Al-ELM INFORMATION SECURITY COMPANY
AND ITS SUBSIDIARY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2018

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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Independent Auditor's Report

To the Shareholders of Al-Elm Information Security Company

Opinion

We have audited the consolidated financial statements of Al-Elm Information Security and its subsidiary ("the Group") Saudi Joint Stock company, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

KPMG

Independent Auditor's Report

To the Shareholders of Al-Elm Information Security Company (continued)

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 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 judgement 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, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Al-Elm Information Security and its subsidiary ("the Group").

For KPMG Al Fozan & Partners
Certified Public Accountants

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Fahad Mubarak Al Dossari
License No.: 469

Riyadh 26 Rajab 1440H
Corresponding to: 2 April 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Saudi Riyals)

	Note	31 December 2018	31 December 2017
Revenue	25	1,925,710,207	1,981,537,559
Cost of revenue	20	(1,206,406,160)	(1,285,340,803)
Gross profit		719,304,047	696,196,756
Expenses			
Selling and marketing	21	(70,185,043)	(147,784,395)
General and administrative	22	(217,022,653)	(194,092,823)
Impairment losses on accounts receivable		(4,901,237)	-
Amortization and depreciation	5, 7, 8	(67,828,297)	(67,999,307)
Operating profit		359,366,817	286,320,231
Finance costs		(4,555,548)	(6,865,730)
Return on short-term deposits	13, 14	3,255,313	485,180
Reversal of zakat provision	26	-	84,111,397
Other income	23	6,267,371	4,559,345
Net income		364,333,953	368,610,423
Other comprehensive income			
Items that will not be reclassified subsequently to statement of profit or loss			
Re-measurement for end-of-service benefits	16	(5,919,247)	(2,160,754)
		358,414,706	366,449,669
Earnings per share:			
Basic and diluted earnings per share from operations profit for the year	28	71.87	57.26
Basic and diluted earnings per share from net income for the year	28	72.87	73.72

The accompanying notes (1) through (32) form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Saudi Riyals)

	Note	31 December 2018	31 December 2017	1 January 2017
ASSETS				
Non-current assets				
Property, plant and equipment	5	**76,543,019**	100,869,159	132,582,338
Capital work in progress	6	**7,019,971**	46,590,601	35,843,182
Capital leased assets	7	**299,294,976**	254,069,571	254,069,571
Intangible assets	8	**33,743,513**	60,549,482	87,355,449
Investments at fair value through other comprehensive income	9	**4,694,375**	-	-
Total non-current assets		**421,295,854**	462,078,813	509,850,540
Current assets				
Accounts receivable	10	**1,092,009,956**	1,141,193,965	1,336,370,178
Accrued revenue	11	**323,687,277**	216,933,247	259,944,902
Prepayments and other debit balances	12	**82,325,916**	61,210,141	57,068,671
Bank deposits	14	**341,498,210**	-	-
Cash and cash equivalents	13	**194,461,635**	486,120,691	224,057,473
Total current assets		**2,033,982,994**	1,905,458,044	1,877,441,224
Total assets		**2,455,278,848**	2,367,536,857	2,387,291,764
EQUITIES AND LIABILITIES				
Equity				
Issued and paid-up share capital	15	**50,000,000**	50,000,000	50,000,000
Statutory reserve		**25,000,000**	25,000,000	25,000,000
Retained earnings		**1,137,307,411**	1,102,903,661	1,119,689,409
Total equity		**1,212,307,411**	1,177,903,661	1,194,689,409
Liabilities				
Non-current liabilities				
Capital lease liability - non-current portion	7	**120,647,641**	142,957,326	164,696,290
Provision for employees' end-of-service benefits	16	**144,028,971**	119,801,404	96,588,151
Total non-current liabilities		**264,676,612**	262,758,730	261,284,441
Current liabilities				
Accounts payable	17	**210,071,379**	226,448,852	286,416,474
Deferred revenue	18	**200,084,362**	102,904,310	95,056,939
Accrued expenses and other liabilities	19	**545,829,399**	575,782,340	528,661,658
Capital lease liability - current portion	7	**22,309,685**	21,738,964	21,182,843
Total current liabilities		**978,294,825**	926,874,466	931,317,914
Total liabilities		**1,242,971,437**	1,189,633,196	1,192,602,355
TOTAL LIABILITIES AND EQUIITY		**2,455,278,848**	2,367,536,857	2,387,291,764

The accompanying notes (1) through (32) form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018
(Saudi Riyals)

	Issued and paid-up share capital	Statutory reserve	Retained earnings	Total equity
Balance as at 31 December 2016 - as previously reported according to generally accepted standards in the Kingdom of Saudi Arabia	50,000,000	25,000,000	1,150,442,586	1,225,442,586
Impact of adopting IAS 19 (Note 4)	-	-	(18,490,743)	(18,490,743)
Impact of adopting IFRS 15 (Note 4)	-	-	(12,262,434)	(12,262,434)
Balance as at 1 January 2017 in accordance with IFRS	50,000,000	25,000,000	1,119,689,409	1,194,689,409
Net income for the year	-	-	368,610,423	368,610,423
Dividend distributions to shareholders (Note 29)	-	-	(383,235,417)	(383,235,417)
Other comprehensive income	-	-	(2,160,754)	(2,160,754)
Balance as at 31 December 2017	50,000,000	25,000,000	1,102,903,661	1,177,903,661
Impact of adopting IFRS 9 (Note 4)	-	-	(67,752,444)	(67,752,444)
Balance as at 1 January 2018	**50,000,000**	**25,000,000**	**1,035,151,217**	**1,110,151,217**
Net income for the year	-	-	**364,333,953**	**364,333,953**
Dividend distributions to shareholders (Note 29)	-	-	**(256,258,512)**	**(256,258,512)**
Other comprehensive income	-	-	**(5,919,247)**	**(5,919,247)**
Balance as at 31 December 2018	**50,000,000**	**25,000,000**	**1,137,307,411**	**1,212,307,411**

The accompanying notes (1) through (32) form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(Saudi Riyals)

	Notes	31 December 2018	31 December 2017
Operating activities			
Net income for the year		**364,333,953**	368,610,423
Adjustments for non-cash items:			
Amortization and depreciation	8,7,5	**67,828,297**	67,999,307
Allowance for doubtful debts	11,10	**4,901,237**	86,779,495
Loss on disposal of property and equipment		**122,571**	938,420
Provision for employees' end-of-service benefits	16	**33,811,485**	29,335,697
Bank deposits income		**(3,255,313)**	-
Finance costs	7	**4,555,548**	6,865,730
		472,297,778	560,529,072
Working capital adjustments:			
Accounts receivable		**(1,299,334)**	109,584,066
Prepayments and other debit balances		**(21,105,226)**	(4,141,470)
Accrued revenue		**(128,924,368)**	41,824,307
Accounts payable		**(16,377,473)**	(59,967,622)
Deferred revenue		**97,180,052**	7,847,371
Accrued expenses and other liabilities		**90,004,306**	46,894,894
Cash from operations		**491,775,735**	702,570,618
Bank deposits income collected		**3,013,047**	-
Employees' end-of-service indemnities paid	16	**(15,503,165)**	(8,283,198)
Net cash flows generated by operating activities		**479,285,617**	694,287,420
Investing activities			
Acquisition of property and equipment	5	**(10,338,535)**	(9,118,576)
Investments at fair value through other comprehensive income	9	**(4,694,375)**	-
Bank deposits	14	**(341,498,210)**	-
Proceed from sale of property and equipment		**650,000**	-
Capital work in progress	6	**(12,657,960)**	(12,047,424)
Additions to capital leased assets	7	**(127,039)**	-
Net cash flows used in investing activities		**(368,666,119)**	(21,166,000)
Financing Activities			
Dividends paid		**(376,215,759)**	(383,235,417)
Repayment of principle component from capital leases		**(21,738,964)**	(21,182,844)
Finance costs paid		**(4,323,831)**	(6,639,941)
Net cash flows used in financing activities		**(402,278,554)**	(411,058,202)
Net (decrease)/ increase in cash and cash equivalents		**(291,659,056)**	262,063,218
Cash and cash equivalents at beginning of the year	12	**486,120,691**	224,057,473
Cash and cash equivalents at the end of the year		**194,461,635**	486,120,691
Significant non-cash transactions:			
Dividends Payable		**256,258,512**	383,235,417
Transfer from capital work in progress to capital leased assets		**52,228,590**	1,300,005
Restatement impact of IFRS 9		**67,752,444**	-
Finance costs		**231,717**	-

The accompanying notes (1) through (32) form an integral part of these consolidated financial statements

1. CORPORATE INFORMATION

Al-Elm Information Security Company (the "Company") was established in Riyadh, Saudi Arabia, as a Saudi Limited liability company on 24 Shawwal 1408H (corresponding to 8 June 1988). It was converted into a Saudi Joint Stock Company under the Royal Decree Number (M/90) dated 3 Dhul-Qi'dah 1428H (corresponding to 13 November 2007), and registered under Commercial Registration No. 1010069210. The Company is wholly owned by the Public Investment Fund in the Kingdom of Saudi Arabia.

The principal activities of the Company are to provide information security services and in the field of electronic business, exchange credit information, manage and operate data and information centers, import, develop, sell and maintain devices, mechanisms, spare parts, software, information systems and communication networks, provide buying and selling sites through the Internet, and in the field of training and workforce development.

The main activity of the Company is to provide safe electronic services to the government and private sectors and individuals by providing a center for a huge database that serves the community as a whole while taking into consideration the privacy in those dealings. In addition to provide support services, which are concerned with supporting public sectors, to provide public interview services and operational work for these sectors. Furthermore, providing IT solutions and consulting services in the field of information technology which is provided mainly for the public sector, in addition to training solutions services. The Company provides its services to the clients through the following main business sectors:

1. Product Suits: It is specialized in providing electronic services to the government and private sectors.
2. Digital Outsourcing: It is specialized in supporting the public sectors to provide public interview services and operational work.
3. Digital custom solution: It is specialized in providing technical solutions and consulting sevices in the field of information technology.
4. Training Solutions: It is specialized in providing training solutions in various fields.
5. Consulting: It specialized in providing consulting solutions for the government and private sector.

Below is a list of some of the electronic services provided by the Company:
1. Yaqeen service
2. Automatic monitoring support service
3. Muqeem service
4. Umrah and Hajj service
5. Tamm service
6. Health insurance linkage service
7. Medical reports service (Efada)

1. CORPORATE INFORMATION – CONTINUED

Below is a description of some of the services provided by the Company:

1. "Yaqeen" service: This service provides electronic verification of identity, and it corrects and updates the relevant databases automatically, it allows its subscribers to verify the data of their customers before entering them in their databases, also enables them to update what was previously entered into their database according to what is in the records of the National Information Center. This service also includes several sub services, the most important of which is the service of verifying the identity of the subscribers related to companies whose shares are offered for IPO.

2. "Automatic monitoring support" service: The service aims to electronic connectivity between companies based on automated monitoring of traffic violations and the databases of the National Information Center at the Ministry of Interior to enable them to record traffic violations automatically according to the procedures followed by the Traffic Department in this regard.

3. "Muqeem" service: It is an information system that works on the Internet and allows beneficiaries to view information related to their guaranteed people as approved by the General Directorate of Passports. The system provides information on each guaranteed person related to the beneficiary, and it also helps the beneficiaries to improve human resources management through providing employment data and reports to them in the form of various groups of services.

4. "Umrah and Hajjl" service: Umrah services connect the Ministry of Hajj with the Ministry of Interior and the Ministry of Foreign Affairs to transfer data on the entry and exit of pilgrims automatically to the Umrah companies that they follow, and pre-issue the border number. These services performed in cooperation with the Ministry of Hajj, through companies licensed to provide data to different Umrah companies. Hajj services are based on transferring and registering the data of the inside pilgrims automatically so that the institutions of the inside pilgrims can give an immediate response to the requests of the pilgrims to obtain permits of acceptance or rejection, in addition to registering the data of those who are accepted automatically.

5. "Tamm" service: "Tamm" service provides some traffic management services electronically to the beneficiaries of the public and private sectors to enable those sectors related to the transport and automobile sectors to inquire about the data of their vehicle fleets, and to update the databases of traffic with the data of the cars they trade with and transferring its ownership once sales deals are completed, and renew its license, and determine the actual driver, or authorized to drive inside and outside the Kingdom, and enable car dealerships to issue ownership licenses and vehicle registration plates immediately.

2. BASIS OF PREPARATION – CONTINUED

Subsidiaries

The Company has incorporated Emdad Al Khebrat Company Ltd., a limited liability company registered under commercial registration number 1010414975 dated 22 Rajab 1435H (corresponding to 21 May 2014) and is a wholly owned by Al-Elm Information Security Company and its head office located in Riyadh. The principal activities of Emdad Al Khebrat Company is to operate the call centers and services that provide consulting services in the electronic field business, operation and maintenance, import and export of devices, equipment, programs and manpower systems.

The Company and its subsidiary Emdad Al Khebrat Company are referred to together as the "Group" in these consolidated financial statements.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization of Certified Public Accountants (SOCPA).

For all years up to and including the year ended 31 December 2017, the Group prepared its consolidated financial statements in accordance with generally accepted accounting standards as issued by SOCPA ("GAAP" as issued by "SOCPA"). These financial statements for the year ended 31 December 2018 are the first financial statements of the Group prepared in accordance with IFRS, and accordingly IFRS 1 First-time Adoption of International Financial Reporting Standards have been applied. The date of transition to IFRS is 1 January 2017.

The accounting policies applied in these financial statements of the Group are the same as those applied in the financial statements of the Group for the periods ended 31 March 2018, 30 June 2018, and 30 September 2018. The Group has consistently applied the accounting policies throughout all periods presented, as if these policies had always been in effect.

The subsidiary prepares its financial statements for the same accounting period as the parent company, using similar accounting policies. All intra-parent company balances, transactions, income and expenses and profits and losses resulting from intra- parent company/subsidiary transactions that are recognized in assets, are eliminated in full. Also, any unrealized gains and losses arising from intra-parent company/subsidiary transactions are eliminated on consolidation.

2. BASIS OF PREPARATION – CONTINUED

(a) Statement of compliance - continued

An explanation of how the transition to IFRSs has affected the previously reported consolidated financial position as at 1 January 2017 and 31 December 2017 and the Group's consolidated equity for the year ended 31 December 2017 and 31 December 2016 in addition to the items of consolidated statement of profit and loss and other comprehensive income of the Company for the year ended 31 December 2017 is provided in Note (4).

The consolidated financial statements should be read in conjunction with Group's consolidated financial statements for the year ended 31 December 2017 that have been prepared in accordance with generally accepted standards in the Kingdom of Saudi Arabia, and the interim consolidated financial statements of the Group for the periods ended 31 March 2018, 30 June 2018 and 30 September 2018 that have been prepared in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia.

Effective 1 January 2018, the Group has adopted IFRS 15 "Revenue from Contracts with Customers" IFRS 9 "Financial Instruments". The changes in accounting policies are also expected to be reflected in the financial statements of the Group as at and for the year ended 31 December 2018.

The impact of the transition to the application of IFRS 9 is to calculate the expected credit loss model on impairment of financial assets of the Group in accordance with requirements of IFRS 9 'Financial Instruments' amounting to SR 67.7 million as at 1 January 2018 (Note 4) and its value for the year ended 31 December 2018.

The impact of the transition to the application of IFRS 15 is to recalculate the Group's revenue recognition method in accordance with the requirements of IFRS 15 "Revenue from contracts with customers" amounting to SR 12.3 million as at 1 January 2017 (Note 4) and its value of SR 12.9 million for the year ended 31 December 2017.

(b) Basis of consolidation

The subsidiary is consolidated from the date on which the parent company controls the subsidiary until such control ceases. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements have been prepared on the basis of the financial statements of the parent company and the financial statements of the subsidiary.

2. BASIS OF PREPARATION - CONTINUED

(c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost principle, except for the provision for employees' end-of-service benefits, as it is calculated at the present value of future liabilities, and investments at fair value through other comprehensive income where they are measured at fair value.

(d) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) which is the functional currency of the Group.

(e) Use of estimates

The preparation of the consolidated financial statements requires, in accordance with the International Financial Reporting Standards, the use of estimates and assumptions that affect the disclosed balances of assets and liabilities, and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the disclosed amounts of income and expenses for the year in which the consolidated financial statements were prepared.

Although these assumptions and estimates are prepared in accordance with the best current information and events available to management, actual results may differ from these estimates.

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

Information about significant areas of estimates, uncertainties and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the financial statements are as follows:

<u>Measurement of ECLs</u>

ECL is a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows (Note 10).

2. BASIS OF PREPARATION - CONTINUED

(e) Use of estimates - continued

Useful lives of property and equipment

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods (Note 5).

Intangible assets

The management determines the estimated useful lives of intangible assets for calculating amortization. This estimate is determined after considering the expected usage of the intangible assets. Management reviews the residual value and useful lives annually and changes in amortization charges, if any, are adjusted in current and future periods (Note 8).

End-of-service benefits scheme

Cost of defined benefit obligation for employees and other post-employment benefits is identified in accordance with 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 complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit liability is highly sensitive to changes in these assumptions. All assumption are reviewed at the date of preparation of each financial statements (Note 16).

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group in the preparation of its consolidated financial statements are set out below:

Current versus non-current classification of assets and liabilities

The Group presents assets and liabilities in the consolidated statement of financial position as current/ non-current.

Assets are current when:

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

All other assets are classified as non-current.

A liability is current when:

- Expected to be settled in the normal operating cycle.
- 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 liabilities for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Group.

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

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair value measurement – continued

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

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

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

- Level 1: Quoted market prices in active markets for identical assets or liabilities (without adjusting or renewing prices)
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue recognition

Revenue from contracts with customers

The Group recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15:

Step 1: Identify the contract (contracts) with the customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2: Define performance obligations in the contract. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4: Allocate the transaction price to the performance obligations in the contract. For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognize revenue

Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

a) The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

c) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the Group performs.

For performance obligations, where one of the above conditions are not met, revenue is recognized at a point in time at which the performance obligation is satisfied (Note 4).

When the Group satisfies performance obligation through rendering promised services, this will lead to create an asset based on contract against a consideration earned from performance. In case of excess of consideration for which the costumer receives over the amount of revenue recognized, this could result in a contract liability.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue recognition - continued

Revenues are measured at fair value of consideration received or receivable, after taking into account terms of payment contracted, net of taxes and levies. The Group reviews revenue arrangements according to specific criteria to determine whether it is acting as a principal or agent.

Revenue is recognized to the extent that economic benefit will flow to the Group, and revenue and cost, if applicable can be measured reliably.

Foreign currencies

Foreign transactions and balances

Transactions in foreign are initially translated by the Group's entities at the exchange rates prevailing for the relevant functional currency at the date in which the transaction becomes qualified first for recognition.

Monetary assets and liabilities denominated in foreign currency at exchange rates prevailing are translated to the functional currency on the date of preparing the condensed consolidated financial statements. Differences arising on settlement or translation of monetary items are recognized in the consolidated statement of profit or loss and comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-cash items recorded in foreign currencies that are measured at fair value are translated at exchange rates prevailing at the date in which the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in other comprehensive income or consolidated statement of profit or loss, respectively).

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. This cost includes the cost of replacing part of property, plant and equipment and borrowing costs relating to long-term construction projects if the recognition criteria are met. If replacement of important parts of plant and equipment is required in stages, the Group depreciates these parts separately over their useful lives. Likewise, when a major test is performed, its cost is recognized in the carrying amount of plant and equipment as a replacement, if its recognition criteria are met. All other repair and maintenance costs are recognized in the consolidated statement of profit or loss and comprehensive income as incurred. The present value of the expected cost to decommission an asset (if any) is included after utilization under respective asset cost if it meets recognition criteria related to recognizing provision.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, plant and equipment – continued

Any item of property, plant and equipment and any significant part that was initially recognized are derecognized upon disposal or when no future benefits are expected from use or disposal. Any gain or loss arising on derecognition of any asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is recognized in the consolidated statement of profit or loss and other comprehensive income in the period in which the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial period end and adjusted prospectively, if appropriate.

Projects under construction are stated at incurred cost until the assets are prepared for its intended purpose. Then, such cost is capitalized on the relevant assets. This includes the cost of contractors, materials, services and capital advances.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, (or contains), a lease if 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 asset is (or those assets are) not explicitly specified in an arrangement.

The Group As a lessee

Leases are classified, on origination, as finance leases or operating leases. Leases for which all risks and benefits associated with ownership are transferred are classified as finance leases.

Finance leases are capitalized on the lease's inception at fair value of the leased property or, if lower, at present value of the minimum lease payments. Rental payments are split between finance costs and the decrease in lease obligations to reach a constant rate of return on the outstanding balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of profit or loss and comprehensive income.

The leased asset is depreciated over the useful life of the asset. Where there is no reasonable assurance that the ownership will be transferred to the Group at the end of the lease period, the asset is depreciated over the estimated useful life of the asset or lease period, whichever is shorter.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Leases – continued

An operating lease is a lease other than a finance lease. Lease payments under operating leases are recognized as operating expenses in the consolidated statement of profit and loss and comprehensive income on a straight-line basis over the term of the lease.

The Group As a lessor

Leases where the Group does not transfer all significant risks and benefits associated with ownership of the asset are classified as operating leases. Initial direct costs incurred during the negotiation and arrangement of an operating lease are added to the carrying amount of the leased asset and are recognized over the lease term on the same basis as rental income. contingent rentals are recognized as income during the period in which they are recognized.

Intangible assets

On initial recognition, intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is charged to consolidated statement of profit or loss and comprehensive income in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite life is recognized in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but are tested annually for impairment either individually or at the cash-generating unit level. The assessment of indefinite useful life is reviewed annually to ensure that the assessment made for the indefinite useful life is still supported, otherwise the change from "indefinite useful life" to "definite useful life" is made prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Intangible assets – continued

Any gain or loss arising on derecognition of the intangible assets is measured as a difference between the net disposal proceeds and the carrying amount of the assets, and is recognized in the consolidated statement of profit or loss and comprehensive income when the asset is derecognized.

Computer software

Computer software ae recognized at cost less accumulated amortization and accumulated impairment losses. Historical cost includes expenses attributable directly to purchase of items.

Amortization is charged to the statement of profit or loss and comprehensive income using the straight-line method in order to allocate costs on the relevant assets less residual value over the useful lives estimated.

Finance costs

General and specific loan costs and Murabaha financing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized over the period of time required to complete and prepare the asset for use or sale. Investment income earned on the temporary investment of specific loans until disbursed on qualifying assets is deducted from loan costs eligible for capitalization. All other loan costs are expensed in the period in which they are incurred in the consolidated statement of profit or loss and comprehensive income.

Impairment of non-financial assets

The Group assesses at each consolidated financial statements date whether there is objective evidence that a financial asset is impaired. If any such evidence exists, or when it is required to perform annual testing to determine the existence of impairment, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value or cash-generating unit less costs to sell and its present value, and it is determined for each asset except for cases for which asset not resulting in cash inflows largely independent of those resulting from other assets or grope of assets. In cases for which an asset's carrying amount or cash-generating unit exceeds the recoverable amount, an asset is considered impaired, and reduced to recoverable amount.

In assessing present value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In assessing fair value less cost to sell, recent market transactions when available shall be taken into account. If no such transactions can be identified, an appropriate valuation model is used.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Impairment of non-financial assets – continued

The Group calculates the impairments based on information used in calculation detailed budgets and expectations which are prepared independently for each cash-generating unit in the Group in which as asset is allocated. Information used in calculation budgets and expectations covers normally five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

Impairment losses of continuing operations are recognized under expenses in the consolidated statement of profit or loss and other comprehensive income in consistent with the function of the impaired asset.

As for assets, other than goodwill, an assessment is made at each consolidated financial statement date to determine the existence of any indication for unavailability of impairment losses recognized previously or decreased. If such evidence exists, the Group estimates the asset's recoverable amount or cash-generating unit. An impairment loss recognized previously is reversed only if there has been a change in the assumptions used to determine the recoverable amount since recognition of last impairment loss. This reversal is limited such that an asset's carrying amount doesn't exceed its recoverable amount nor the fair value that would have been determined, net of depreciation, had no impairment loss been recognized in prior years. Such reversal is recognized in the consolidated statement of profit or loss and comprehensive income.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Cash and cash equivalents

Cash and cash equivalents shown in the consolidated statement of financial position include cash at banks, cash in hand and short-term deposits with an original maturity of three months or less and are subject to an insignificant risks of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include of cash on hand and short-term deposits, as defined above, less bank overdrafts, if any as they are considered as an integral part of the Group's cash management.

Dividends

The Group recognizes a liability to make cash or non-cash distributions to the shareholders when the distribution is approved and the distribution is no longer at the discretion of the Group. In accordance with the Regulations for Companies in the KSA, final dividends are recognized upon the approval of the General Assembly.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Provisions

Provisions are recognized when the Group has a legal present or expected obligation 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 recognized 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 profit or loss and comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Employees' end-of-service benefits

The Group provides end-of-service benefits to employees that is qualified as defined benefits plan.

Net assets or liabilities of retirement scheme recognized in consolidated statement of financial position is the fair value of plan's assets, if any less the preset value of defined benefits obligation expected at reporting date.

Defined benefit obligation is re-measured periodically by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Interest cost is calculated by applying the discount rate to the net defined benefit obligation and the fair value of plan's assets. This cost is included in employees' benefits expense in the consolidated statement of profit or loss and other comprehensive income.

Costs of defined benefit obligations for the initial periods are calculated on an annual basis using rate of retirement pensions cost actuarially defined at the end of last year, after adjust it with material volatility in the market and any significant events occurred for one time, such as plan amendment or a curtailment in manpower and payment. In the absence of such material volatility in the market and events occurred for one time, actuarial liabilities are carried forward based on assumptions at the beginning of the year. If there are significant changes on assumptions or arrangements during the initial period, re-measurement of such liabilities shall be taken into account.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Employees' end-of-service benefits – continued

Re-measurement gains and losses arising from changes in actuarial assumptions are recognized in the period in which they occur in OCI. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in the consolidated statement of profit or loss and other comprehensive income as past service costs.

Valuations of the obligations under those plans are carried out by an independent actuary based on the projected unit credit method. Costs of such plans initially include the current value of benefits obtained equally for each year of service and the benefits resulting from this obligation related to past employee's service.

Current and past service costs related to post-employment benefits are recognized immediately in the consolidated statement of profit or loss and other comprehensive income while unwinding of the liability at discount rates used are recorded as finance costs. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in other comprehensive income.

In Kingdom of Saudi Arabia, with regard to employees' end-of-service benefits liability, actuarial valuation takes into account Saudi Labor Law and the Group's policy.

Segment reporting

An operating segment is a group of assets and processes that jointly engage in the rendering of products or services subject to risks and rewards that differ from those of other business segments and which are measured in accordance with the reports used by the executive management.

Segment reporting disclosure agree with the information reviewed by the chief operating decision maker. The entity discloses information on the applicable measurement bases, such as the nature and effect of any differences between measurements used in the information on the sectors to report and those measurements used.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standards replaces IAS (39) Financial Instruments.

Classification and Measurement - Financial Assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). This standard eliminates the existing IAS 39 categories of held to maturity, loans and borrowings and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to classification and measurement of financial assets.

Under IFRS 9, on initial recognition, a financial asset is classified as: at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the Group's business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principals and interest on the principal amount outstanding.

Investments at FVTOCI

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The fair value of debt instruments through other comprehensive income is subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. Foreign exchange revenue, gains and losses are recognized in profit or loss.

On initial recognition, for the equity instruments, in the case of investments in equity instruments that are held for non-trading purposes, the Company may make an irrevocable election to designate these investments at fair value through other comprehensive income. Equities are designated (on an instrument-by-instrument basis) upon acquiring equities.

Classification and Measurement - Financial Assets

A financial asset is initially measured at fair value plus, for an item not at FVPTL, transaction costs that are directly attributable to its acquisition (unless it is a trade receivable without a significant financial component that is initially measured at the transaction price).

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition of assets is recognized in profit or loss.

The following accounting policies apply to the subsequent measurement of financial assets:

Financial asset at amortized cost (AC)	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Impairment - financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Impairment - financial assets - continued

Under IFRS 9, loss allowances will be measured on either of the following bases:
- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date;
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. The Group may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group may elect to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group has elected to measure loss allowances for trade receivables at an amount equal to 12-month ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:
- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to additional actions.
- The financial asset is more that 360 days past due.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

(Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Impairment - financial assets - continued

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment
Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impact of the new impairment model
For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirement at 1 January 2018 results in an additional impairment allowance as follows:

Loss allowance at 31 December 2017 under generally accepted accounting standards in the Kingdom of Saudi Arabia	133,946,854
Additional impairment recognized at 1 January 2018	67,752,444
Trade receivables as at 31 December 2017	**1,275,140,819**
Loss allowance at 1 January 2018 under IFRS 9	201,699,298

Trade receivables
The following analysis provides further details about the calculation of ECLs related to trade receivables on the adoption of IFRS 9 Financial Instruments. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past three years. The Group performed the calculation of ECL rates separately for some customers.

(Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Trade receivables - continued

Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, age of relationship and type f product purchased.

	Weighted average loss rate	Carrying Value	Impairment allowance	Present value
0-90 Days	3.42%	671,849,972	(22,971,912)	648,878,060
91-180 days	6.21%	126,641,095	(7,867,701)	118,773,394
181-270 days	7.23%	68,852,236	(4,974,869)	63,877,367
271- 365 days	11.54%	41,901,644	(4,833,554)	37,068,090
1 year to 2 years	18.86%	185,137,572	(34,911,074)	150,226,498
2 years to 3 years	65.93%	141,740,774	(93,454,670)	48,286,104
More than 3 years	83.77%	39,017,526	(32,685,518)	6,332,009
Balance		**1,275,140,819**	**(201,699,298)**	**1,073,441,521**

Balance of impairment allowance provided at 1 January 2018	133,946,854
Impact of adopting IFRS 9 as 1 January 2018	67,752,444

The following table provides information about the exposure to credit risk and ECLS for trade receivables and contract assets for other costumers at 1 January 2018.

Disclosures

IFRS 9 requires extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses.

New standards and not yet effective

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

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New standards and not yet effective - continued

The following new or amended standards are not expected to have a significant effect on the Group's financial statements:

- Annual Improvements to IFRS standards 2015–2017 Cycle – Amendments to IFRS 3 and 11 and IAS 12 and 23.
- IFRS 16 'Leases'
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Plan Amendment, Curtailment or Settlement on employees benefits (Amendments to IAS 19).

IFRS (16) - Leases

The Group is required to adopt IFRS 16 'Leases' from 1 January 2019. The Group has roughly assessed the estimated impact on its consolidated financial statements, as shown below. The actual impacts of adopting the standard on 1 January 2019 may change because:

The new accounting policies are subject to change until the Group presents its interim consolidated financial statements, which include the date of initial application and the policy actually applied.

IFRS 16 introduces a single 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 optional 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.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group As a lessee
The Group will recognize new assets and liabilities for operating leases. Accordingly, the nature of the expenses related to these leases will change to become the depreciation of the right-to-use assets and the interest expense related to the lease liability.

Until 31 December 2018, the Group was recognizing operating lease expense on a straight-line basis over the lease term as well as assets and liabilities to the extent that there is a time difference between the actual lease payments and the expenses recognized.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

IFRS (16) – Leases - continued

In addition, the Group will no longer recognize the operating lease liability, and will instead include the payments due under the lease in the lease liability. It is not expected that there will be a material impact on the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognize additional lease liabilities related to operating leases with an approximate value of SR 56.8 million, with a corresponding reduction of SR 4 million in shareholders' equity and an increase of SR 52.8 million in the assets that represent rights-of-use assets as at 1 January 2019.

Transition

The Group as a lessee is required to apply this Standard to its leases either:

- Retrospectively to each prior reporting period presented applying IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; or
- Retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group will apply the transition retrospectively, with the cumulative effect of the initial application of the standard being recognized on the date of initial application as an adjustment to the balance of retained earnings on 1 January 2019 without reclassification of the comparative financial statements.

Annual Improvements to IFRSs (2015–2017 Cycle)

IAS 23 'Borrowing Costs'

Clarifies that the group of public borrowings used to calculate qualified borrowing costs exclude only borrowings specified to finance qualified assets which are under development or construction. While borrowings specified to finance qualified assets that are ready now for specific use or sell or any other unqualified assets will be included in that public Group. As the costs of the application on a retrospective basis may exceed the benefits, changes are applied on prospective basis on incurred borrowing costs on or after the date on which the entity applies the changes.

4. FIRST TIME ADOPTION OF IFRS

For all periods including the year ended 31 December 2017, the Group only prepared and issued its consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. The Group's consolidated financial statements have been prepared in accordance with in the International Financial Reporting Standards endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization of Certified Public Accountants (SOCPA).

Accordingly, the Group prepared the consolidated financial statements as per requirements of IFRS as endorsed in the Kingdom of Saudi Arabia applicable for periods beginning on or after 1 January 2017, with comparative period data. In preparing the accompanying consolidated financial statements, the Group's opening consolidated statement of financial position was prepared as at 1 January 2017 after making some adjustments required as a result of first time adoption of IFRS as endorsed in the Kingdom of Saudi Arabia.

In preparing the opening consolidated statement of financial position as at 1 January 2017, in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and the consolidated financial statements for the year ended 31 December 2017, the Group has assessed the impact and determined that the following adjustments should be made to amounts previously recorded in the consolidated financial statements prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

Exemptions applied

IFRS 1 allows first-time IFRS adopters some exemptions from retrospective application of some of the requirements specified in IFRSs. The Group has applied the following exemptions:

(a) IFRS 9 'Financial Instruments'

The Group has applied an exemption not to restate comparative information for prior periods with respect to changes in classification and measurement (including impairment). Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are not recognized in retained earnings as at 1 January 2018 as amounts are immaterial.

Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

(Saudi Riyals)

4. FIRST TIME ADOPTION OF IFRS - CONTINUED

b) IFRS 15 'Revenue from contracts with customers'

The Company applied IFRS 15 in its financial statements as of 1 January 2018 using the retrospective method for each reporting period presented in accordance with IAS 8 'Accounting Policies and Changes in Accounting Estimates and Errors' as it used practical expedients for completed contracts, which means that the completed contracts that started and ended in the same comparative period, as well as the contracts completed in the comparative period, have not been restated.

The Group's reconciliation of the financial position as on 1 January 2017 (date of transition to IFRS)

	Note	Saudi Accounting Standards "SOCPA"	Impact of transition to IFRS	IFRSs
ASSETS				
Property, plant and equipment		132,582,338	-	**132,582,338**
Capital work in progress		35,843,182	-	**35,843,182**
Capital leased assets		254,069,571	-	**254,069,571**
Intangible assets		87,355,449	-	**87,355,449**
Non-current assets		509,850,540	-	**509,850,540**
Accounts receivable		1,336,370,178	-	**1,336,370,178**
Accrued revenue		257,500,908	2,443,994	**259,944,902**
Prepayments and other debit balances		57,068,671	-	**57,068,671**
Cash and cash equivalents		224,057,473	-	**224,057,473**
Current assets		1,874,997,230	2,443,994	**1,877,441,224**
Total assets		2,384,847,770	2,443,994	**2,387,291,764**
EQUITIES AND LIABILITIES				
Issued and paid-up share capital		50,000,000	-	**50,000,000**
Statutory reserve		25,000,000	-	**25,000,000**
Retained earnings		1,150,442,586	(30,753,177)	**1,119,689,409**
Total equity		1,225,442,586	(30,753,177)	**1,194,689,409**
Liabilities				
Capital lease liability - non-current portion		164,696,290	-	**164,696,290**
Provision for employees' end-of-service benefits	*c-1*	78,097,408	18,490,743	**96,588,151**
Non-current liabilities		242,793,698	18,490,743	**261,284,441**
Accounts payable		286,416,474	-	**286,416,474**
Deferred revenue		95,056,939	-	**95,056,939**
Accrued expenses and other liabilities		513,955,230	14,706,428	**528,661,658**
Capital lease liability - current portion		21,182,843	-	**21,182,843**
Current liabilities		916,611,486	14,706,428	**931,317,914**
Total liabilities		1,159,405,184	33,197,171	**1,192,602,355**
Total equity and liabilities		2,384,847,770	2,443,994	**2,387,291,764**

(Saudi Riyals)

4. FIRST TIME ADOPTION OF IFRS - CONTINUED

The Group reconciliation of the financial position as at 31 December 2017

	Note	Saudi Accounting Standards "SOCPA"	Impact of transition to IFRS	IFRSs
ASSETS				
Property, plant and equipment		100,869,159	-	**100,869,159**
Capital work in progress		46,590,601	-	**46,590,601**
Capital leased assets		254,069,571	-	**254,069,571**
Intangible assets		60,549,482	-	**60,549,482**
Non-current assets		462,078,813	-	**462,078,813**
Accounts receivable		1,162,639,852	(21,445,887)	**1,141,193,965**
Accrued revenue		219,754,192	(2,820,945)	**216,933,247**
Prepayments and other debit balances		51,870,964	9,339,177	**61,210,141**
Cash and cash equivalents		486,120,691	-	**486,120,691**
Current assets		1,920,385,699	(14,927,655)	**1,905,458,044**
Total assets		2,382,464,512	(14,927,655)	**2,367,536,857**
EQUITIES AND LIABILITIES				
Issued and paid-up share capital		50,000,000	-	**50,000,000**
Statutory reserve		25,000,000	-	**25,000,000**
Retained earnings	c-2	1,151,639,282	(48,735,621)	**1,102,903,661**
Total equity		1,226,639,282	(48,735,621)	**1,177,903,661**
Liabilities				
Capital lease liability - non-current portion		142,957,326	-	**142,957,326**
Provision for employees' end-of-service benefits	c-1	96,236,614	23,564,790	**119,801,404**
Non-current liabilities		239,193,940	23,564,790	**262,758,730**
Accounts payable		226,448,852	-	**226,448,852**
Deferred revenue		102,904,310	-	**102,904,310**
Accrued expenses and other liabilities		565,539,164	10,243,176	**575,782,340**
Capital lease liability - current portion		21,738,964	-	**21,738,964**
Current liabilities		916,631,290	10,243,176	**926,874,466**
Total liabilities		1,155,825,230	33,807,966	**1,189,633,196**
Total equity and liabilities		2,382,464,512	(14,927,655)	**2,367,536,857**

(Saudi Riyals)

4. FIRST TIME ADOPTION OF IFRS - CONTINUED

The Group reconciliation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	Note	Saudi Accounting Standards "SOCPA"	Impact of transition to IFRS	IFRSs
Revenue		2,003,785,133	(22,247,574)	**1,981,537,559**
Cost of revenue		(1,292,646,465)	7,305,662	**(1,285,340,803)**
Gross profit		711,138,668	(14,941,912)	**696,196,756**
Selling and marketing		(147,551,911)	(232,484)	**(147,784,395)**
General and administrative		(193,445,529)	(647,294)	**(194,092,823)**
Amortization and depreciation		(67,999,307)	-	**(67,999,307)**
Operations profit		302,141,921	(14,062,134)	**286,320,231**
Finance costs		(6,865,730)	-	**(6,865,730)**
Return on short-term deposits		485,180	-	**485,180**
Reversal of Zakat provision		84,111,397		**84,111,397**
Other income		4,559,345	-	**4,559,345**
Net income for the year		384,432,113	(14,062,134)	**368,610,423**
Other comprehensive income		-	-	-
Re-measurement for end-of-service benefits		-	(2,160,754)	**(2,160,754)**
		384,432,113	(17,982,444)	**366,449,669**

The Group reconciliation of statement of changes in equity:

	1 January 2018	31 December 2017	1 January 2017
Equity as per Saudi accounting standards "SOCPA"	**1,226,639,282**	1,226,639,282	1,225,442,586
Provision for end-of-service benefits (Note 4-c-1)	**(20,651,497)**	(20,651,497)	(18,490,743)
Adjustments of revenue (Note 4-c-2)	**(25,170,831)**	(25,170,831)	(12,262,434)
Adjustment of Provision for doubtful debts (Note 4-c-3)	**(67,752,444)**	-	-
Equity as per IFRS	**1,035,151,217**	1,102,903,661	1,119,689,409

4. FIRST TIME ADOPTION OF IFRS - CONTINUED

Notes to the main effects on the consolidated financial statements regarding the transition to IFRS

(c.1) Provision for employees' end-of-service benefits

The Group has recognized the costs related to post-employment benefits as per the Saudi Labor Law. In accordance with IFRS, pension obligations are recognized on an actuarial basis. The retirement liability was recognized in full against retained earnings.

(c-2) Revenue recognition

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Services rendered	Nature and timing of satisfaction of performance obligations, including significant payment terms	Nature of change in accounting policy
Electronic services sector Outsource services Information technology services Training solutions services	Revenue is recognized when the risks and rewards of the ownership have been transferred to the customer. Revenue is recognized at that time provided that such revenue and costs can be measured reliably, the recovery of the amount is probable and there is no continuing managerial involvement with the goods.	In accordance with IFRS 15, revenue is recognized when the customer obtains control. This is done when the service is accepted and delivered, so that at that time invoices are issued and the revenue recognized.

(c-3) Allowance for doubtful debt

On application of IFRS 9, the allowance for doubtful debts is calculated using the expected credit loss related to trade receivables method instead of calculating the allowance using the aging debt method.

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5. PROPERTY, PLANT AND EQUIPMENT

IT Devices	20% - 33.3%	Leasehold Improvement	20%
Furniture and Fixture	20%	Vehicles	25%
Furniture and fixtures	20%	Motor vehicles	25%

	IT devices	Furniture and fixtures	Leasehold improvements	Vehicles	Total
Cost					
Balance as at 1 January 2017	40,875,749	38,397,145	117,265,361	10,357,258	**206,895,513**
Additions during the year	5,791,895	1,343,721	-	1,982,960	**9,118,576**
Disposals during the year	(222,685)	(1,588,996)	(3,877,433)	(2,949,158)	**(8,638,272)**
Transfers during the year	-	-	1,300,005	-	**1,300,005**
Balance as at 31 December 2017	46,444,959	38,151,870	114,687,933	9,391,060	**208,675,822**
Additions during the year	9,029,704	1,096,631	-	212,200	**10,338,535**
Disposals during the year	(483,881)	(5,856,364)	(11,786,405)	(2,240,000)	**(20,366,650)**
Balance as at 31 December 2018	**54,990,782**	**33,392,137**	**102,901,528**	**7,363,260**	**198,647,707**
Accumulated depreciation					
Balance as at 1 January 2017	26,874,324	18,340,557	22,463,528	6,634,766	**74,313,175**
Depreciation during the year	7,779,354	6,499,411	24,934,398	1,980,177	**41,193,340**
Disposals during the year	(89,301)	(1,320,906)	(3,837,649)	(2,451,996)	**(7,699,852)**
Balance as at 31 December 2017	34,564,377	23,519,062	43,560,277	6,162,947	**107,806,663**
Depreciation during the year	7,533,893	5,340,442	19,590,711	1,427,058	**33,892,104**
Disposals during the year	(277,786)	(5,550,517)	(11,525,776)	(2,240,000)	**(19,594,079)**
Balance as at 31 December 2018	**41,820,484**	**23,308,987**	**51,625,212**	**5,350,005**	**122,104,688**
Net carrying amount					
As at 31 December 2018	**13,170,298**	**10,083,150**	**51,276,316**	**2,013,255**	**76,543,019**
As at 31 December 2017	11,880,582	14,632,808	71,127,656	3,228,113	100,869,159
As at 1 January 2017	14,001,425	20,056,588	94,801,833	3,722,492	132,582,338

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6. CAPITAL WORK IN PROGRESS

Capital work in progress consist of the following:

	31 December 2018	31 December 2017	1 January 2017
Main building of the Group (a)	-	46,590,601	34,543,177
Additional buildings of the Group (b)	**1,533,727**	-	1,300,005
Platforms and electronic products (c)	**5,486,244**	-	-
At the end of the year	**7,019,971**	46,590,601	35,843,182

The movement in payments for capital work was as follows:

	31 December 2018	31 December 2017	1 January 2017
Balance at beginning of the year	**46,590,601**	35,843,182	74,680,823
Additions	**12,657,960**	12,047,424	46,753,627
Transferred to capital leased assets (Note 7)	**(52,228,590)**	(1,300,005)	(85,591,268)
At the end of the year	**7,019,971**	46,590,601	35,843,182

a) During 2011, the Group entered into an agreement to purchase a land and construct a building in the Information and Communication Technology Complex, with a total value of SR 293.4 million. Under this agreement, the Company that owns the project will carry out construction work to construct the building according to the terms and specifications stipulated in the agreement. During 2011, the Group has paid the entire value of the land amounting to SR 25.7 million, provided that it will pay the annual installments related to the construction of the building according to the schedule of payments for a period of thirteen years, with a total value of SR 267.7 million, starting from the date of signing the purchase and construction agreement. The building was completed and relocated during the first quarter of 2018 (Note 7).

b) Group headquarters building (2): The building was completed and relocated during the fourth quarter of 2016. In addition to the "Elm" office in Jeddah, as the project started on 15 September 2018, it is expected to be completed on 31 March 2019, with works valued at SR 1,533,727.

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6. CAPITAL WORK IN PROGRESS - CONTINUED

c) The line item of platforms and electronic products represents as follows:

- Elm X platform is the platform that will provide a horizontal set of shared services for Elm products, projects, and services, allowing fast rendering of basic Elm services and the expected completion date is in July 2019, with works of SR 1,968,373.
- Digital payment Platform that will be implemented and will enable Elm to accept payments for its products and services through various payment methods such as Mada (debit card payments), Visa, MasterCard, and Sadad with an expected completion date in February 2019, with works of SR 1,703,665.
- Elm Inspection platform is a platform owned by Elm and will be used for inspection purposes with an expected completion date in January 2019, with works of SR 1,814,206.

7. CAPITAL LEASES

Disclosures related to the consolidated statement of financial position

	Lands	Buildings	Total
Cost			
Balance as at 1 January 2017	25,760,000	228,309,571	**254,069,571**
Balance as at 31 December 2017	25,760,000	228,309,571	**254,069,571**
Additions during the year	-	127,039	**127,039**
Transfers during the year	-	52,228,590	**52,228,590**
Amortization during the year	-	(7,130,224)	**(7,130,224)**
Balance as at 31 December 2018	25,760,000	273,534,976	**299,294,976**

The liabilities relating to the capital lease consist of the following:

	31 December 2018	31 December 2017	1 January 2017
Capital lease liabilities - current portion	**22,309,685**	21,738,964	21,182,843
Capital lease liabilities - non-current portion	**120,647,641**	142,957,326	164,696,290

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7. CAPITAL LEASES - CONTINUED

An analysis of the lease payments for the next five years in aggregate is as follows:

Year	value
2020	**22,895,389**
2021	**23,496,470**
2022	**24,113,331**
2023	**24,746,387**
2024	**25,396,064**
	120,647,641

Disclosures related to the consolidated statement of profit or loss

	31 December 2018	31 December 2017
Depreciation charge	**(7,130,224)**	-
Finance costs	**(4,555,548)**	(5,105,741)
Total	**(11,685,772)**	(5,105,741)

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8. INTANGIBLE ASSETS

	Total
Cost	
Balance as at 1 January 2017	128,381,002
Balance as at 31 December 2017	128,381,002
Balance as at 31 December 2018	**128,381,002**
Accumulated amortization	
Balance as at 1 January 2017	41,025,553
Amortization during the year	26,805,967
Balance as at 31 December 2017	67,831,520
Amortization during the year	26,805,969
Balance as at 31 December 2018	**94,637,489**
Net carrying amount	
As at 31 December 2018	**33,743,513**
As at 31 December 2017	60,549,482
As at 1 January 2017	87,355,449

9. INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2018	31 December 2017	1 January 2017
Unifonic Company*	**4,694,375**	-	-

* Unifonic Company was incorporated according to the Virgin Islands Business Companies law. The number of shares owned is 1,562,500 shares of USD 0.01 per share, which were purchased at a value of USD 0.8 equivalent to SR 3.0044 per share, which constitutes 1.2% of the total shares paid as at 31 December 2018.

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10. ACCOUNTS RECEIVABLE

The accounts receivable as at 31 December consist of the following:

	31 December 2018	31 December 2017	1 January 2017
Government receivables	**866,448,747**	980,941,811	1,160,862,212
Trade receivables	**409,991,406**	294,199,008	223,862,573
	1,276,440,153	1,275,140,819	1,384,724,785
Allowance for doubtful debts	**(184,430,197)**	(133,946,854)	(48,354,607)
	1,092,009,956	1,141,193,965	1,336,370,178

Movement in provision for doubtful debts was as follows:

	31 December 2018	31 December 2017	1 January 2017
Balance at beginning of the year	**133,946,854**	48,354,607	32,347,311
Impact of adopting IFRS 9 (Note 4-c-3)	**67,752,444**	-	-
Provided during the year	**3,135,636**	85,955,598	16,007,296
Provision reversed during the year	**(20,404,737)**	(363,351)	-
At the end of the year	**184,430,197**	133,946,854	48,354,607

11. ACCRUED REVENUE

Accrued revenue represent revenue earned from services performed by the Group during the year that were not invoiced to customers until the date of the consolidated financial statements, and those revenues will be invoiced during subsequent periods.

Accrued revenue as at 31 December comprise the following:

	31 December 2018	31 December 2017	1 January 2017
Government receivables	**290,947,216**	214,363,042	242,840,575
Trade receivables	**56,137,696**	3,797,502	17,144,276
	347,084,912	218,160,544	259,984,851
Allowance for doubtful debts	**(23,397,635)**	(1,227,297)	(39,949)
	323,687,277	216,933,247	259,944,902

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11. ACCRUED REVENUE - CONTINUED

Movement in provision for doubtful debts was as follows:

	31 December 2018	31 December 2017	1 January 2017
Balance at beginning of the year	**1,227,297**	39,949	4,640,753
Provided during the year	**22,170,338**	1,227,297	39,949
Provision reversed during the year	**-**	(39,949)	(4,640,753)
At the end of the year	**23,397,635**	1,227,297	39,949

12. PREPAID EXPENSES AND OTHER DEBIT BALANCES

Prepaid expenses and other receivables as at 31 December comprise of the following:

	31 December 2018	31 December 2017	1 January 2017
Employees' receivables	**27,997,220**	19,701,021	19,102,868
Deposit and prepaid rent	**25,316,975**	17,890,292	19,937,433
Deferred cost	**16,551,151**	19,760,024	13,857,245
Advances to suppliers	**11,548,597**	3,018,717	1,322,023
Others	**911,973**	840,087	2,849,102
	82,325,916	61,210,141	57,068,671

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, comprise the following:

	31 December 2018	31 December 2017	1 January 2017
Balances with banks	**74,461,635**	285,635,511	224,057,473
Short-term Murabaha deposits*	**120,000,000**	200,485,180	-
	194,461,635	486,120,691	224,057,473

* The balance of short-term Murabaha deposits consists of short-term deposits mature between one to three months. The average commission is 1.76% annually. During the year ended 31 December 2018, the consolidated statement of profit or loss was charged with total deposit income of SR 3.1 million (2017: SR 485 thousand).

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14. BANK DEPOSITS

The balance of long-term bank deposits consists of long-term deposits with a term of more than three months. The average commission is 3.61% annually. The consolidated statement of profit or loss and other comprehensive income has been charged with a total deposit income of SR 101.8 thousand during the year ended 31 December 2018.

15. ISSUED AND PAID-UP SHARE CAPITAL

The issued and fully paid up capital consists of 5,000,000 shares, with a par value of SR 10 per share.

16. PROVISION FOR EMPLOYEES' END-OF-SERVICE BENEFITS

Key actuarial assumption	Annual value (%)
Financial assumptions:	
- Net discount rate	**5%**
- Salary increase rate	**5%**
Demographic assumptions:	
- Retirement age	60
- Employee turnover rates	Group A: 16.1% Group B: 11% Group C: 15.7%
- Mortality rate	From AM table (80)
- Resignations rate	80%
- Termination rate	20%

Expenses of provision for employees' end-of-service benefits

	31 December 2018	31 December 2017
Current service cost	**33,811,485**	29,335,697

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16. PROVISION FOR EMPLOYEES' END-OF-SERVICE BENEFITS - CONTINUED

Movement in the present value of employees' end-of-service benefits

	31 December 2018	31 December 2017	1 January 2017
Opening balance - present value of employees' end-of-service benefits	**119,801,404**	96,588,151	56,835,315
Current service cost	**27,821,415**	24,506,290	24,279,110
Current service financing cost	**5,990,070**	4,829,407	-
Benefits paid	**(15,503,165)**	(8,283,198)	(3,017,017)
Actuarial loss arising from liability	**5,919,247**	2,160,754	18,490,743
Closing balance of the provision for employees' end of service benefits	**144,028,971**	119,801,404	96,588,151

Sensitivity analysis for actuarial assumptions is as follows:

	31 December 2018		31 December 2017	
	Increase	Decrease	Increase	Decrease
Discount rate (1 % movement)	**(13,791,656)**	**16,389,784**	(13,224,049)	15,938,179
Rate of salary increase (1% movement)	**16,597,621**	**(14,220,384)**	16,094,201	(13,593,711)
Mortality rate (10% movement)	**(25,001)**	**25,070**	(38,401)	10,362
Employees' turnover rate (10% movement)	**(2,085,854)**	**2,241,661**	(1,842,791)	1,935,233

17. ACCOUNTS PAYABLE

Accounts payable are amounts which are due to suppliers that have not paid up to the date of the consolidated financial statements. These liabilities resulted from transactions with suppliers linked to the Group's operations and capital expansions. It is expected that the outstanding amounts will be paid to suppliers within a period of less than one year.

18. DEFERRED REVENUE

Deferred revenue represents revenue received in advance from contracts that the Group has not completed or did not generate revenue up to the date of the consolidated financial statements, in accordance with the terms of the contract. It is expected that these revenues will be realized in subsequent periods less than a year.

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19. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	31 December 2018	31 December 2017	1 January 2017
Contractual costs	**265,123,832**	189,515,761	238,324,307
Employees' payable	**165,264,361**	159,265,066	133,086,536
Advances from customers	**54,517,181**	39,771,120	25,729,059
Unpaid dividends	**28,129,256**	148,086,503	109,394,246
Marketing and sales commissions	**20,271,824**	26,725,023	4,684,656
Others	**12,522,945**	12,418,867	17,442,854
	545,829,399	575,782,340	528,661,658

20. COSTS OF REVENUE

Operating costs for the period ended 31 December comprise of the following:

	31 December 2018	31 December 2017
Employees' salaries and benefits	**702,080,707**	631,501,952
Direct costs	**504,325,453**	653,838,851
	1,206,406,160	1,285,340,803

21. SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the year ended December 31 comprise the following:

	31 December 2018	31 December 2017
Employees' salaries and benefits	**48,608,512**	49,183,197
Advertisements and exhibitions	**9,519,812**	3,628,476
Public relations	**6,229,090**	6,142,319
Allowance for doubtful debts (Notes 10, 11)	**-**	87,142,945
Other expenses	**5,827,629**	1,687,458
	70,185,043	147,784,395

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22. GENERAL AND ADMINISTRATIVE EXPENSES

General and administration expenses for the year ended 31 December comprise of the following:

	31 December 2018	31 December 2017
Employees' salaries and benefits	141,250,261	125,005,512
Rental	18,230,347	19,895,178
Consultancy and professional services	15,429,976	13,146,457
Hospitality and activities	10,508,789	8,419,456
Board's and committees' remuneration	6,189,000	1,107,500
Utilities and communication	4,558,547	12,409,982
Other expenses	20,855,733	14,108,738
	217,022,653	194,092,823

23. OTHER INCOME

Other income for the year ended 31 December comprise the following:

	31 December 2018	31 December 2017
Funds received from Human Resources Development Fund to support Saudization	4,099,727	4,257,132
Elm Building rental gains (4)	2,060,000	-
Others	107,644	302,213
	6,267,371	4,559,345

24. TRANSACTIONS WITH RELATED PARTIES

Related parties consist of shareholders of the Group, associated and affiliated companies, directors and top management personnel. Terms and conditions of these transactions are approved by the Group's management. In accordance with the normal circumstances of transactions, the group conducts transactions with related parties including dealing with the Public Investment Fund (the main shareholder), members of the board of directors, executives and other companies owned by the Public Investment Fund or members of the board of directors of those companies. All of these transactions are carried out according to the terms agreed by the management of the Group. During the year

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24. TRANSACTIONS WITH RELATED PARTIES - CONTINUED

the Group conducted transactions with the following related parties:

Party	Relationship
Public Investment Fund	Owner
Key management personnel	Employees
Board Members	Members

The transactions with related parties are similar to the business transactions with external parties. Details of the significant translations with related parties during the year ended 31 December is as follows:

	2018	2017
Transactions with owner		
Services revenue	**8,617,877**	2,637,495
Dividends	**256,258,512**	383,235,417
Transactions with the Board of Directors and key management personnel		
Salaries and benefits	**20,651,679**	15,145,910
Bonus and allowances	**7,357,597**	5,393,465
End-of service benefits	**3,631,503**	2,143,055

	2018	2017
Balances		
Due from related parties included in account receivable for service income	**8,993,660**	663,108
Due to related parties included in accrued expenses and other liabilities for dividend distribution	**28,129,256**	148,086,503
End-of-service benefits for key management personnel	**15,071,694**	11,379,514

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25. SEGMENT INFORMATION

The following are the selected financial information for these sectors:

For the year ended 31 December 2018	**Products group**	**Digital support**	**Specialized digital solutions**	**Consulting**	**Training solutions**	**Total**
Revenue	**1,042,271,756**	**326,294,625**	**380,370,588**	**118,305,906**	**58,467,332**	**1,925,710,207**
Employees costs	**(188,164,002)**	**(263,137,369)**	**(195,804,473)**	**(34,721,550)**	**(20,253,313)**	**(702,080,707)**
Direct cost	**(204,853,771)**	**(49,500,713)**	**(154,165,494)**	**(59,703,608)**	**(36,101,867)**	**(504,325,453)**
Gross profit	**649,253,983**	**13,656,543**	**30,400,621**	**23,880,748**	**2,112,152**	**719,304,047**
Profit margin	**62%**	**4%**	**8%**	**20%**	**4%**	**37%**
Total assets	**1,328,895,587**	**416,025,365**	**484,972,171**	**150,839,928**	**74,545,797**	**2,455,278,848**
Total liabilities	**672,746,095**	**210,610,557**	**245,514,499**	**76,361,885**	**37,738,401**	**1,242,971,437**

For the year ended 31 December 2017	Products group	Digital support	Specialized digital solutions	Consulting	Training solutions	**Total**
Revenue	925,876,115	407,707,893	438,885,908	66,311,151	142,756,492	**1,981,537,559**
Employees costs	(115,468,024)	(240,619,988)	(220,606,685)	(28,184,722)	(26,622,533)	**(631,501,952)**
Direct cost	(191,046,346)	(77,052,328)	(272,385,289)	(30,084,812)	(83,270,076)	**(653,838,851)**
Gross profit	619,361,745	90,035,577	(54,106,066)	8,041,617	32,863,883	**696,196,756**
Profit margin	67%	22%	(12%)	12%	23%	**35%**
Total assets	1,106,234,811	487,128,523	524,379,948	79,228,422	170,565,153	**2,367,536,857**
Total liabilities	555,857,726	244,770,957	263,488,947	39,810,473	85,705,093	**1,189,633,196**

26. ZAKAT

The Group filed the Zakat returns and received against it an empowerment letter from the General Authority of Zakat and Tax until the end of the financial year ended 31 December 2017, which ends on 30 April 2019. The Group has not received any Zakat assessments for previous year up to 31 December 2017. As the group is 100% owned by the Public Investment Fund, and based on the correspondence that was made with the GAZT, it does not oblige the Group to pay and provide the Group with an annual facilities letter, while the Group must still maintain regular accounts, issue audited financial statements, register with the GAZT, and take into consideration regular dates in submitting the annual Zakat return for the purpose of information only, and provide GAZT with information about contracts entered into with other parties in addition to any other contracts and committing to the withholding taxes and its procedures.

During the fourth quarter of the year 2017, the Company completely reversed the Zakat provision of SR 84.1 million, which represents the provision made for the years from 2013 to 2016, based on the letter of the General Authority for Zakat and Income dated 10 May 2017 stating that the government companies subject to Zakat is still under study by GAZT, and that government companies are required to file Zakat returns without paying the amount due for information purposes only.

27. CONTINGENCIES

As at 31 December 2018, the Group has outstanding bank guarantee letters from a local bank amounting to SR 26,8 (31 December 2017: SR 9 million).

28. EARNINGS PER SHARE

Earnings per share for the year was calculated by dividing the income from operations and net income for the year by the number of shares outstanding at the end of the year.

29. DIVIDENDS

At its meeting held on 23 Sha'aban 1439H (corresponding to 9 May 2018), the Ordinary General Assembly approved the distribution of dividends to shareholders for the year 2017 in the amount of SR 256,258,512 (2016: SR 383,235,417) at SR 51.2517 per share in addition to Board of directors' remuneration in the amount of SR 735,000.

(Saudi Riyals)

30. RISK MANAGEMENT

a. Commission rate risk

Is the risk that the value of a financial instrument will fluctuate due to changes in the market commission rates. As there are no commission bearing assets or liabilities, the Group is not subject to commission rate fluctuation risk.

b. Interest rate risk

It is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Company's interest rate risk arise mainly from short term bank deposits and bank debts and long term debts, which are at floating rates of interest. All loans and deposits are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Group are not significant.

c. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amounts of accounts receivable and accrued revenue represent the maximum exposure to credit risk.

Impairment losses on accounts receivable and accrued revenue recognized in profit or loss were as follows:

	2018	2017
Impairment loss on accounts receivable and accrued revenue (Notes 10, 11)	**4,901,237**	-

At 31 December 2018, the exposure to credit risk for accounts receivable and accrued revenue by type of client (government or non-government) was as follows:

	Accounts receivable		**Accrued revenue**	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Government receivables	**866,448,747**	980,941,811	**290,947,216**	214,363,042
Trade receivables	**409,991,406**	294,199,008	**56,137,696**	3,797,502
	1,276,440,153	1,275,140,819	**347,084,912**	218,160,544

(Saudi Riyals)

30. RISK MANAGEMENT - CONTINUED

c. Credit risk - continued

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available information about customers) and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The following table provides information about the exposure to credit risk and ECLs for accounts receivable and accrued revenue for government clients as at 31 December 2018:

Government receivables

31 December 2018	Credit rating	Weighted-average loss rate	Gross carrying amount	Impairment loss allowance	Non-credit impaired
Grades 1-6: Low risk	AAA to -BBB	0.037%	838,557,415	311,073	No
Grade 12: Loss	D	100%	27,891,332	27,891,332	Yes
			866,448,747	**28,202,405**	

Government accrued revenue:

31 December 2018	Credit rating	Weighted-average loss rate	Gross carrying amount	Impairment loss allowance	Non-credit impaired
Grades 1-6: Low risk	AAA to -BBB	0.037%	273,738,753	101,544	No
Grade 12: Loss	D	100%	17,208,463	17,208,463	Yes
			290,947,216	**17,310,007**	

Loss rates are calculated using a 'roll rate' method based on the probability of accounts receivable and accrued revenue progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the common credit risk characteristics.

(Saudi Riyals)

30 RISK MANAGEMENT - CONTINUED

c. Credit risk - continued

The following table provides information about the exposure to credit risk and ECLs for accounts receivable and accrued revenue for non-government clients as at 31 December 2018:

	Non-government accounts receivable			
31 December 2018	Weighted-average loss rate	Gross carrying amount	Impairment loss allowance	Non-credit impaired
Past due 1–90 days	10.44%	146,512,276	15,293,962	No
Past due 91–180 days	10.44%	59,883,376	6,251,040	No
Past due 181–270 days	30.86%	86,845,061	26,803,280	No
Past due 271-360 days	44.44%	720,749	320,311	No
Past due 361-450 days	57.07%	752,959	429,728	No
Past due 451–540 days	70.20%	127,358	89,406	No
Past due 541–630 days	73.35%	560,505	411,140	No
Past due 631–720 days	78.76%	1,276,744	1,005,618	No
Past due 721–810 days	80.48%	14,014,966	11,278,644	No
Past due 811–900 days	81.04%	5,765,446	4,672,143	No
Past due 901–990 days	82.43%	21,671,492	17,864,507	No
Past due 991–1080 days	91.54%	620,032	567,572	No
Past due for more than 3 years	100.00%	71,240,441	71,240,441	Yes
Total		**409,991,405**	**156,227,792**	

	Non-government accrued revenue:			
31 December 2018	Weighted-average loss rate	Gross carrying amount	Impairment loss allowance	Non-credit impaired
Past due 1–90 days	6.13%	32,463,401	1,990,270	No
Past due 91–180 days	6.13%	14,410,563	883,484	No
Past due 181–270 days	25.50%	6,153,370	1,568,891	No
Past due 271-360 days	44.03%	1,591,410	700,685	No
Past due 361-450 days	53.21%	308,544	164,180	No
Past due 451–540 days	60.64%	623,010	377,808	No
Past due 541–630 days	67.17%	289,198	194,244	No
Past due 631–720 days	67.17%	263,090	176,708	No
Past due 721–810 days	0.00%	-	-	No
Past due 811–900 days	0.00%	-	-	No
Past due 901–990 days	76.90%	16,247	12,494	No
Past due 991–1080 days	0.00%	-	-	No
Past due for more than 3 years	100.00%	18,864	18,864	Yes
Total		56,137,697	6,087,628	

30 RISK MANAGEMENT - CONTINUED

c. Credit risk - continued

Loss rates are based on actual credit loss experience over the past three years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The movement in the allowance for impairment in respect of trade receivables and accrued revenue during the year was as follows:

	2018
Balance at 1 January as per Saudi accounting standards"SOCPA"	135,174,151
Adjustment on initial application of IFRS 9	67,752,444
Balance at 1 January under IFRS 9	202,926,595
Net re-measurement of loss allowance	4,901,237
Balance at 31 December	207,827,832

d. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations related to financial liabilities when they fall due. The Group limits its liquidity risk by ensuring that self-liquidity required are continually available.

e. The risk of fluctuation in currency exchange rates

Currency risk is the risk that a financial instrument will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than USD, GBP and EUR during the year. The Group is not exposed to risk of fluctuation in currency exchange rates during the year. Also, the management does not expect the Group to significantly undertake transactions related to such risk in the future.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties is an arm's length transaction.

Financial assets of the Group comprise of bank balances, trade receivables and accrued revenue. Financial labilities comprise of accounts payables, deferred revenue and advances from service providers. The fair values of financial instruments are not materially different from their carrying values.

32 APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on 26 Rajab 1440H (corresponding to 2 April 2019).