

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

**CONSOLIDATED FINANCIAL STATEMENTS, ALONG WITH  
THE INDEPENDENT AUDITOR'S REPORT FOR  
THE YEAR ENDED DECEMBER 31, 2018**

**ASTRA INDUSTRIAL GROUP COMPANY AND ITS SUBSIDIARIES  
(A Saudi Joint Stock Company)  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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## *Independent auditor's report to the shareholders of Astra Industrial Group Company*

### *Report on the audit of the consolidated financial statements*

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#### ***Our opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Astra Industrial Group Company (the "Company") and its subsidiaries (together the "Group") as at December 31, 2018, 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, other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

#### **What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### ***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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Group in accordance with the code of professional 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.

#### ***Our audit approach***

##### **Overview**

- |                   |  |
|-------------------|--|
| Key audit matters | <ul style="list-style-type: none"><li>• Implementation of IFRS 9 "Financial instruments"</li><li>• Implementation of IFRS 15 "Revenue from contracts with customers"</li></ul> |
|-------------------|--|

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

## *Independent auditor's report to the shareholders of Astra Industrial Group Company (continued)*

### **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.

<b>Key audit matter</b>	<b>How our audit addressed the Key audit matter</b>
<p><b><i>Implementation of IFRS 9 “Financial instruments”</i></b></p> <p>The Group adopted IFRS 9 “Financial instruments” with effect from January 1, 2018 and this new standard supersedes the requirements of IAS 39 “Financial instruments – recognition and measurement”.</p> <p>IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces rules for hedge accounting and a new expected credit loss (ECL) impairment model for financial assets.</p> <p>Management has determined that the most significant impact of the new standard on the Group’s financial statements relates to the calculation of impairment of financial assets. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives and adjusted the opening retained earnings.</p> <p>As a result of application of ECL, the transition adjustments as at January 1, 2018 was as follows:</p> <ul style="list-style-type: none"><li>- Impairment of net investment in a joint venture amounted to Saudi Riyals 60 million; and</li><li>- Impairment of trade receivables amounted to Saudi Riyals 17.9 million.</li></ul> <p><b><i>Impairment of net investment in a joint venture</i></b></p> <p>At December 31, 2018, the Group has an investment in a joint venture with a net carrying amount of Saudi Riyals 334.8 million (2017: Saudi Riyals 414.0 million), which primarily represent carrying value of loans to a joint venture after impairment.</p> <p>The net investment in the joint venture represents the carrying amount of the investment determined using the equity method together with a long term loan, being a long term interest, that in substance, forms part of the Group’s investment in the joint venture.</p>	<p>We performed the following procedures in relation to the implementation of IFRS 9:</p> <ul style="list-style-type: none"><li>• Reviewed management’s assessment of the impact of IFRS 9 in terms of the classification and measurement of its financial assets and liabilities, and understood that approach taken towards implementation. We specifically considered the validity of management’s conclusion that the main area of impact was impairment of long-term interest in the net investment in a joint venture and trade receivables;</li><li>• Compared the ECL model developed by the management to that required by the by IFRS 9 and reviewed the reasonableness of the methodology in comparison to accepted best practice. We also tested the arithmetical accuracy of the model;</li><li>• Involved our accounting subject matter specialists to review the methodology used in ECL model; and compared this against accepted best practice.</li><li>• Reviewed impairment assessment for the carrying value of net investment in a joint venture.</li></ul> <p>We also reviewed the adequacy of the Group’s disclosures included in the accompanying consolidated financial statements.</p>

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As required by IAS 28 – Investment in associates and joint ventures, from January 1, 2018, the Group has applied impairment requirements of IFRS 9 to loans (long term interests) in a joint venture before applying the requirement of equity method, which resulted an adjustment of Saudi Riyals 60 million. After the application of equity method, the Group performed impairment assessment based on fair value less cost to sell and value in use methods and concluded that no additional impairment is required as at December 31, 2018.

*Impairment of trade receivables*

As at December 31, 2018, the gross trade receivables amounted to SAR 1 billion, against which a provision for impairment amounting to SAR 99.7 million was provided.

For trade receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due. Expected loss rates were derived from historical information of the Group and are adjusted to reflect the expected future outcome which also incorporates forward looking information for macroeconomic factors such as inflation and gross domestic product growth rate.

We considered this as a key audit matter as the impairment assessment involves significant management judgement and this has a material impact on the consolidated financial statements of the Group.

*Refer to Note 2.2.1 and 2.2.4 for the accounting policies, note 4 which explains the impact of adoption of new accounting standard and note 8 and note 10 for the related disclosures in the consolidated financial statements.*

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*Independent auditor's report to the shareholders of Astra Industrial Group Company  
(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><b>Implementation of IFRS 15 “Revenue from contracts with customers”</b></p> <p>The Group adopted IFRS 15 “Revenue from contracts with customers” with effect from January 1, 2018 and this new standard supersedes the requirements of IAS 18 “Revenue”.</p> <p>Management performed a detailed analysis of each type of revenue contract to identify differences between the requirements of the two standards, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with the separation of different performance obligations that there may be within a given contract.</p> <p>Management also assessed the additional disclosures required to be made by the new standard in the consolidated financial statements.</p> <p>We considered this a key audit matter as revenue is a key financial statement item and performance metric and the application of IFRS 15 can require judgment by management and the use of significant assumptions.</p> <p><i>Refer to Note 2.2.2 of the accounting policy, note 4 which explains the impact of the adoption of the new accounting standard in the accompanying consolidated financial statements.</i></p>	<p>We performed the following procedures in relation to the implementation of IFRS 15:</p> <ul style="list-style-type: none"><li>• Reviewed management’s detailed analysis of its various revenue streams and how the new accounting standard impacts the Group;</li><li>• Gained an understanding of management’s approach to the implementation of any changes to the accounting policy;</li><li>• Obtained an understanding of the nature of revenue contracts used by the Group for each significant revenue stream, tested a sample of representative sales contracts to confirm our understanding and assess whether or not management’s application of IFRS 15 requirements was in accordance with the accounting standard;</li><li>• Tested relevant processes and controls established by management to ensure appropriate recognition of revenue;</li></ul> <p>We also reviewed the adequacy of the Group’s disclosures to the accompanying consolidated financial statements in relation to the implementation of the new accounting standard.</p>

**Other information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group (but does not include the consolidated financial statements and our auditor’s report thereon), which is expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 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 2018 Group Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## *Independent auditor's report to the shareholders of Astra Industrial Group Company (continued)*

### *Responsibilities of management and the Audit Committee 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 issued by SOCPA, and the applicable requirements of the Regulations for Companies and the 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.

The Audit Committee is 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 scepticism 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.
- 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.





*Independent auditor's report to the shareholders of Astra Industrial Group Company (continued)*

*Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

- 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.

**PricewaterhouseCoopers**

Mufaddal A. Ali  
License No. 447

March 13, 2019





**Astra Industrial Group Company and Its Subsidiaries**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(All amounts are in Saudi Riyals unless otherwise stated)

	Notes	As at December 31,	
		2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	847,620,999	894,950,151
Intangible assets	7	27,679,775	29,071,263
Net investment in a joint venture	8	334,804,164	414,072,202
Other non-current assets		5,035,935	4,285,172
		<u>1,215,140,873</u>	<u>1,342,378,788</u>
<b>Current assets</b>			
Inventories	9	533,721,230	512,889,583
Trade receivables	10	907,925,707	880,185,060
Due from related parties	11	2,041,584	7,967,636
Prepayments and other current assets	12	123,181,454	146,829,955
Cash and cash equivalents	13	65,465,034	76,643,241
		<u>1,632,335,009</u>	<u>1,624,515,475</u>
<b>TOTAL ASSETS</b>		<u><b>2,847,475,882</b></u>	<u><b>2,966,894,263</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term loans	14	11,210,578	66,912,200
Employees defined benefit liabilities	15	128,619,962	131,181,466
		<u>139,830,540</u>	<u>198,093,666</u>
<b>Current liabilities</b>			
Trade payables	16	153,863,257	208,553,880
Accrued expenses and other current liabilities	17	268,339,799	252,220,157
Due to related parties	11	16,186,372	18,681,975
Short-term borrowings	14	1,079,618,451	907,081,301
Current portion of long-term loans	14	7,472,692	17,500,000
Zakat and income tax payable	18	133,022,477	137,438,600
		<u>1,658,503,048</u>	<u>1,541,475,913</u>
<b>Total liabilities</b>		<u><b>1,798,333,588</b></u>	<u><b>1,739,569,579</b></u>
<b>Equity</b>			
Share capital	19	800,000,000	800,000,000
Statutory reserve	20	406,568,677	406,568,677
Retained earnings		36,003,868	162,485,932
Foreign currency translation reserve	32.1.1	(184,372,579)	(136,713,678)
<b>Equity attributable to shareholders of the parent</b>		<u><b>1,058,199,966</b></u>	<u><b>1,232,340,931</b></u>
Non-controlling interests	29	(9,057,672)	(5,016,247)
<b>Total equity</b>		<u><b>1,049,142,294</b></u>	<u><b>1,227,324,684</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>2,847,475,882</b></u>	<u><b>2,966,894,263</b></u>

The accompanying notes (1) through (37) form an integral part of these consolidated financial statements.

**Astra Industrial Group Company and Its Subsidiaries**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED STATEMENT OF INCOME**

(All amounts are in Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31	
		2018	2017
Revenue	26	1,774,514,145	1,795,665,295
Cost of revenue	21	(1,084,953,274)	(1,039,087,014)
<b>Gross profit</b>		<b>689,560,871</b>	<b>756,578,281</b>
Selling and distribution expenses	22	(336,431,115)	(376,067,205)
General and administrative expenses	23	(168,118,259)	(175,274,667)
Provision for impairment of financial assets	10, 11.3	(48,092,135)	(58,125,491)
Research expenses	26	(23,569,715)	(20,910,517)
<b>Income from operations</b>		<b>113,349,647</b>	<b>126,200,401</b>
Share of net loss in a joint venture and an associate	8.5	(30,769,295)	(41,421,940)
Financial costs	14	(70,338,851)	(64,776,163)
Other income , net	24	22,250,880	58,113,592
<b>Income before zakat and income tax</b>		<b>34,492,381</b>	<b>78,115,890</b>
Zakat and income tax expense	18	(8,103,668)	(13,490,444)
<b>Net income for the year</b>		<b>26,388,713</b>	<b>64,625,446</b>
<b>Attributable to</b>			
Shareholders of the parent		22,475,438	58,194,971
Non-controlling interests		3,913,275	6,430,475
		<b>26,388,713</b>	<b>64,625,446</b>
<b>Earnings per share attributable to shareholders of the parent (basic and diluted)</b>	25	<b>0.28</b>	<b>0.73</b>

The accompanying notes (1) through (37) form an integral part of these consolidated financial statements.

**Astra Industrial Group Company and Its Subsidiaries**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
 (All amounts are in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31	
		2018	2017
Net income for the year		26,388,713	64,625,446
<b>Other comprehensive income to be reclassified to income in subsequent years:</b>			
Exchange losses on translation of foreign operations	32.1.1	(47,316,217)	(13,349,784)
<b>Other comprehensive income not to be reclassified to income in subsequent years:</b>			
Re-measurement gain on employee defined benefit liabilities	15	1,972,972	215,798
		(45,343,245)	(13,133,986)
<b>Total comprehensive (loss) / income for the year</b>		<b>(18,954,532)</b>	<b>51,491,460</b>
<b>Attributable to:</b>			
Shareholders of the parent		(23,208,483)	45,453,356
Non-controlling interests		4,253,951	6,038,104
		<b>(18,954,532)</b>	<b>51,491,460</b>

The accompanying notes (1) through (37) form an integral part of these consolidated financial statements.

Astra Industrial Group Company and Its Subsidiaries  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(All amounts are in Saudi Riyals unless otherwise stated)

	Notes	Attributable to shareholders of the parent						Total equity
		Issued capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Total	Non-controlling interests	
December 31, 2017		800,000,000	406,568,677	162,485,932	(136,713,678)	1,232,340,931	1,227,324,684	
Adoption of IFRS 9 & IFRS 15	4	-	(110,932,482)	-	-	(110,932,482)	(110,932,482)	
Restated at January 1, 2018		800,000,000	406,568,677	51,553,450	(136,713,678)	1,121,408,449	1,116,392,202	
Net income for the year		-	-	22,475,438	-	22,475,438	3,913,275	
Other comprehensive loss		-	-	1,974,980	(47,658,901)	(45,683,921)	340,676	
Total comprehensive loss		-	-	24,450,418	(47,658,901)	(23,208,483)	4,253,951	
Dividends	29, 34	-	-	(40,000,000)	-	(40,000,000)	(8,295,376)	
December 31, 2018		800,000,000	406,568,677	36,003,868	(184,372,579)	1,058,199,966	1,049,142,294	
December 31, 2016		800,000,000	406,568,677	151,969,745	(124,508,873)	1,234,029,549	25,085,111	
Net income for the year		-	-	58,194,971	-	58,194,971	6,430,475	
Other comprehensive loss		-	-	215,798	(12,957,413)	(12,741,615)	(392,371)	
Total comprehensive income		-	-	58,410,769	(12,957,413)	45,453,356	6,038,104	
Dividends	29, 34	-	-	(40,000,000)	-	(40,000,000)	(39,196,056)	
Acquisition of non-controlling interests	29	-	-	(7,894,582)	752,608	(7,141,974)	3,056,594	
December 31, 2017		800,000,000	406,568,677	162,485,932	(136,713,678)	1,232,340,931	1,227,324,684	

The accompanying notes (1) through (37) form an integral part of these consolidated financial statements.

**Astra Industrial Group Company and Its Subsidiaries**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(All amounts are in Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31	
		2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before zakat and income tax		34,492,381	78,115,890
<b>Adjustments for non-cash items</b>			
Depreciation of property, plant and equipment	6	70,458,026	64,184,022
Amortisation of intangibles		1,117,352	1,909,477
Share of net loss in a joint venture and an associate accounted for using equity method	8	30,769,295	41,421,940
Finance costs	14	70,338,851	64,776,163
Provision for impairment of financial assets	10, 11.3	48,092,135	58,125,491
Provision for obsolete and slow moving inventories	9	28,691,593	30,340,184
Employee defined benefit costs	15	21,287,148	21,029,180
<b>Changes in operating assets and liabilities:</b>			
Inventories		(49,523,240)	(24,067,834)
Trade receivables		(90,838,943)	(48,616,021)
Due from related parties		(2,953,754)	(2,333,781)
Prepayments and other assets		31,406,294	24,526,085
Trade payables		(54,690,623)	65,815,010
Accrued expenses and other liabilities		(24,813,209)	9,788,690
Due to related parties		(2,495,603)	751,830
End of service benefits paid	15	(21,875,680)	(14,549,209)
Zakat and income tax paid	18	(12,519,791)	(27,385,738)
<b>Net cash generated from operating activities</b>		<b>76,942,232</b>	<b>343,831,379</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in a joint venture and an associate - net		(5,575,205)	3,414,022
Acquisition of non-controlling interests in a subsidiary	29	-	(7,894,582)
Payments for property, plant and equipment	6	(57,056,212)	(154,151,016)
Proceeds from sale of property, plant and equipment		8,993,386	26,388,264
Intangible assets		(274,136)	504,738
<b>Net cash used in investing activities</b>		<b>(53,912,167)</b>	<b>(131,738,574)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net movement in short-term borrowings	14	172,537,150	548,135,511
Net movement in long-term loans	14	(65,728,930)	(693,930,300)
Dividends paid to the Company's shareholders	34	(40,000,000)	(40,000,000)
Finance costs paid	14	(70,338,851)	(64,776,163)
<b>Net cash used in financing activities</b>		<b>(3,530,631)</b>	<b>(250,570,952)</b>
<b>Net change in cash and cash equivalents</b>		<b>19,499,434</b>	<b>(38,478,147)</b>
Cash and cash equivalents at the beginning of the year		76,643,241	152,264,796
Net foreign exchange loss		(22,724,949)	(611,575)
Non-controlling interest, net		(7,952,692)	(36,531,833)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>65,465,034</b>	<b>76,643,241</b>

The accompanying notes (1) through (37) form an integral part of these consolidated financial statements.

**Astra Industrial Group Company and Its Subsidiaries  
(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**  
(All amounts are in Saudi Riyals unless otherwise stated)

**1 ORGANIZATION AND ACTIVITIES**

Astra Industrial Group Company (the "Company" / "Group") is a Saudi Joint Stock Company operating under commercial registration number 1010069607 issued in Riyadh on 9 Muharram 1409H (August 22, 1988). The address of the Group's head office is as follows:

Astra Industrial Group  
P.O. Box 1560  
Riyadh 11441  
Kingdom of Saudi Arabia (KSA)

The principal activities of the Group are as follows:

- Building, managing, operating and investing in industrial plants.
- Production, marketing and distribution of medicine and pharmaceutical products.
- Production of polymer compounds, plastic additives, color concentrates and other plastic products.
- Production of compounded fertilizers and agriculture pesticides and wholesale and retail trading of fertilizers, fungicides and insecticides.
- Metal based construction of industrial buildings and building frames.
- Exploration of all ores and minerals in Kingdom of Saudi Arabia except for those land and marine areas that are out of the scope of application of the mining investment regulations.

**2 SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

These consolidated financial statements have been prepared under the historical cost convention. However, in line with IFRS requirements:

- Net investment in a joint venture accounted for using the equity method; and
- Employees defined benefit liabilities which is recognised at the present value of future obligations using the Projected Unit Credit Method.

The consolidated financial statements are presented in Saudi Riyals.

**Astra Industrial Group Company and Its Subsidiaries  
(A Saudi Joint Stock Company)**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Basis of consolidation**

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

Subsidiary Company	Country of incorporation	Percentage of effective ownership (directly or indirectly) %	
		2018	2017
<b>Tabuk Pharmaceutical Manufacturing Company ("TPMC")</b>			
TPMC has the following subsidiaries:	Kingdom of Saudi Arabia	100	100
	The Hashemite Kingdom of Jordan	100	100
- Tabuk Pharmaceutical Research Company	Republic of the Sudan	100	100
- Tabuk Pharmaceutical Company Limited	Arab republic of Egypt	100	100
- Tabuk Pharmaceutical Manufacturing Company	People's Democratic Republic of Algeria	100	100
- Tabuk Eurl Algeria	Republic of Algeria	100	100
<b>Astra Polymer Compounding Company Limited ("Polymer")</b>			
Polymer has the following subsidiaries:	Kingdom of Saudi Arabia	100	100
- Astra Polymers free zone Imalat Sanayi Ve Ticaret Anonim Sirketi. ("Astra Polymers Free Zone")	Republic of Turkey	100	100
- Astra Polymer Pazarlama San. Ve Tic. A.Ş	Republic of Turkey	100	100
- Astra Specialty Compounds India Private Limited	Republic of India	100	100
<b>International Building Systems Factory Company Limited ("IBSF")</b>			
IBSF has the following subsidiary:	Kingdom of Saudi Arabia	100	100
- Astra Heavy Industries Factory Limited ("AHI")	Kingdom of Saudi Arabia	100	100
<b>Astra Industrial Complex Co. Ltd. for Fertilizer and Agrochemicals ("AstraChem")</b>			
AstraChem has the following subsidiaries:	Kingdom of Saudi Arabia	100	100
	People's Democratic Republic of Algeria	100	100
- AstraChem Saudia	Kingdom of Morocco	100	100
- AstraChem Morocco	British Virgin Islands	100	100
- Aggis International Limited	Republic of Turkey	100	100
- AstraChem Turkey	Syrian Arab Republic	100	100
- AstraChem Syria	Republic of Uzbekistan	100	100
- AstraChem Tashqand	The Hashemite Kingdom of Jordan	50	50
- Astra Industrial Complex Co. Ltd. for Fertilizer and Agrochemicals, Jordan*	of Jordan	50	50
- Astra Nova, Turkey (Note 29)	Republic of Turkey	100	100
- AstraChem Ukraine Ltd.	Ukraine	100	100
- AstraChem Saudi Jordan Co.	Arab republic of Egypt	100	100
- Astra Agricultural Saudi Jordan Co.	Arab republic of Egypt	100	100
- Astra Industrial Complex for Fertilizers and Agrochemicals and Investments	Sultanate of Oman	100	100
	The Hashemite Kingdom of Jordan	100	100
- Green Highland Seeds Company Limited - Jordon	of Jordan	100	100
- AstraChem Agriculture Co, LLC.	United Arab Emirates	100	-
- Universal United Chemicals Co. Ltd.	People's Republic of China	100	-
<b>Astra Energy LLC ("Astra Energy")</b>			
Astra Energy has the following subsidiary:	The Hashemite Kingdom of Jordan	76	76
- Fertile Crescent for Electricity Generation Company	Republic of Iraq	76	76
<b>Astra Mining Company Limited ("Astra Mining")</b>	Kingdom of Saudi Arabia	60	60
<b>Astra Agricultural Company Limited**</b>	Kingdom of Saudi Arabia	100	-

\*The Company exercises control over this investee company and therefore is considered a subsidiary.

\*\*During 2018, The Group established Astra Agricultural Company Limited in the Kingdom of Saudi with ownership of 100%.



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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2018.

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 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

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

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 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 shareholders 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. Financial statements of subsidiaries are prepared using accounting policies which are consistent with those of the Group. 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.

**2.2 Summary of significant accounting policies**

The Group has not early adopted any new standards, interpretation or amendment that have been issued but which are not yet effective.

The Group has adopted IFRS 9 'Financial Instruments' ('IFRS 9') and IFRS 15 'Revenue from Contracts with Customers' ('IFRS 15') on their effective date January 1, 2018. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. IFRS 15 replaces IAS 11 'Construction contracts' and IAS 18 'Revenue'.

The accounting policies affected by these new standards are disclosed in notes 2.2.1, 2.2.2 and 2.2.4 of these consolidated financial statements. All other policies were consistently applied since last year.

**2.2.1 Financial instruments**

**(a) Policy applicable from January 1, 2018**

Classification of financial assets depends on the Group's business model for managing its financial assets and the contractual terms of the cash flows. The Group classifies its financial assets as:

- financial assets measured at amortised cost, or
- financial assets measured at fair value

Gains or losses of assets measured at fair value will be recognised either through the consolidated statement of income or through the consolidated statement of other comprehensive income ("OCI").

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interests, are measured at amortised cost.

Initial measurement

Financial assets are initially measured at its fair value, plus transaction costs in the case of a financial asset not at fair value through income statement. Transaction costs of financial assets carried at fair value through income statement are recognised in the consolidated statement of income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows meet the requirements as solely payment of principal and interest.

Subsequent measurement

*Debt instruments*

The Group recognises three classifications to subsequently measure its debt instruments:

- *Amortised cost*  
Financial assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI) are measured at amortised cost. A gain or loss on a debt investment subsequently measured at amortised cost and not part of a hedging relationship is recognised in the consolidated statement of income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- *Fair Value through Other Comprehensive Income ("FVOCI")*  
Financial assets held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the consolidated statement of income.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI, is reclassified from equity to the consolidated statement of income and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/expense.

- *Fair Value through Income Statement ("FVIS")*  
Financial assets that do not meet the criteria for subsequent recognition at amortised cost or FVOCI, are measured at fair value through income statement. A gain or loss on a debt investment that is subsequently measured at fair value through the income statement and which is not part of a hedging relationship is recognised and presented net in the consolidated statement of income in the period in which it arises.

*Equity instruments*

The Group measures all equity investments at fair value and presents changes in fair value of equity investments in OCI. Dividends from such investments continue to be recognised in consolidated statement of income as other income when the Group's right to receive payments is established. There shall be no subsequent reclassification of changes in fair value through the consolidated statement of income.

De-recognition

A financial asset or a part of a financial asset is de-recognised 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) 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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Impairment

The Group assesses on a forward looking basis the Expected Credit Losses ("ECL") associated with its debt instruments as part of its financial assets, carried at amortised cost and FVOCI.

For accounts receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due. Expected loss rates were derived from historical information of the Group and are adjusted to reflect the expected future outcome which also incorporates forward looking information for macroeconomic factors such as inflation and gross domestic product growth rate.

The financial assets, other than trade receivables, of the Company are categorized as follows:

- 1- **Performing:** these represent the financial assets where customers have a low risk of default and a strong capacity to meet contractual cash flows. Less than 30 days past due balances do not result in significant increase in credit risk and are considered as performing.

The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

- 2- **Underperforming:** these represent the financial assets where there is a significant increase in credit risk and that is presumed if the customer is more than 60 days past due in making a contractual payment.

The Company measures the loss allowance for underperforming financial assets at an amount equal to lifetime expected credit losses.

- 3- **Non-performing:** these represent defaulted financial assets. A default on a financial asset is considered when the customer fails to make a contractual payment/installment within 90 days after they fall due.

The Company measures the loss allowance for non-performing financial assets at an amount equal to lifetime expected credit losses.

A credit loss is calculated as the present value (at effective profit rate) of the difference between:

- (a) The contractual cash flows that are due to the Company under the contract; and
- (b) The cash flows that the Company expects to receive.

Financial asset is written-off only when it is past due for at least three years and there are no reasonable expectation of recovery. Where financial assets are written off, the Company continues to engage enforcement activities to attempt to recover the lease receivable due. Where recoveries are made, after write-off, they are presented as part of provision for impairment-net are recognized as other income in the statement of comprehensive income/loss.

**(b) Policy applicable before January 1, 2018**

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, Available for Sale (AFS) financial assets. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the asset.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Subsequent measurement*

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Subsequent to initial recognition, they are re-measured at fair value. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of income.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (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 cost in the consolidated statement of income, except for short-term receivables when the recognition of interest would be immaterial. The losses arising from impairment are recognised in the consolidated statement of income in finance costs for loans and in cost of sales or other operating expenses for receivables.

Effective interest method:

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised 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) Group has transferred substantially all the risks and rewards of the asset, or
  - (b) 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 pass-through 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 it, the asset is recognised to the extent of its continuing involvement in it. 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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Impairment of financial assets*

The Group assesses, at each reporting date, whether there is any 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial 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 effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest 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. The interest income is recorded as part of finance income in the consolidated statement of income. 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 consolidated statement of income.

Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

All financial liabilities are recognised 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 follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Gains or losses on liabilities held-for-trading are recognised in the consolidated statement of income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liabilities as at fair value through profit or loss.

*Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the EIR method 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 in finance costs in the consolidated statement of income.

This category generally applies to interest-bearing loans and borrowings, and trade and other payables (liabilities recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Group.)

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 a 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 with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**2.2.2 Revenue recognition**

**(a) Policy applicable from January 1, 2018**

Revenue on the sale of the Group products and services is recognized when contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods and services to the customer. Revenue is recognized at the point in time of shipment, at the receipt of the products by the customer or when the services are rendered. When contracts contain customer acceptance provisions, revenue is recognized upon the satisfaction of acceptance criteria.

Some contracts include multiple performance obligations, such as the delivery and installation of steel structure. In such cases, contract specifies separate transaction price for each performance obligation and revenue is recognized based on the stand alone selling prices, when each performance obligation is satisfied under the terms of contract.

A refund liability (included in accrued expenses and other liabilities) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method) and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

If products are stockpiled at the request of the customer, revenue is only recognized once the products have been inspected and accepted by the customer, with no right of return or replenishment on product expiry and risk has been assumed by customer.

The amount of revenue to be recognized is based on the consideration Group expects to receive in exchange for its goods and services. If a contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price of each performance obligation.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(b) Policy applicable before January 1, 2018*

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. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

Sale of goods represent the invoiced value of goods supplied by the Group during the year. 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.

*Revenue from contracted services*

Revenues from rendering of services are recognised when contracted services are performed. Contract revenue includes the unbilled contract revenue during the year. For long term contracts, revenue is recognised on the basis of costs incurred to date, using the percentage of completion method. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated cost for each contract. In the case of unprofitable contracts, provision is made for foreseeable losses in full. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

*Royalty and other income*

Royalty income is generated from providing right to use the Group's production facilities and is recognized on an accrual basis in accordance with the substance of agreements. Other income mainly includes toll manufacturing which represents income from product repackaging for third parties.

Rebates and discounts granted to customers are provisioned at the time the related revenues are recorded or when the incentives are offered. They are calculated on the basis of historical experience and the specific terms in the individual agreements. Sales return provisions are recognized when there is historical experience of Group agreeing to customer returns and Group can reasonably estimate expected future returns. In doing so, the estimated rate of return is applied, determined based on historical experience of customer returns and considering any other relevant factors.

Revenue is presented net of provision for rebate, discounts and returns.

**2.2.3 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 the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Contingent consideration, if any, to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in income. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.



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**2 SIGNIFICANT ACCOUNTING POLICIES (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 of the operation. 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.

**2.2.4 Investments in a joint venture**

**2.2.4.1 General**

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 whether significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in a joint venture are accounted for using the equity method. Under the equity method, the investment in 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 joint venture since the acquisition date.

The consolidated statement of income reflects the Group's share of the results of operations 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 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 joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of joint venture is shown on the face of the consolidated statement of income below operating profit and represents profit or loss after tax and non- controlling interests, if any.

The financial statements of the 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.

Upon loss of significant influence over the Joint Venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the Joint Venture upon loss of significant influence or joint control and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2.4.2 Impairment of net investment in a joint venture**

**(a) Policy applied from January 1, 2018**

From January 1, 2018, as required by para 14 (a) of IAS 28 – Investment in associates and joint ventures, the Group has applied impairment requirements of IFRS 9 to loans (long term interests) in a joint venture before applying the requirement of equity method. This resulted additional provision of SR 60 million as of January 1, 2018 which was recognised in directly in opening retained earnings as allowed under IFRS 9.

If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues recognizing its share of further losses. The interest in a joint venture is the carrying amount of the investment in the joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the joint venture. A long-term interest is an item for which settlement is neither planned nor likely to occur in the foreseeable future.

Losses recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in a joint venture in the reverse order of their seniority (ie priority in liquidation).

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the loss in the consolidated statement of income.

**(b) Policy applied before January 1, 2018**

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the loss in the consolidated statement of income.

**2.2.5 Current versus non-current classification**

The Group presents assets and liabilities in the consolidation 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 and bank balances 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.

**2.2.6 Foreign currencies**

The Group's consolidated financial statements are presented in Saudi Riyals, which is also the Company's functional and Group's presentation 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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2.6.1 Transactions and balances**

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to consolidated statement of income. Tax charges and credits, if any, attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

**2.2.6.2 Group companies**

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

**2.2.7 Zakat and income tax**

*Zakat and Foreign Income Tax*

Zakat is provided for in accordance with General Authority of Zakat and Tax ("GAZT") regulations. Income tax for foreign entities is provided for in accordance with the relevant income tax regulations of the countries of incorporation. Adjustments arising from final Zakat and Foreign income tax assessments are recorded in the period in which such assessments are made.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*Deferred Tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and unused tax losses can be utilised. Such deferred tax assets and liabilities are not recognized if the temporary difference and unused tax losses arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**2.2.8 Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any, except for land and projects under construction which are stated at cost. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for qualifying assets if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria is satisfied. All other repair and maintenance costs are recognised in the consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of the asset after its use, is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

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

A units of production method of depreciation is applied where the Unit of Production method will depreciate the assets in a manner that more accurately reflects the economic benefits of the assets over their remaining useful life than the straight line method.

An item of property, plant and equipment 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 period end and adjusted accordingly, if appropriate.

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

**2.2.9 Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

**2.2.9.1 Group as a lessee**

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

**2.2.9.2 Group as a lessor**

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**2.2.10 Financial guarantee contracts**

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortization.

**2.2.11 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**2.2.12 Intangible assets**

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 as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated statement of income when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives, which ranges from 4 to 7 years, 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 accounted for by changing 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 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.

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.

**Research costs**

Research costs are expensed as incurred.

**Patents and licences**

The Group make upfront payments to purchase patents and licences. The patents have been granted for a period of 10 years by the relevant government agencies, with the option of renewal at the end of this period.

Licences for the use of intellectual property are granted for periods ranging between five and ten years depending on the specific licences.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

A summary of the policies applied to the Group's intangible assets is as follows:

	<u>Licenses</u>	<u>Patents</u>
<b>Useful lives</b>	Finite (5-10 years)	Finite (10 years)
<b>Amortisation method used</b>	Amortised on a straight- line basis over the period of the license	Amortised on a straight- line basis over the period of the patent
<b>Internally generated or acquired</b>	Acquired	Acquired

**2.2.13 Inventories**

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

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

**2.2.14 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. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset 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 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 subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering 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 those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may 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.

**2.2.15 Impairment of goodwill and intangible assets with indefinite useful lives**

These are tested for impairment annually as at December 31, and when circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill or intangible asset relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised.

Impairment losses relating to goodwill cannot be reversed in future periods.

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2.16 Cash and cash equivalents**

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits including Murabaha investments with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, as they are considered an integral part of the Group's cash management.

**2.2.17 Expenses**

Selling and marketing expenses are those that mainly relate to salesmen and sales department. All other expenses are allocated to general and administration expenses in accordance with allocation factors determined as appropriate by the Group.

**2.2.18 Cash dividends and non-cash distribution to shareholders of the parent**

The Group recognises a liability to make cash or non-cash distributions to shareholders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the companies regulations of Saudi Arabia, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of income.

**2.2.19 Provision**

***General***

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. Where 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 any.

If the effect of the time value of money is material, provisions are discounted using a current 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.

***Employee defined benefit liabilities***

The Group operates a defined benefit scheme for its employees in accordance with labor regulations applicable in the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefits plan is determined using the projected unit credit method. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in the retained earnings and are not reclassified to consolidated statement of income in subsequent periods. Re-measurements are not reclassified to consolidated statement of income in subsequent periods.

Interest expense is calculated by applying the discount rate to the net defined benefit liability. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'general and administration expenses' and 'selling and distribution expenses' in the consolidated statement of income (by function).

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net interest expense or income

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service costs and less the fair value of plan assets out of which the obligations are to be settled. However, currently the plan is unfunded and has no assets.



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**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make 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. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

By adopting IFRS 9, the Group is required to make judgements about the regional and business related risk profiles of the Group's customers to assess the expected credit losses on financial assets. (For details refer notes 2.2.1 and 4.1).

By adopting IFRS 15, there is no major change in the accounting judgements, estimates and assumptions, except for Group being required to estimate for sales return provision. (For details refer notes 2.2.2 and 4.2).

All other significant accounting judgements, estimates and assumptions are described below:

**3.1 Defined benefit plan**

The cost of defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates.

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. The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates. Also see Note 15.

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

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the useful lives and residual value of the assets at least once per year and always at the end of each financial year and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**3.3 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.

**3.4 Impairment of inventories**

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

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**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**3.5 Fair value measurement of financial instruments**

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation sensitivities techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments

**3.6 Going concern**

The Group operates in diversified industries including pharmaceutical, specialty chemical, power and steel and other. Further, the operations are geographically spread in various locations. Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Moreover, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as going concern. Therefore, the financial statements continue to be prepared on the going concern basis. Also see notes 30 (Capital management) and 32.3 (Liquidity risk).

**4 ADOPTION OF IFRS 9 AND IFRS 15**

**4.1 IFRS 9 - FINANCIAL INSTRUMENTS**

The Group adopted the new standard and has not restated comparative information. The difference between the carrying amounts of the financial assets resulting from adopting IFRS 9, are recognised in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. All the financial liabilities were carried at amortised cost before and after adoption of IFRS 9. Accordingly, there was no impact on adoption of IFRS 9.

The following assessments have been made based on the facts and circumstances at the date of initial application:

- The determination of the business model within which a financial asset is held; and
- The designation of debt instruments as financial assets at amortised cost

The following table shows changes in measurement and classification of the distinct categories in accordance with IAS 39 and the new measurement and classification categories in accordance with IFRS 9 for the Group's financial assets as at January 1, 2018:

	Original classification under IAS 39	New classification under IFRS 9	Carrying value under IAS 39	Carrying value under IFRS 9	Changes on adoption of IFRS 9
<b>Financial assets</b>					
Trade receivables (note 10)	Loans and receivables	Amortised cost	880,185,060	862,225,145	(17,959,915)
Loans to a joint venture (note 2.2.4 and note 8)	Loans and receivables	Amortised cost	414,072,202	354,072,202	(60,000,000)
Other current assets (note 12)	Loans and receivables	Amortised cost	30,086,094	30,086,094	-
					<u>(77,959,915)</u>

**4.2 Impact of adoption of IFRS 15**

The Group adopted IFRS 15 resulting in a change in the revenue recognition of contracts with customers. The Group opted for the modified retrospective approach for the adoption without change in comparative financial information presented (see note 2.2.2 revenue accounting policy).

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**4 ADOPTION OF IFRS 9 AND IFRS 15 (continued)**

The below adjustment was made to the amount recognised in the balance sheet at the date of initial application (January 1, 2018) and at the end of the comparative period of December 31, 2017.

	IAS 18 carrying amount December 31, 2017	Remeasure- ment	IFRS 15 carrying amount January 1, 2018	Retained earnings effect
Accrued expenses and other liabilities - Sales commission and promotional expenses	-	-	-	-
Accrued expenses and other liabilities -Contract liabilities	(18,357,933)	(40,932,851)	(59,290,784)	(40,932,851)
Prepayments and other currents assets - Contract assets (Right to return asset inventory)	-	7,960,284	7,960,284	7,960,284
	<u>(18,357,933)</u>	<u>(32,972,567)</u>	<u>(51,330,500)</u>	<u>(32,972,567)</u>

The customer has a right to return expired and near expiry products within a given period. Accordingly, the Group provide free good items to compensate for these expired and near expiry products. Revenue was adjusted for the expected value of the returns and cost of revenues were adjusted for the value of the corresponding goods expected to be returned. The provision for sales returns were recognised as adjustments to accrued expenses and other liabilities while the right to return asset inventory were recognised as adjustments to prepayment and other current assets.

**4.3 Impact on retained earnings**

The adoption of IFRS 9 and IFRS 15 has resulted in a change in the retained earnings as follows:

	Note	
Balance as at December 31, 2017		162,485,932
<i>IFRS 9 adjustments</i>		
-Recognition of provision based on ECL	4.1	<u>(77,959,915)</u>
<i>IFRS 15 adjustment</i>		
-Revenue recognition	4.2	<u>(32,972,567)</u> <u>(110,932,482)</u>
Opening balance as at January 1, 2018		<u>51,553,450</u>

**5 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2019, and have not been applied in preparing these consolidated financial statements. None of these standards is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

***IFRS 16, Leases IFRS 16, Leases was issued in January 2016***

IFRS 16 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 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

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The Group will recognise new assets and liabilities for its operating leases of various types of contracts including warehouse and depot facilities, accommodation / office rental premises, etc. The nature of expenses related to those leases will now change because the Group will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As required, the Group will apply IFRS 16 initially on January 1, 2019, and plans to use the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at January 1, 2019. The Group has performed initial assessment during the year and assessed that the estimated impact would not be significant upon initial application of IFRS 16 on its consolidated financial statements. The actual impacts of adopting the standard may change at the time of final assessment.

***IFRIC 23, Uncertainty over Income Tax Treatments***

In June 2017, the IASB issued International Financial Reporting Interpretations Committee (IFRIC) Interpretation 23, Uncertainty over Income Tax Treatments, which clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Group is in the process of assessing the impact of this new interpretation.

***Amendments to IFRS 3, Business Combinations***

The IASB published an amendment to the requirements of IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendment clarifies the definition of a business, as well as provides additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. There will be no impact on transition since the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

There are no other IFRS standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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6 PROPERTY, PLANT AND EQUIPMENT

Cost:	Land	Buildings	Leasehold improvements	Machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Projects under construction	Total
Opening balance	40,600,769	370,918,988	17,543,914	794,491,937	74,175,743	32,147,645	66,565,973	1,396,444,969
Additions	1,420,326	11,959,567	1,582,376	22,655,203	4,467,146	3,124,580	11,847,014	57,056,212
Transfers	54,563	28,278,698	-	15,771,907	826,398	397,746	(45,329,312)	-
Disposals/ write-offs	-	(1,183,374)	-	(3,868,293)	(3,186,968)	(1,964,053)	(5,524,233)	(15,726,921)
Exchange differences	(2,302,448)	(13,412,384)	(822,579)	(13,292,415)	(1,090,077)	(2,619,827)	(464,948)	(34,004,678)
Closing balance	39,773,210	396,561,495	18,303,711	815,758,339	75,192,242	31,086,091	27,094,494	1,403,769,582
Accumulated depreciation:								
Opening balance	-	102,276,946	10,340,378	313,361,120	50,874,994	24,641,380	-	501,494,818
Charges for the year	-	12,965,708	615,739	44,427,101	9,061,939	3,387,539	-	70,458,026
Disposals/ write-offs	-	(1,183,374)	-	(1,176,725)	(2,717,588)	(1,655,848)	-	(6,733,535)
Exchange differences	-	(4,489,410)	(405,510)	(1,089,052)	(716,180)	(2,370,574)	-	(9,070,726)
Closing balance	-	109,569,870	10,550,607	355,522,444	56,503,165	24,002,497	-	556,148,583
Net book value:								
December 31, 2018	39,773,210	286,991,625	7,753,104	460,235,895	18,689,077	7,083,594	27,094,494	847,620,999

During December 2016, a fire incident occurred in a plant in Dammam of Tabuk Pharmaceutical Manufacturing Company (a Subsidiary). The fire damaged some of the equipment of the plant and resulted in a discontinuation of production. At the end of 2017, the Subsidiary was reimbursed by the insurance company for an amount of SAR 160 million that covered property damage and business interruption. Based on settlement of the insurance claim and receiving its proceeds, the Group recognized an income of SAR 21.4 million from business interruption claim during 2017 (Note 24).

The Group has recognized income of SAR 28.3 million during 2018 that relates to business interruption which was previously deferred as of December 31, 2017 (Note 17). The income was netted off with expenses relating to business interruption and costs to get the damaged property and equipment back to its normal condition.

The amount of borrowing cost capitalised during the year ended December 31, 2018 was nil (SAR 1,895,547).

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6 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings	Leasehold improvements	Machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Projects under construction	Total
<b>Cost:</b>								
Opening balance	45,035,272	333,244,853	11,514,466	610,456,437	65,406,264	32,824,190	187,319,834	1,285,801,316
Additions	884,250	21,841,710	5,334,299	17,018,756	6,181,963	3,146,254	99,743,784	154,151,016
Transfers	-	30,338,769	800,881	172,860,712	6,044,799	423,684	(210,468,845)	-
Disposals/ write - offs	(718,443)	(10,203,321)	(12,603)	(4,236,089)	(3,174,408)	(3,047,881)	(8,767,355)	(30,160,100)
Exchange differences	(4,600,310)	(4,303,023)	(93,129)	(1,607,879)	(282,875)	(1,198,602)	(1,261,445)	(13,347,263)
Closing balance	40,600,769	370,918,988	17,543,914	794,491,937	74,175,743	32,147,645	66,565,973	1,396,444,969
<b>Accumulated depreciation:</b>								
Opening balance	-	87,498,226	9,833,975	279,178,538	41,852,609	24,473,317	-	442,836,665
Charges for the year	-	14,958,904	572,593	35,927,067	9,319,108	3,406,350	-	64,184,022
Disposals/ write - offs	-	-	(8,078)	(1,065,736)	(161,076)	(2,536,946)	-	(3,771,836)
Exchange differences	-	(180,184)	(58,112)	(678,749)	(135,647)	(701,341)	-	(1,754,033)
Closing balance	-	102,276,946	10,340,378	313,361,120	50,874,994	24,641,380	-	501,494,818
Net book value:	40,600,769	268,642,042	7,203,536	481,130,817	23,300,749	7,506,265	66,565,973	894,950,151
<b>December 31, 2017</b>								

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**7 INTANGIBLE ASSETS**

	<u>2018</u>	<u>2017</u>
Goodwill	25,206,754	25,206,754
Software and licenses	2,473,021	3,864,509
	<u>27,679,775</u>	<u>29,071,263</u>

The recoverable amount of goodwill is determined based on fair value calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period as well as the factors used in computing Terminal Value. Terminal value is calculated using earnings multiple / Gordon Growth Model for the final year of the forecast period.

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

- Budgeted gross margin
- Weighted average growth rate
- Discount rate applied to the cash flow projections

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

The goodwill was generated from the acquisition of Astra Nova, Turkey (SAR 9 million) and Astra Polymers Free Zone, Turkey (SAR16 million). On first time adoption of IFRS in 2017, the Group has applied exemption whereby IAS 21 was not retrospectively applied to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

**8 NET INVESTMENT IN A JOINT VENTURE**

8.1 The investment in a joint venture represents ownership interest of 51% in Al-Tanmiya Company for Steel Manufacturing ("Tanmiya"), an unquoted private entity, incorporated in Jordan which own 100% of Al Inma'a Company (incorporated and have principal place of business in Republic of Iraq). Based on the articles of association of the investee, the Group has a joint control over the entity and accordingly it has been accounted for as Investment in a Joint Venture.

8.2 Breakup of Net investment in a joint venture

	Note	<u>2018</u>	<u>2017</u>
Equity investment		-	-
Loans to joint venture		1,314,474,427	1,224,526,596
Share of losses in excess of investment in equity shares		(604,908,290)	(529,900,598)
		<u>709,566,137</u>	<u>694,625,998</u>
Provision for impairment	8.3	(374,761,973)	(280,553,796)
		<u>334,804,164</u>	<u>414,072,202</u>

8.3 Reconciliation of provision was as follows:

	<u>2018</u>
Opening balance	280,553,796
IFRS 9 adjustment recorded in equity-- note 2.2.4	60,000,000
	<u>340,553,796</u>
Charge for the year – note 8.3.1	34,208,177
Closing balance	<u>374,761,973</u>

8.3.1 The charge for the year netted-off against the commission income on loans for the year.



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8.4 Financial information extracted from Tanmiya financial statements is shown below:

	2018	2017
Statement of financial position and related notes		
Cash and cash equivalents	470,231	2,725,920
Total current assets	152,737,226	160,948,451
Total non-current assets	515,321,760	530,575,380
Current liabilities	415,310,760	381,234,690
Non-current liabilities	1,438,842,926	1,349,309,936
Total liabilities	1,854,153,686	1,730,544,626
Equity	(1,186,094,700)	(1,039,020,795)
Statement of income		
Revenue	3,504,783	21,558,370
Depreciation	17,028,027	24,278,117
Loss from operations	(40,843,150)	(57,611,841)
Finance costs	(107,153,497)	(113,497,920)
Other comprehensive income / (loss)	922,744	(2,067,354)
Total comprehensive loss	(147,073,903)	(173,177,115)
Statement of cash flows		
Net cash utilized in operating activities	(17,425,515)	(25,600,069)
Net cash used in investing activities	(1,774,406)	(10,783,545)
Net cash generated from financing activities	16,944,233	36,921,923

8.5 Reconciliation of the extracted financial information from the Joint venture financial statements to the carrying amount:

	2018	2017
Joint venture - Total comprehensive loss	147,073,903	173,177,115
Share of loss from joint venture – 51%	(75,007,690)	(88,320,328)
Elimination of interest charge by the Group	26,610,721	25,896,675
Elimination of profit on leases from the Group	17,627,674	21,832,747
Loss after elimination of intra group transactions	(30,769,295)	(40,590,906)

8.6 The Group recognized the share of losses amounting to SAR 30.8 million for the year ended December 31, 2018 (December 31, 2017: SAR 40.6 million) using the equity method as the net investment in a joint venture is having a positive carrying value.

8.7 During 2015, the Group decided to suspend the production in Al Inma'a Company facility. The production will likely resume once there is stability in Republic of Iraq. As required by IFRS 9, life-time ECL was recognised from January 1, 2018. The loans are denominated in US dollar, carry fixed interest rates and are repayable on demand. These loans are expected to be recovered in full over the period of 14 years starting 2024. The present value of those loans has been calculated using the original effective interest rate of the respective loan.

8.8 During the year, the management has transferred the amount due from Tanmiya (which was previously presented as "due to related parties") to "net investment in a joint venture" considering the receivable is neither planned nor likely to be settled in the foreseeable future. The comparative numbers have also reclassified for the purpose of better presentation.

8.9 The management expects that the production in Al Inma'a Company facility will resume in late 2019, if the plan is not materialized and commencement of production is delayed by one year and all the other assumptions such as steel prices, budgeted gross margin and capacity utilisation will remain same, the valuation will decrease by SAR 58 million.

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**9 INVENTORIES**

	2018	2017
Raw and packing materials	294,490,875	294,606,936
Finished goods	214,928,669	173,294,405
Work-in-process	27,801,014	25,471,651
Goods in transit	7,925,621	11,913,117
Consumables	13,986,971	13,578,973
	<u>559,133,150</u>	<u>518,865,082</u>
Provision for obsolete and slow moving inventories	(25,411,920)	(5,975,499)
	<u>533,721,230</u>	<u>512,889,583</u>

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

	2018	2017
Opening balance	5,975,499	26,315,380
Provision for the year (note 21)	28,691,593	30,340,184
Write - offs during the year	(9,255,172)	(50,680,065)
Closing balance	<u>25,411,920</u>	<u>5,975,499</u>

**10 TRADE RECEIVABLES**

	2018	2017
Trade receivables	944,408,722	855,521,682
Retention receivables	34,931,082	32,762,509
Unbilled receivables (contract assets)	28,322,608	34,446,834
	<u>1,007,662,412</u>	<u>922,731,025</u>
Provision for impairment	(99,736,705)	(42,545,965)
	<u>907,925,707</u>	<u>880,185,060</u>
Provision to trade receivables coverage ratio	<u>9.9%</u>	<u>4.6%</u>

Movements in the provision for impairment of trade receivables was as follows:

	2018	2017
Opening balance	42,545,965	111,433,131
IFRS 9 adjustment	17,959,915	-
	<u>60,505,880</u>	<u>111,433,131</u>
Provision for the year	45,138,381	58,125,491
Reversals / Write - offs during the year	(5,907,556)	(127,012,657)
Closing balance	<u>99,736,705</u>	<u>42,545,965</u>

December 31, 2018	Not past due	Past due				Total
		Less than 1 Year	1 - 2 Years	2 - 3 Years	More than 3 Years	
Gross receivables	530,819,737	320,453,052	87,118,356	29,137,616	40,133,651	1,007,662,412
Provision	(2,170,388)	(10,307,227)	(40,521,968)	(14,520,908)	(32,216,214)	(99,736,705)
Net receivables	<u>528,649,349</u>	<u>310,145,825</u>	<u>46,596,388</u>	<u>14,616,708</u>	<u>7,917,437</u>	<u>907,925,707</u>

December 31, 2017	Not past due	Past due				Total
		Less than 1 Year	1 - 2 Years	2 - 3 Years	More than 3 Years	
Gross receivables	527,722,690	250,268,404	85,066,308	18,289,663	41,383,960	922,731,025
Provision	(510,103)	(385,670)	(13,866,186)	(11,640,615)	(16,143,391)	(42,545,965)
Net receivables	<u>527,212,587</u>	<u>249,882,734</u>	<u>71,200,122</u>	<u>6,649,048</u>	<u>25,240,569</u>	<u>880,185,060</u>

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**11 RELATED PARTY TRANSACTIONS AND BALANCES**

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

<b>Relationship</b>	<b>Nature of transactions</b>	<b>2018</b>	<b>2017</b>
Affiliates	Sales	7,525,933	7,475,581
	Purchases	4,503,363	5,207,693
Joint venture	Finance cost	16,936,393	17,377,252

11.2 Key management personnel include directors and key executives at the Group level. Transactions with those are summarized below:

	<b>2018</b>	<b>2017</b>
Salaries and other allowances	8,360,261	12,343,598
End of service benefits	197,513	308,113
	<b>8,557,774</b>	<b>12,651,711</b>

11.3 Due from related parties comprises of the following:

	<b>2018</b>	<b>2017</b>
<i>Current – Affiliates</i>		
Tamron Astra Bio-Chemicals Private Limited - India – note 11.3.1	-	2,953,754
Astra Farms Company - Saudi Arabia	1,590,670	4,310,519
Other	450,914	703,363
	<b>2,041,584</b>	<b>7,967,636</b>

11.3.1 During the year, the amount receivable was fully provided and subsequently written off.

11.4 Due to related parties comprises of the following:

	<b>2018</b>	<b>2017</b>
<i>Current</i>		
Tharawat Mining Company – Saudi Arabia (partner in a subsidiary)	7,428,039	7,585,611
Al Maseera International Company – Bahraini off-shore company (partner in a joint venture)	6,570,320	6,570,320
Nour Communications Company – Saudi Arabia (Affiliate company)	1,491,032	316,638
Other	696,981	4,209,406
	<b>16,186,372</b>	<b>18,681,975</b>

11.5 For transactions and balances related to net investment in a joint venture refer to note 8 of these consolidated financial statements.

**12 PREPAYMENTS AND OTHER CURRENT ASSETS**

	<b>2018</b>	<b>2017</b>
<b>Financial assets</b>		
Restricted cash in bank	7,954,655	21,620,784
Refundable deposits and insurance claims	2,958,182	8,465,310
	<b>10,912,837</b>	<b>30,086,094</b>
<b>Non-financial assets</b>		
Prepaid expenses	36,402,607	36,014,997
Advances to suppliers	26,183,988	57,926,503
Value added tax	25,075,648	6,721,072
Employees' receivable	12,834,289	11,918,075
Right to return asset inventory	7,960,284	-
Other	3,811,801	4,163,214
	<b>112,268,617</b>	<b>116,743,861</b>
	<b>123,181,454</b>	<b>146,829,955</b>

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**13 CASH AND CASH EQUIVALENTS**

	<u>2018</u>	<u>2017</u>
Bank balances	62,853,764	68,401,227
Cash in hand	2,611,270	8,242,014
	<u>65,465,034</u>	<u>76,643,241</u>

**14 LOANS AND BORROWINGS**

	<u>2018</u>	<u>2017</u>
Long-term loans		
- Current portion	7,472,692	17,500,000
- Non-current portion	11,210,578	66,912,200
	<u>18,683,270</u>	<u>84,412,200</u>
Short-term borrowings	1,079,618,451	907,081,301
	<u>1,098,301,721</u>	<u>991,493,501</u>

14.1 Movement of short-term borrowings and long-term loans are as follow:

	Opening balance	Receipts during the year	Repayments (including interest) during the year	Closing balance
<b>Short-term borrowings</b>				
Conventional	122,177,639	121,226,073	(134,175,248)	109,228,464
Murabaha	784,903,662	1,804,295,323	(1,618,808,998)	970,389,987
	<u>907,081,301</u>	<u>1,925,521,396</u>	<u>(1,752,984,246)</u>	<u>1,079,618,451</u>
<b>Long-term loans</b>				
Conventional	18,787,200	-	(6,478,145)	12,309,055
Murabaha	65,625,000	7,845,188	(67,095,973)	6,374,215
	<u>84,412,200</u>	<u>7,845,188</u>	<u>(73,574,118)</u>	<u>18,683,270</u>
<b>Total</b>	<u>991,493,501</u>	<u>1,933,366,584</u>	<u>(1,826,558,364)</u>	<u>1,098,301,721</u>

14.2 The details of the related borrowing costs are as follows:

	<u>2018</u>	<u>2017</u>
Capitalised – Murabaha	-	1,895,547
Charged to statement of income	70,338,851	64,776,163

**14.3 Short term borrowings**

The Group has bank facilities in the form of Murabaha, short-term tawarruq and other conventional credit facilities to meet the working capital requirements. As at December 31, 2018, facilities amounting to SAR 1.1 billion was undrawn (December 31, 2017: SAR 0.75 billion). The facilities bear special commission at prevailing market rates which are mostly based on SAIBOR and denominated in Saudi Riyals. These facilities are secured by corporate guarantees.

**14.4 Long-term loans**

The Group has long-term loan facilities with banks to finance its capital expenditures. As at December 31, 2018 an amount of SAR 6.36 million was undrawn (December 31, 2017: SAR 0.09 million).

These facilities are secured by corporate guarantees and bear special commission charges at agreed fixed rates. The facilities are dominated in foreign currencies and repayable within four years through monthly and quarterly equal installments from the date these facilities were availed.

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**15 EMPLOYEE DEFINED BENEFIT LIABILITIES**

	<u>2018</u>	<u>2017</u>
<b>Reconciliation of present value of liability</b>		
Opening balance	131,181,466	124,917,293
<i>Amount recognised in the statement of income</i>		
Current service costs	17,009,343	20,246,531
Commission expense on liability	4,277,805	782,649
	<b>21,287,148</b>	21,029,180
<i>Amount recognised in the statement of comprehensive income</i>		
Actuarial gains	(1,972,972)	(215,798)
End of service benefits paid	(21,875,680)	(14,549,209)
Closing balance	<b>128,619,962</b>	131,181,466

The significant assumptions used in determining employees' end of service liability are shown below:

	<u>2018</u>	<u>2017</u>
Discount rate	4.35%	3.25%
Future salary increment rate	6.00%	6.00%
Retirement age	60 years	60 years

**Sensitivity analysis on significant actuarial assumptions: Actuarial liability**

	<u>2018</u>	<u>2017</u>
Discount rate +0.5%	(6,178,989)	(5,346,389)
Discount rate -0.5%	4,097,994	5,148,337
Long-term salary increases +0.5%	3,754,907	4,792,340
Long-term salary increases -0.5%	(5,907,647)	(5,064,401)

**16 TRADE PAYABLES**

	<u>2018</u>	<u>2017</u>
Trade payables	<b>153,863,257</b>	208,553,880

Trade payables are non-interest bearing and are normally settled on 30-90 day terms.

**17 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	<u>2018</u>	<u>2017</u>
Sales commission and promotional expenses	55,138,087	36,588,547
Accrued expenses	65,657,455	54,402,412
Contract liabilities - expected sales returns	41,995,895	18,357,933
Employees' benefits	77,244,370	76,400,080
Customers advances and advance billings	25,186,209	33,107,110
Deferred income from insurance claim (Note 6 and Note 24)	-	28,299,377
Other	3,117,783	5,064,698
	<b>268,339,799</b>	252,220,157

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**18 ZAKAT AND INCOME TAX**

**Components of zakat base and provision**

For the year 2018, the consolidated zakat and income tax return will be filed by the Group for all its 100% owned subsidiaries. Previously, the return was filed by the each subsidiary based on the respective financial statements. The significant components of the zakat base under zakat and income tax regulation are principally comprised of equity, provisions at the beginning of year and estimated taxable income, less deductions for the net book value of property, plant and equipment, investments and certain other items.

Movement of zakat and income tax is as follows:

	Zakat	Income Tax	Total
<b>2018</b>			
Opening balance	113,637,160	23,801,440	137,438,600
Provided during the year	16,993,587	1,223,400	18,216,987
Reversal related to prior years	(10,113,319)	-	(10,113,319)
	6,880,268	1,223,400	8,103,668
Paid during the year	(10,806,924)	(1,712,867)	(12,519,791)
Closing balance	109,710,504	23,311,973	133,022,477
<b>2017</b>			
Opening balance	125,472,694	25,861,200	151,333,894
Provided during the year	17,877,019	822,055	18,699,074
Reversal related to prior years	(5,208,630)	-	(5,208,630)
	12,668,389	822,055	13,490,444
Paid during the year	(24,503,923)	(2,881,815)	(27,385,738)
Closing balance	113,637,160	23,801,440	137,438,600

**Status of assessments**

The Company and its subsidiaries have filed zakat/income tax returns for the years through December 31, 2017. The following are the final zakat and income tax assessments of the Company and its local subsidiaries that have been agreed with the General Authority of Zakat and Tax ("GAZT") as of December 31, 2018:

Name of Subsidiary/company	Final Zakat assessments
Astra Industrial Group Company*	2006
Tabuk Pharmaceutical Manufacturing Company ("TPMC")**	2002
Astra Polymer Compounding Company Limited	2002
International Building Systems Factory Company Limited("IBSF")	2002
Astra Industrial Complex Ltd. for Fertilizers and Agrochemicals	2004
Astra Mining Company Limited	Not yet issued
Astra Heavy Industries Factory Company Limited	Not yet issued

\* During the year, the GAZT has issued revised assessment for the years 2007 to 2013, which showed an additional Zakat and tax liabilities of SAR 40.4 million. The Company has filed an appeal against this revised assessment and believes that existing provision is adequate to cover the liability.

\*\* The GAZT has issued assessment for years 2003 to 2012 for TPMC with an additional assessment of SAR 52.8 million on account of zakat, income tax, withholding tax, capital gain and delay fines. TPMC has paid SAR 8.33 million to GAZT. TPMC has filed an appeal against the GAZT assessment for the remaining amount and believes that existing provision is adequate to cover any liability.

**19 ISSUED CAPITAL**

The share capital of the Company as of December 31, 2018 comprises of 80,000,000 shares (December 31, 2017: 80,000,000 shares) of SAR 10 each. The share capital is held as follows:

	2018	2017
Saudi founding shareholders	60.73%	60.73%
Public	39.27%	39.27%
	100.00%	100.00%

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**20 STATUTORY RESERVE**

In accordance with the Regulations for Companies in Saudi Arabia and the Company's By-laws, the Company has established a statutory reserve by the appropriation of 10% of net profit until the reserve equals at least 30% of the share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve is not available for dividend distribution. The reserve includes SAR 332 million of share premium coming from previous years.

**21 COST OF REVENUES**

	2018	2017
Material costs	713,900,025	664,233,410
Provision for obsolete and slow moving inventory (Note 9)	28,691,593	30,340,184
Employees' salaries and benefits	213,046,847	201,018,334
Depreciation and amortization	57,872,392	55,001,785
Other overheads	71,442,417	88,493,301
	<u>1,084,953,274</u>	<u>1,039,087,014</u>

**22 SELLING AND DISTRIBUTION EXPENSES**

	2018	2017
Employees' salaries and benefits	193,119,029	202,518,963
Marketing, advertising and promotions	74,980,757	103,762,477
Distribution, travel and freight charges	30,176,317	26,176,207
Rent and utilities	14,186,116	12,820,620
Depreciation	3,187,355	3,931,282
Other	20,781,541	26,857,656
	<u>336,431,115</u>	<u>376,067,205</u>

**23 GENERAL AND ADMINISTRATIVE EXPENSES**

	2018	2017
Employees benefits	104,659,214	118,717,302
Professional fees	20,082,338	22,765,227
Rent, Insurance and utilities	14,321,917	12,358,017
Depreciation and amortization	9,432,209	5,485,345
Travel and transportation	6,248,745	6,313,269
Repair and maintenance	2,866,205	2,523,703
BOD Remuneration	1,012,000	2,631,000
Other	9,495,631	4,480,804
	<u>168,118,259</u>	<u>175,274,667</u>

**24 OTHER INCOME, NET**

	2018	2017
Income from toll manufacturing and product licensing	22,388,101	33,188,882
Income from an insurance claim (Note 6)	9,258,443	21,409,000
Sale of scrap	3,045,882	6,122,275
Foreign exchange losses	(7,727,782)	(3,252,051)
Other	(4,713,764)	645,486
	<u>22,250,880</u>	<u>58,113,592</u>

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**25 EARNINGS PER SHARE**

**Basic and diluted, earnings per share**

Basic earnings per share (EPS) is calculated by dividing the profit / loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting interest on convertible shares) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares, if any.

The following table reflects the income and weighted average number of ordinary shares used in the computations:

	<u>2018</u>	<u>2017</u>
Income attributable to shareholders of the parent	<b>22,475,438</b>	58,194,971
Weighted average number of ordinary shares	<b>80,000,000</b>	80,000,000
Basic and diluted, loss per share	<b>0.28</b>	0.73

**26 SEGMENT REPORTING**

**26.1** 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.

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

***Pharmaceuticals***

Pharmaceuticals segment, which develops, manufactures, markets and distributes branded generic pharmaceuticals and under-licensed products globally.

***Specialty chemical***

Specialty chemical segment, which produces Masterbatch, dust-free additives and custom-made thermoplastic compounds plus liquid and paste colorants for polymer manufacturing, polymer converting and plastics processing industries in addition with manufacturing, importing and distributing a range of agrochemicals, fertilizers, public health and veterinary pesticides, seeds and other agricultural inputs.

***Power and steel***

Power and steel segment, which produces steel billets, pre-engineered steel buildings and steel structures and rebar for the construction industry.

***Other***

Other segment is the residual segment and comprises of Astra Industrial Group Holding Company and Astra Mining.

No operating segments have been aggregated to form the above reportable operating segments.

**26.2** The Group's Executive Management committee 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 profit or loss and is measured consistently with profit or loss in the consolidated financial statements.



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**26 SEGMENT REPORTING (continued)**

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

	<i>Pharmaceuticals</i>	<i>Specialty chemical</i>	<i>Power and steel industries</i>	<i>Other</i>	<i>Total</i>
<b>December 31, 2018</b>					
Total Revenue	847,714,585	704,609,567	214,900,604	30,983,557	1,798,208,313
Inter segment revenue	-	-	(17,627,674)	(6,066,494)	(23,694,168)
Revenue from third parties	847,714,585	704,609,567	197,272,930	24,917,063	1,774,514,145
Gross profit	491,646,399	210,716,967	(13,436,840)	634,344	689,560,870
Depreciation and amortization	37,934,680	17,480,224	8,855,378	7,305,096	71,575,378
Research expenses	20,357,876	3,211,839	-	-	23,569,715
Share of net loss in a joint venture	-	-	(30,769,295)	-	(30,769,295)
Net income (loss) before zakat and tax	117,630,792	52,827,628	(93,926,940)	(42,039,099)	34,492,381
Property, plant and equipment	452,732,627	182,852,878	91,096,476	120,939,018	847,620,999
Total assets	1,280,309,488	763,198,764	666,434,430	137,533,200	2,847,475,882
Total liabilities	715,374,575	529,649,522	337,065,520	216,243,971	1,798,333,588
<b>December 31, 2017</b>					
Total Revenue	821,453,942	650,024,407	341,370,301	9,272,466	1,822,121,116
Inter segment revenue	-	-	(26,455,821)	-	(26,455,821)
Revenue from third parties	821,453,942	650,024,407	314,914,480	9,272,466	1,795,665,295
Gross profit	474,126,024	202,653,143	79,826,425	(27,311)	756,578,281
Depreciation and amortization	38,079,626	14,959,236	8,893,447	4,161,190	66,093,499
Research expenses	19,990,401	920,116	-	-	20,910,517
Share of net loss in a joint venture	-	(831,034)	(40,590,906)	-	(41,421,940)
Net income (loss) before zakat and tax	77,661,333	54,785,186	(5,609,631)	(48,720,998)	78,115,890
Property, plant and equipment	486,375,207	187,740,388	95,285,030	125,549,526	894,950,151
Total assets	1,234,675,493	827,827,166	767,024,541	137,367,063	2,966,894,263
Total liabilities	735,217,391	431,274,723	158,877,254	414,200,211	1,739,569,579

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

	<b>Kingdom of Saudi Arabia</b>	<b>Republic of Iraq</b>	<b>Africa</b>	<b>Other areas</b>	<b>Total</b>
<b>2018</b>					
Revenues	1,139,974,831	48,269,719	182,777,121	403,492,474	1,774,514,145
Non-current assets	730,397,360	333,469,775	81,591,029	69,682,709	1,215,140,873
<b>2017</b>					
Revenue	1,186,051,187	40,337,381	159,110,123	410,166,604	1,795,665,295
Non-current assets	748,352,405	414,072,201	102,494,279	77,459,903	1,342,378,788

26.4 Other operating segments include Astra Mining As at December 31, 2018, the total assets of Astra Mining amounted to SAR 127.3 million (December 31, 2017: SAR 131.9 million and total liabilities amounted to SAR 149.9 million (December 31, 2017: SAR 143.6 million).

26.5 The Group's majority of the revenue was recognised at point in time. For limited number of transactions in IBSF, one of the subsidiary operating in power and steel industries, recognised revenues over period of time. As at December 31, 2018, unbilled revenues amounting to SAR 28.3 million is related to IBSF.

**27 CONTINGENCIES**

As at December 31, 2018, the Group had contingent liabilities arising in the normal course of business. The Group's bankers have issued letters of credit amounting to SAR 104.57 million (December 31, 2017: SAR 96.95 million) and letters of guarantee amounting to SAR 180.94 million (December 31, 2017: SAR 211.04 million).

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**28 COMMITMENTS**

The Group in the normal course of business has entered into arrangements with suppliers for the purchase of machines and equipment and other services. The capital commitments at December 31, 2018 are amounting to SAR 25.5 million (December 31, 2017: SAR 22.13 million).

**29 NON-CONTROLLING INTERESTS**

29.1 During the year, the Group's subsidiary Astra Energy declared a dividend and settled the share of non-controlling interests amounting to SAR 8.3 million (2017: SAR 39.2 million).

29.2 Acquisition of additional interest in a subsidiary

During 2017, the Group acquired an additional 7.6% interest in the voting shares of Astra Nova (a subsidiary), increasing its ownership interest to 100%. Following is a schedule of additional interest acquired in Astra Nova:

	<u>SAR</u>
Cash consideration paid to non-controlling shareholders	4,085,380
Carrying value of the additional interest in Astra Nova	<u>3,056,594</u>
Difference recognised in retained earnings	<u>7,141,974</u>

**30 CAPITAL MANAGEMENT**

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and maintain an optimal capital structure to reduce the cost of capital.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2018 and 2017. At statement of financial position date, gearing ratio analysis by the management was as follows:

	<u>2018</u>	<u>2017</u>
Equity	<u>1,049,142,294</u>	1,227,324,684
Liabilities	<u>1,798,333,588</u>	1,739,569,579
Total capital structure	<u>2,847,475,882</u>	<u>2,966,894,263</u>
Gearing ratio	<u>63.16%</u>	58.63%

**31 FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise of financial assets and financial liabilities. The Group's financial assets consist of cash and cash equivalents, trade receivables and amount due from related parties. Its financial liabilities consist of banks' short term and long term loans, payables, and amount due to related parties.

The management assessed that fair values of bank balances, receivables, balances of related parties, short term loans and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the Group's commission-bearing long term Murabaha amounting to SAR 18.68 million (December 31, 2017: SAR 84.41 million) are determined by using discounted cash flows method using discount rate that reflects the issuer's commission rate as at the end of the reporting period. The own non-performance risk as at December 31, 2018 and December 31, 2017 was assessed to be insignificant.

Fair value of long term loans falls under level 3 of the fair value measurement hierarchy. The Group does not hold other financial liabilities where fair value is determined using significant unobservable inputs.

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**31 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

Based on the contractual cash flows criteria and business model, the Group's all financial assets, excluding cash and bank balances, and financial liabilities are classified at amortized cost.

	<u>2018</u>	<u>2017</u>
<b>Financial assets</b>		
Trade receivables, net	<b>907,925,707</b>	880,185,060
Due from related parties - current	<b>2,041,584</b>	7,967,636
Other current assets	<b>10,912,837</b>	30,086,094
<b>Financial liabilities</b>		
Long-term loans	<b>18,683,270</b>	84,412,200
Due to related parties	<b>16,186,372</b>	18,681,975
Trade payables	<b>153,863,257</b>	208,553,880
Short-term borrowings	<b>1,079,618,451</b>	907,081,301
Accrued expenses and other current liabilities	<b>268,339,799</b>	252,220,157

**32 FINANCIAL RISK MANAGEMENT**

The Group's activities are subject to financial risks such as market risk, credit risk and liquidity risk.

**32.1 MARKET RISK**

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

- foreign currency exchange risk,
- commission (interest) rate risk and
- commodity price risk

Financial instruments affected by market risk includes loans and borrowings, time deposits, trade receivables, trade payables, and accrued expenses and other current liabilities.

**32.1.1 FOREIGN CURRENCY RISK**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's functional and reporting currency is the Saudi Riyal. The Group's transactions are principally in Saudi Riyals and US Dollars. Management monitor the fluctuations in currency exchange rates and believes that the currency risk is not significant.

Management believes that the currency risk is not significant due to fact of Saudi Riyal pegged with US dollar SAR 3.75: USD 1. The sensitivity of profit or loss and equity to changes in the foreign exchange rates arises mainly from Euro denominated receivable balance. As at December 31, 2018, the Group do not have significant amount of foreign currency liabilities other than USD and therefore, not subject to significant foreign currency risk.

During the year, the Group has recognized a foreign exchange loss on translation of foreign operations amounting to SAR 47.3 million (2017: SAR 13.3 million) in the statement of comprehensive income.

Foreign currency translation reserve on foreign operations arose primarily due to significant devaluation of Sudanese and Egyptian Pounds. The remaining exposure of Group's foreign operation in these countries considered to be not significant. As at December 31, 2018, property, plant and equipment value of operations in Sudan and Egypt amounted to SAR 30 million.

Sudan was considered to be a hyperinflationary economy during the year ended December 31, 2018. In hyperinflationary economies, when translating the results of operations into Saudi Riyals, assets, liabilities, statement of profit and equity accounts are translated at the rates prevailing on the reporting date. The effect of using the prevailing rate in Sudan for the year ended December 31, 2018 is considered immaterial.

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**32 FINANCIAL RISK MANAGEMENT** (continued)

**32.1.2 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. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its exposure to interest rate risk by a balanced portfolio of long-term and short-term loans and continuously monitoring movements in interest rates.

The major borrowings of Group are short term and based on Saudi Arabian Interbank Offered Rate (SAIBOR) plus with an agreed fixed rate.

The Group's receivables carried at amortised cost are not subject to interest rate risk, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

**32.1.3 COMMODITY PRICE RISK**

The Group is not exposed to the risk of fluctuations in prevailing market commodity prices. Revenue and a corresponding receivable from the sale of provisionally priced commodities is recognised when risks and rewards of ownership are transferred to the customer (which would generally be the date of delivery) and revenue can be measured reliably.

The Group is not exposed to the risk of fluctuations in commodity prices as its commodities are mainly regulated by Saudi Food and Drug Authority (SFDA).

**32.2 CREDIT RISK**

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

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 average credit period ranges from one to six months. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

*Bank balances*

The credit risk on bank balances is low considering the Group has outstanding loans balances and credit facilities with the various rated banks, so concentration risk is also low.

*Trade receivables*

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. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance

An impairment analysis is performed at each reporting date on an individual basis for major clients. 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 maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in consolidated statement of financial position.

The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

*Financial instruments and cash 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. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

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**32 FINANCIAL RISK MANAGEMENT (continued)**

**32.3 LIQUIDITY RISK**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The Group's current liabilities exceed its current assets by SAR 26.2 million as at December 31, 2018. However, management believes that this is not expected to significantly impact the Group's ability to meet its obligation. The Group manages its liquidity risk by ensuring that bank facilities are available. (see note 14)

**32.4 MATURITY PROFILE OF THE GROUP'S FINANCIAL LIABILITIES (undiscounted basis)**

	Less than 3 months	3 to 12 Months	1 to 5 Years	Total
<b>2018</b>				
Long-term borrowings	1,711,460	5,134,382	11,837,428	18,683,270
Due to related parties	6,570,320	9,616,052	-	16,186,372
Trade payables	153,863,257	-	-	153,863,257
Short-term borrowings	1,079,618,451	-	-	1,079,618,451
<b>2017</b>				
Long-term borrowings	-	17,500,000	66,912,200	84,412,200
Due to related parties	6,570,320	12,111,655	-	18,681,975
Trade payables	208,553,880	-	-	208,553,880
Short-term borrowings	907,081,301	-	-	907,081,301

**33 OPERATING LEASE COMMITMENT**

The Group has various operating leases for its offices, warehouses and facilities. Future rental commitments at December 31, 2018 under these operating leases were as follows:

	SAR in "000"
2019	19,036
2020	19,993
2021 and thereafter	20,868
	<u>59,897</u>

**34 DIVIDENDS**

The Company's Annual General Assembly in its meeting held on 20 Sha'aban 1438H (corresponding May 16, 2018) approved the cash dividend of SAR 40 million at SAR 0.50 per share (2017: SAR 40 million, SAR 0.50 per share) for distribution from the retained earnings.

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**35 COMPARATIVES**

Certain comparative period amounts have been reclassified for the purpose of better presentation. However, the effect of those reclassifications was not significant. The key reclassifications were as follows:

Reclassification from	Reclassification to	Amount (SAR in million)
<b>Statement of financial position:</b>		
Due from related party balances (current)	Net investment in a joint venture	142.8
Due from related party balances (non-current)	Net investment in a joint venture	132.7
Due to related parties (non-current)	Due to related parties (current)	6.6
Prepayments and other current assets	Other non-current assets	4.3
Cash in Bank	Prepayments and other current assets – restricted cash in bank	21.6
<b>Statement of income:</b>		
Selling and distribution expenses - Provision of slow-moving and obsolete inventory	Cost of revenue- provision of slow moving and obsolete inventory	23.9
<b>Statement of cash flows:</b>		
Cash flows from operating activities - financing cost paid	Cash flows from financing activities – financing cost paid	64.8
Cash flows from financing activities - investment in a joint venture	Cash flows from operating activities – share of net loss in a joint venture	41.2
Cash and cash equivalents at the end of the year	Cash flows from operating activities - prepayments and other assets (restricted cash in bank)	21.6

35.1 In last year financial statements, the comparative amounts were presented as receivables from related party (Tanmiya), amounted to SAR 131.8 million (current) and SAR 178.8 million (non-current).

**36 SUBSEQUENT EVENT**

There were no significant subsequent events, adjusting or non-adjusting, since December 31, 2018 that would have a material impact on the financial position or financial performance of the Group as reflected in these consolidated financial statements.

**37 BOARD OF DIRECTORS' APPROVAL**

These consolidated financial statements were approved by the Group's Board of Directors on March 13, 2019.