

**ALUJAIN CORPORATION  
(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2015**

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF ALUJAIN CORPORATION (A SAUDI JOINT STOCK COMPANY)**

### **Scope of audit**

We have audited the accompanying consolidated balance sheet of Alujain Corporation (A Saudi Joint Stock Company) ("the Company" or "the Parent Company") and its subsidiaries ("the Group") as at 31 December 2015, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

### **Unqualified opinion**

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

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's Bylaws in so far as they effect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Ahmed I. Reda  
Certified Public Accountant  
Licence No. 356



7 Jumada Al-Ula 1437H  
16 February 2016

Jeddah

ALUJAIN CORPORATION (A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

At 31 December 2015

	Note	2015 SR'000	2014 SR'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		308,426	408,752
Murabaha investments		6,000	-
Accounts receivable	4	199,059	316,916
Prepayments and other receivables	5	52,345	77,956
Amounts due from related parties	6	37,894	16,994
Inventories	7	253,119	285,504
<b>TOTAL CURRENT ASSETS</b>		<b>856,843</b>	<b>1,106,122</b>
<b>NON-CURRENT ASSETS</b>			
Investments	8	134,220	37,470
Deferred charges	9	9,891	16,138
Property, plant and equipment	10	2,285,802	2,329,283
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,429,913</b>	<b>2,382,891</b>
<b>TOTAL ASSETS</b>		<b>3,286,756</b>	<b>3,489,013</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable		94,856	118,045
Accruals and other liabilities	11	156,908	200,084
Amounts due to related parties	6	507	1,332
Short-term loans	12	-	73,221
Current portion of long term loans	13	260,180	231,860
Provision for zakat	14	12,794	22,094
<b>TOTAL CURRENT LIABILITIES</b>		<b>525,245</b>	<b>646,636</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term loans	13	944,265	1,198,530
Derivative financial instruments	15	10,120	36,646
Employees' terminal benefits		27,019	22,978
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>981,404</b>	<b>1,258,154</b>
<b>TOTAL LIABILITIES</b>		<b>1,506,649</b>	<b>1,904,790</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Equity attributable to the shareholders of the Parent Company</b>			
Share capital	16	692,000	692,000
Statutory reserve	17	50,631	39,993
Retained earnings		299,838	204,090
Cumulative changes in fair values of derivatives		(4,987)	(18,584)
<b>Total equity attributable to the shareholders of the Parent Company</b>		<b>1,037,482</b>	<b>917,499</b>
Non-controlling interest		742,625	666,724
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,780,107</b>	<b>1,584,223</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>3,286,756</b>	<b>3,489,013</b>

The attached notes 1 to 28 form part of the consolidated financial statements.

Alujain Corporation (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2015

	<i>Note</i>	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Sales		<b>1,460,503</b>	2,132,699
Cost of sales		<b>(1,087,003)</b>	(1,698,541)
<b>GROSS PROFIT</b>		<b>373,500</b>	434,158
<b>EXPENSES</b>			
Selling and distribution	18	<b>(19,517)</b>	(21,773)
General and administration	19	<b>(58,170)</b>	(56,391)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>295,813</b>	355,994
<b>OTHER (EXPENSES) / INCOME</b>			
Financial charges		<b>(60,002)</b>	(69,546)
Share in loss of joint ventures	8(a)	<b>(12,291)</b>	(10,000)
Project research cost		<b>(6,984)</b>	(6,453)
Amortization of other deferred charges	9	<b>(6,247)</b>	(6,247)
Amortization of deferred financial charges	13(c)	<b>(5,915)</b>	(5,915)
Impairment of available-for-sale investments	8(c)	<b>(1,389)</b>	(744)
Insurance compensation	20	-	51,079
Changes in fair value of derivatives financial instruments		<b>2,840</b>	4,274
Foreign currency exchange (loss)/ gain		<b>(7)</b>	516
Other income		<b>1,492</b>	1,582
<b>INCOME BEFORE ZAKAT AND NON-CONTROLLING INTEREST</b>		<b>207,310</b>	314,540
Zakat	14	<b>(12,322)</b>	(14,953)
<b>INCOME BEFORE NON-CONTROLLING INTEREST</b>		<b>194,988</b>	299,587
Income attributable to non-controlling interest		<b>(88,602)</b>	(132,206)
<b>NET INCOME FOR THE YEAR</b>		<b>106,386</b>	167,381
<b>EARNINGS PER SHARE</b>			
Weighted average number of ordinary shares outstanding (in thousand)	16	<b>69,200</b>	69,200
Earnings per share on income from main operations (in SR per share)	21	<b>4.27</b>	5.14
Earnings per share on net income for the year (in SR per share)	21	<b>1.54</b>	2.42

The attached notes 1 to 28 form part of the consolidated financial statements.

Alujain Corporation (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Note	2015 SR'000	2014 SR'000
<b>OPERATING ACTIVITIES</b>			
Net income for the year		106,386	167,381
Adjustments for:			
Depreciation	10	197,329	171,144
Amortization of other deferred charges	9	6,247	6,247
Amortization of deferred financial charges	13(c)	5,915	5,915
Impairment of available for sale investments	8(c)	1,389	744
Gain on disposal of property and equipment		(103)	(172)
Zakat provision	14	12,322	14,953
Income attributable to non-controlling interest		88,602	132,206
Financial charges		60,002	69,546
Provision for employees' terminal benefits		5,918	5,783
Changes in fair value of derivatives financial instruments		(2,840)	(4,274)
Income from investments in Murabaha		(32)	(75)
Share in loss of joint ventures	8(a)	12,291	10,000
		<u>493,426</u>	<u>579,398</u>
Changes in operating assets and liabilities			
Accounts receivable		117,857	2,494
Prepayments and other receivables		18,472	(23,429)
Amounts due from related parties		(26,900)	(1,017)
Inventories		32,385	27,681
Accounts payable		(23,189)	(11,191)
Accruals and other payables		(43,176)	(13,327)
Amounts due to related parties		(825)	(1,939)
Cash from operations		<u>568,050</u>	<u>558,670</u>
Financial charges paid		(60,002)	(69,546)
Zakat paid	14	(14,483)	(8,447)
Employees' terminal benefits paid		(1,877)	(2,001)
Net cash from operating activities		<u>491,688</u>	<u>478,676</u>
<b>INVESTING ACTIVITIES</b>			
Investments		(104,430)	-
Net movement in Murabaha investments		(5,968)	15,075
Proceeds from disposal of property and equipment		327	196
Purchase of property, plant and equipment	10	(154,072)	(43,698)
Net cash used in investing activities		<u>(264,143)</u>	<u>(28,427)</u>

The attached notes 1 to 28 form part of the consolidated financial statements.

Alujain Corporation (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2015

	<i>Note</i>	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
<b>FINANCING ACTIVITIES</b>			
Repayment of long term loans		(231,860)	(244,670)
Net movement in short-term loans		(73,221)	(69,275)
Net movement in non-controlling interest		(22,790)	1,767
Net cash used in financing activities		<u>(327,871)</u>	<u>(312,178)</u>
<b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(100,326)</b>	<b>138,071</b>
Cash and cash equivalents at beginning of the year		<u>408,752</u>	<u>270,681</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b><u>308,426</u></b>	<b><u>408,752</u></b>
<b>SUPPLEMENTAL NON-CASH INFORMATION</b>			
Share of loss of a joint venture absorbed during the year	8(a)	<u>6,000</u>	<u>-</u>
Provision for zakat settled against margin deposit	14	<u>7,139</u>	<u>-</u>

The attached notes 1 to 28 form part of the consolidated financial statements.

Alujain Corporation (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2015

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS' OF THE PARENT COMPANY

	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Retained earnings SR'000</i>	<i>Cumulative changes in fair values of derivatives SR'000</i>	<i>Total SR'000</i>
Balance at 31 December 2013	692,000	23,255	53,447	(20,963)	747,739
Net income for the year	-	-	167,381	-	167,381
Transfer to statutory reserve	-	16,738	(16,738)	-	-
Fair value adjustments	-	-	-	2,379	2,379
Balance at 31 December 2014	692,000	39,993	204,090	(18,584)	917,499
Net income for the year	-	-	106,386	-	106,386
Transfer to statutory reserve	-	10,638	(10,638)	-	-
Fair value adjustments	-	-	-	13,597	13,597
<b>Balance at 31 December 2015</b>	<b>692,000</b>	<b>50,631</b>	<b>299,838</b>	<b>(4,987)</b>	<b>1,037,482</b>

The attached notes 1 to 28 form part of the consolidated financial statements.

**ALUJAIN CORPORATION (A Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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At 31 December 2015

**1 ACTIVITIES**

Alujain Corporation (the "Company" or "Parent Company") is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia under Ministerial Decision No. 694, dated 15 Jamad Thani 1412H, corresponding to 21 December 1991. The Company obtained its Commercial Registration No. 4030084538 on 3 Rajab 1412H, corresponding to 7 January 1992. The Parent Company is listed on the Saudi Stock Exchange.

The objectives of the Parent Company are to promote and invest in metal and petrochemical industries and other industrial projects.

The head office of the Company is located in Jeddah and no branches registered under Company's commercial registration.

During the year, the subsidiary company's ("NATPET") Propylene and Polypropylene Complex in Yanbu Industrial City remained shut down for a period of 32 days started 22 January 2015 for planned turnaround procedures.

**2 BASIS OF PREPARATION AND CONSOLIDATION**

**2.1 BASIS OF PREPARATION**

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (hereinafter referred to together as the "Group"). All material inter-group transactions and balances have been eliminated on consolidation.

The consolidated financial statements are expressed in Saudi Riyals, being the functional currency of the Parent Company and have been rounded off to the nearest thousand Saudi Riyals, unless otherwise specified.

**2.2 BASIS OF CONSOLIDATION**

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary, National Petrochemical Industrial Company – a Closed Saudi Joint Stock Company ("NATPET"), (collectively "the Group") in which the Company owns 57.40% (31 December 2014: 57.40%) ownership interest. NATPET is in the business of manufacturing and selling polypropylene. NATPET polypropylene (PP) complex in Yanbu industrial city commenced commercial production on 6 August 2010.

All material inter-group transactions and balances have been eliminated on consolidation.

The consolidated statement of income in these consolidated financial statements includes the results of operations of NATPET, for year then ended, and the consolidated balance sheet includes the assets and liabilities of NATPET, as at 31 December 2015. The Parent Company has control over the operations and management of NATPET. Hence, NATPET has been considered as a subsidiary and consolidated in these consolidated financial statements.

**Subsidiary**

Subsidiary is a company in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts control. Subsidiaries are consolidated from the date the Group obtains control until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation.

Non-controlling interests represent 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 income and within equity in the consolidated balance sheet, separately from Parent Company's shareholders' equity.



### 3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

The significant accounting policies adopted are as follows:

#### **Accounting convention**

The financial statements have been prepared under the historical cost convention on the accrual basis of accounting modified for derivative financial instruments which are stated at fair value.

The significant accounting policies adopted are as follows:

#### **Use of estimate**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

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

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three-months or less from the purchase date, if any.

#### **Accounts receivable**

Accounts receivable are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Any subsequent recoveries of amounts previously written-off are credited in the consolidated statement of income.

#### **Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products include the cost of raw materials, labour and production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Allowance is made whenever necessary for obsolete and slow moving inventories.

#### **Investment in associates**

The Group's investment in associates is accounted for under the equity method of accounting. An associate is an entity over which the Group exercises significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted by the changes in the Group's share of net assets of the associate. The consolidated statement of income reflects the share of the results of operation of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any change and discloses this, when applicable, in the consolidated statement of changes in shareholder's equity. Unrealised profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of interest in an associate. When the Group's share of losses in associate equals or exceeds its interest in the joint ventures, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The financial statements of the associates are prepared for the same period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

#### **Investment in joint venture**

Investments in joint venture are accounted for using the equity method of accounting and are initially recognized at cost. The Group's share of its joint ventures post-acquisition income or losses is recognized in the consolidated statement of income and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in joint ventures equals or exceeds its interest in the joint ventures, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Available-for-sale investments

Investments which are neither bought with the intention of being held to maturity nor for trading purposes are classified as available for sale and included under non-current assets unless they are intended to be sold in the next fiscal year. These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

- Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and
- Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows. If the fair value as mentioned above is not available, the cost shall be the most appropriate, subjective and reliable alternative for the fair value of the securities. Accordingly, the Group carries unquoted securities at cost less impairment.

Cumulative adjustments arising from revaluation of these investments, if any, are reported as separate component of equity as fair value reserve until the investment is disposed.

#### Murabaha investments

Murabaha investments include investment with banks and other short-term highly liquid investments with original maturities of three months or more but not more than one year from the purchase date.

#### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

Expenditure for repair and maintenance are charged to consolidated statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

The cost of planned turnaround are deferred and amortized over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of the planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such cost.

#### Deferred charges

Costs that are not of benefit beyond the current period are charged to the consolidated statement of income, while costs that will benefit future periods are capitalized. Deferred charges, in the consolidated balance sheet, include certain indirect construction costs which are amortized over periods which do not exceed seven years.

#### Projects under study

Projects under study are stated at cost and are provided for to the extent that they may not be recoverable on the basis of a review of each project and an assessment of the outcome. Project costs are written off when a project is no longer considered viable.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment of non-financial assets**

Non-financial assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on intangible assets are not reversible.

#### **Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

#### **Derivative financial instruments and hedging**

The Group uses derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations and such derivative financial instruments are classified as cash flow hedges. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the consolidated statement of income.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documents include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for by taking the gain or loss on the effective portion of the hedging instrument directly in equity, while any ineffective portion is recognized immediately in the consolidated statement of income.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss such as when the hedged financial income or financial expense is recognized.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in equity remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to consolidated statement of income.

At 31 December 2015

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Borrowings**

Borrowings are recognized equivalent to the proceeds received, net of transaction costs and front end fees incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated statement of income. Upfront fee paid on borrowings is amortized over term of the loan.

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

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

#### **Provisions**

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

#### **Zakat**

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the consolidated statement of income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

The Group withhold taxes on certain transactions with non- resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income tax law.

#### **Operating leases**

Rental expenses under operating leases are charged to the consolidated statement of income over the period of the respective lease.

#### **Foreign currency transactions**

Foreign currency transactions are translated into Saudi Riyal using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income, except for the qualify cash flow hedge.

#### **Employees' end of service benefits**

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated years of service at the balance sheet date.

#### **Revenue recognition**

Revenue represents the invoiced value of goods supplied by the Group during the year. Revenue from sales of goods are recognized when the significant risk and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue are shown net of discounts and transportation expenses.

#### **Expenses**

Selling, distribution and general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocation between selling, distribution and general and administrative expenses and production costs, when required, are made on a consistent basis.

#### **Offsetting**

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

#### **Segment reporting**

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

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**4 ACCOUNTS RECEIVABLE**

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Trade receivables	<u>199,059</u>	<u>316,916</u>

As at 31 December 2015, none of the trade receivables were impaired. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable.

**5 PREPAYMENTS AND OTHER RECEIVABLES**

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Advance to suppliers	4,943	25,274
Prepayments	13,261	20,043
Margin deposits	21,865	16,545
Customs duty receivable	9,447	12,927
Employees advance	2,829	3,167
	<u>52,345</u>	<u>77,956</u>

**6 RELATED PARTY TRANSACTIONS AND BALANCES**

The following are the details of major related party transactions during the year and the related balances at the year end:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>		<i>Balances</i>	
		<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
<i>Amounts due from related parties</i>					
<i>Affiliates</i>					
Hidada Company limited	Expenses charged by the Group	58	-	36	-
Saudi Cable Company	Sales/ expenses charged by the Group	261	422	643	382
Natpet Schulman	Expenses charged by the Group	271	-	227	-
Bonar Natpet	Sales/ expenses charged by the Group	47,285	17,077	30,988	10,149
	Loss absorption (note 8(a)(i))	6,000	-	-	-
<i>Shareholder</i>					
Safra Company Limited	Investments sold by the Parent Company	-	761	-	436
<i>Associate</i>					
Zain Industries Company	Expenses paid on behalf of affiliate	60	22	6,000	6,027
				<u>37,894</u>	<u>16,994</u>



Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

6 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Related party	Nature of transaction	Amount of transactions		Balances	
		2015 SR'000	2014 SR'000	2015 SR'000	2014 SR'000
<i>Amounts due to related parties</i>					
<i>Affiliates</i>					
Hidada Company limited	Expenses charged to the Group	-	836	-	10
Safra Company Limited	Purchase of material/ expenses charged to the Group	4,707	7,115	109	-
Xenel Industries Limited	Expenses charged to the Group	6,198	5,801	398	1,322
Board of Directors	Remunerations – Parent Company	1,747	999	-	-
	Remunerations – Subsidiary	2,481	3,521	-	-
				<u>507</u>	<u>1,332</u>

7 INVENTORIES

	2015 SR'000	2014 SR'000
Finished goods	87,328	78,254
Raw materials	39,877	76,578
Work in progress	3,115	4,877
Spare parts	122,869	125,865
	<u>253,189</u>	<u>285,574</u>
Less: Allowance for slow moving inventories (see note below)	(70)	(70)
	<u>253,119</u>	<u>285,504</u>

There is no movement in the allowance for slow moving inventories during the year.

8 INVESTMENTS

	2015 SR'000	2014 SR'000
Investment in joint venture (note 8(a))	68,826	26,937
Investment in an associate (note 8(b))	9,055	9,055
Available-for-sale investments (note 8(c))	56,339	1,478
	<u>134,220</u>	<u>37,470</u>

8(a) Investment in joint ventures consists of the following:

	2015 SR'000	2014 SR'000
Bonar Natpet Company (see note (i) below)	16,148	21,937
Natpet Schulman Specialty Plastic Compounding L.L.C. (see note (ii) below)	52,678	5,000
	<u>68,826</u>	<u>26,937</u>

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**8 INVESTMENTS (continued)**

- (i) The subsidiary company ("NATPET") has signed a joint venture agreement with an entity based in the Netherlands to set up a manufacturing plant in Yanbu to produce staple and fibre and non-woven textiles. NATPET owns a 50% stake in joint venture. The joint venture obtained its commercial registration in October 2012. The joint venture has signed a loan agreement with Saudi Industrial Development Fund (SIDF) during 2013 amounting to SR 76.6 million in order to finance the construction of its project. NATPET has provided corporate guarantee of 50% to SIDF for the loan. The movement in the investment in joint venture during the year, is as follows:

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
At 1 January	21,937	32,000
Addition during the year (see note below)	6,000	-
Share in loss of joint venture	(11,969)	(10,000)
Adjustments related to zakat charge	180	(63)
At 31 December	<u>16,148</u>	<u>21,937</u>

During the year, NATPET absorbed losses and increased its investment in Bonar Natpet by an amount of SR 6 million by transferring equivalent amount from 'Due from Bonar Natpet' (note 6).

- (ii) During 2013, the subsidiary company ("NATPET") has signed a joint venture agreement with plastic compounder based in the United States through its entity in the Netherlands to set up a manufacturing plant in Yanbu to produce polypropylene compounds. NATPET owns a 50% stake in the joint venture. The joint venture was initially registered with a capital of SR 10 million in the first quarter of 2014. However, subsequently, the joint venture increased its capital to SR 106 million and NATPET paid SR 48 million against its share of investment in the increased capital in January 2015. The joint venture obtained a commercial registration during the first quarter of 2014, however, as of 31 December 2015, the operations have not yet commenced. The joint venture has signed a loan agreement with SIDF during 2015 amounting to SR 100 million in order to finance the construction of its project. NATPET has provided corporate guarantee of 50% of the loan amount to SIDF. The movement in the investment in joint venture during the year, is as follows:

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
At 1 January	5,000	-
Additional investment during the year	48,000	5,000
Share in loss of joint venture	(322)	-
At 31 December	<u>52,678</u>	<u>5,000</u>

- 8(b) The Company's investment in an associate represents its equity ownership in Zain Industries Company (Zain). The Company has an ownership percentage of 49.38% as at 31 December 2015 (2014: 49.38%). Zain started commercial operations during late 2010. The Group does not have and never had other than temporary control over Zain, therefore, the Group never consolidated the financial statements of Zain. The share of profit/loss of the associate during the years 2015 and 2014 are insignificant to the Group.

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**8 INVESTMENTS (continued)**

8(c) Available-for-sale investments consist of the following:

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Arabian Industrial Fibers Company (Ibn Rushd) (note (i) below)	89	1,478
Siluria Technologies Company (note (ii) below)	56,250	-
	<u>56,339</u>	<u>1,478</u>
At 31 December	<u>56,339</u>	<u>1,478</u>

(i) This represents the Parent Company's investment in a Saudi Closed Joint Stock Company with 0.113% share of capital. The fair value of the investments could not be determined, therefore, this investment is accounted for at cost less impairment. The movement in the investment during the year, is as follows:

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
At 1 January	1,478	2,222
Impairment	(1,389)	(744)
	<u>89</u>	<u>1,478</u>
At 31 December	<u>89</u>	<u>1,478</u>

(ii) During the year, the subsidiary company ("NATPET") invested in Series E preference shares of a US based private entity, Siluria Technologies, for purchase consideration of USD 15 million (SR 56.25 million) and classified the investment as available-for-sale. The fair value of the investment could not be determined, therefore, investment is accounted for at cost.

**9 DEFERRED CHARGES**

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
At 1 January	16,138	22,385
Amortisation during the period	(6,247)	(6,247)
	<u>9,891</u>	<u>16,138</u>
At 31 December	<u>9,891</u>	<u>16,138</u>



Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

10 PROPERTY, PLANT AND EQUIPMENT

a) The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Plant and equipment Computer Leasehold improvements Office equipment	3 - 20 years 3 - 4 years 3-10 years 5 - 10 years	Buildings Furniture and fixtures Motor vehicles Laboratory and safety tools	Motor vehicles SR '000	Office equipment SR '000	Laboratory and safety tools SR '000	Total 2015 SR '000	Total 2014 SR '000
Cost:								
At the beginning of the year	2,996,205	34,146	4,359	7,154	2,832	788	3,069,184	3,026,875
Additions (see note below)	150,643	-	153	610	97	100	154,072	43,698
Disposals	-	-	-	(328)	(177)	-	(511)	(1,389)
Amortization (see note (a))	(116,991)	-	-	-	-	-	(116,991)	-
At the end of the year	3,029,857	34,146	4,512	7,436	2,752	888	3,105,754	3,069,184
Depreciation:								
At the beginning of the year	703,377	7,847	4,124	2,932	2,682	54	739,901	570,122
Charge for the year	192,593	1,812	113	802	73	105	197,329	171,144
Relating to disposals	-	-	-	(104)	(177)	-	(287)	(1,365)
Amortization (see note (a))	(116,991)	-	-	-	-	-	(116,991)	-
At the end of the year	778,979	9,659	4,237	3,630	2,578	159	819,952	739,901
Net book amounts:								
At 31 December 2015	2,250,878	24,487	275	3,806	174	729	2,285,802	
At 31 December 2014	2,292,828	26,299	235	4,222	150	734		2,329,283

# Alujain Corporation (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

### 10 PROPERTY, PLANT AND EQUIPMENT (continued)

- a) This relates to turnaround and catalyst cost of previous plant turnaround, fully amortized as a result of turnaround in the current year (see note 1).
- b) The plant and machinery are mortgaged with the Saudi Industrial Development Fund (SIDF) and a second charge by other commercial banks as security against the term loan received from them (see note 13).

### 11 ACCRUED AND OTHER LIABILITIES

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Accrued expenses	80,836	107,261
Accrued purchases	55,388	71,589
Advances from customers	4,505	7,914
Other liabilities	16,179	13,320
	<u>156,908</u>	<u>200,084</u>

### 12 SHORT TERM LOANS

The subsidiary company ("NATPET") has signed an agreement with the Saudi Fund for Development on August 10, 2012 for export finance facility of SR 75 million. The facility is available for a period of three years from the date of signing. No balance was outstanding as at 31 December 2015 under this facility (31 December 2014: SR 73 million).

### 13 LONG TERM LOANS

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Commercial banks' syndication (a)	777,960	854,820
Public Investment Fund (PIF) loan (b)	375,000	450,000
Saudi Industrial Development Fund (SIDF) loan (c)	40,000	120,000
Others	21,645	21,645
	<u>1,214,605</u>	<u>1,446,465</u>
Less: Deferred financial charges (c)	(10,160)	(16,075)
	<u>1,204,445</u>	<u>1,430,390</u>
Less: Current portion of long term loans	(260,180)	(231,860)
Non-current portion of long term loans	<u>944,265</u>	<u>1,198,530</u>

The maturity profile of long term loans is as follows;

Year End	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
2015	-	231,860
2016	260,180	260,180
2017	235,125	235,125
2018	275,690	275,690
2019	215,565	215,565
2020	155,045	155,045
2021	73,000	73,000
	<u>1,214,605</u>	<u>1,446,465</u>

# Alujain Corporation (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

### 13 LONG TERM LOANS (continued)

- (a) In July 2013, the subsidiary company ("NATPET") signed an Islamic Facility Agreement of SR 1 billion with a Syndication of Commercial Banks. The proceeds of this facility were used to fully repay the Islamic Bridge Facility loan of SR 974 million. The loan carries borrowing cost at commercial rates. This facility is secured through second charge on NATPET's plant and machinery. NATPET has entered into a concurrent interest rate swap contract with local commercial banks to hedge the variable interest rate cash flows on the commercial banks' syndication loan (see note 15). The term loan repayments are spread from 2013 to 2021.
- (b) The subsidiary company ("NATPET") has signed a loan agreement with Public Investment Fund (PIF) on 23 June 2008 for a loan of USD 125 million (SR 468.75 million) which was fully drawn in 2008. NATPET signed an additional loan agreement with PIF on 5 January 2010 for an amount of USD 75 million (SR 281.25 million) which was fully drawn during 2010. The term loan is repayable in 20 bi-annual repayments which started in June 2011. The facility's payment obligations rank parri passu with the claim of all NATPET's other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law.
- (c) The subsidiary company ("NATPET") has signed a loan agreement with SIDF in August 2006 for an amount of SR 400 million which was fully drawn. The SIDF loan carries upfront fees amounting to SR 30 million, which was recorded as deferred financial charges and is being amortized over the term of the loan on a straight line basis. The SIDF term loan is repayable in 13 bi-annual instalments started in July 2010 and is secured by mortgage over the fixed assets of the projects, corporate guarantees and a comfort letter.

### 14 ZAKAT

#### Charge for the year

The zakat charge for the year is based on the separate financial statements of the Parent Company and its subsidiary.

The zakat charge consists of:

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Current year provision	12,322	14,522
Adjustment for previous years	-	431
Charge for the year	<u>12,322</u>	<u>14,953</u>

#### Movements in provision during the year

The movement in the zakat provision for the year was as follows:

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
At the beginning of the year	22,094	15,588
Provided during the year	12,322	14,953
Paid during the year (see note below)	(14,483)	(8,447)
Adjusted against margin deposit	(7,139)	-
At the end of the year	<u>12,794</u>	<u>22,094</u>

**14 ZAKAT AND INCOME TAX (continued)**

**Status of assessments**

The Parent Company – Alujain Corporation (a Saudi Joint Stock Company)

The Parent Company finalized its Zakat status for the year ended 31 December 2002 and obtained the final zakat certificate.

The Parent Company filed the final Zakat returns for the years ended 31 December 2003 through 2007. The DZIT issued its assessment for the said years and claimed additional zakat differences of SR 5.4 million. The Parent Company objected the said assessments and has lodged a bank guarantee against the additional liability. The case is currently being heard by the Higher Appeal Committee (“HAC”).

The Parent Company filed the final Zakat returns for the years ended 31 December 2008 through 2010. The DZIT issued its assessment for the said years and claimed additional zakat differences of Saudi Riyal 16.87 million. The Parent Company objected the said assessments and has lodged a bank guarantee against the additional liability. The case is currently being heard by the HAC.

The parent Company filed the final Zakat returns for the years ended 31 December 2011 and 2012. The DZIT issued its assessment for the said years and claimed additional zakat differences of Saudi Riyal 6.7 million. The Parent Company objected the said assessments which are still under review by the DZIT.

Assessments for the years 2013 and 2014 are currently under review with the DZIT.

Subsidiary – National Petrochemical Industrial Company (a Saudi Closed Joint Stock Company)

NATPET filed its Zakat returns for the years ended 31 December 1999 to 2005. The DZIT issued the final Zakat assessment for the years ended 31 December 1999 to 2005 and claimed additional Zakat differences, withholding tax (“WHT”) and delay fine liability of SR 8.6 million. NATPET objected against the said assessment which was transferred to the Preliminary Objection Committee (“POC”) for review and decision. The POC issued its decision by which Zakat and WHT differences were reduced to SR 7.4 million. NATPET filed an appeal against the POC’s decision with the Higher Appeal Committee (“HAC”). The HAC issued its decision regarding the NATPET’s appeal for the years ended 31 December 1999 to 2005 by which Zakat and WHT differences were reduced to SR 7 million. NATPET filed a petition with the Board of Grievances (“BOG”) against the HAC’s decision. The BOG issued its ruling, which supported the HAC point of view. NATPET filed a plea against the said BOG decision at the Royal Court. The Royal Court issued its decision, by which the case was referred back to the BOG to restudy the NATPET’s petition.

NATPET filed its Zakat returns for the years ended 31 December 2006 to 2008. The DZIT issued the Zakat assessment for the years from 2006 to 2008 based on a field audit and claimed additional Zakat differences and WHT liability of SR 12 million. NATPET objected against the said assessment and settled the WHT and related delay fine liability of SR 9 million, under protest, which was transferred to the Preliminary Objection Committee. The POC issued its decision by which the differences were reduced to SR 111,613. NATPET filed an appeal against the Preliminary Objection Committee’s decision with the HAC, which supported the POC’s point of view. NATPET filed a petition with the BOG against the said HAC decision. The said petition is still under study by the BOG.

NATPET filed its Zakat returns for the years ended 31 December 2009 to 2012. The DZIT issued a preliminary assessment for the year ended 31 December 2012, and claimed additional Zakat differences of SR 800,000. NATPET objected against the said assessment, which is still under review by the DZIT till to date.

NATPET has filed its Zakat return for the years ended 31 December 2013 and 2014, and obtained the unrestricted Zakat certificate for the year ended 31 December 2014. The DZIT has not issued the assessment to date.

At 31 December 2015

**15 DERIVATIVE FINANCIAL INSTRUMENT**

The subsidiary company ("NATPET") entered into an interest rate swap (the "Swap Contract"), with local commercial banks to hedge future adverse fluctuation in interest rates on its long term borrowings. NATPET designated the Swap Contract, at its outset, as a cash flow hedge.

The notional amount of the Swap Contracts at 31 December 2015 is SR 685 million (2014: SR 746 million). The Swap Contract is intended to effectively convert the interest rate cash flow on the long term loans from a floating rate to a fixed rate, during the entire tenor of the loan agreements.

At 31 December 2015, the Swap Contracts had a negative fair value of SR 10 million (2014: SR 37 million), based on the valuation determined by a model and confirmed by NATPET's bankers. Such negative fair value is included in non-current liabilities in the consolidated balance sheet with a corresponding debit to the changes in fair value of derivatives in the shareholders' equity accounts. NATPET charged an amount of SR 2.8 million as a gain (2014: SR 4.3 million) to the consolidated statement of income, being the portion of the interest rate swap not designated for hedging.

**16 CAPITAL**

The Parent Company's share capital is divided into 69.2 million shares of SR 10 each (2014: 69.2 million shares of SR 10 each).

**17 STATUTORY RESERVE**

As required by the Saudi Arabian Regulations for Companies, 10% of the net income for the year has been transferred to statutory reserve. The Parent Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution.

**18 SELLING AND DISTRIBUTION EXPENSES**

	<i>2015</i> <i>SR'000</i>	<i>2014</i> <i>SR'000</i>
Salaries and wages	8,324	9,845
Warehouse management	6,515	6,889
Public relation and publicity	2,526	1,737
Travel and accommodation	676	1,024
Utilities and services	302	283
Subscriptions and office supplies	228	120
Legal and professional fees	13	100
Depreciation	40	41
Other expenses	893	1,734
	<u>19,517</u>	<u>21,773</u>

Alujain Corporation (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

**19 GENERAL AND ADMINISTRATION EXPENSES**

	<i>2015</i>	<i>2014</i>
	<i>SR'000</i>	<i>SR'000</i>
Salaries and wages	36,029	33,914
Legal and professional fees	2,202	2,358
Directors' compensation	4,228	4,520
Information technology	2,329	2,487
Public relation and publicity	4,401	2,766
Travel and accommodation	1,792	2,417
Depreciation	1,916	1,934
Rent	1,542	1,578
Utilities and services	984	1,359
Other expenses	2,747	3,058
	<u>58,170</u>	<u>56,391</u>

**20 INSURANCE COMPENSATION**

During the second quarter of 2014, the subsidiary company ("NATPET") agreed with the insurance company to obtain a settlement with regards to its claim for the breakdown which occurred in its plant in the first quarter of 2013. The settlement comprises of SR 40.80 million pertaining to machinery repairs and SR 51.08 million as a compensation of the loss of profit arising from lower production as a result of this breakdown.

**21 EARNING PER SHARE**

Earnings per share on income from main operations is calculated by dividing the income from main operations by the weighted average number of shares in issue during the year. Earnings per share on net income is calculated by dividing the net income by the weighted average number of shares in issue during the year.

**22 SEGMENT INFORMATION**

The Group conducts its business in Saudi Arabia (one geographical region) and mainly engaged in Polypropylene (PP) for various industrial use.

**23 COMMITMENTS AND CONTINGENCIES**

- a) The subsidiary company ("NATPET") has various operating leases for its land on which NATPET plant has been built, offices and warehouses. Rental expenses for the year ended 31 December 2015 amounted to SR 4.8 million (2014: SR 4.5 million). Future rental commitments under these operating leases are as follows:

<b>Years ending 31 December</b>	<i>2015</i>	<i>2014</i>
	<i>SR'000</i>	<i>SR'000</i>
2015	-	2,589
2016	4,419	707
2017	559	559
After 2017	12,194	12,475
	<u>17,172</u>	<u>16,330</u>

- b) NATPET has entered into an interest rate swap contract to hedge its interest rate risk on long term loans (note 15).
- c) As at 31 December 2015, NATPET has contingent liabilities related to letters of guarantee amounting to SR 264 million (2014: SR 440 million).
- d) NATPET has also given a guarantee to SIDF for loans to its joint ventures (note 8(a)).



**23 COMMITMENTS AND CONTINGENCIES (continued)**

- e) See note 14 for zakat contingency.
- f) During the year, NATPET received a claim amounting to SR 28.69 million from an energy service provider in respect of under-utilization of energy capacity relating to prior years. The management believes that the service provider has no right to claim the amount and intends to object against the claimed amount. The management is confident that their contention will prevail and expects a favorable outcome arising from objection. Accordingly, no provision in respect of SR 28.69 million is made in these consolidated financial statements.
- g) Parent Company has submitted a bank guarantee amounting to SR 21.7 million (2014: SR 21.7 million) against its appeal to DZIT assessment on which a margin deposit of SR 21.7 million (2014: SR 8.2 million) was paid.

**24 RISK MANAGEMENT**

**Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value interest risk. The Group is subject to interest rate risk on its interest bearing liabilities, including short and long term loans. The management limits Group's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing liabilities are denominated.

As stated in note 15, the Group has entered into various interest rate swap contracts to hedge its interest rate risk on its term loans. The Group's hedging strategy in respect of its interest rate exposures is disclosed in note 3.

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. Group's five largest customers account for 78% of outstanding accounts receivable at 31 December 2015 (2014: 73%).

With respect to credit risk arising from the other financial assets of the Group, including bank balances and cash, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount as disclosed in the consolidated balance sheet.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

As at 31 December 2015 and 2014, all of the Group's financial liabilities other than long term loans (see note 13) are contractually due and payable within 12 months from the year end and the Group expects to have adequate funds available to do so.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than SR and US Dollars, during the year. Accordingly, the Group is not exposed to significant foreign currency risk.

**25 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Group's financial assets consist of cash and bank balances and receivables and its financial liabilities consist of short and long term loans and payables.

The fair values of financial instruments are not materially different from their carrying values.

## 26 KEY SOURCES OF ESTIMATION UNCERTAINTY

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

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates. Any difference between the amounts actually collected in future years and the amounts expected will be recognised in the consolidated statement of income.

### **Impairment of inventories**

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

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

Group's management determines the estimated useful lives of its property, equipment and furniture for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

## 27 BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements have been approved by the Board of Directors on 16 February 2016, corresponding to 7 Jumada Al-Ula 1437H.

## 28 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.