

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

1. GENERAL INFORMATION

Late Sheikh Abdullah Abdul Mohsin Al-Khodari founded a sole proprietorship in the Kingdom of Saudi Arabia in 1966 as general contracting. It was converted to a Saudi limited partnership under the name of Abdullah Abdul Mohsin Al-Khodari Sons Company on 25 Rajab 1412H corresponding to January 30, 1992. It was again converted into a Saudi Closed Joint Stock Company in accordance with Ministerial Resolution Number 152/Q dated 16 Jumad Awal 1430H (corresponding to May 11, 2009).

On June 27, 2010, Capital Market Authority accepted the application of the management of the Company for initial public offering of 12.75 million shares at Saudi Riyal 48 per share with the subscription date from 4 to 10 October 2010. From October 23, 2010, the shares of the Company have been listed at Saudi Stock Exchange. As at September 30, 2017, the share capital of the Company comprises of 55,781,250 shares of SR 10 each (December 31, 2016: 55,781,250 shares of SR 10 each).

The Company is registered in Saudi Arabia under Commercial Registration number 2050022550. The head office of the Company is located in Khobar and following are the details of the branches of the Company:

Sr. No.	Commercial Registration Number of Branch	Branch Location	Commercial Registration Expiry Date
1	2055010732	Al-Jubail, Kingdom of Saudi Arabia	19/07/1440H
2	2051022661	Al-Khobar, Kingdom of Saudi Arabia	19/02/1439H
3	2050046483	Al-Dammam, Kingdom of Saudi Arabia	19/06/1440H
4	4700004976	Yanbu, Kingdom of Saudi Arabia	19/06/1440H
5	2051020011	Al-Khobar, Kingdom of Saudi Arabia	19/06/1440H
6	4030091835	Jeddah, Kingdom of Saudi Arabia	19/06/1440H
7	4650023682	Al-Madina Al-Munawara, Kingdom of Saudi Arabia	19/06/1440H
8	2050055132	Al-Dammam, Kingdom of Saudi Arabia	17/05/1439H
9	2051022869	Al-Khobar, Kingdom of Saudi Arabia	13/06/1439H
10	CN-1207723	Abu Dhabi, United Arab Emirates	26/07/2017G*
11	EXT-707	Republic of Ghana	21/05/2017G*
12	343067	State of Kuwait	26/09/2018G
13	1010366806	Al-Riyadh, Kingdom of Saudi Arabia	27/04/1439H
14	86824-I	Kingdom of Bahrain	12/09/2017G*
15	3450015250	ARAR, Kingdom of Saudi Arabia	02/08/1442H
16	1010461107	Al-Riyadh, Kingdom of Saudi Arabia	02/08/1442H
17	5900034604	Jizan, Kingdom of Saudi Arabia	02/08/1442H
18	4032050375	Taif, Kingdom of Saudi Arabia	02/08/1442H
19	2511024989	Hafr Al-Batin, Kingdom of Saudi Arabia	02/08/1442H

* As at September 30, 2017, CRs of three branches of the Group were expired. The management of the Group is in the process of renewing the expired CRs.

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**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

At September 30, 2017, the Company has investments in the following effectively wholly owned subsidiaries (collectively referred to as "Group"):

Subsidiary name	Country of incorporation	Principal business Activity	Ownership interest (%)	
			30 September 2017	31 December 2016
Abdulla Abdul Mohsin Al Khodari Sons Company, Qatar	Qatar	Construction and Contracting	100%	100%
Al Khodari International group of Contracting L.L.C., Kuwait	Kuwait	Construction and Contracting	99%	99%
Al Khodari International, Abu Dhabi	United Arab Emirates	Construction and Contracting	49%	49%

The Group is engaged in the following activities:

- General contracting works related to construction, renovation and demolition, roads, water and sewage system works, mechanical works, marine works, dams and well drilling.
- Maintenance and operation of roads and tunnels, irrigation sewage and dams, airports, power plants-sewage systems, training and educational centers, playgrounds, provisional and permanent exhibitions.
- Janitorial services, municipality works, commercial and residential building cleaning - landscaping, park cleaning and maintenance, disposal of wastes - cleaning of petroleum tanks and pipes.
- Air conditioning and refrigeration works.
- Travel and tourism.
- Cargo haulage.
- Publicity and advertisement.
- Management and operation of hospitals and health centers.
- Training centers.
- Management of hazardous industrial wastes.
- Manufacturing of waste squeezing equipment for vehicles, water and diesel tanks, waste containers different trailers, cement tanks, concrete moulds, arms for cranes, chasis, water boilers, pressure systems, heat exchangers, cement mixers, chinaware, electric bulbs and paraffin wax.
- Wholesale and retail trade of building materials, electric items, iron and steel, copper, lead, aluminium, hardware, medical and surgical equipment, hospital requirements, communication systems, cameras and accessories, electronic calculators, safety equipment, watches, glasses, industrial tools and equipment, road construction equipment, sewage treatment equipment, industrial cleaning equipment, industrial equipment control system, cement factory equipment, gypsum factory equipment, textile machines, heat exchangers, truck mounted cement mixers, axle fans, tunnel ventilation equipment, sound proof systems, agricultural machines, vehicles and spare parts, decoration items, chemical materials for industrial works, industrial equipment, chemical materials for sewage treatment, oils collection, treatment and burning of gases resulting from waste burial, indirect fans, emergency ventilation, engineering, fans, industrial jet, complete air tunnels, examination platforms, boilers and pressure regulators, petrochemical parts and equipment, acoustic cleaners, industrial blowers, gypsum machines, electrical and thermal probes, equipment for industry/ roads/ constructions, generators and turbines, stoves, stacks and rust removal machines.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
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- Construction, operation and maintenance of power plants, electrical utilities, desalination plants, sewerage treatment plants, petrochemical factories, gas and oil refineries, cement factories, industrial facilities.
- Industrial work contracts related to construction of factories, extension of oil and gas pipelines and petrochemical works.
- Commercial services related to brokerage other than exchange and real estate works.
- Commercial agencies, after registration of each agency with the ministry of commerce.
- Operation and maintenance of electrical and electronic systems and computers.
- Import and export services, marketing for others, cooked and uncooked food services, inspection interview services, packaging and shipment
- Maintenance and repair of cars.
- Wholesale and retail trading/ renting of light and heavy equipment.
- Water works, sewerage, maintenance, landscaping and cleaning contracts.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated condensed interim financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA"). These are the Group's third consolidated condensed interim financial statements prepared under International Financial Reporting Standards (IFRS) and therefore certain provisions of IFRS 1 have also been applied. These consolidated condensed interim financial statements do not include all of information required for full set of annual Financial Statements prepared under IFRS.

The impacts of transition to IFRS on the reported financial position, financial performance and cash flows of the Group for the comparative periods presented are provided in note 15. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previously issued accounting standards by SOCPA in Kingdom of Saudi Arabia to the amounts reported for those periods and at the date of transition to IFRS (i.e. January 01, 2016).

2.2 Basis of measurement

These consolidated condensed interim financial statements have been prepared under the historical cost basis, except for employees' benefit obligations which are measured at present value.

2.3 Functional and presentation currency

These consolidated condensed interim financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional and presentation currency. All amounts have been expressed in SR, unless otherwise indicated.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

2.4 Critical accounting estimates and judgments

The preparation of these consolidated condensed interim financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- (a) Useful lives and residual value of property, plant and equipment
- (b) Provision for inventory obsolescence and receivables
- (c) Impairment of non-financial assets
- (d) Employees benefits – defined benefit plan
- (e) Fair value measurements
- (f) Capitalisation of mobilisation cost

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated condensed interim financial statements.

3.1. Basis of consolidation

The consolidated condensed interim financial statements comprise the condensed interim financial statements of the Company and its subsidiaries for the three months and nine months periods ended September 30, 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests (NCI), even if this results in the non-controlling interests having a deficit balance. All material intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.2 Property, plant and equipment

Recognition and measurement

a) Initial measurement

Cost includes expenditure that is directly attributable to the acquisition of the asset plus cost of dismantling and removing the items and restoring the site on which these are located and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2016.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in consolidated interim profit or loss.

b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in consolidated interim profit or loss as incurred.

c) Depreciation

Depreciation is calculated using the straight-line method over their estimated useful lives, and is generally recognised in consolidated interim profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

The estimated useful lives for the current and comparative periods are as follows:

	Years
• Buildings	4 - 20
• Construction equipments	4 - 10
• Furniture and fixtures	4 – 6.67
• Office equipments	4 – 6.67
• Construction vehicles	4 – 6.67

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.3 Intangible assets

Intangible assets comprise softwares which have finite lives and are amortised over the period of its useful life and are tested for impairment whenever there is an indication that the intangible may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at the end of each reporting period. Any changes in the estimated useful life or the expected pattern of consumption of economic benefits are treated as change in accounting estimates.

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

3.4 Leased assets

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Generally all leases entered by the Group are operating leases and, the leased assets are not recognised in the Group's financial statements.

If a lease is classified as a finance leases, then the lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated interim profit or loss.

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

In case of operating leases, the leased assets are not recognised in the Group's consolidated interim statement of financial position. Operating lease payments are recognised as an expense in the consolidated interim profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)

3.5 Financial instruments

Financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in consolidated interim profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in consolidated interim profit or loss.

A. Debt instrument

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in consolidated interim profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through consolidated interim OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses which are recognised in consolidated interim profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in consolidated interim OCI is reclassified from equity to consolidated interim profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)

- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in consolidated interim profit or loss within other gains/ (losses) in the period in which it arises. Interest income from these financial assets is included in the finance income.

B. Equity instrument

The Group measures all equity investments at fair value. Where the management has elected to present fair value gains and losses on equity investments in consolidated interim other comprehensive income, there is no subsequent reclassification of fair value gains and losses to consolidated interim profit or loss. Dividends from such investments continue to be recognised in consolidated interim profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Financial Liabilities

- Financial liabilities are classified, at initial recognition, as financial liabilities through profit or loss, loans and borrowings and payables. Such financial liabilities are recognised initially at fair value and in the case of loans and borrowings and payables, net of any directly attributable transaction costs. The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the consolidated interim statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.6 Mobilization costs

Costs incurred to fulfill a contract, those directly associated to existing or specific anticipated contract and those costs that generate or enhance resources of the entity that will be used to satisfy the performance obligations in the future and those costs that are expected to be recovered are recognised as asset and are amortized over the period of the respective contracts on a proportionate basis of billing.

3.7 Impairment

i) Financial assets (including trade receivables)

The Group follows an expected credit loss model for the impairment of financial assets. Expected loss shall be measured and provided either at an amount equal to (a) 12 month expected losses; or (b) lifetime expected losses. If the credit risk of the financial instrument has not increased significantly since inception, then an amount equal to 12 month expected loss is provided. In other cases,

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

life-time credit losses shall be provided. For trade receivables with a significant financing component, a simplified approach is adopted, where by an assessment of increase in credit risk is not performed at each reporting date. Instead, a Group provides for expected losses based on lifetime expected losses.

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is arrived based on available data from binding sales transactions at arm's length, for similar assets. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognised in consolidated interim profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

3.8 Assets held for sale

The Group classifies non-current assets as held-for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. It is measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, employee benefit assets, or investment property which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for distribution and subsequent gains and losses on remeasurement are recognized in consolidated interim profit or loss. Assets classified as held-for-sale are not depreciated.

3.9 Contracts in progress

Contracts in progress represent the gross amount expected to be collected from customers for contract work performed to date. They are measured at costs incurred plus profits recognised to date less progress billings and recognised losses.

In the consolidated interim statement of financial position, contracts in progress for which costs incurred plus recognised profits exceed progress billings and recognised losses are presented as contracts in progress. Contracts for which progress billings and recognised losses exceed costs incurred plus recognised profits are presented as deferred revenue.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

3.10 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Group without any restrictions.

3.12 Employees benefit obligations

i) Short-term employees benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

ii) Defined benefit obligations

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method.

Remeasurement of the net defined benefit liability comprises of actuarial gains and losses which are recognised immediately in consolidated interim other comprehensive income. The Group determines the net interest expense (income) on the net defined liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expense related to defined benefit plans are recognised in the consolidated interim profit or loss.

The Group recognizes gains and losses on settlement of a defined benefit plan when the settlement occurs.

3.13. Statutory reserve

As required by the Regulations of the Company and Article of Association of the Company, 10% of the Company's net income for the year is to be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

3.14 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Decommissioning liability

Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated interim profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the obligation, or a change in the discount rate applied are added to or deducted from the cost of the asset.

3.15 Revenue recognition

The Group has elected to early adopt IFRS 15 with effect from January 1, 2017. As a result of early adoption, the Group has applied the following accounting policy in the preparation of its consolidated condensed interim financial statements:

i) Revenue from contracts with customers

At the time of entering into a contract, the Group identifies the performance obligations attached to each contract. For this purpose, the Group evaluates the contractual terms and its customary business practices to identify whether there are distinct performance obligations within each contract. The Group determines the transaction price of each contract, for the purpose of determining the transaction price of each aforementioned performance obligations, as 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. Having determined the transaction price of the contract, the Group allocates the transaction price to performance obligations in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

The Group recognises revenue upon the satisfaction of performance obligations attached to contracts, which occurs when control of the good or service transfers to the customer. For performance obligations satisfied over time, the revenue is recognized by measuring the progress towards complete satisfaction of that performance obligation. In measuring the progress towards complete satisfaction of the performance obligation, the Group applies the input method based on the contract cost incurred to date. For performance obligations satisfied at the point in time, the revenue is recognized at the time which the specified performance obligation is satisfied.

ii) Finance income

Finance income is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts, estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

iii) Other income

Other income that is incidental to the Group's business model is recognized as income as they are earned or accrued. Where the Group collects amounts from customers on behalf of third parties, these are not classified as income. These are shown as receivable/ payable and knocked off as the amounts are recovered from the customer.

3.16 Expenses

Expenses are classified based on their functions. Selling and distribution expenses and general and administrative expenses include indirect costs not specifically part of cost of revenue. Selling and distribution expenses are those arising from the Group's efforts underlying the marketing functions. All other expenses are classified as general and administrative expenses. Allocations of common expenses between cost of revenues, selling and distribution expenses and general and administrative expenses, when required, are made on a consistent basis.

3.17 Finance income and finance cost

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in consolidated interim profit or loss, using the effective interest method. Dividend income is recognised in consolidated interim profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in consolidated interim profit or loss using the effective interest method.

3.18 Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in consolidated interim profit or loss.

ii. Foreign operations

The assets and liabilities of foreign operations including fair value adjustments arising on acquisition are translated into local currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into local currency at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in consolidated interim OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

When a foreign operation is disposed off in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to consolidated interim profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to consolidated interim profit or loss.

3.19 Zakat

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian and GCC countries' subsidiaries is charged to the consolidated interim profit or loss. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income tax law.

3.20 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by dividing the consolidated interim profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding after adjusting the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees (if any).

3.21 Segment reporting

A business segment is group of assets, operations or entities:

- (i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
- (ii) the results of its operations are continuously analyzed by Chief Operating Decision Maker (CODM) in order to make decisions related to resource allocation and performance assessment; and
- (iii) for which financial information is discretely available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group has two reportable segments, as described below, which are the Group's strategic business units. The following summary describes the operations in each of the Group's reportable segments:

1. Contracting
2. Servicing / trading

3.22 Dividends

Interim dividends are recorded as liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the year in which they are approved by the shareholders.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Group has decided to early adopt IFRS 9: Financial Instruments and IFRS 15: Revenue from contracts with customers as of January 01, 2017. The impacts of adoption of these IFRSs are described in note 15. However, the Group's management has decided not to choose the early adoption of IFRS 16 Leases which is effective for annual period on or after 1 January 2019.

5. PROPERTY, PLANT AND EQUIPMENT

	As at September 30, 2017	As at December 31, 2016
Addition – (at cost)		
Buildings	-	833,133
Construction equipment	3,035,201	12,611,731
Construction vehicles	5,294,543	15,013,731
Office equipment	289,500	698,617
Furniture and fixtures	263,324	-
	8,882,568	29,157,212

	As at September 30, 2017	As at December 31, 2016
Disposals - (at cost)		
Buildings	619,386	10,438,436
Construction equipment	12,903,688	40,247,037
Construction vehicles	81,966,499	62,956,407
Office equipment	3,838,883	209,578
	99,328,456	113,851,458

6. TRADE AND OTHER RECEIVABLES

	As at September 30, 2017	As at December 31, 2016	As at January 01, 2016
Trade receivable	592,399,298	552,065,988	603,069,824
Less: Provision for doubtful debts	(2,762,139)	(2,762,139)	(2,256,173)
	589,637,159	549,303,849	600,813,651
Retentions receivable	58,266,094	83,961,818	57,049,811
Less: Provision for doubtful retentions	(2,036,400)	(2,036,400)	(1,359,649)
	56,229,694	81,925,418	55,690,162
Trade and other receivables - net	645,866,853	631,229,267	656,503,813
(Less) current portion of trade and other receivables	645,866,853	631,229,267	625,910,752
Long term portion, of trade and other receivables	-	-	30,593,061

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)**
(Expressed in Saudi Riyals)

At September 30, 2017, receivable from Government authorities represents 88% (December 31, 2016: 78%, January 01, 2016: 73%) of total trade and other receivables .

As at September 30, 2017, trade receivables at nominal value of SR 4.8 million (December 31, 2016: SR 4.8 million, January 01, 2016: 3.6 million) were impaired which have been fully provided. Movement in the provision for doubtful debts and retentions was as follows:

	As at September 30, 2017	As at December 31, 2016	As at January 01, 2016
At the beginning of the year	4,798,539	3,615,822	3,517,098
Charge for the year	-	3,886,868	98,724
Amounts written off	-	(2,704,151)	-
	<u>4,798,539</u>	<u>4,798,539</u>	<u>3,615,822</u>

7. CONTRACTS IN PROGRESS

	As at September 30, 2017	As at December 31, 2016	As at January 1, 2016
Contract value of projects	7,084,662,969	7,495,925,256	8,070,153,255
Less: Value of un-executed work to date	(2,182,315,199)	(2,321,722,828)	(3,132,963,619)
Value of work executed to date	4,902,347,770	5,174,202,428	4,937,189,636
Less: Progress billings and advances	(3,490,470,789)	(3,827,053,046)	(3,529,111,686)
	<u>1,411,876,981</u>	<u>1,347,149,382</u>	<u>1,408,077,950</u>

The movement in contracts in progress is as follows:

	As at September 30, 2017	As at December 31, 2016	As at January 1, 2016
At the beginning of the period	1,347,149,382	1,408,077,950	1,359,674,280
Value of work executed during the period	429,536,600	1,086,300,987	1,394,899,526
Progress billings and advance adjusted during the period	(364,809,001)	(1,147,229,555)	(1,346,495,856)
At the end of the period	<u>1,411,876,981</u>	<u>1,347,149,382</u>	<u>1,408,077,950</u>

8. BORROWINGS

	As at September 30, 2017	As at December 31, 2016	As at January 1, 2016
Term loans	8.1 733,309,329	743,647,030	1,077,728,811
Short term loans	45,494,626	136,290,112	24,575,955
	<u>778,803,955</u>	<u>879,937,142</u>	<u>1,102,304,766</u>

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017**
(UNAUDITED)
(Expressed in Saudi Riyals)

8.1 Term loans

	As at September 30, 2017	As at December 31, 2016	As at January 1, 2016
Loans repayable upon collection	481,094,937	480,510,659	600,211,728
Revolving loans	40,000,000	121,905,290	191,074,614
Loans repayable in periodical installment	212,214,392	141,231,081	286,442,469
	733,309,329	743,647,030	1,077,728,811
Less: current portion	(402,566,493)	(443,306,104)	(431,515,402)
Non-current portion of term loans	330,742,836	300,340,926	646,213,409

- Term loans were obtained from various commercial banks and are repayable, based on a percentage ranging from 20% to 70% (December 31, 2016: 25% to 70%, January 01, 2016: 35% to 55%), out of proceeds from the contracts. Accordingly, the current portion includes such loans based on Group's estimates of the proceeds expected from future billings.
- Term loans are repayable in various fixed periodical installments with last installment due in 2018.
- These loans carry mark up at commercial rates and are secured by way of assignments of Group's assets and promissory notes.

9. LOAN FROM PARENT COMPANY

	As at September 30, 2017	As at December 31, 2016	As at January 01, 2016
Loan from parent company	135,000,000	135,000,000	135,000,000
Present value of loan	128,405,771	124,621,253	119,721,926

On December 30, 2015, the Company has received a non-commission based loan amounting to SR 135 million (book value) from its parent company (Al Khodari Investment Holding Company) for the purpose of funding working capital and capex requirements of the Company. The loan is repayable within a period not exceeding December 31, 2018. The loan is stated at amortized cost at the balance sheet date. The difference between the Present Value and Book Value of loan has been charged to equity as a contribution from parent company. The loan is secured against a promissory note for an amount equal to the amount of loan.

10. OPERATING SEGMENTS

i. Basis for segmentation

The Group has the following two strategic divisions, which are its reportable segments. These divisions offer different products and services, and are managed separately.

The following summary describes the operations of each reportable segment.

Reportable segments	Operations
Contracting	Construction of roads, bridges, buildings etc. Includes renovation and demolition, cleaning and operations and maintenance work.
Servicing/ trading	Logistics, transportation, equipment rental, water proofing and other supporting activities.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(Expressed in Saudi Riyals)**

The Group's Chief Executive Officer (CEO), being the Chief Operating Decision Maker (CODM), reviews the internal management reports of each division on a quarterly basis.

There are varying levels of integration between the Contracting and Servicing / Trading segments. This integration includes transfers of raw materials and other shared services, respectively. Inter-segment pricing is determined on cost basis.

ii. Information about reportable segments

Information related to each reportable segment is set out below.

	<u>Reportable segments</u>		
<i>For the period ended September 30, 2017</i>	<u>Contracting</u>	<u>Servicing / Trading</u>	<u>Total</u>
Revenues	429,536,600	3,641,983	433,178,583
Segment loss before zakat	(62,927,287)	(1,495,871)	(64,423,158)
<i>As of September 30, 2017</i>			
Segment net assets	654,868,830	5,746,393	660,615,223
<i>For the period ended September 30, 2016</i>	<u>Contracting</u>	<u>Servicing / Trading</u>	<u>Total</u>
Revenues	830,918,303	4,052,741	834,971,044
Segment (loss) / profit before zakat	(105,757,871)	354,370	(105,403,501)
<i>As of December 31, 2016</i>			
Segment net assets	721,100,098	5,142,769	726,242,867
<i>As of January 01, 2016</i>			
Segment net assets	838,819,369	8,484,939	847,304,308

11. RELATED PARTY TRANSACTIONS

a) Transactions with key management personnel

Key management personnel compensation includes the following:

	For the nine months period ended September 30, 2017	For the nine months period ended September 30, 2016
Short term employee benefits	645,000	645,000
Post-employment benefits	53,340	53,340

Compensation to Group's key management personnel includes salaries, non-cash benefits, and contributions to post-employment defined benefit plan.

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017**
(UNAUDITED)
(Expressed in Saudi Riyals)

b) Other related party transactions

Related parties represent major shareholders, directors and key management personnel of the Company and entities controlled or significantly influenced by such parties. Following is the list of major related parties of the Company:

<i>Name of related party</i>	<i>Nature of relationship</i>
Al Khodari Investment Holding Company	Parent
Abdullah Abdul Mohsin Al Khodari Sons Company, Qatar	Subsidiary
Al Khodari International Group for Contracting L.L.C, Kuwait	Subsidiary
Al Khodari International, Abu Dhabi	Subsidiary
Al Khodari and Sons Company	Affiliate
Al Khodari Heavy Industries	Affiliate
Al Khodari Industrial Trading and Services	Affiliate
Al Khodari Travel and Tourism Agency	Affiliate
Abdullah Abdul Mohsin Al Khodari Sons and Hertel Company	Affiliate
Al Khodari I.V Shipping Company Limited	Affiliate
Hammon D'Hondt Middle East Company Limited	Affiliate
Mace Saudi Arabia Company Limited	Affiliate
Fleet Tracking Technology	Affiliate
Karrena Arabia Company Limited	Affiliate
Masahaat Al Aqariyah	Affiliate
Madh Real Estate Company	Affiliate
Bahrath Al Dhana Establishment	Affiliate
Fawwaz and Partners Company	Affiliate
Al-Khodari Charity Office	Affiliate
Housing and Construction Real Estate Company	Affiliate

Significant transactions with related parties during the nine months periods ended September 30 are as follows:

	For the nine months period ended September 30, 2017	For the nine months period ended September 30, 2016
Purchases, services and sub-contracting	10,338,034	2,282,772
Services rendered	681,164	374,186
Air tickets	1,039,220	435,494
Expenses recharged to affiliates	281,971	3,014,798
Director's remuneration	-	1,200,000

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017**
(UNAUDITED)
(Expressed in Saudi Riyals)

c) Balances with other related parties

At the end of reporting period, balances with other related parties comprise of the following:

Due from related parties

	As at September 30, 2017	As at December 31, 2016	As at January 1, 2016
Abdullah Abdul Mohsin Al Khodari Sons and Hertel Company	1,616,952	1,616,952	1,616,952
Mace Saudi Arabia Company Limited	614,972	1,392,962	1,900,504
Al Khodari Industrial Trading and Services	137,723	132,573	-
Hammon D'Hondt Middle East Company Limited	197,392	197,392	197,392
Al-Khodari Charity Office	130,456	130,456	-
Al Khodari Investment Holding Company	-	-	10,195,723
Other affiliates	212,640	106,407	934,664
	2,910,135	3,576,742	14,845,235

Due to related parties

	As at September 30, 2017	As at December 31, 2016	As at January 1, 2016
Al-Khodari Travel and Tourism Agency	15,472,444	13,866,715	13,320,740
AL Khodari Heavy Industries	16,277,879	5,400,694	4,923,034
Al Khodari Investment Holding Company	32,720,371	7,078,770	-
Masahaat Al Aqariyah	6,060,939	6,280,751	-
Fleet Tracking Technology	584,454	1,140,063	855,471
Al Khodari Industrial Trading and Services	-	-	174,500
Al-Khodari and Sons Company	2,761,752	564,149	3,822,525
Housing and Construction Real Estate Company	3,778,121	1,113,003	-
Other affiliates	298,376	299,198	80,475
	77,954,336	35,743,343	23,176,745

12. CONTINGENCIES AND COMMITMENTS

(a) The Group's bankers have issued performance guarantees amounting to SR 451 million (December 31, 2016: SR 473 million).

(b) The Group enters into operating lease arrangements for renting motor vehicles, equipment and housing premises. Leases are negotiated and rentals are fixed for a period from one to 3 years. Future rental commitment under operating leases are as follows:

	September 30, 2017	December 31, 2016	January 01, 2016
Within one year	11,421,792	34,539,586	40,854,144
From one to three years	9,829,765	15,952,800	50,492,386
	21,251,557	50,492,386	91,346,530

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)**
(Expressed in Saudi Riyals)

13. STATUS OF ZAKAT ASSESSMENTS

Zakat assessments have been finalized with the General Authority of Zakat and Income Tax ("GAZT") up to year 2006. The GAZT has requested certain information for the years 2007 to 2011 which were duly submitted by the Company.

Pursuant to the initial public offering during 2010, the parent company, on behalf of the Company, has agreed to pay to the GAZT any additional zakat liability which may arise upon the finalization of zakat assessments for the years 2007 through 2009.

In December 2016, the GAZT has conducted a field inspection for the years 2007 to 2015 on the basis of which the GAZT has requested certain additional information from the Company. The Company has submitted the required information to the GAZT.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including level three fair values.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of September 30, 2017, December 31, 2016 and January 01, 2016, all of the Group's financial instruments have been carried at amortised cost and the Company does not hold any financial instruments measured at fair value. However, the carrying value of the financial assets and financial liabilities in consolidated interim statement of financial position approximates to their fair value.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)**
(Expressed in Saudi Riyals)

15. EFFECTS OF TRANSITION TO IFRS

As stated in note 2.1, these are the Group's third consolidated condensed interim financial statements prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the consolidated condensed interim financial statements for the period ended September 30, 2017, the comparative information presented in these consolidated condensed interim financial statements for the year ended December 31, 2016 and in the preparation of an opening IFRS consolidated interim statement of financial position at January 01, 2016 (the Group's date of transition).

In preparing its opening IFRS consolidated interim statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with SOCPA standards. An explanation of how the transition from SOCPA standards to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017 (UNAUDITED)**
(Expressed in Saudi Riyals)

15. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of consolidated interim financial position

	Notes	SOCPA standards	Effect of transition to IFRS	IFRSs	SOCPA standards	Effect of transition to IFRS	IFRSs	SOCPA standards	Effect of transition to IFRS	IFRSs
		December 31, 2016			September 30, 2016			January 01, 2016		
ASSETS										
Property, plant and equipment	A	312,772,569	1,954,539	314,727,108	359,017,956	2,209,453	361,227,409	443,382,984	3,095,432	446,478,416
Intangible assets	A.2	-	1,715,034	1,715,034	-	1,794,418	1,794,418	-	2,032,570	2,032,570
Trade and other receivables	B	-	-	-	-	-	-	-	30,593,061	30,593,061
Investment in subsidiaries	O	4,292,191	(4,292,191)	-	4,292,191	(4,292,191)	-	4,292,191	(4,292,191)	-
Other assets	C	35,687,344	49,717,826	85,405,170	42,316,544	92,961,135	135,277,679	49,897,122	98,856,825	148,753,947
Non-current assets		352,752,104	49,095,208	401,847,312	408,026,691	92,672,815	498,299,506	497,572,297	130,285,697	627,857,994
Inventories	A.3	61,906,038	(1,855,246)	60,050,792	61,942,905	(1,845,841)	60,097,064	71,273,376	(1,840,885)	69,432,491
Trade and other receivables	B	631,783,807	(554,540)	631,229,267	738,721,828	(1,153,946)	737,567,882	657,525,485	(31,614,733)	625,910,752
Contracts in progress	C	1,450,735,585	(103,586,203)	1,347,149,382	1,449,651,044	(154,241,150)	1,295,409,894	1,571,892,703	(163,814,753)	1,408,077,950
Deposits, prepayments and other current assets	C, D	212,645,577	42,171,399	254,816,976	194,138,878	25,155,570	219,294,448	325,080,910	41,239,283	366,320,193
Cash and cash equivalents	O	73,128,872	655,871	73,784,743	6,927,987	1,072,550	8,000,537	111,465,043	1,076,226	112,541,269
Assets classified as held for sale		2,460,075	-	2,460,075	7,046,018	-	7,046,018	14,346,136	-	14,346,136
Current assets		2,432,659,954	(63,168,719)	2,369,491,235	2,458,428,660	(131,012,817)	2,327,415,843	2,751,583,653	(154,954,862)	2,596,628,791
Total assets		2,785,412,058	(14,073,511)	2,771,338,547	2,864,055,351	(38,340,002)	2,825,715,349	3,249,155,950	(24,669,165)	3,224,486,785

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017 (UNAUDITED)
(Expressed in Saudi Riyals)

15. EXPLANATION OF TRANSITION TO IFRS (continued)
Reconciliation of consolidated interim financial position (continued)

Notes	SOCPA standards	Effect of transition to IFRS		IFRS	SOCPA standards	Effect of transition to IFRS		IFRS	SOCPA standards	Effect of transition to IFRS		IFRS
		December 31, 2016	IFRSs			September 30, 2016	IFRS			January 01, 2016	IFRS	
Equity												
Share capital		557,812,500	-	557,812,500	557,812,500	-	557,812,500	531,250,000	-	-	531,250,000	
Statutory reserve		70,988,856	-	70,988,856	71,399,590	(410,734)	70,988,856	70,988,856	-	-	70,988,856	
Contribution from parent company	E	-	15,278,074	15,278,074	-	15,278,074	15,278,074	-	-	15,278,074	15,278,074	
Translation reserve	O,N	-	(392,753)	(392,753)	-	(337,327)	(337,327)	-	-	(312,786)	(312,786)	
Other reserve	O	-	558,911	558,911	-	554,548	554,548	-	-	554,548	554,548	
Retained earnings		141,414,820	(59,973,357)	81,441,463	171,998,042	(78,053,724)	93,944,318	287,157,605	(58,191,970)	228,965,635		
Equity attributable to owners of the Company		770,216,176	(44,529,125)	725,687,051	801,210,132	(62,969,163)	738,240,969	889,396,461	(42,672,134)	846,724,327		
Non-controlling interests	O	-	555,816	555,816	-	579,276	579,276	-	579,981	579,981		
Total equity		770,216,176	(43,973,309)	726,242,867	801,210,132	(62,389,887)	738,820,245	889,396,461	(42,092,153)	847,304,308		
Non-current liabilities												
Trade and other payables	H,I	114,971,200	4,949,815	119,921,015	137,366,368	19,920,507	157,286,875	126,885,224	21,117,809	148,003,033		
Borrowings	G	316,232,276	(15,891,350)	300,340,926	349,104,440	70,620,603	419,725,043	638,816,460	7,396,949	646,213,409		
Loans from related parties	H,F	139,050,000	(14,428,747)	124,621,253	139,050,000	(13,678,822)	123,371,178	139,050,000	(19,328,074)	119,721,926		
Employees benefit obligations	J	57,045,467	3,987,270	61,032,737	62,268,171	230,922	62,499,093	66,542,235	(3,061,605)	63,480,630		
Provisions and other liabilities	H,K	-	31,531,954	31,531,954	-	31,633,985	31,633,985	-	34,122,111	34,122,111		
		627,298,943	10,148,942	637,447,885	687,788,979	106,727,195	794,516,174	971,293,919	40,247,190	1,011,541,109		
Current Liabilities												
Trade and other payables	H,I	773,840,520	(5,758,436)	768,082,084	794,709,250	(20,726,495)	773,982,755	864,529,139	(22,603,434)	841,925,705		
Borrowings	G	565,160,218	14,435,998	579,596,216	540,746,631	(72,991,705)	467,754,926	465,693,303	(9,601,946)	456,091,357		
Dividend payable		1,663,647	-	1,663,647	1,663,647	-	1,663,647	1,663,647	-	1,663,647		
Provisions and other liabilities	H,K	47,232,534	11,073,294	58,305,848	37,936,712	11,040,890	48,977,602	56,579,481	9,381,178	65,960,659		
		1,387,896,939	19,750,856	1,407,647,795	1,375,056,440	(82,677,310)	1,292,378,930	1,388,465,570	(22,824,202)	1,365,641,368		
Total Liabilities and Equity		2,785,412,058	(14,073,511)	2,771,338,547	2,864,055,351	(38,340,002)	2,825,715,349	3,249,155,950	(24,669,165)	3,224,486,785		

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017 (UNAUDITED)
(Expressed in Saudi Riyals)

15. EXPLANATION OF TRANSITION TO IFRS (continued)

B. Reconciliation of consolidated interim statement of profit or loss and other comprehensive income

[illegible]

ABDULLAH ABDUL MOHSIN AL-KHODARI SONS COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017 (UNAUDITED)
(Expressed in Saudi Riyals)

15. EXPLANATION OF TRANSITION TO IFRS (continued)
C. Reconciliation of equity

	Notes	As at December 31, 2016	As at September 30, 2016	As at January 01, 2016
Total equity under SOCPA Standards		770,216,176	801,210,132	889,396,461
Finance cost on advances from customers (net)	I	(36,579,435)	(32,228,908)	(15,889,461)
Finance cost on retention receivable (net)	B	(3,484,000)	(3,459,022)	(1,910,688)
Depreciation on decommissioning adjustment	A.1	(2,783,836)	(2,536,605)	(1,771,388)
Finance cost on decommissioning liability	A.1	(476,715)	(440,045)	(329,809)
Deferred revenue on free service obligation	K	(24,648,014)	(24,065,589)	(21,671,075)
Warranty provisions	K	(153,371)	(153,371)	(153,371)
Reversal of revenue due to capitalization of mobilization cost (net)	C	(20,275,502)	(20,275,502)	(20,275,502)
Discounting of interest free loan from parent company	E	10,378,747	11,628,822	15,278,074
Reversal of amortization of upfront processing fee	G	186,310	(1,490,597)	320,066
Actuarial valuation adjustments of employees benefit obligations	J	(3,958,333)	(39,081)	3,254,535
Revenue adjustment due to IFRS 15 impacts on percentage of completion method due to the increase in amortization of mobilization cost	C	8,152,609	(11,643,530)	-
Revenue from unwinding of advances from customers	I	23,625,396	18,857,802	-
Reversal of inventory cost due to spare parts capitalization	A.3	136,486	67,232	-
Adjustment of mobilization cost	C	3,113,998	1,075,336	-
Reversal of provision for warranty	K	128,757	114,697	-
Unwinding of retention receivable	B	2,044,352	1,418,675	-
Depreciation on spare parts	A.3	(586,506)	(435,330)	-
Exchange gain loss	N	273,519	185,305	-
Effect of consolidation including NCI	O	932,229	1,029,824	1,056,466
Total Equity under IFRS Standards		726,242,867	738,820,245	847,304,308

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)**
(Expressed in Saudi Riyals)

D. Notes to the reconciliations

A. Property, plant and equipment

A.1 De-commission liability

SOCPA standards did not require to recognize initial estimate of de-commissioning liability as a cost of items of property, plant and equipment. IAS 16 requires such liability to be recognized as a cost of property, plant and equipments and accordingly, the cumulative impact on depreciation as of December 31, 2016 is SAR 2,783,836 (September 30, 2016: SAR 2,536,605 and January 01, 2016: SAR 1,771,388). The resulting cumulative interest cost on de-commissioning liability as at December 31, 2016 is SAR 476,715 (September 30, 2016: SAR 440,045 and January 01, 2016: SAR 329,809).

A.2 Intangible assets

Previously, the Group had classified some intangible assets under property, plant and equipment. As required by IAS 38, said intangible assets have been re-classified to intangible assets. The net book value of the intangible assets reclassified as at December 31, 2016 amounted to SAR 1,715,034 (September 30, 2016: SAR 1,794,418 and January 01, 2016: SAR 2,032,570).

A.3 Capital spare parts

Under SOCPA standards, the Group accounts for spares as a part of inventory. Under IFRS (IAS 16 - Property, Plant and Equipment) 'Items such as spare parts, stand-by equipment and servicing equipment are recognized as items of property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.' During transition phase, the Group has identified capital spare parts having useful life more than one year which needs to be reclassified from inventory to property, plant and equipment. The cumulative impact of the same would increase the carrying amount of property, plant and equipment by SAR 1,840,885, SAR 1,477,742, SAR 1,405,225 as of January 01, 2016, September 30, 2016 and December 31, 2016 respectively. The resulting additional depreciation on such spares capitalized has been charged to retained earnings of respective periods.

B. Retention receivable

Under SOCPA standards, the retention money is accounted for at its transaction value as there was no discounting of financial assets. Under IFRS (IFRS 9 - Financial Instruments), such financial assets are initially required to measure at fair value and thereafter at amortized cost. The discounted amount (fair value) of the original retention would be accreted to the ultimate maturity amount (transaction value) by way of recognition of notional interest income using the EIR (Effective Interest Rate) methodology. The cumulative impact of the same reduced the carrying amount of retention receivable and retained earnings by SAR 1,910,688, SAR 2,040,347 and SAR 1,439,648 as of January 01, 2016, September 30, 2016 and December 31, 2016 respectively.

C. Mobilisation cost

Under SOCPA, in case of construction contracts, the mobilization cost was expensed out immediately as and when incurred. Under IFRS (IFRS 15 - Revenue from contracts with customers), an asset should be recognised from the costs incurred to fulfil a contract on the fulfilment of certain conditions. As the conditions of recognising an asset are met, the Group has capitalised these costs as an asset and amortized over the period of the contract.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)**
(Expressed in Saudi Riyals)

The recognition of mobilization cost as an asset resulted in a reduction of the overall percentage of completion of the projects by reducing the cost previously charged as direct cost. Simultaneously, resulting in decrease in contracts work in progress and retained earnings. The cumulative effect on retained earnings was SAR 20,275,502, SAR 10,568,194 and SAR 11,266,607 as of January 01, 2016, September 30, 2016 and December 31, 2016. Further, the resulting asset classified under other assets and deposits, prepayments and other current assets are based on the maturity of respective contracts.

D. Long term deposits

Previously, the Group has recognized the refundable deposits made for entering in to an operating lease at its transaction value as there was no discounting of financial assets under SOCPA standards.

Under IFRS (IFRS 9 - Financial Instruments), such financial assets are initially measured at fair value and subsequently measured at amortized cost. The discounted amount (fair value) of the original deposit would be accreted to the ultimate maturity amount (transaction value) by way of recognition of notional interest income using the Effective Interest Rate (EIR) methodology.

The cumulative impact of the same would reduce the carrying amount of long term deposits and increase the carrying amount of deposits, prepayment and other current assets by SAR 2,160,111, SAR 1,277,253, and SAR 974,825 as of January 01, 2016, September 30, 2016 and December 31, 2016 respectively.

E. Loan from parent company

The Group has determined the fair value of the interest free loan from parent company in accordance with IFRS 9 which is different from the transaction price; therefore the difference between the fair value and transaction value has been treated as an equity contribution from the parent which will be transferred to retained earnings after the loan is repaid.

F. Loan from affiliate

The Group has determined the fair value of the interest free loan from an affiliate in accordance with IFRS 9 which is different from the transaction price; therefore the difference between the fair value and transaction value has been deferred and amortized over the tenure of the loan.

G. Upfront fee on bank loans

Previously, upfront fee paid on bank loans was capitalized and amortized on straight line basis over the tenure of borrowing. Under IFRS 9, at initial recognition, an entity shall measure a financial liability, not at fair value through profit or loss, at its fair value plus or minus transaction costs that are directly attributable to the issue of the financial liability. Accordingly, the Group has deducted the amount of upfront fee from the loan liability it pertains. The carrying amount of the loan is being amortised over the period of the loan using EIR method.

Accordingly, the carrying amount of the loan and prepaid expenses has been reduced by SAR 2,976,221, SAR 6,147,632 and SAR 6,147,632 as of January 01, 2016, September 30, 2016 and December 31, 2016 respectively.

Also, the related loan liability was un-winded with the contra effect on consolidated interim profit or loss / retained earnings by SAR 771,224, SAR 3,005,306 and SAR 3,921,056 for the period / year ended January 01, 2016, September 30, 2016 and December 31, 2016 respectively.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)**
(Expressed in Saudi Riyals)

H. Retention payable

Previously, the Group was carrying retention payable at its transaction value as there was no concept of discounting the financial liabilities under SOCPA standards. Under IFRS (IFRS 9 - Financial Instruments), financial liabilities shall be measured at fair value on initial recognition. The discounted amount (fair value) of the original retention would be accreted to the ultimate maturity amount (transaction value) by way of recognition of notional interest expense using the EIR (Effective Interest Rate) methodology.

The cumulative impact of the same reduced the carrying amount of long retention payable and deferred liabilities of SAR 1,829,573, SAR 1,125,235, and SAR 896,409 as of January 01, 2016, September 30, 2016 and December 31, 2016 respectively.

I. Advance from customers

The Group has received various long term advances from customers for mobilizing resources and initial set-up costs. Previously, the Group was carrying these long term advances from customers at its transaction value as there was no discounting of financial liabilities under SOCPA standards.

Under IFRS 15, in determining the transaction price, an entity shall adjust the promised consideration for the effects of time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. Applying the above guidance, the Group determined that customer advances represents a form of financing from the customers. Therefore, the advance shall be reflected at its fair value and the difference between the transaction price and fair value was deferred and notional income will be earned on the same over the period of the contract.

The impact of the same would decrease retained earnings and increase deferred revenue by SAR 83,976,096, SAR 16,339,447 and 20,689,975 as of January 01, 2016, September 30, 2016 and December 31, 2016 respectively.

Consequently, revenue earned from this will be SAR 68,086,635, SAR 18,857,802 and SAR 23,625,396 for the years / period January 01, 2016, September 30, 2016 and December 31, 2016 respectively.

J. Employees benefit obligations

Under SOCPA standards, the Group recorded its liability under employees benefit obligations based on regulatory requirements. In order to determine the liability under IAS 19 – Employee benefits, the Group involved an independent actuary to carry out actuarial valuations of its employees benefit obligations using Projected Unit Credit Method.

Remeasurement component, which is the net of actuarial gains and losses, is recognized immediately in consolidated interim other comprehensive income whereas service cost and net interest income / expense are charged to consolidated interim profit or loss.

The cumulative impact on retained earnings arising from the above increased the retained earnings by SAR 3,254,535 as of January 01, 2016, and decreased the retained earnings as of September 30, 2016 and December 31, 2016 by SAR 39,081 and SAR 3,958,333 respectively.

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)**
(Expressed in Saudi Riyals)

K. Free service obligation and warranty provision

The Group provides free maintenance obligations for all its construction contracts for a period of one year after the completion of the project. Previously, the Group accounts for these obligations as an expense upon incurrence. Under IFRS 15 (Revenue from contracts with customers), the Group is required to assess the goods or services explicitly or implicitly promised in a contract and identify as performance obligation each promise to transfer a distinct good or service. Free service obligation meets all the conditions mentioned in the standard to be identified as a separate performance obligation and therefore the Group has allocated the transaction price (contract price) to each performance obligation and revenue has been recognised as and when the performance obligations are satisfied. Accordingly, the Group had deferred its revenue which was already recognised.

The impact of the above would result in the recognition of deferred revenue and the consequent cumulative effect on retained earnings by SAR 21,671,075, SAR 24,065,589 and SAR 24,648,014 as of January 01, 2016, September 30, 2016 and December 31, 2016 respectively.

Furthermore, on completed projects, the Group has made provision for warranty claim amounting to SAR 153,371, SAR 38,674 and SAR 24,614 as of January 01, 2016, September 30, 2016 and December 31, 2016 respectively.

L. Gain / (loss) on sale of assets held for sale

Previously, the gain/ loss on sale of assets held for sale was shown as other income in the consolidated interim profit or loss. Under IFRS (IAS 16 - Property, Plant and Equipment), if an entity in the normal course of its business routinely sells items of property, plant and equipment that it previously held for rental to others, then it should transfer such items to inventory when they cease to be rented and become held-for-sale. The proceeds from sale of such assets shall be classified as revenue in accordance with IFRS 15. Accordingly, the Group has reclassified such gains / losses from other income to revenue.

The effect of the same would reduce other income and increase revenue by same amount and hence no effect on retained earnings.

M. Directors' remuneration

Under SOCPA standards, director's remuneration has been adjusted against retained earnings in the consolidated interim statement of changes in equity. Under IFRS, this should be charged to the consolidated interim profit or loss similar to other expenses.

N. Translation of foreign operations

Under IFRS, the Group consolidated subsidiaries which were not consolidated previously. The impact of currency translation arisen on the consolidation of foreign subsidiaries has been treated under a separate reserve as required by IAS 21.

O. Consolidation subsidiaries

Under SOCPA, immaterial investments are not considered for consolidation. Under IFRS, they have been consolidated to meet the requirements of IFRS 10 (Consolidated Financial Statements).

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2017
(UNAUDITED)**
(Expressed in Saudi Riyals)

E. EXEMPTIONS APPLIED

The Group, as per IFRS 1 First-Time Adoption of International Financial Reporting Standards, has applied following exemption in preparing the IFRS complied consolidated condensed interim financial statements for the first time.

IFRS 3 "Business Combinations" as endorsed by SOCPA has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS that occurred before January 01, 2016. Accordingly, the Group has adjusted the carrying amounts of the subsidiary's assets and liabilities to the amounts that IFRS would require in the subsidiary's statement of financial position, where necessary and used adjusted carrying values for the consolidation.

16. APPROVAL OF CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

These consolidated condensed interim financial statements were authorized for issue and approved by the Company's Board of Directors on October 16, 2017.