AFS financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from OCI and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through income statement; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

Future finance income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Business combination and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)
Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

Impairment of non-financial assets
The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount 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. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised 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 recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill at each reporting date.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories
Inventories are stated at the lower of cost and net realizable value. Costs are those expenses incurred in bringing each product to its present location and condition and is calculated on the following basis:

Raw materials	- purchase cost on a weighted average basis.
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.
Goods in transits	- cost of direct materials which are under shipment and for which risks and rewards have been passed to the company and are stated at cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, bank balances and time deposits with original maturity of three-months or less from the acquisition date which are subject to an insignificant risk of changes in value.

Statutory reserve
As required by Saudi Arabian Regulations for Companies, the Company must transfer 10% of its income to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital (reduced to 30% in accordance with new Saudi Arabian Regulations for Companies effective from 29 April 2016). The reserve is not available for distribution.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through consolidated income statement, loans and borrowings or payables as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group’s financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of income. This category generally applies to interest-bearing loans and borrowings.

Derecognition
A financial liability is derecognised 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 derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' defined benefit liabilities
The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized in equity through other comprehensive income in the period in which they arise.

Provisions
Provisions are recognised when the Group 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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of 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, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable, they are recorded in the consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Zakat and income tax
Zakat and income tax
Zakat is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Regulations of the General Authority of Zakat and Tax (GAZT) prevailing in the Kingdom of Saudi Arabia. Income tax is provided for in accordance with fiscal authorities in which the Company’s subsidiaries operate outside the Kingdom of Saudi Arabia. Provision for zakat and income tax is charged to the consolidated statement of income.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group provides normal warranty provisions for general repairs for one to five years on its certain products, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold. The Group does not provide any extended warranties or maintenance contracts to its customers.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)
Rendering of services
Revenue from the rendering of services comprising of mainly maintenance and engineering services is recognised when such contracted services have been performed. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Contract revenue
Revenue associated with the long term contracts is recognised by reference to the percentage of completion method of each contract activity when:

(i) the total contract revenue can be measured reliably;
(ii) it is probable that the economic benefits associated with the contract will flow to the Group;
(iii) the costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably; and
(iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue multiplied by the actual completion rate based on the proportion of total contract costs incurred to date and the estimated cost to complete.

When the stage of completion is determined by reference to the contract costs incurred up to the reporting date, only those contract costs that reflect work performed are included in costs incurred up to the reporting date. The following costs are excluded from contract costs:

(i) Contract costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made especially for the contract.

(ii) Payments made to subcontractors in advance of work performed under the subcontract.

When an uncertainty arises about the collectability of an amount already included in contract revenue, and already recognised in the consolidated statement of income, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than as an adjustment of the amount of contract revenue.

Revenue from change orders is recognised when:

(i) It is expected with reasonable assurance that customer will approve the change orders; and
(ii) The amount of change orders can be measured reliably.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The amount of such a loss is determined irrespective of:

(i) Whether or not work has commenced on the contract.
(ii) The stage of completion of contract activity.
(iii) The amount of profits expected to arise on other contracts which are not treated as a single construction contract.

Change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate and accordingly accounted for prospectively.

The value of work completed but not billed at the date of consolidated statement of financial position is classified as "value of work executed in excess of billings" under current assets in the consolidated statement of financial position. Amounts billed in excess of work completed at the consolidated statement of financial position date is classified as "billings in excess of value of work executed" under current liabilities in the consolidated statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)
Finance income
Finance income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

Expenses
Expenses are recognised when incurred based on the accrual basis of accounting. Selling and distribution expenses are those that specifically relate to salesmen, sales department, warranties, warehousing, delivery vehicles as well as provision for impairment of receivables. All other expenses related to main operations are allocated on a consistent basis to direct costs and general and administration expenses in accordance with allocation factors determined as appropriate by the Group.

Operating leases
Leases in which substantially all the risks and benefits of ownership of the asset are not transferred to the Group are classified as operating leases. Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

Foreign currencies
The Group's consolidated financial statements are presented in Saudi Riyal, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of income reflects the amount that arises from using this method.

Transaction and balances
Transactions in foreign currencies are initially recorded by the Group's entities 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.

All differences arising on settlement or translation of monetary items are taken to the statement of income with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in OCI until the disposal of the net investment, at which time they are reclassified to consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or consolidated statement of income, respectively).

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised 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 the 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 Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement
The Group measures financial instruments such as available for sale investments at fair value at each statement of financial position date. 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 Group.

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 economic best 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 Group 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 recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
For the purpose of fair value disclosures, the Group 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. For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information available for such investments.

3 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognized in the consolidated financial statements) includes:

Impairment of non-financial assets
An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Valuation of defined benefit obligations
The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Impairment of trade receivables
An estimate of the collectible amount of trade receivables 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 time past due.

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

During the year, the management performed a comprehensive exercise to identify significant component parts of an item of property, plant and equipment for depreciating these parts separately. Accordingly, the management also reassessed the estimated useful life of such significant parts of property, plant and equipment. Such change is considered as a change in accounting estimate and has been accounted for prospectively starting from 1 January 2017.

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 Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
"IFRS 9 - Financial Instruments" ("IFRS 9"), 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 is effective from 1 January 2018 and allows early adoption.

The Group will adopt the new standard on the effective date. At this stage, the Group is finalising its assessment of the impact of the new standard on the Group's consolidated financial statements.

IFRS 15 Revenue from contracts with customers
IFRS 15 will replace "IAS 18 – Revenue" which covers revenue arising from the sale of goods and the rendering of services and "IAS 11 - Construction Contracts" which covers construction contracts.

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

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

The Group will adopt the new standard on the effective date. At this stage, the Group is finalising its assessment of the impact of the new standard on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or

(i) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The IFRIC is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards
Deletion of short-term exemptions for first-time adopters - Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018.

IAS 28 Investments in Associates and Joint Ventures
Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. The amendments clarifies that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

5 COST OF SALES

	31 December 2017 SR'000	*31 December 2016 SR'000*
Cost of inventories recognised as expense	**1,815,997**	1,933,313
Employees' and labour costs	**544,274**	586,070
Depreciation	**97,713**	106,484
Sub-contracting costs	**90,189**	111,576
Others direct costs	**302,556**	387,847
	2,850,729	3,125,290

6 CONTRACT COSTS

	31 December 2017 SR'000	*31 December 2016 SR'000*
Materials consumed	**257,757**	333,681
Employees' and labour costs	**113,605**	96,733
Depreciation	**11,135**	10,277
Sub-contracting costs	**241,593**	253,702
Others direct costs	**41,454**	38,476
	665,544	732,869

7 SELLING AND DISTRIBUTION EXPENSES

	31 December 2017 SR'000	*31 December 2016 SR'000*
Employees' costs	**102,382**	111,489
Provision for impairment of receivables (note 19)	**13,031**	57,043
Transportation	**46,909**	35,934
Advertising and sales promotion	**7,120**	27,356
Warranties	**24,783**	18,732
Rent and utilities	**18,387**	15,925
Depreciation	**4,035**	3,906
Repairs and maintenance	**286**	830
Business travel	**3,854**	6,386
Support services	**2,339**	1,221
Communication and IT services	**843**	1,272
Others	**24,924**	15,791
	248,893	295,885

8 GENERAL AND ADMINISTRATION EXPENSES

	31 December 2017 SR'000	*31 December 2016 SR'000*
Employees' costs	**302,385**	325,634
Communication and IT services	**16,596**	20,196
Depreciation	**20,406**	25,701
Support services	**5,693**	2,413
Rent and utilities	**15,174**	14,152
Professional fees	**9,052**	8,980
Business travel	**4,117**	6,832
Repairs and maintenance	**7,053**	6,622
Office supplies	**4,291**	5,048
Amortisation	**535**	953
Others	**26,842**	25,098
	412,144	441,629

9 OTHER (EXPENSE) INCOME, NET

	31 December 2017 SR'000	*31 December 2016 SR'000*
Foreign currency exchange (losses) gains	**(2,634)**	23,481
Gains on disposal of property, plant and equipment	**395**	515
Others	**834**	12,913
	(1,405)	36,909

10 IMPAIRMENT LOSS ON NON- CURRENT ASSETS

	31 December 2017 SR'000	*31 December 2016 SR'000*
Impairment loss on property, plant and equipment (note 12)	**-**	31,319
Impairment loss on available-for-sale investment (note 15)	**10,880**	1,150
Impairment loss on goodwill (note 17)	**-**	59,000
	10,880	91,469

11 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net income for the year attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the year as follows:

	31 December 2017	*31 December 2016*
Net income for the year attributable to the shareholders of the parent company (SR '000)	**105,018**	146,381
Weighted average number of outstanding shares during the period (share '000)	**60,000**	60,000
Basic and diluted earnings per share attributable to the shareholders of the parent company	**1.75**	2.44

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	*Buildings on leasehold land*	*Machinery*	*Furniture, fixtures and equipment*	*Motor vehicles*	*Capital work-in-progress*	***Total***
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	***SR '000***
Cost:							
At 1 January 2016	115,055	905,683	1,556,046	237,971	101,070	43,739	**2,959,564**
Additions	-	4,082	23,650	14,090	9,761	58,867	**110,450**
Disposal	-	(2,150)	(27,971)	(4,309)	(3,412)	(139)	**(37,981)**
Transfer	-	17,370	21,263	2,272	-	(40,905)	**-**
Foreign currency translation	(2,775)	(10,955)	(11,671)	(10,753)	(2,621)	(125)	**(38,900)**
At 31 December 2016	112,280	914,030	1,561,317	239,271	104,798	61,437	**2,993,133**
Additions	910	5,195	36,285	12,206	2,142	33,475	**90,213**
Transfer	-	7,021	30,491	1,580	-	(39,092)	**-**
Disposal	-	(84)	(6,675)	(3,690)	(3,915)	(878)	**(15,242)**
Foreign currency translation	362	3,311	4,945	2,426	82	23	**11,149**
At 31 December 2017	**113,552**	**929,473**	**1,626,363**	**251,793**	**103,107**	**54,965**	**3,079,253**
Depreciation and impairment:							
At 1 January 2016	15,612	432,957	1,028,500	182,348	73,121	-	**1,732,538**
Charge for the year	-	34,273	83,844	16,589	11,662	-	**146,368**
Disposal	-	(1,895)	(18,522)	(2,841)	(3,238)	-	**(26,496)**
Impairment loss (note 10)	-	-	31,319	-	-	-	**31,319**
Foreign currency translation	(133)	(3,562)	(9,375)	(8,099)	(2,210)	-	**(23,379)**
At 31 December 2016	15,479	461,773	1,115,766	187,997	79,335	-	**1,860,350**
Charge for the year	-	35,446	71,909	16,070	9,864	-	**133,289**
Disposal	-	(35)	(6,377)	(3,362)	(3,680)	-	**(13,454)**
Foreign currency translation	310	2,197	4,213	2,390	70	-	**9,180**
At 31 December 2017	**15,789**	**499,381**	**1,185,511**	**203,095**	**85,589**	**-**	**1,989,365**
Net book amounts:							
At 31 December 2017	**97,763**	**430,092**	**440,852**	**48,698**	**17,518**	**54,965**	**1,089,888**
At 31 December 2016	96,801	452,257	445,551	51,274	25,463	61,437	1,132,783
At 1 January 2016	99,443	472,726	527,546	55,623	27,949	43,739	1,227,026

12 PROPERTY, PLANT AND EQUIPMENT (continued)

The majority of the buildings are constructed on plots of land leased from The Saudi Industrial Property Authority (MODON) in Riyadh and first and second industrial city - Dammam for periods range from 4 to 25 years with various commencing dates range from the years 1993 to 2015. The Group has right to renew these lease agreements.

Capital work-in-progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, new production line and machinery and equipment acquired for general modernisation.

Certain property, plant and equipment are mortgaged as a security against the loans obtained from the financial institutions (note 27 and 31).

During 2014, an indirect subsidiary, Arabian Fiberglass Insulation Company (AFICO) received a notice from MODON stating, one of it's plant is included in the list of high risk plants in the First Industrial city in Dammam, Saudi Arabia. Further, this subsidiary received another notice during 2015, for evacuation of the Plant latest by mid of September 2017. Therefore, the management decided to determine the recoverable amount for the respective components of the plant. The recoverable amount was estimated based on its fair value less estimated costs to sell, assuming that such assets can not be used and therefore, will be disposed off. In absence of the reliable information with regard to fair value and estimated costs to sell, the management decided to impair the entire carrying amount of such assets at 31 December 2016. As a result of analysis, the management recognized an impairment loss of SR 31.3 million in the year 2016 in the consolidated statement of income.

13 OTHER INTANGIBLE ASSETS

	SR'000
Cost:	
At 1 January 2016	10,207
Additions	572
At 31 December 2016	10,779
Additions	94
At 31 December 2017	**10,873**
Accumulated amortisation:	
At 1 January 2016	3,810
Charge for the year	953
At 31 December 2016	4,763
Charge for the year	535
At 31 December 2017	**5,298**
Net carrying value	
At 31 December 2017	**5,575**
At 31 December 2016	6,016
At 1 January 2016	6,397

Other intangible assets mainly represent amounts paid to acquire lease rights to use plots of land in Vietnam and are amortised over a period of 20 to 30 years.

14 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

Carrying values of the Group's share for investment in associates and a joint venture were as follows:

	Percentage of ownership					
	31 December 2017	*31 December 2016*	*1 January 2016*	***31 December 2017 SR'000***	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Associates						
Rabiah Nasser and Zamil Concrete Industries Company Limited - Saudi Arabia ("RANCO") (note 14.1)	**50%**	50%	50%	**22,541**	19,968	18,164
Energy Central Company B.S.C. - Bahrain (note 14.2)	**25%**	25%	25%	**14,900**	14,900	16,339
ZNA Infra Private Limited - India formerly Zamil Infra Private Limited (note 14.3)	**51%**	51%	51%	**9,354**	9,204	13,813
Geoclima S.r.l - Italy (note 14.4)	**40%**	40%	40%	**15,441**	12,757	10,367
IIB Paper Company Limited - Bahrain (note 14.5)	**20.83%**	20.83%	20.83%	**4,450**	4,450	7,218
				66,686	61,279	65,901
Joint venture						
Middle East Air Conditioners Company Limited (note 14.6)	**51%**	51%	51%	**14,087**	18,035	24,947
				14,087	18,035	24,947
				80,773	79,314	90,848

14 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

The following table illustrates the summarised financial information of the Group's investment in associates:

	RANCO	*Energy Central Company B.S.C. - Bahrain*	*ZNA Infra Private Limited - India*	*Geoclima S.r.l - Italy*	*IIB Paper Company Limited - Bahrain*	***Total***
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	***SR'000***
Summarised statement of financial position						
31 December 2017						
Current assets	**102,629**	**43,580**	**154,006**	**65,125**	**-**	
Non-current assets	**166,248**	**53,540**	**118,093**	**21,692**	**21,577**	
Current liabilities	**(130,489)**	**(1,570)**	**(148,654)**	**(37,179)**	**(214)**	
Non-current liabilities	**(17,956)**	**(26,350)**	**(105,104)**	**(14,835)**	**-**	
Net assets	**120,432**	**69,200**	**18,341**	**34,803**	**21,363**	
Proportion of the Group’s ownership	**50%**	**25%**	**51%**	**40%**	**20.83%**	
Group's share of net assets	**60,216**	**17,300**	**9,354**	**13,921**	**4,450**	
Goodwill	**-**	**-**	**-**	**1,520**	**-**	
Impairment loss/ other adjustments	**(37,675)**	**(2,400)**	**-**	**-**	**-**	
Group's carrying amount of the investment	**22,541**	**14,900**	**9,354**	**15,441**	**4,450**	**66,686**
31 December 2016						
Current assets	121,004	36,250	111,545	58,195	-	
Non-current assets	169,036	57,880	118,236	16,035	21,577	
Current liabilities	(150,098)	(1,930)	(172,277)	(31,378)	(214)	
Non-current liabilities	(24,657)	(25,640)	(39,457)	(14,760)	-	
Net assets	115,285	66,560	18,047	28,092	21,363	
Proportion of the Group’s ownership	50%	25%	51%	40%	20.83%	
Group's share of net assets	57,643	16,640	9,204	11,237	4,450	
Goodwill	-	-	-	1,520	-	
Other adjustments	(37,675)	(1,740)	-	-	-	
Group's carrying amount of the investment	19,968	14,900	9,204	12,757	4,450	61,279

14 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

	RANCO	*Energy Central Company B.S.C. - Bahrain*	*ZNA Infra Private Limited - India*	*Geoclima S.r.l - Italy*	*IIB Paper Company Limited - Bahrain*	***Total***
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	***SR'000***
Summarised statement of financial position						
1 January 2016						
Current assets	120,127	30,270	140,905	47,839	19	
Non-current assets	178,791	61,370	169,756	19,167	34,785	
Current liabilities	(148,005)	(2,420)	(72,850)	(30,156)	(154)	
Non-current liabilities	(39,235)	(24,860)	(210,727)	(14,733)	-	
Net assets	111,678	64,360	27,084	22,117	34,650	
Proportion of the Group's ownership	50%	25%	51%	40%	20.83%	
Group's share of net assets	55,839	16,090	13,813	8,847	7,218	
Goodwill	-	-	-	1,520	-	
Other adjustments	(37,675)	249	-	-	-	
Group's carrying amount of the investment	18,164	16,339	13,813	10,367	7,218	65,901
Summarised statements of comprehensive income						
31 December 2017						
Revenues	**139,534**	**-**	**167,295**	**70,049**	**-**	
Operating income	**6,451**	**-**	**17,391**	**7,778**	**-**	
Net income (loss) for the year	**4,884**	**-**	**(850)**	**2,614**	**-**	
Other comprehensive income	**262**	**-**	**-**	**-**	**-**	
Total comprehensive income for the year	**5,146**	**-**	**(850)**	**2,614**	**-**	
Group's share of total comprehensive income	**2,573**	**-**	**(433)**	**1,046**	**-**	**3,186**

14 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

	RANCO	*Energy Central Company B.S.C. - Bahrain*	*ZNA Infra Private Limited - India*	*Geoclima S.r.l - Italy*	*IIB Paper Company Limited - Bahrain*	***Total***
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	***SR'000***
Summarised statements of comprehensive income						
31 December 2016						
Revenue	139,480	-	232,617	8,951	-	
Operating income	1,465	-	21,241	12,141	-	
Net income (loss) for the year	3,782	(5,756)	(9,035)	5,974	(13,294)	
Other comprehensive income	(175)	-	-	-	-	
Total comprehensive income for the year	3,607	(5,756)	(9,035)	5,974	(13,294)	
Group's share of total comprehensive income	1,804	(1,439)	(4,608)	2,390	(2,769)	(4,622)

14.1 Rabiah Nasser and Zamil Concrete Industries Co. Ltd ("RANCO") which is registered in Saudi Arabia and engaged in the production of concrete products, asphalt and polystyrene.

14.2 Energy Central Company B.S.C is a closed Joint Stock Company incorporated in the Kingdom of Bahrain. The principal activities of the company are distribution of utility services including district cooling, seawater desalination, waste water treatment, power generation and other related services within the GCC countries.

14.3 ZNA Infra Private Limited - India formerly "Zamil Infra Private Limited" is registered in India as a private limited company under the Companies Act of India 1956. The principal activities of the company are supply of telecom towers, accompanying shelters fitted with the appropriate sandwich panels, customized air conditioning equipment and power interface units. The company is also engaged in supplying, installation and commissioning of solar energy plant and generation of solar electrical energy. Although, the Group’s share in ZNA Infra Private Limited - India formerly "Zamil Infra Private Limited" is more than 50%, it is considered as an associate of the Group as the Group has significant influence only over the investee company's operational and financial decisions but not controlling these decisions.

14.4 Geoclima S.r.l. Company is registered in Italy and it is engaged in the manufacturing of air conditioners. Originally a goodwill of SR 3.2 million was accounted for the value of investment in associate using equity method. The investment carrying value includes embedded goodwill of SR 1.5 million.

14.5 IIB Paper Company Limited is registered in Cayman Islands and is engaged in the production of tissue paper.

14 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

14.6 Middle East Air Conditioners Company Limited is registered in Kingdom of Saudi Arabia and is engaged in sale of air conditioners. Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

Summarised statement of financial position	***31 December 2017 SR'000***	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Current assets (including bank balances and cash of SR 2.1 million, 31 December 2016: SR 3.2 million and 1 January 2016: SR 2.6 million)	**42,433**	45,470	62,691
Non-current assets	**7**	5	18
Current liabilities (including zakat and income tax provision of SR 0.48 million, 31 December 2016: SR 0.5 million and 1 January 2016: SR 1.05 million)	**(17,452)**	(11,605)	(16,335)
Non-current liabilities	**(87)**	(832)	(776)
Net assets	**24,901**	33,038	45,598
Proportion of the Group's ownership	**51%**	51%	51%
Group's share of net assets	**12,700**	16,849	23,255
Other adjustments	**1,387**	1,186	1,692
Group's carrying amount of the investment	**14,087**	18,035	24,947

Summarised statement of comprehensive income	***31 December 2017 SR'000***	*31 December 2016 SR'000*
Revenues	**24,116**	32,704
Cost of sales	**(23,939)**	(31,325)
Selling and distribution expenses	**(5,959)**	(2,457)
General and administrative expenses	**(1,959)**	(2,431)
Other income	**-**	50
Loss before zakat and income tax	**(7,741)**	(3,459)
Zakat and income tax	**(394)**	(446)
Total comprehensive income for the year	**(8,135)**	(3,905)
Group's share of total comprehensive income for the year	**(3,948)**	(1,765)

15 AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Kinan International For Real Estate Development Company Limited (note 15.1)	**46,586**	46,586	46,586
PLG Photovoltaic Limited (note 15.2)	**30,880**	41,760	42,910
	77,466	88,346	89,496

15.1 This investment represents 2.11% share in Kinan International For Real Estate Development Company Limited, unlisted company which is registered in Saudi Arabia and is engaged in real estate activities. The investment is stated at the cost as cost is considered to be fair value where there is no available fair value information for such investment.

15.2 This investment represents 75.6% non-voting and unquoted share in PLG Photovoltaic Limited, a unlisted company which is registered in India and is engaged in the activity of providing solar energy. During the year, the Group recognised an impairment loss of SR 10.8 million due to a decline in the fair value of investment as such decline considered prolonged. The fair value of the investment is determined using a valuation technique as it is not traded in an active market. For details of the valuation technique, key assumptions used and the impact of changes to these assumptions see note 39.

15 AVAILABLE FOR SALE INVESTMENTS (continued)

Reconciliation of fair value of unquoted equity shares classified as available-for-sale financial assets is as follows:

	31 December 2017 SR '000	*31 December 2016 SR '000*
At the beginning of the year	**88,346**	89,496
Impairment loss recognised in statement of income (note 10)	**(10,880)**	(1,150)
At the end of the year	**77,466**	88,346

16 NET INVESTMENT IN FINANCE LEASE

Eastern District Cooling Company ("EDCC"), a subsidiary, entered into an energy performance contract during 2008 with Saudi Iron and Steel Company ("Hadeed") for a period of 20 years. As per the terms stipulated in the agreement it is agreed to design, construct, operate and maintain a District Cooling Plant (DCP) at the premises of Hadeed. At the end of the contract term all the rights, title and interest in the DCP will be transferred to Hadeed for an all-inclusive lump sum payment of SR 53.3 million. During 2013, the construction of DCS was completed and the entire risks and rewards were transferred to Hadeed under finance lease agreement on 1 April 2013.

The net investment in finance lease and the future minimum lease payments are as follows:

a) Net investment in finance lease consists of:

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Gross investments in lease (see (b) below)	**504,213**	541,790	579,368
Less: Unearned finance income	**(119,267)**	(136,080)	(153,754)
	384,946	405,710	425,614
Analysed as:			
Net investment in finance lease, current	**21,663**	20,765	19,904
Net investment in finance lease, non-current	**363,283**	384,945	405,710
	384,946	405,710	425,614

b) The future minimum lease payments to be received consists of:

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Within one year	**37,578**	37,578	37,578
After one year but not more than five years	**187,888**	187,888	187,888
Five years onwards	**278,747**	316,324	353,902
	504,213	541,790	579,368

17 GOODWILL

	31 December 2017 SR'000	*31 December 2016 SR'000*
At the beginning of the year	21,126	80,126
Impairment loss (note 10)	-	(59,000)
At the end of the year	21,126	21,126

During 2011, the Group acquired 51% of the voting shares of Gulf Insulation Group ("GIG"), a company registered in the Kingdom of Saudi Arabia. During 2012, the Group exercised purchase price allocation which is resulting a goodwill of SR 110 million.

During 2014, GIG transferred 51% ownership of its wholly owned subsidiary Saudi Preinsulated Pipes Industries Company Limited ("SPPI") to one of its partner, Second Insulation Company Limited ("SICL"), a wholly owned subsidiary of the Group. Accordingly, the Group performed its annual impairment test in December 2015 considering the allocation of goodwill to GIG and SPPI and performing impairment view on CGUs based on the available information and comparing carrying values to their estimated recoverable amounts based on appropriate method. The goodwill related to SPPI was fully impaired in the year 2015 and accordingly the balance amount relates to goodwill in GIG.

The Group performed its annual impairment test at each reporting date. The recoverable amount of GIG is determined based on a value in use calculation using cash flow projection from financial budgets approved by senior management covering a five-year period. The projected cash flows projections have been updated to reflect the future demands of the products of GIG. The cash flows beyond the five year period are extrapolated using a 2% (31 December 2016: 2%) growth rate that is the same as the long term average growth rate for the industry in which the GIG operates. The recoverable amount was based on the CGU's value in use using a pre-tax discount rates of 11.2% to 12.6% (31 December 2016: 11.7% to 12.48%).

As a result of the analysis, at 31 December 2017 the estimated recoverable amount of CGU exceeded its carrying amount by approximately SR 16 million and the management did not identify an impairment for this CGU to which goodwill of SR 21 million is allocated.

At 31 December 2016, the Group determined the recoverable amount of the cash-generating unit is less than their carrying amount, accordingly an impairment loss was recognised. This resulted in an impairment loss of SR 59 million against goodwill being recognised as at 31 December 2016. This amount has been recognised in the consolidated statement of income.

The calculation of value in use for the CGU is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Growth rate used to extrapolate cash flows beyond the budget period

Gross margin
Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements. Decreased demand can lead to a decline in gross margin. A decrease in the gross margin of 3.5% would result in an impairment of the CGU.

Discount rates
Discount rates represent the current market assessment of the risks specific to the cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly-available marked data. A rise in the pre-tax discount rate of 1.5% would result in an impairment.

17 GOODWILL (continued)

Growth rate estimates
A long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product (GDP) rate for Saudi Arabia where the CGU operates. Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate of 2%. A reduction of 2.5% in the long-term growth rate would result in impairment of the CGU.

18 INVENTORIES

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Raw materials	**709,476**	687,919	974,813
Finished goods	**413,154**	609,066	501,703
Work in progress	**84,061**	72,972	140,318
Goods in transit	**41,866**	82,803	106,866
	1,248,557	1,452,760	1,723,700

19 ACCOUNTS RECEIVABLE

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Trade accounts receivable	**1,844,475**	1,735,560	1,607,097
Receivables from related parties (note 34)	**65,341**	80,116	58,730
Retentions receivable	**192,648**	194,449	122,514
	2,102,464	2,010,125	1,788,341
Less: provision for impairment of receivables	**(150,509)**	(148,857)	(124,652)
	1,951,955	1,861,268	1,663,689

For terms and conditions related to related parties receivables, refer to note 34.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. An impairment analysis is performed at each reporting date on an individual basis for major customers. At 31 December 2017, trade accounts receivable at nominal value of SR 150.5 million (31 December 2016: SR 148.9 million, 1 January 2016: SR 124.6 million) were impaired. Movements in the allowance for doubtful debts were as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
At the beginning of the year	**148,857**	124,652
Provision for the year (note 7)	**13,031**	57,043
Written-off during the year	**(12,075)**	(31,175)
Exchange differences	**696**	(1,663)
At the end of the year	**150,509**	148,857

19 ACCOUNTS RECEIVABLE (continued)

The ageing analysis of unimpaired trade accounts receivables is, as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Neither past due nor impaired	**540,800**	325,495	306,668
Past due but not impaired:			
Less than 30 days	**186,557**	251,123	343,489
30 - 60 days	**144,872**	140,761	154,344
61 - 90 days	**113,845**	112,156	138,226
91 - 180 days	**203,007**	268,091	213,557
180-365 days	**262,574**	258,140	176,522
More than one year	**242,311**	230,937	149,639
	1,693,966	1,586,703	1,482,445

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured. Refer to note 37 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

20 ADVANCES, OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Advances to suppliers	**62,264**	43,026	64,206
Prepaid expenses	**38,733**	38,780	44,206
Other receivables	**136,605**	141,879	112,876
	237,602	223,685	221,288

21 VALUE OF WORK EXECUTED IN EXCESS OF BILLINGS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Value of the work executed to date	**1,558,568**	1,145,783	1,075,779
Less: Amounts received and receivable as progress billings	**(1,197,156)**	(883,517)	(791,770)
	361,412	262,266	284,009

22 CASH AND CASH EQUIVALENTS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Bank balances and cash	**184,053**	233,620	328,541
Short-term deposits	**31,471**	38,773	24,271
	215,524	272,393	352,812

The average interest rate on the short-term deposits during the year was 4 to 5% per annum (31 December 2016: 4 to 5% per annum).

23 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (31 December 2016: same) of SR 10 each (31 December 2016: same).

24 STATUTORY RESERVE

In accordance with new Saudi Arabian Regulations for Companies effective from 29 April 2016, the statutory reserve limit have been reduced from 50% to 30% of the share capital. Accordingly, the Company amended its by laws and the shareholders, in their Annual General Assembly held on 4 May 2017 (corresponding to 8 Sha'ban 1438H), resolved to transfer back the excess amount of SR 120 million from statutory reserve to retained earnings.

25 DIVIDENDS

On 1 August 2017 (corresponding to 9 Dhu-al-Qa'dah 1438H), the board of directors resolved to distribute interim cash dividends for the year 2017 of SR 1 per share (totaling to SR 60 million). Dividends have been fully paid in the current year.

On 19 January 2017 (corresponding to 21 Rabi' II 1438H), the board of directors proposed a final cash dividend of SR 1 per share for the year 2016 totaling SR 60 million being 10% of the share capital for the approval of the shareholders in their Annual General Assembly. On 4 May 2017 (corresponding to 8 Sha'ban 1438H), the Annual General Assembly approved the payment of the proposed dividend for the year 2016. Dividends have been fully paid in the current year. (1 January 2016: The board of directors at their meeting held on 21 December 2015 (corresponding to 10 Rabi' I 1437H) proposed a final cash dividend of SR 1 per share for the year 2015 totaling SR 60 million being 10% of the share capital which is subsequently approved by the shareholders in their Annual General Assembly meeting held on 18 April 2016 (corresponding to 11 Rajab 1437H)). Dividends have been fully paid in the current year.

26 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	*Country of incorporation*	***31 December 2017 SR'000***	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Gulf Insulation Group	Kingdom of Saudi Arabia	**49%**	49%	49%

Accumulated balances of material non-controlling interest:

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Gulf Insulation Group	**185,465**	194,986	211,629

Profit allocated to material non-controlling interest:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Gulf Insulation Group	**10,089**	(14,437)

The summarised financial information of the above subsidiary is provided below. This information is based on amounts before inter-company eliminations.

26 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarised statement of income:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Revenues	**272,749**	290,228
Cost of sales	**(181,691)**	(193,752)
Other operating expenses	**(61,369)**	(70,988)
Impairment loss on property, plant and equipment	**-**	(31,319)
Other income	**1,218**	833
Finance costs	**(5,881)**	(5,707)
Profit before zakat	**25,026**	(10,705)
Zakat and income tax	**(6,708)**	(427)
Net income for the year	**18,318**	(11,132)
Other comprehensive income for the year	**(579)**	381
Total comprehensive income for the year	**17,739**	(10,751)
Attributable to non-controlling interests	**10,089**	(14,437)
Dividends paid to non-controlling interests	**1,127**	4,410

Summarised statement of financial position:

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Non-current assets	**347,693**	378,361	415,905
Current assets	**161,136**	164,065	172,811
Non-current liabilities	**(74,000)**	(97,409)	(123,462)
Current liabilities	**(152,870)**	(143,205)	(152,691)
Total Equity	**281,959**	301,812	312,563
Attributable to:			
Shareholders of the parent company	**96,494**	106,826	100,934
Non-controlling interests	**185,465**	194,986	211,629

Summarised cash flow information for year ended:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Cash flows from operating activities	**54,029**	59,413
Cash used in investing activities	**(22,784)**	(23,685)
Cash used in financing activities	**(28,935)**	(31,408)
Net increase in the cash and cash equivalents	**2,310**	4,320

27 TERM LOANS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Commercial banks (note 'A' below)	**-**	204,688	321,538
Saudi Industrial Development Fund ("SIDF") (note 'B' below)	**107,442**	139,714	140,015
	107,442	344,402	461,553
Less: SIDF prepaid financial charges	**(5,518)**	(8,068)	(9,865)
	101,924	336,334	451,688
Less: Current portion:			
Commercial banks (note 'A' below)	**-**	(104,688)	(116,850)
Saudi Industrial Development Fund ("SIDF") (note 'B' below)	**(34,669)**	(36,400)	(21,500)
	(34,669)	(141,088)	(138,350)
Non-current portion	**67,255**	195,246	313,338

A The Group obtained loan facilities of SR 500 million, SR 25 million and SR 25 million respectively from local commercial banks. These loans were repayable in semi-annual, quarterly and monthly instalments commencing from June 2014, October 2013 and January 2014 respectively. These facilities were subject to commission at SIBOR plus margin. These loans were secured by promissory notes, assignment of certain contract proceeds, corporate guarantees and a mortgage on the Group's property, plant and equipment (note 12). Entire loan amounts of SR 204.6 million payable as at 31 December 2016 were paid during the year 2017. The effective commission rate for the year ended 31 December 2017 was 3.2% per annum (31 December 2016: 3.1% per annum).

B The Group also obtained loan facility of SR 140 million from SIDF for financing the construction of the plant. The loan is secured by a mortgage on the Group's property, plant and equipment (note 12). The loans are repayable in unequal instalments.

The Group is required to comply with certain covenants which include, among other things, certain financial ratios to be maintained under all the loan facility agreements mentioned above.

Following are the combined aggregate amounts of future maturities of the term loans:

	SR'000
2018	**34,800**
2019	**31,500**
2020	**16,100**
2021	**17,142**
2022	**2,950**
2022 and onwards	**4,950**
	107,442

28 EMPLOYEES' DEFINED BENEFIT LIABILITIES

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2017 and 31 December 2016 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	31 December 2017	*31 December 2016*	*1 January 2016*
Discount rate	**3.0%**	3.1%	3.5%
Expected rate of salary increase	**2.5%**	2.5%	2.5%

The break up of net benefit costs charged to consolidated statement of income is as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Current service cost	**33,233**	36,423
Interest cost on benefit obligation	**10,160**	11,981
Net benefit expense	**43,393**	48,404

Changes in the present value of defined unfunded benefit obligation is as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
At the beginning of the year	**329,056**	354,047
Net benefit expense	**43,393**	48,404
Benefits paid	**(74,548)**	(67,184)
Reclassification	**-**	(3,960)
Remeasurement gains on employees' defined benefit liabilities	**(2,937)**	(2,251)
At the end of the year	**294,964**	329,056

Employees' defined benefit obligations due to a reasonable possible change in the significant actuarial assumptions, as at 31 December 2017 and 2016 is, as show below:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Discount rate:		
0.5% increase	**238,668**	326,680
0.5% decrease	**312,186**	344,500
Future salary increase:		
0.5% increase	**311,437**	345,078
0.5% decrease	**286,216**	316,023

The sensitivity analysis above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. The same method has been applied for the sensitivity analysis as when calculating the recognised pension liability.

28 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

The following payments are expected against the defined benefit liability in future years:

	31 December 2017 SR'000	*31 December 2016 SR'000*
Within the next 12 months (next annual reporting period)	**23,807**	36,071
Between 2 and 5 years	**114,440**	141,471
Beyond 5 years	**172,436**	180,039
Total expected payments	**310,683**	357,581

The average duration of the defined benefit plan obligation at the end of the reporting period is 6.62 years (31 December 2016: 6.67 years).

29 ACCOUNTS PAYABLE

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Trade accounts payables	**330,549**	323,894	504,015
Retentions payables	**17,152**	20,806	16,429
Related parties (note 34)	**18,173**	20,059	21,675
	365,874	364,759	542,119

Trade payables are non-interesting bearing and are normally settled on 30 to 120 days terms. For terms and conditions with related parties, refer to note 34. For explanations on the Group's liquidity risk management processes, refer to note 37.

30 ACCRUALS AND PROVISIONS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Accrued expenses	**254,549**	308,101	354,511
Accrued contract costs	**142,081**	153,853	139,415
Warranties provision	**11,379**	16,551	23,885
	408,009	478,505	517,811

31 SHORT TERM LOANS

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Short term loans	**69,187**	115,263	135,507
Murabaha and tawarruq finances	**2,261,847**	1,944,486	1,820,640
	2,331,034	2,059,749	1,956,147

The short term loans, Murabaha and Tawarruq finances were obtained from various local banks to meet the working capital requirements. These loans are secured by promissory notes and assignment of certain contract proceeds, corporate guarantees and a mortgage on the Group's property, plant and equipment (note 12). These borrowings carry commission charges at prevailing market borrowing rates. The effective commission for the year ended 31 December 2017 is 2.8% per annum (31 December 2016: 2.9% per annum).

32 BILLINGS IN EXCESS OF VALUE OF WORK EXECUTED

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Progress billings received or receivable	**288,827**	580,842	600,584
Less: value of work executed	**(265,609)**	(522,554)	(505,708)
	23,218	58,288	94,876

33 ZAKAT AND INCOME TAX

The major components of zakat and income tax expense for the year ended 31 December 2017 and 2016 are:

Consolidated statement of income

	31 December 2017 SR'000	*31 December 2016 SR'000*
Zakat and current income tax:		
Zakat charge	**13,092**	22,612
Current income tax charge	**1,660**	4,320
Deferred taxes	**1,061**	16,120
	15,813	43,052

Movement in zakat and income tax for the year was as follows:

	31 December 2017 SR '000	*31 December 2016 SR '000*
At the beginning of the year	**55,421**	58,721
Current year provision	**14,752**	26,932
Payments during the year	**(24,598)**	(29,591)
Exchange differences	**74**	(641)
At the end of the year	**45,649**	55,421

33.1 Zakat

Charge for the year

The zakat charge consists of:

	31 December 2017 SR '000	*31 December 2016 SR '000*
Current year provision	**13,092**	22,612

The provision for the year is based on zakat base of the Company and its wholly owned Saudi subsidiaries as a whole and individual zakat base of other Saudi subsidiaries.

Status of assessments

The status of assessments of the Company including its wholly owned subsidiaries and major partially owned subsidiaries are as follows:

i) The Company and its wholly owned subsidiaries

The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2013. The zakat declarations for the years 2014, 2015 and 2016 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

33 ZAKAT AND INCOME TAX (continued)

33.1 Zakat (continued)
Status of assessments (continued)
ii) Partially owned subsidiaries
Saudi Preinsulated Pipes Industries
Zakat assessments have been agreed with the GAZT up to 2007. The zakat declarations for the years from 2008 to 2016 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

Gulf Insulation Group
Zakat and income tax assessments have been agreed with the GAZT up to 2007. The zakat declarations for the years from 2008 to 2016 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

Zakat base and the income tax provision have been computed based on the Company's understanding of zakat and income tax regulations prevailing in the Kingdom of Saudi Arabia. The zakat and income tax regulations in Saudi Arabia are subject to different interpretations and the assessments to be raised by the GAZT could be different from the declarations filed by the Company.

33.2 Income tax
Charge for the year
The income tax charge consists of:

	31 December 2017 SR '000	*31 December 2016 SR '000*
Current year provision	**1,660**	4,320

Income tax provision is provided for in accordance with fiscal authorities in which the Group’s subsidiaries operate outside the Kingdom of Saudi Arabia.

Status of assessments
The status of assessment of the major foreign subsidiaries are as follows:

Zamil Air Conditioners India Private Limited
Income tax assessments have been agreed with the Department of Income Tax of India ("the DIT") up to the year ended 31 March 2010. The income tax returns for the years ended 31 March 2011 to 31 March 2017 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Steel Buildings India Private Limited - India
Income tax assessments have been agreed with the DIT up to the year ended 31 March 2014. The income tax returns for the years ended 31 March 2015, 2016 and 2017 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Construction India Private Limited
Income tax assessments have been agreed with the DIT up to the year ended 31 March 2014. The income tax returns for the years ended 31 March 2015, 2016 and 2017 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Information Technology Global Private Limited - India
The income tax returns of the company for the years ended up to 31 March 2017 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the year.

Zamil Steel Buildings Vietnam Company Limited
Income tax assessments have been agreed with the tax authorities ("the TA") of Vietnam up to the year 2015. The income tax returns for the year 2016 have been filed with the TA. However, the final assessments have not yet been raised by the TA.

33 ZAKAT AND INCOME TAX (continued)

33.2 Income tax (continued)

Status of assessments (continued)

Zamil Structural Steel - S.A.E - Private Free Zone

The company, was established under the free zone system according to the provision of Investment Guarantees and Incentive Law number 8 of 1997. Accordingly, the company is exempted from corporate taxes and withholding taxes and these privileges will continue to apply for the lifetime of the company.

Zamil Steel Buildings Company Egypt - S.A.E

Income tax assessments have been agreed with the Egyptian tax authorities ("the tax authorities") up to the year 2008. The income tax returns for the years from 2009 to 2016 have been filed with the tax authorities. However, the final assessments have not yet been raised by tax authorities.

Income tax has been computed based on the managements' understanding of the income tax regulations enforced in their respective countries. The income tax regulations are subject to different interpretations, and the assessments to be raised by the tax authorities could be different from the income tax returns filed by the respective company.

33.3 Deferred tax

Deferred tax assets

The deferred tax assets relates to foreign subsidiaries in Vietnam, Egypt and India. The subsidiary in Egypt has incurred losses over the last two financial years and such losses are available indefinitely for offset against future taxable profits of the subsidiary. The group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiaries. The deferred tax asset comprises of timing differences relating to:

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Deferred tax asset			
Accruals and provisions	**5,529**	5,795	8,676
Taxable loss carry forward	**2,142**	-	20,145
Total deferred tax assets	**7,671**	5,795	28,821
Deferred tax liability			
Accelerated depreciation for tax purposes	**(772)**	(838)	(5,933)
Total deferred tax liability	**(772)**	(838)	(5,933)
Net deferred tax asset	**6,899**	4,957	22,888

Reconciliation of deferred tax assets, net was as follows:

	31 December 2017 SR '000	*31 December 2016 SR '000*
At the beginning of the year	**4,957**	22,888
Tax income/(expense) during the year recognised in consolidated statement of income	**1,847**	(15,309)
Exchange differences	**95**	(2,622)
At the end of the year	**6,899**	4,957

33 ZAKAT AND INCOME TAX (continued)

33.3 Deferred tax (continued)

Deferred tax liabilities

The deferred tax liabilities relates to a partially owned Saudi subsidiary with a foreign shareholder. The deferred tax liabilities comprise of timing differences relating to:

	31 December 2017 SR'000	*31 December 2016 SR'000*	*1 January 2016 SR'000*
Deferred tax liability			
Accelerated depreciation for tax purposes	**9,592**	6,545	6,358
Total deferred tax liability	**9,592**	6,545	6,358
Deferred tax asset			
Employees' defined benefit liabilities	**(888)**	(935)	(1,120)
Allowance for doubtful debts	**(338)**	(152)	(88)
Allowance for slow moving inventories	**-**	-	(503)
Total deferred tax assets	**(1,226)**	(1,087)	(1,711)
Net deferred tax liability	**8,366**	5,458	4,647

Reconciliation of deferred tax liabilities, net was as follows:

	31 December 2017 SR'000	*31 December 2016 SR'000*
At the beginning of the year	**5,458**	4,647
Tax expense recognised in consolidated statement of income	**2,908**	811
At the end of the year	**8,366**	5,458

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

34 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. The next senior and ultimate parent company of the Group is Zamil Group Holding Company (a Saudi Closed Joint Stock Company) registered in Dammam, Kingdom of Saudi Arabia.

The Group in the normal course of business carries out transactions with various related parties. Amounts due from/to related parties are shown under accounts receivable and account payable respectively. Transactions with related parties' included in the consolidated statement of income are as follows:

Relationship and name of related party		*Sales to related parties*	*Purchases from related parties*	*Amounts owed by related parties*	*Amounts owed to related parties*
		SR'000	*SR'000*	*SR'000*	*SR'000*
Ultimate parent company					
Zamil Group Holding Company	***31 December 2017***	**1,854**	**360**	**-**	**76**
	31 December 2016	3,016	220	1,456	-
	1 January 2016	-	-	1,821	-
Joint venture					
Middle East Air Conditioners Co. Ltd.	***31 December 2017***	**15,996**	**-**	**16,526**	**-**
	31 December 2016	11,289	-	10,600	-
	1 January 2016	-	-	13,856	-
Associates					
Rabiah Nasser & Zamil Concrete Industries Company Limited	***31 December 2017***	**-**	**-**	**11,558**	**-**
	31 December 2016	-	-	10,148	-
	1 January 2016	-	-	13,330	-
Energy Central Company - Bahrain	***31 December 2017***	**-**	**-**	**-**	**14,900**
	31 December 2016	-	-	-	14,900
	1 January 2016	-	-	-	14,764
Geoclima - Italy	***31 December 2017***	**-**	**-**	**4,326**	**-**
	31 December 2016	-	-	4,326	-
	1 January 2016	-	-	4,989	-
Other related parties					
United Carton Industries	***31 December 2017***	**47,140**	**1,832**	**12,250**	**-**
	31 December 2016	63,208	2,894	24,441	-
	1 January 2016	-	-	-	343
Zamil Architectural Holding Company	***31 December 2017***	**2,120**	**711**	**4,668**	
	31 December 2016	9,719	495	17,831	-
	1 January 2016	-	-	8,721	-
Others	***31 December 2017***	**25,307**	**43,582**	**16,013**	**3,197**
	31 December 2016	16,694	59,676	11,314	5,159
	1 January 2016	-	-	16,013	6,568
Total	***31 December 2017***	**92,417**	**46,485**	**65,341**	**18,173**
	31 December 2016	103,926	63,285	80,116	20,059
	1 January 2016	**-**	-	58,730	21,675

The compensation to the key management personnel during the year ended 31 December 2017 amounted to SR 11.6 million (31 December 2016: SR 12.6 million). The directors' remuneration for the year ended 31 December 2017 amounted to SR 1.6 million (31 December 2016: SR 1.6 million).

Pricing policies and terms of payments of transactions with related parties are approved by the Board of Directors. Outstanding balances at the year end are unsecured, interest free and settled in cash.

The amounts due from and due to related parties have been classified as account receivables and account payables respectively in the consolidated statement of financial position (refer to note 19 and 29).

35 CONTINGENCIES AND COMMITMENTS

Operating lease commitments

The Group has operating leases for rental of certain properties which generally have a term of 1 to 20 years (31 December 2016: 1 to 20 years, 1 January 2016: 1 to 20 years). The rental charge for the year amounted to SR 37.5 million (31 December 2016: SR 31.05 million). Future minimum rentals payable under operating leases are, as follows:

	SR'000
Not later than one year	**18,812**
Later than one year and not later than five years	**55,436**
Later than five years	**8,291**
	82,539

Guarantees

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,097 million (31 December 2016: SR 1,050 million, 1 January 2016: SR 1,165 million).

Capital commitments

The board of directors have approved future capital expenditure amounting to SR 15 million (31 December 2016: SR 21 million, 1 January 2016: SR 70 million), relating to certain expansion projects.

36 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has four reportable segments, as follows:

- The air conditioners industry, which is engaged in production of window, split and central air conditioners, electrical and gas ovens, automatic dryers, microwave ovens, air-conditioning ducts/channels, household refrigerators, automatic washing machines and installation, maintenance, operation and leasing of air conditioning and refrigeration systems.
- The steel industry, which is engaged in construction, managing and operating industrial projects, constructing, managing and operating airports and warehouses, constructing and providing fire protection services for building and structures, building, repairing and maintaining the communication towers, business of steel sheets works, heavy equipment and its spare parts, storage tanks, installation containers and pumps and implementation of electric works.
- The insulation industry, which is engaged in production of complete line of insulation products including fiberglass for using in thermal insulation of central air conditioners, pre-insulated pipes, glass wool, rock wool and engineering plastic foam insulations.
- Corporate and others, which are engaged in providing corporate and shared services, training and investment activities.

The Board of directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income and is measured consistently in the consolidated financial statements.

36 SEGMENTAL INFORMATION (continued)

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

Business segments

For the year ended 31 December 2017 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue:							
External customer	**2,140,166**	**1,969,399**	**286,536**	**7,749**	**4,403,850**	**-**	**4,403,850**
Inter-segment	**4,625**	**242**	**13,064**	**11,246**	**29,177**	**(29,177)**	**-**
Total revenue	**2,144,791**	**1,969,641**	**299,600**	**18,995**	**4,433,027**	**(29,177)**	**4,403,850**
Gross profit	**394,371**	**387,915**	**90,654**	**6,915**	**879,855**	**7,722**	**887,577**
Operating income (loss)	**135,388**	**90,355**	**20,775**	**(21,576)**	**224,942**	**1,598**	**226,540**
Unallocated income (expenses):							
Share in results of associates and a joint venture							**(893)**
Other (expenses) income, net							**(1,405)**
Financial charges							**(87,102)**
Impairment losses on non-current assets							**(10,880)**
Income before zakat and tax							**126,260**
Zakat and income tax							**(15,813)**
Net income for the year							**110,447**

For the year ended 31 December 2016 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue:							
External customer	2,230,836	2,361,974	330,041	6,379	4,929,230	-	4,929,230
Inter-segment	10,211	267	16,744	21,572	48,794	(48,794)	-
Total revenue	2,241,047	2,362,241	346,785	27,951	4,978,024	(48,794)	4,929,230
Gross profit	473,520	491,816	89,593	14,544	1,069,473	1,598	1,071,071
Operating income (loss)	179,090	147,260	27,788	(22,179)	331,959	1,598	333,557
Unallocated income (expenses):							
Share in results of associates and a joint venture							(6,299)
Other income, net							36,909
Financial charges							(97,388)
Impairment losses on non-current assets							(91,469)
Income before zakat and tax							175,310
Zakat and income tax							(43,052)
Net income for the year							132,258

36 SEGMENTAL INFORMATION (continued)

At 31 December 2017 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	**2,777,894**	**2,006,235**	**558,098**	**889,549**	**6,231,776**	**(550,053)**	**5,681,723**
Total liabilities	**1,933,192**	**1,191,888**	**244,935**	**960,341**	**4,330,356**	**(525,013)**	**3,805,343**
Others:							
Investment in associates and a joint venture	**29,528**	**-**	**-**	**51,245**	**80,773**	**-**	**80,773**
Capital expenditure	**20,842**	**40,633**	**23,218**	**5,614**	**90,307**	**-**	**90,307**

At 31 December 2016 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	2,884,506	2,118,212	564,911	854,746	6,422,375	(611,751)	5,810,624
Total liabilities	1,976,179	1,250,844	257,570	1,044,928	4,529,521	(607,080)	3,922,441
Others:							
Investment in associates and a joint venture	30,792	-	-	48,522	79,314	-	79,314
Capital expenditure	26,144	54,115	26,222	4,541	111,022	-	111,022

At 1 January 2016 (SR '000)

	Air conditioner industry	*Steel industry*	*Insulation industry*	*Corporate and others*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Total assets	2,938,063	2,347,399	652,840	804,051	6,742,353	(554,460)	6,187,893
Total liabilities	2,103,723	1,363,041	330,276	957,091	4,754,131	(461,415)	4,292,716
Others:							
Investment in associates and a joint venture	35,314	-	-	55,534	90,848	-	90,848

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

36 SEGMENTAL INFORMATION (continued)

Geographic information

	31 December 2017 SR '000	*31 December 2016 SR '000*
Revenue from external customers:		
Saudi Arabia	**3,552,091**	4,097,189
Other Asian countries	**575,380**	551,583
Africa	**276,379**	276,821
Europe	**-**	3,637
	4,403,850	4,929,230

	31 December 2017 SR '000	*31 December 2016 SR '000*	*1 January 2016 SR '000*
Non-current operating assets:			
Saudi Arabia	**908,967**	938,222	1,009,279
Other Asian countries	**108,496**	120,070	131,583
Africa	**78,000**	80,507	92,561
	1,095,463	1,138,799	1,233,423

Non-current assets for this purpose consist of property, plant and equipment and other intangible assets.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings and accounts payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivables, net investment in finance lease, short-term deposits, cash and bank balances that derive directly from its operations. The Group also holds available-for-sale investments in unquoted shares.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group'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 Group's policies and risk objectives. The Group does not engage into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, short-term deposits and AFS investments. The sensitivity analyses in the following sections relate to the position as at 31 December 2017 and 2016.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's long-term and short-term loans and its short-term deposits. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates. At 31 December 2017 and 2016, the Group's exposure to commission rate risk was not significant as its major long-term and short-term loans were subject fixed commission rates.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Market risk (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries and associates. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars, Japanese Yen, Egyptian Pound and Euros during the year. As Saudi Riyals are pegged to US Dollars, balances in US Dollars are not considered to represent significant currency risk. The Group is exposed to currency risk on transactions and balances in Euros, Japanese Yen and Egyptian Pound. The Group manages currency risk exposure to Euros, Japanese Yen and Egyptian Pound by continuously monitoring the currency fluctuations. At 31 December 2017 and 2016, the Group's exposure to foreign currency changes for its accounts receivable and accounts payable was not material.

The Group is exposed to significant foreign currency changes on its net investment in foreign operations in Egyptian Pounds and India Rupees. The following tables demonstrate the sensitivity to a reasonably possible change in Egyptian Pound and Indian Rupee exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in Egyptian Pound rate	*Effect on other components in equity*
		SR '000
31 December 2017	**+13%**	**2,416**
	-13%	(2,416)
31 December 2016	**+13%**	**1,862**
	-13%	(1,862)

	Change in Indian Rupee rate	*Effect on other components in equity*
		SR '000
31 December 2017	**+2%**	**(1,321)**
	-2%	1,321
31 December 2016	**+2%**	**(935)**
	-2%	935

Commodity risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including steel, electric parts, glass materials and electricity. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of such materials to manage the risk.

Equity price risk

The Group's unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to unlisted equity securities at fair value was SR 77,466 thousands (31 December 2016: SR 88,346 thousands and 1 January 2016: SR 89,496 thousands).

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its bank balances, short-term deposits, accounts receivables, net investment in finance lease and some other receivables as follows:

	31 December 2017 SR '000	*31 December 2016 SR '000*	*1 January 2016 SR '000*
Bank balances	**180,242**	226,152	325,859
Short-term deposits	**31,471**	38,773	24,271
Accounts receivable	**1,951,955**	1,861,268	1,663,689
Net investments in finance lease	**384,946**	405,710	425,614
Other receivables	**136,605**	141,879	112,876
	2,685,219	2,673,782	2,552,309

Accounts receivable

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow ups. An impairment analysis is performed at each reporting date on an individual basis for major customers. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The Group evaluates the concentration of risk with respect to trade accounts receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Bank balances and short term deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. At the reporting date, no significant concentration of credit risk were identified by the management.

c) 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 realize financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis. The Group manages its liquidity risk by ensuring that bank facilities are available. The Group's terms of sales require amounts to be paid within 30 to 90 days of the date of submitting the invoice. Trade payables are normally settled within 30 to 120 days of the date of purchase.

Excessive concentration risk

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 Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's management focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

c) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	As at 31 December 2017					
	on demand	*< 6 months*	*6 to 12 months*	*1 to 5 years*	*> 5 years*	*Total SR' 000*
Accounts payable	**18,173**	**347,701**	**-**	**-**	**-**	**365,874**
Other financial liabilities	**-**	**396,630**	**-**	**-**	**-**	**396,630**
Interest bearing loans and borrowings	**-**	**2,347,234**	**18,600**	**67,692**	**4,950**	**2,438,476**
	18,173	**3,091,565**	**18,600**	**67,692**	**4,950**	**3,200,980**

	As at 31 December 2016					
	on demand	*< 6 months*	*6 to 12 months*	*1 to 5 years*	*> 5 years*	*Total SR' 000*
Accounts payable	20,059	344,700	-	-	-	364,759
Other financial liabilities	-	461,954	-	-	-	461,954
Interest bearing loans and borrowings	-	2,135,074	65,763	195,414	7,900	2,404,151
	20,059	2,941,728	65,763	195,414	7,900	3,230,864

	As at 1 January 2016					
	on demand	*< 6 months*	*6 to 12 months*	*1 to 5 years*	*> 5 years*	*Total SR' 000*
Accounts payable	21,675	520,444	-	-	-	542,119
Other financial liabilities	-	493,926				493,926
Interest bearing loans and borrowings	-	2,033,872	60,625	323,203	-	2,417,700
	21,675	3,048,242	60,625	323,203	-	3,453,745

38 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2017 and the year ended 31 December 2016. Capital comprises share capital, statutory reserve, retained earnings and other reserves and is measured at SR 1,667,389 thousands as at 31 December 2017 (31 December 2016: SR 1,678,199 thousands and 1 January 2016: SR 1,673,678 thousands).

39 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- 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

As of reporting date, there were no Level 1, 2 or 3 assets or liabilities except for available for investments in unquoted shares and these have been valued using Level 3 valuation technique.

39 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial assets consist of cash and cash equivalents, available-for-sale investments, accounts receivable, net investment in finance lease and some other current assets. Financial liabilities consist of term loans, short term loan, accounts payable and some other current liabilities. The fair values of financial assets and financial liabilities except for available-for-sale investments approximate their carrying amounts.

Set out below is a comparison, of the carrying amounts and fair values of the Group's available-for-sale investments:

	Carrying value	***Fair value***	***Fair value measurement using***		
			Level 1	***Level 2***	***Level 3***
	SR '000	***SR '000***	***SR '000***	***SR '000***	***SR '000***
31 December 2017					
AFS investments					
At cost	**46,586**	**-**	**-**	**-**	**-**
At fair value	**30,880**	**30,880**	**-**	**-**	**30,880**
	77,466	**30,880**	**-**	**-**	**30,880**

	Carrying value	*Fair value*	*Fair value measurement using*		
			Level 1	*Level 2*	*Level 3*
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
31 December 2016					
AFS investments					
At cost	88,346	-	-	-	-
	88,346	-	-	-	-

Fair value measurement hierarchy

The fair value of the Group's available-for-sale investments in unquoted equity shares at 31 December 2017 have been measured using Level 3 (significant unobservable inputs). The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2017 are as shown below:

	Valuation technique	***Significant unobservable inputs***	***Range (weighted average)***	***Sensitivity of the input to fair value***
AFS investments				
PLG Photovoltaic Limited	DCF method	WACC	10.50%	1% increase (decrease) in the WACC would result in an increase (decrease) in fair value by SR 1.3 million (SR 1.2 million).
		Operating margin	46%-76%	5% increase (decrease) in the margin would result in an increase (decrease) in fair value by SR 4.26 million.
		Capacity utilisation factor	18%-19%	1% increase (decrease) in capacity utilisation would result in an increase (decrease) in fair value by SR 4.3 million.

40 FIRST TIME ADOPTION OF IFRS

For all the periods and up to the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia ("Saudi GAAP"). Effective 1 January 2017, all entities listed in Saudi Stock Exchange are required to prepare their financial statements in accordance with the IFRS as endorsed in KSA.

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") endorsed in KSA requires that an entity's accounting policies used in its opening statement of financial position and throughout all periods presented in its first IFRS financial statements comply with IFRS as endorsed in KSA effective at the end of its first IFRS reporting period. Accordingly, the IFRS endorsed in KSA issued and effective as at 1 January 2017 have been applied in preparing the consolidated financial statements as at and for the year ended 31 December 2017, the comparative information presented as at and for the year ended 31 December 2016, and in preparation of the opening consolidated IFRS statement of financial position as at 1 January 2016.

Exemptions applied

IFRS 1 endorsed in KSA allows first-time adopters certain exemptions from retrospective application of certain requirements under IFRS as endorsed in KSA. The Group has applied the following exemptions:

- IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2016. Use of this exemption means that the SOCPA carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.
- IFRS 1 also requires that the SOCPA carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2016.
- The Group has applied first time adoption exemption to reset the cumulative translation differences to nil on the transition date i.e. 1 January 2016.
- The Group has applied the transitional provisions in IAS 23 Borrowing Costs and capitalises borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated for borrowing costs capitalised under SOCPA GAAP on qualifying assets prior to the date of transition to IFRS.

Exceptions applied:

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance has not been applied on government loans existing at the date of transition to IFRS and the corresponding benefit of the government loan at a below-market rate of interest as a government grant has not been recognised. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with IFRS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to IFRS as the carrying amount of the loan in the opening IFRS statement of financial position.

Estimates

The estimates as at 1 January 2016 and 31 December 2016 are consistent with those made for the same dates in accordance with Saudi GAAP (after adjustments to reflect any differences in accounting policies).

The impacts of the transition to IFRS as endorsed in KSA for the comparative information are outlined in the following tables and explanatory notes.

40 FIRST-TIME ADOPTION OF IFRS (continued)

40.1 Group's reconciliation for statement of financial position as at 1 January 2016 (date of transition to IFRS)

	Notes	*Saudi GAAP SR'000*	*Re-measurements / Reclassifications SR'000*	*IFRS SR'000*
ASSETS				
Non-current assets				
Property, plant and equipment	40A, 40B, 40C	1,390,010	(162,984)	**1,227,026**
Other intangible assets		6,397	-	**6,397**
Investments in associates and a joint venture	40D, 40E & 40F	93,340	(2,492)	**90,848**
Available-for-sale investments		89,496	-	**89,496**
Net investments in finance lease		405,710	-	**405,710**
Amounts due from a related party		33,850	(33,850)	**-**
Goodwill		80,126	-	**80,126**
Deferred tax assets	40J	-	22,888	**22,888**
Total non-current assets		2,098,929	(176,438)	**1,922,491**
Current assets				
Inventories	40B & 40F	1,764,507	(40,807)	**1,723,700**
Accounts receivable	40F & 40M	1,645,943	17,746	**1,663,689**
Advances, other receivables and prepayments	40F & 40M	236,093	(14,805)	**221,288**
Current portion of net investment in finance lease		19,904	-	**19,904**
Amounts due from related parties	40M	38,651	(38,651)	**-**
Value of work executed in excess of billings		284,009	-	**284,009**
Cash and cash equivalents	40F	355,424	(2,612)	**352,812**
Total current assets		4,344,531	(79,129)	**4,265,402**
TOTAL ASSETS		6,443,460	(255,567)	**6,187,893**
EQUITY AND LIABILITIES				
Equity				
Share capital		600,000	-	**600,000**
Statutory reserve		280,471	-	**280,471**
Retained earnings	40.1.1	955,036	(161,829)	**793,207**
Foreign currency translation reserve	40G	(10,361)	10,361	**-**
Proposed dividends	40M	60,000	(60,000)	**-**
Equity attributable to the shareholders of the parent company		1,885,146	(211,468)	**1,673,678**
Non-controlling interests	40H	265,878	(44,379)	**221,499**
Total equity		2,151,024	(255,847)	**1,895,177**
Non-current liabilities				
Term loans		313,338	-	**313,338**
Employees' defined benefit liabilities	40I	356,558	(2,511)	**354,047**
Deferred tax liabilities	40J		4,647	**4,647**
Total non-current liabilities		669,896	2,136	**672,032**
Current liabilities				
Accounts payable	40F & 40M	520,787	21,332	**542,119**
Accruals and provisions	40F	519,442	(1,631)	**517,811**
Amounts due to related parties	40M	21,332	(21,332)	**-**
Short term loans		1,956,147	-	**1,956,147**
Current portion of term loans		138,350	-	**138,350**
Billings in excess of value of work executed		94,876	-	**94,876**
Advances from customers	40F	312,885	(225)	**312,660**
Zakat and income tax provision		58,721	-	**58,721**
Total current liabilities		3,622,540	(1,856)	**3,620,684**
Total liabilities		4,292,436	280	**4,292,716**
TOTAL EQUITY AND LIABILITIES		6,443,460	(255,567)	**6,187,893**

40 FIRST-TIME ADOPTION OF IFRS (continued)

40.1 Group's reconciliation for statement of financial position as at 1 January 2016 (date of transition to IFRS) (continued)

40.1.1 Reconciliation of equity

	Notes	*Saudi GAAP*	*Re-measurements*	*IFRS*
		SR'000	*SR'000*	*SR'000*
Share capital		600,000	-	**600,000**
Statutory reserve		280,471	-	**280,471**
Retained earnings	40.1.2	955,036	(161,829)	**793,207**
Foreign currency translation reserve	40G	(10,361)	10,361	**-**
Proposed dividends	40M	60,000	(60,000)	**-**
		1,885,146	(211,468)	**1,673,678**
Non-controlling interests	40H	265,878	(44,379)	**221,499**
Total equity		2,151,024	(255,847)	**1,895,177**

40.1.2 Reconciliation of retained earnings

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

	Notes	*Cumulative impact on retained earnings at 1 January 2016*
		SR'000
Impairment loss on property, plant and equipment	40A	**(152,755)**
Depreciation of property, plant and equipment	40B	**(3,934)**
Componentization of property, plant and equipment	40C	**(13,684)**
Impairment loss on investments in associates	40D	**(61,556)**
Group share in IFRS remeasurement adjustments in associates	40E	**267**
Net assets of a deconsolidated subsidiary	40F	**(46,220)**
Investment in a joint venture	40F	**24,947**
Foreign currency translation reserve	40G	**(10,361)**
Non-controlling interests	40H	**44,379**
Employees' defined benefit liabilities	40I	**1,735**
Recognition of deferred tax liability related to a foreign shareholder in a subsidiary	40J	**(4,647)**
Reclassification of proposed dividends	40M	**60,000**
		(161,829)

40 FIRST-TIME ADOPTION OF IFRS (continued)

40.2 Group's reconciliation for statement of financial position as at 31 December 2016

	Notes	*Saudi GAAP SR'000*	*Re-measurements / Reclassifications SR'000*	*IFRS SR'000*
ASSETS				
Non-current assets				
Property, plant and equipment	40A, 40B, 40C	1,282,181	(149,398)	**1,132,783**
Other intangible assets		6,016	-	**6,016**
Investments in associates and a joint venture	40D, 40E & 40F	88,936	(9,622)	**79,314**
Available-for-sale investments		88,346	-	**88,346**
Net investments in finance lease		384,945	-	**384,945**
Amounts due from a related party	40M	33,850	(33,850)	**-**
Goodwill	40K	80,126	(59,000)	**21,126**
Deferred tax assets	40J	-	4,957	**4,957**
Total non-current assets		1,964,400	(246,913)	**1,717,487**
Current assets				
Inventories	40B & 40F	1,485,392	(32,632)	**1,452,760**
Accounts receivable	40F & 40M	1,798,033	63,235	**1,861,268**
Advances, other receivables and prepayments	40F & 40M	228,785	(5,100)	**223,685**
Current portion of net investment in finance lease		20,765	-	**20,765**
Amounts due from related parties	40M	69,516	(69,516)	**-**
Value of work executed in excess of billings		262,266	-	**262,266**
Cash and cash equivalents	40F	275,614	(3,221)	**272,393**
Total current assets		4,140,371	(47,234)	**4,093,137**
TOTAL ASSETS		6,104,771	(294,147)	**5,810,624**
EQUITY AND LIABILITIES				
Equity				
Share capital		600,000	-	**600,000**
Statutory reserve		300,000	-	**300,000**
Retained earnings	40.2.1	1,014,929	(213,110)	**801,819**
Foreign currency translation reserve	40G	(35,087)	11,467	**(23,620)**
Proposed dividends	40M	60,000	(60,000)	**-**
Equity attributable to the shareholders of the parent company		1,939,842	(261,643)	**1,678,199**
Non-controlling interests	40H	248,994	(39,010)	**209,984**
Total equity		2,188,836	(300,653)	**1,888,183**
Non-current liabilities				
Term loans		195,246	-	**195,246**
Employees' defined benefit liabilities	40I	327,386	1,670	**329,056**
Deferred tax liabilities	40J	-	5,458	**5,458**
Total non-current liabilities		522,632	7,128	**529,760**
Current liabilities				
Accounts payable,	40F & 40M	344,700	20,059	**364,759**
Accruals and provisions	40F	479,061	(556)	**478,505**
Amounts due to related parties	40M	20,059	(20,059)	**-**
Short term loans		2,059,749	-	**2,059,749**
Current portion of term loans		141,088	-	**141,088**
Billings in excess of value of work executed		58,288	-	**58,288**
Advances from customers	40F	234,937	(66)	**234,871**
Zakat and income tax provision		55,421	-	**55,421**
Total current liabilities		3,393,303	(622)	**3,392,681**
Total liabilities		3,915,935	6,506	**3,922,441**
TOTAL EQUITY AND LIABILITIES		6,104,771	(294,147)	**5,810,624**

40 FIRST-TIME ADOPTION OF IFRS (continued)

40.2 Group's reconciliation for statement of financial position as at 31 December 2016 (continued)

40.2.1 Reconciliation of equity

	Notes	Saudi GAAP SR'000	Re-measurements SR'000	IFRS SR'000
Share capital		600,000	-	**600,000**
Statutory reserve		300,000	-	**300,000**
Retained earnings	40.2.2	1,014,929	(213,110)	**801,819**
Foreign currency translation reserve	40G	(35,087)	11,467	**(23,620)**
Proposed dividends	40M	60,000	(60,000)	**-**
		1,939,842	(261,643)	**1,678,199**
Non-controlling interests		248,994	(39,010)	**209,984**
Total equity		2,188,836	(300,653)	**1,888,183**

40.2.2 Reconciliation of retained earnings

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

	Notes	Impact on retained earnings at 1 January 2016 SR'000	Impact on comprehensive income for the year ended 31 December 2016 SR'000	Cumulative impact on retained earnings at 31 December 2016 SR'000
Impairment loss on property, plant and equipment	40A	(152,755)	58	**(152,697)**
Depreciation of property, plant and equipment	40B	(3,934)	12,274	**8,340**
Componentization of property, plant and equipment	40C	(13,684)	135	**(13,549)**
Impairment loss on investments in associates	40D	(61,556)	-	**(61,556)**
Group share in IFRS remeasurement adjustments in associates	40E	267	(219)	**48**
Net assets of a deconsolidated subsidiary	40F	(46,220)	-	**(46,220)**
Investment in a joint venture	40F	24,947	-	**24,947**
Foreign currency translation reserve	40G	(10,361)	-	**(10,361)**
Non-controlling interests	40H	44,379	520	**44,899**
Employees' defined benefit liabilities	40I	1,735	(4,238)	**(2,503)**
Recognition of deferred tax liability related to a foreign shareholder in a subsidiary	40J	(4,647)	(811)	**(5,458)**
Impairment loss on goodwill	40K	-	(59,000)	**(59,000)**
Reclassification of proposed dividends	40M	60,000	-	**60,000**
		(161,829)	(51,281)	**(213,110)**

40.3 Group's reconciliation for statement of cash flows for the year ended 31 December 2016

	Saudi GAAP SR'000	Re-measurements SR'000	IFRS SR'000
Net cash from operating activities	172,807	(11,932)	**160,875**
Net cash used in investing activities	(108,040)	5,147	**(102,893)**
Net cash used in financing activities	(136,477)	4,194	**(132,283)**
Decrease in cash and equivalents	(71,710)	(2,591)	**(74,301)**

40 FIRST-TIME ADOPTION OF IFRS (continued)

40.4 Group's reconciliation of statement comprehensive income for the year ended 31 December 2016

	Notes	*Saudi GAAP SR'000*	*Re-measurements SR'000*	*IFRS SR'000*
REVENUES				
Sales	40F	4,003,482	(21,418)	**3,982,064**
Contracts revenue		929,492	-	**929,492**
Finance lease income		17,674	-	**17,674**
		4,950,648	(21,418)	**4,929,230**
DIRECT COSTS				
Cost of sales	40A, 40F & 40M	(3,004,667)	(120,623)	**(3,125,290)**
Contracts costs	40A & 40M	(736,731)	3,862	**(732,869)**
		(3,741,398)	(116,761)	**(3,858,159)**
GROSS PROFIT		1,209,250	(138,179)	**1,071,071**
EXPENSES				
Selling and distribution	40F & 40M	(425,727)	129,842	**(295,885)**
General and administration	40F & 40M	(459,681)	18,052	**(441,629)**
OPERATING INCOME		323,842	9,715	**333,557**
Share in results of associates and a joint venture	40E & 40F	(4,404)	(1,895)	**(6,299)**
Other income, net	40F & 40M	37,784	(875)	**36,909**
Financial charges	40M	(95,502)	(1,886)	**(97,388)**
Impairment loss on non-current assets	40K	(32,469)	(59,000)	**(91,469)**
INCOME BEFORE ZAKAT AND INCOME TAX		229,251	(53,941)	**175,310**
Zakat and income tax		(26,932)	-	**(26,932)**
Deferred tax	40J & 40M	(16,192)	72	**(16,120)**
NET INCOME FOR THE YEAR		186,127	(53,869)	**132,258**
OTHER COMPREHENSIVE INCOME FOR THE YEAR				
Other comprehensive income to be reclassified to income in subsequent periods:				
Exchange differences on translation of foreign operations		-	(23,620)	**(23,620)**
Net other comprehensive income to be reclassified to income in subsequent periods		**-**	(23,620)	**(23,620)**
Other comprehensive income not to be reclassified to income in subsequent periods:				
Actuarial gains on defined benefit schemes		-	2,251	**2,251**
Share in other comprehensive income of an associate	40E	-	(88)	**(88)**
Net other comprehensive income not to be reclassified to income in subsequent periods		-	2,163	**2,163**
Other comprehensive income for the year		-	(21,457)	**(21,457)**
TOTAL COMPREHENSIVE INCOME		186,127	(75,326)	**110,801**
ATTRIBUTABLE TO:				
Shareholders' of the parent company		201,022	(76,501)	**124,521**
Non-controlling interests		(14,895)	1,175	**(13,720)**
		186,127	(75,326)	**110,801**

40 FIRST-TIME ADOPTION OF IFRS (continued)

40A. Impairment of property, plant and equipment

Under Saudi GAAP, long-lived assets were reviewed for impairment when events or changes in circumstances indicated that their carrying value may exceed the recoverable amount. For the purposes of assessing impairment, assets were grouped at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets. If the estimated undiscounted cash flows for the asset group were less than the asset group's carrying amount, the impairment loss was measured as the excess of the carrying value over recoverable amount (higher of discounted future cash flows or fair value). Under IFRS, impairment of assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, is assessed at the CGU level based on the CGU's recoverable amount. Impairment loss is measured as the excess of carrying value over recoverable amount (fair value less cost of disposal or value in use i.e. discounted future cash flows).

At the date of transition to IFRS, as a result of the changes in methodology, the Group determined that the recoverable amount of property, plant and equipment of its certain subsidiaries, which is considered a CGU, was less than its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rates ranging from 12.4% to 15.6%, depending on the subsidiary owning the asset. This resulted in an impairment loss of SR 152,755 thousands being recognised as at 1 January 2016. This amount has been recognised against retained earnings. Additionally, depreciation for the year ended 31 December 2016 was reduced by SR 13,376 thousands. During the year ended 31 December 2016, impairment losses of SR 58 thousands were reversed upon disposal of certain assets which were impaired at 1 January 2016 upon transition to IFRS.

40B. Depreciation of property, plant and equipment

Under Saudi GAAP, the Group recognised the spare parts, stand-by equipment and servicing equipment as inventories and these were not depreciated. As a result of additional guidance under IFRS, such equipment are recognised as property, plant and equipment and are depreciated over their estimated useful life when they meet the definition of property, plant and equipment. At the date of transition to IFRS, an amount of SR 3,473 (31 December 2016: SR 2,371 thousands) was reclassified to property, plant and equipment net of accumulated depreciation. At the transition date resultant depreciation of SR 3,934 thousands have been charged to retained earnings. Depreciation charge on such assets for the year ended 31 December 2016 amounting to SR 1,102 thousands was charged to consolidated statement of income.

40C. Componentization of property, plant and equipment

Under IAS 16 property, plant and equipment should be componentized and their useful lives identified separately. Such componentization practice was not followed generally by companies in Kingdom of Saudi Arabia. As part of transition to IFRS as endorsed in KSA, the Group has applied the concept of assets components and accounted for its impact on the useful lives, which resulted in an additional depreciation charge on property, plant and equipment of SR 13,684 thousands at 1 January 2016. This amount has been recognised against retained earnings. Additionally, depreciation for the year ended 31 December 2016 was reduced by SR 135 thousands.

40D. Impairment on investment in associates

Under Saudi GAAP, investment in associates were reviewed for impairment when events or changes in circumstances indicated that their carrying value may exceed the recoverable amount sum of the undiscounted future cash flows expected from use and eventual disposal. For the purposes of assessing impairment, assets were grouped at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets. If the estimated undiscounted cash flows for the asset group were less than the asset group's carrying amount, the impairment loss was measured as the excess of the carrying value over recoverable amount (higher of discounted future cash flows or fair value). Under IFRS, impairment of assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, is assessed at the CGU level based on the CGU's recoverable amount, impairment loss is measured as the excess of the carrying value over recoverable amount (fair value less cost of disposal or value in use (discounted future cash flows)). At the date of transition to IFRS, as a result of the changes in methodology, the Group determined that the recoverable amount in its investment in an associate, which is considered a CGU, was less than its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rate of 12.4%. This resulted in an impairment loss of SR 61,556 thousands being recognised as at 1 January 2016. This amount has been recognised against retained earnings.

40 FIRST-TIME ADOPTION OF IFRS (continued)

40E. IFRS remeasurement adjustments in associates

The Group has investment in associates and it accounts for such investments under equity accounting. Until the year ended 31 December 2015, one of the associate, Rabiah Nassar & Zamil Concrete Industries Company Limited (RANCO), prepared its financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. Beginning 1 January 2017 onwards the Group would be required to prepare its financial statements in accordance with the IFRS and accordingly the management of the associate has also decided to prepare its financial statements under IFRS. In this regard, a preliminary special-purpose opening IFRS statement of financial position have been prepared as part of the associate's conversion to International Financial Reporting Standards (IFRS) and remeasurement adjustments amounting to SR 533 thousands were made in the preliminary opening statement of financial position of the associate at the transition date i.e. 1 January 2016.

The Group owns 50% equity interest in the investee company and accordingly it has recorded an amount of SR 267 thousands in its books to account for its share related to such remeasurement adjustments. This amount has been recognised against retained earnings. Additionally, the Group's share in the preliminary IFRS remeasurement adjustments in the books of the associate for the year ended 31 December 2016 amounting to SR 219 thousands was charged to consolidated statements of income and other comprehensive income.

40F. Deconsolidation of a subsidiary

Under Saudi GAAP, the Group was including the assets, liabilities and results of operations of a joint venture (Middle East Air Conditioners) in its consolidated financial statements on the assumption that it controls the entity as it owns 51% voting rights in it. Under IFRS, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee-
- The ability to use its power over the investee to affect its returns

As a result of management assessment under additional guidance available in IFRS, the Group has determined that it does not control the joint venture even though it owns more than 50% of the voting rights. This is because the Group cannot exercise its voting rights to take major operational decisions and all such decisions are subject consent and approval of other partner that owns the remaining 49% of the equity interest in the investee company. Accordingly, no assets, liabilities and the results of operations of this investee company have been included in the consolidated financial statements and it has been considered as an investment in a joint venture and results of the operations have been accounted for using equity method of accounting. Details of net book value of the investee company at 1 January 2016 and 31 December 2016 was as follows:

	31 December 2016 SR '000	*1 January 2016 SR '000*
Property and equipment	5	18
Inventories	25,225	33,400
Accounts receivable	16,881	26,570
Other receivables and prepayments	143	108
Bank balances and cash	3,221	2,612
Employees' terminal benefits	(833)	(776)
Accounts payable, accruals and provisions	(556)	(1,631)
Advances from customers	(66)	(225)
Amounts due to related parties	(10,600)	(13,856)
	33,420	46,220

An amount of SR 24,947 thousands representing Group's share in the investment have been recognised as investment in a joint venture in the consolidated statement of financial position on account of Group's share in this investee company as at 1 January 2016 after incorporating IFRS remeasurement adjustments to the net book value under Saudi GAAP. The amount has been recognised in retained earnings.

40 FIRST-TIME ADOPTION OF IFRS (continued)

40F. Deconsolidation of a subsidiary (continued)

The results of the operations of this investee company for the year ended 31 December 2016 was as follows:

	For the year ended 31 December 2016 SR '000
Sales	32,704
Cost of sales	(31,325)
Gross profit	1,379
Selling and distribution expenses	(2,457)
General and administration expenses	(2,431)
Operating loss	(3,509)
Other income, net	50
Net loss for the year	(3,459)

The above results of the operations of this investee company have been excluded from the consolidated financial statements of the Group for the year ended 31 December 2016 prepared under IFRS. However, share in losses of the investee company for the year ended 31 December 2016 amounting to SR 1,764 thousands have been recognised in the consolidated statement of income.

40G. Foreign currency translation

Under Saudi GAAP, the Group recognised translation differences on foreign operations in a separate component of equity. Under IFRS, the Group has applied first time adoption exemption to reset the cumulative translation differences to nil on the transition date i.e. 1 January 2016. The resulting adjustment was recognised against retained earnings. Moreover, IFRS re-measurement adjustments in foreign subsidiaries for the year ended 31 December 2016 resulted in a decrease of SR 1,106 thousands in translation losses related to such subsidiaries.

40H. Non-controlling interest

As part of the Group's conversion to International Financial Reporting Standards (IFRS), the Group's opening IFRS statement of financial position has been prepared as at 1 January 2016, the Group's date of transition to IFRS. In this regard certain remeasurement adjustments have been made in upon first time adoption of IFRS. Accordingly, non-controlling interest have also been remeasured on account of share of remeasurement adjustments related subsidiaries containing to non-controlling interest. Remeasurement adjustments related to non-controlling interests at 1 January 2016 were as follows:

	1 January 2016 SR '000
Derecognition of non-controlling interest of Middle East Air Conditioners on it deconsolidation at transition date	21,274
IFRS re-measurement adjustments related to non-controlling interests	18,458
Recognition of deferred tax liability related to non-controlling interest	4,647
	44,379

Additionally, IFRS re-measurement adjustments attributable to non-controlling interest for the year ended 31 December 2016 amounting to SR 520 thousands have been recognised in the consolidated statement of comprehensive income.

40 FIRST-TIME ADOPTION OF IFRS (continued)

40I. Defined benefit obligation

Under the Saudi GAAP, the Group was required to recognize the provision for employees' end-of-service benefits for the amounts payable at the statement of financial position date in accordance with the employees' contracts of employment applicable to employees' accumulated periods of service.

However under IAS 19, the Company is required to recognize an amount of a liability that equals to the net amount of present value of the defined benefit obligation, deferred actuarial gains and losses, deferred past service costs and the fair value of any plan assets at statement of financial position.

Accordingly, the Group has restated employees' end-of-service benefits as at 1 January 2016 and 31 December 2016. The impact of restatement which pertains to 2015 and periods prior to 2015, has been charged to opening retained earnings as at 1 January 2016.

40J. Deferred tax

Under IFRS, deferred tax asset or liability is recognized on net taxable / deductible temporary differences to the extent of expected income tax arising on foreign partners' share of income of the Group. The various transitional adjustments lead to different temporary differences. According to the accounting policies, the Group has to account for such differences. Deferred tax adjustments are recognised in correlation to the underlying transaction either in retained earnings, a separate component of equity or consolidated statement of income.

40K. Goodwill impairment

Under Saudi GAAP, goodwill were reviewed for impairment by assessing the recoverable amount (sum of the undiscounted future cash flows) of each CGU (or group of CGUs) to which the goodwill relates to, annually or when events or changes in circumstances indicated that their carrying value may exceed the recoverable amount. For the purposes of assessing impairment, assets were grouped at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets. If the estimated undiscounted cash flows for the asset group were less than the asset group's carrying amount, the impairment loss was measured as the excess of the carrying value over recoverable amount (higher of discounted future cash flows or fair value). Under IFRS, impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Impairment loss is measured as the excess of the carrying value over recoverable amount (higher of fair value less cost of disposal or value in use i.e. discounted future cash flows). At 31 December 2016 upon conversion to IFRS, as a result of the changes in methodology, the Group determined the recoverable amount of the cash-generating unit to which the goodwill relates is less than their carrying amount, accordingly an impairment loss was recognised. The recoverable amount was based on the CGU's value in use using a pre-tax discount rates of 11.7% to 12.48%%. This resulted in an impairment loss of SAR 59 million against goodwill being recognised as at 31 December 2016. This amount has been recognised in the consolidated statement of income.

40L. Board of directors' remuneration

Under Saudi GAAP, accepted practice was to charge the Directors' remuneration in the statement of changes in equity, However under IFRS, amounts of Directors' remuneration should be charged to consolidated statement of income. Accordingly, directors' remuneration for the year ended 31 December 2016 amounting to SR 1,600 thousands have been recognised through consolidated statement of income.

40M. Others

In addition to above IFRS adoption adjustments, certain items in the consolidated statements of financial position and income have been reclassified to meet the presentation and disclosure requirements in accordance with IFRS as endorsed in KSA, which have not resulted in any additional impact on equity or net income for comparative figures.

41 SUBSEQUENT EVENTS

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2017 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.