

# SAUDI CEMENT COMPANY

(SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017  
AND INDEPENDENT AUDITOR'S REVIEW REPORT

Saudi Cement Company  
(Saudi Joint Stock Company)

INTERIM CONDENSED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT  
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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**Independent auditor's review report on the interim condensed financial statements to shareholders of Saudi Cement Company**

**Introduction:**

We have reviewed the accompanying interim condensed statement of financial position of Saudi Cement Company (Saudi Joint Stock Company) ("the Company") as at 31 March 2017, and the related interim condensed statements of income and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) and International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" (IFRS 1) that are endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

**Scope of Review:**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion:**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements does not present fairly, in all material respects, the financial position of the Company as at 31 March 2017, and of its financial performance and its cash flows for the three-month period then ended in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) and International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" (IFRS 1) that are endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Abdulaziz Saud Alshubaibi  
Certified Public Accountant  
Registration No. 339

13 Sha'ban 1438H  
9 May 2017

Al Khobar



SAUDI CEMENT COMPANY  
(Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME (UN-AUDITED)

For the three-month period ended 31 March 2017

	Note	Three-month period ended 31 March	
		2017 SR '000 (un-audited)	2016 SR '000 (un-audited) (note 6.7)
Sales		346,352	506,925
Cost of sales		(155,167)	(211,706)
<b>GROSS PROFIT</b>		<b>191,185</b>	<b>295,219</b>
Selling and distribution expenses		(8,265)	(7,533)
General and administrative expenses		(14,651)	(16,343)
<b>OPERATING PROFIT</b>		<b>168,269</b>	<b>271,343</b>
Other income		1,778	591
Share in net results of associates		876	582
Follow-up fees in respect of Saudi Industrial Development Fund loans		-	(1,050)
Islamic financial charges		(2,001)	(2,094)
<b>INCOME BEFORE ZAKAT</b>		<b>168,922</b>	<b>269,372</b>
Zakat	12	(4,223)	(6,804)
<b>NET INCOME FOR THE PERIOD</b>		<b>164,699</b>	<b>262,568</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>164,699</b>	<b>262,568</b>
<b>Earnings per share (Saudi Riyals)</b>			
Basic and diluted earnings per share attributable to the equity holders of the Company	13	1.08	1.72

Designated Member and CEO



Finance Manager



The attached notes 1 to 17 form part of these interim condensed financial statements.

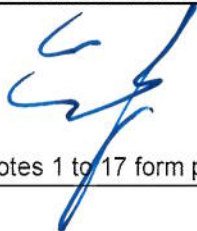
Saudi Cement Company  
(Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	31 March 2017 SR '000 (un-audited)	31 December 2016 SR '000 (note 6.1)	1 January 2016 SR '000 (note 6.3)
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		2,857,457	2,894,671	3,012,494
Investments in associates	7	59,367	60,100	82,800
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,916,824</b>	<b>2,954,771</b>	<b>3,095,294</b>
<b>CURRENT ASSETS</b>				
Inventories		732,214	723,144	665,111
Trade receivables	7	220,203	259,357	226,922
Prepayments and other receivables	7	41,055	40,139	51,375
Cash and cash equivalents		354,550	183,820	383,000
<b>TOTAL CURRENT ASSETS</b>		<b>1,348,022</b>	<b>1,206,460</b>	<b>1,326,408</b>
<b>TOTAL ASSETS</b>		<b>4,264,846</b>	<b>4,161,231</b>	<b>4,421,702</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Share capital	8	1,530,000	1,530,000	1,530,000
Statutory reserve		765,000	765,000	765,000
General reserve		-	-	20,000
Retained earnings		1,059,276	894,577	844,336
<b>TOTAL EQUITY</b>		<b>3,354,276</b>	<b>3,189,577</b>	<b>3,159,336</b>
<b>LIABILITIES</b>				
<b>NON-CURRENT LIABILITY</b>				
Employees' benefits	9	87,565	87,451	95,915
<b>CURRENT LIABILITIES</b>				
Current portion of Saudi Industrial Development Fund loan		-	-	120,000
Islamic financing		350,000	400,000	600,000
Trade payables	7	90,952	103,958	90,818
Dividends payable		206,224	210,350	172,395
Accruals and other payables		134,412	132,701	150,393
Zakat provision	12	41,417	37,194	32,845
<b>TOTAL CURRENT LIABILITIES</b>		<b>823,005</b>	<b>884,203</b>	<b>1,166,451</b>
<b>TOTAL LIABILITIES</b>		<b>910,570</b>	<b>971,654</b>	<b>1,262,366</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,264,846</b>	<b>4,161,231</b>	<b>4,421,702</b>

Designated Member and CEO



Finance Manager



The attached notes 1 to 17 form part of these interim condensed financial statements.



SAUDI CEMENT COMPANY  
(Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended 31 March 2017

	Share capital	Statutory reserve	General reserve	Retained earnings	Total
	SR '000	SR '000	SR '000	SR '000	SR '000
Balance as at 1 January 2016 (note 6.3)	1,530,000	765,000	20,000	844,336	3,159,336
Net income for the period	-	-	-	262,568	262,568
Other comprehensive income	-	-	-	-	-
Transferred to retained earnings	-	-	(20,000)	20,000	-
Dividends (note 11)	-	-	-	(459,000)	(459,000)
Balance at 31 March 2016 (un-audited)	1,530,000	765,000	-	667,904	2,962,904
Balance as at 1 January 2017 (note 6.1)	1,530,000	765,000	-	894,577	3,189,577
Net income for the period	-	-	-	164,699	164,699
Other comprehensive income	-	-	-	-	-
Balance at 31 March 2017 (un-audited)	1,530,000	765,000	-	1,059,276	3,354,276

Designated Member and CEO



Finance Manager



The attached notes 1 to 17 form part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UN-AUDITED)  
For the three-month period ended 31 March 2017

	Three-month period ended 31 March	
	2017 SR '000 (un-audited)	2016 SR '000 (un-audited)
<b>Cash flow from operating activities:</b>		
Income before zakat	168,922	269,372
Adjustment to reconcile income before zakat to net cash provided by operating activities:		
Depreciation of property, plant and equipment	52,539	55,622
Property, plant and equipment written-off	-	1,156
Share in net results of associates	(876)	(582)
Employees' benefits, net	114	718
Islamic financial charges	2,001	2,094
	<u>222,700</u>	<u>328,380</u>
<b>Working capital changes:</b>		
Inventories	(9,070)	(2,110)
Trade receivables	39,154	(4,186)
Prepayments and other receivables	(916)	(12,998)
Trade payables	(13,006)	2,823
Accruals and other payables	(2,415)	(36,285)
<b>Cash flow from operating activities</b>	<u>236,447</u>	<u>275,624</u>
Islamic financial charges paid	(2,001)	(2,094)
<b>Net cash flow from operating activities</b>	<u>234,446</u>	<u>273,530</u>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(15,325)	(43,590)
Dividends received from an associate	1,609	-
<b>Net cash flow used in investing activities</b>	<u>(13,716)</u>	<u>(43,590)</u>
<b>Financing activities:</b>		
Net movements in Islamic financing	(50,000)	(70,000)
Dividends paid	-	(459,000)
<b>Net cash flow used in financing activities</b>	<u>(50,000)</u>	<u>(529,000)</u>
Net increase (decrease) in cash and cash equivalents	170,730	(299,060)
Cash and cash equivalents at the beginning of the period	183,820	383,000
<b>Cash and cash equivalents at the end of the period</b>	<u>354,550</u>	<u>83,940</u>

Designated Member and CEO



Finance Manager



The attached notes 1 to 17 form part of these interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)  
At 31 March 2017

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## 1 Corporate information

Saudi Cement Company ("the Company") is a Saudi Joint Stock Company incorporated under Royal Decree number 6/6/10/726 dated 8 Rabi' II 1375 H (corresponding to 23 November 1955) and registered in the Kingdom of Saudi Arabia, in the city of Dammam under Commercial Registration number 2050000602 dated 6 Dhul Qaidah 1377 H (corresponding to 24 May 1958). The Company is engaged in manufacturing and selling cement and its related products.

The Company has obtained under the Royal Decree number 10/6/6/8500 dated 26 Rajab 1370H (corresponding to 3 May 1951) the right of the mining concession for the exploitation of limestone, gypsum and clay and all the necessary materials for the manufacture of cement in Al Hassa for 30 years period. The Company also obtained under the Ministerial Resolution number 45 dated 4 Rabi' I 1405 H (corresponding to 27 November 1984) from the Council of Ministers, the right of the mining concession for the exploitation of limestone, gypsum and clay and all the necessary materials for the manufacture of cement in Al Jadidah (Khashem Em Houidah), with an area of nineteen square kilometres for 30 years period, where the Company has to fulfil certain contractual obligations related to these agreements. The Company has substantially completed the process to renew it for another period.

These interim condensed financial statements have been approved on 9 May 2017.

## 2 Basis of preparation

### 2.1 Statement of compliance

These interim condensed financial statements have been prepared in accordance with International Accounting Standard, "*Interim Financial Reporting*" ("IAS 34") as endorsed in Kingdom of Saudi Arabia ("KSA"). These are also the Company's first interim condensed financial statements in accordance with International Financial Reporting Standards ("IFRS") for part of the period covered by the first annual financial statements prepared in accordance with IFRS that are endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA"), and accordingly International Financial Reporting Standard, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") as endorsed in KSA has been applied. Refer to note 6 for information on the first time adoption of IFRS as endorsed in KSA, by the Company.

The interim condensed financial statements do not include all the information and disclosures required in annual financial statements to be prepared in accordance with IFRS that are endorsed in KSA and other standards and pronouncements that are issued by the SOCPA, which would be produced for the year ending 31 December 2017.

### 2.2 Basis of measurement

The interim condensed financial statements are prepared under the historical cost convention, using the accruals basis of accounting.

For employee and other post-employment benefits, actuarial present value calculations are used.

All values are rounded to the nearest thousand (SR '000), except when otherwise indicated.

### 2.3 Functional currency

The interim condensed financial statements are presented in Saudi Riyals (SR) which is the functional currency of the Company.



### **3 Significant accounting estimates, assumptions and judgments**

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The 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 or in the revision period and future periods if the changed estimates affect both current and future periods.

#### **3.1 Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the interim condensed statement of financial position date, that have a significant risk of causing a material carrying amounts of assets and liabilities within the financial year include:

##### **3.1.1 Useful lives of property, plant and equipment**

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

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

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

The key assumptions that Company uses in estimating future cash flows for recoverable amounts are anticipated future selling prices, expected production volumes, future operating and development costs, and refining margins. Changes to these assumptions will affect the recoverable amounts of CGUs and individual assets and may require material adjustments to their carrying value.

##### **3.1.3 Provisions**

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's judgment in estimating the expected cash outflows for severance payments and site closures or other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

### **3 Significant accounting estimates, assumptions and judgments (continued)**

#### **3.1 Key sources of estimation uncertainty (continued)**

##### **3.1.4 Long-term assumptions for employee benefits**

Post-employment defined benefits, end-of-service benefits and indemnity payment represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets, if any. The accounting standard requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases and return on assets, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

##### **3.2 Critical judgments in applying accounting standards**

The following critical judgments have the most significant effect on the amounts recognized in the interim condensed financial statements:

###### **3.2.1 Component parts of property, plant and equipment**

The Company's assets, classified within property, plant and equipment, are depreciated on a straight-line basis over their economic useful lives. When determining the economic useful life of an asset, it is broken down into significant component parts such that each significant component part is depreciated separately. Judgement is required in ascertaining the significant components of a larger asset, and while defining the significance of a component, management considers quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to mother asset, its pattern of consumption, and its replacement cycle/maintenance schedule.

###### **3.2.2 Cash Generating Unit (CGU)**

A Cash Generating Unit ("CGU") is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgement and interpretations with respect to the integration between assets, the existence of active market, similar exposure to market risks, shared infrastructure, and the way which management monitors the operations.

###### **3.2.3 Homogeneity of the inventory**

Certain inventories under the same categories may have different costing formula, if such inventories considered as not homogenous. When determining that certain inventories under the same category to be homogenous or not, required judgment after considering the nature and use of such inventories to the Company.

###### **3.2.4 Decommissioning and restoration Costs**

The Company make the judgment whether or not to recognize any liabilities for the future decommissioning and restoration cost of property, plant and equipment. Various factors including method and technology used in extraction of minerals, extent of restoration, legal requirements and the materiality of such expected costs required, are taken into consideration before concluding whether or not there is a need to recognise any obligation by the Company.

#### **4 Standards issued but not yet effective**

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

##### **IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Company does not expect to adopt the new standard before 1 January 2018.

##### **IFRS 15 Revenue from Contracts with Customers**

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

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

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

At this stage, the Company is not able to estimate the effect of the new rules on the Company's interim condensed financial statements. The Company will make more detailed assessments of the effect during the year of 2017. The Company does not expect to adopt the new standard before 1 January 2018.

##### **IFRS 16 Leases**

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and lease assets; however, this exemption can only be applied by lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The mandatory date for adoption for the standard is 1 January 2019.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)  
At 31 March 2017

**5 Summary of significant accounting policies**

**Current versus non-current classification**

The Company presents assets and liabilities in the interim condensed statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in 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:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as non-current.

**Property, plant and equipment**

Owned assets

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met. Where such assets are constructed in-house, their cost includes all amounts necessary to bring the asset to the present condition and location to be ready for intended use by management and excludes all costs such as general and administrative expenses and training costs. Any feasibility study costs are expensed as incurred unless they relate to specifically identifiable asset being constructed in-house and are directly attributable to it. Pre-operating costs during startup period net of proceeds from sale of trial production, are included as part of cost of the relevant item of property, plant and equipment, provided it is a directly attributable cost which meets the recognition criteria, and only up to the point the asset is in a condition ready for intended use.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/components have a useful life different than other parts and are required to be replaced at different intervals, the Company shall recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its directly attributable cost is recognized in the carrying amount of the property, plant and equipment if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the interim condensed statement of income and other comprehensive income as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. The Company will periodically assess the expectation and estimation for the decommissioning liability.

Environment, health, safety and security (EHS&S) related expenditures, including contamination treatment costs, are capitalized if they meet the recognition criteria, mainly, that such costs are required by prevailing applicable legislation and are required to continue the license to operate or is imposed by the Company's own mandatory requirements relating to EHS&S. These are capitalized together with the cost of the relevant item of property, plant and equipment to which they relate.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)  
At 31 March 2017

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**5 Summary of significant accounting policies (continued)**

**Property, plant and equipment (continued)**

Depreciation is calculated from the date the item of property, plant and equipment are available for its intended use or in respect of self-constructed assets, from the date such assets are ready for the intended use.

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings and civil works	13 to 33 years
Plant and equipment	3 to 30 years
Tools and transportation equipment	4 to 10 years
Furniture, fixtures and office equipment	4 to 10 years

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year-end.

Land and assets under construction, which are not ready for its intended use, are not depreciated.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the interim condensed statement of income and other comprehensive income.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**Associates**

Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. This is generally the case where the Company holds between 20% and 50% of the voting rights.

Equity method of accounting is used for the investment in associates. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses of the investee in the statement of income, and the Company's share of movements in other comprehensive income (OCI) of the investee in other comprehensive income.

Dividends received or receivable from associate are recognized as a reduction in the carrying amount of the investment.

The interim condensed statement of income and other comprehensive income reflects the Company's share of the results of operations of the associate. Any change in OCI of this associate is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the interim condensed statement of changes in equity.

When the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.



## **5 Summary of significant accounting policies (continued)**

### **Associates (continued)**

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The aggregate of the Company's share in net results of associates are shown on the face of the interim condensed statement of income and other comprehensive income outside operating profit.

The financial statements of the associate should be for the same reporting period as the Company. If not, then adjustments are made to bring the balances and transactions to be at / for the reporting period similar to the Company. Adjustments shall also be made to bring the balances and transactions in line with the accounting policies of the Company, in case the accounting policies of such associate differ from those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as 'Share in net result of associates' in the interim condensed statement of income and other comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the interim condensed statement of income and other comprehensive income.

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

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (pre-zakat) that reflects current market assessment of the time value of money and the risks specific to the asset.

The Company's impairment calculation is based on detailed budgets and forecast calculations which are prepared separately for each of the Company's CGUs, as the Company considered as single CGU. These budgets and forecast calculations are generally covering a five-year period. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the budget period.

Impairment losses of continuing operations, including impairment on working capital, if applicable, are recognized in the interim condensed statement of income and other comprehensive income in those expense categories consistent with the function of the impaired asset.

Irrespective of whether there is any indication of impairment, the Company shall also test intangible assets with an indefinite useful life (including goodwill) or intangible assets not yet available for use for impairment annually by comparing their carrying amount with respective recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year.

## **5 Summary of significant accounting policies (continued)**

### **Impairment of non-financial assets (continued)**

Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.

For assets other than above, an assessment is made at each financial year-end as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. This reversal is limited such that the recoverable amount doesn't exceed what the carrying amount would have been, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income and other comprehensive income.

### **Inventories**

Inventories, including raw materials, finished goods and consumables (spares) are valued at the lower of cost i.e. historical purchase prices based on the weighted average principle plus directly attributable costs (primarily duty and transportation), or the net realizable value.

Inventories of finished goods include cost of materials, labor and an appropriate proportion of variable and fixed direct overheads.

The cost of inventories is assigned by using weighted average cost formula. The Company is using the same cost formula for all inventories having a similar nature and use to the Company. For inventories with a different nature or use, different cost formulas are used.

Abnormal inventory losses due to quality or other issues and overheads incurred during unplanned maintenance / shut down period are excluded from inventory costs. The allocation of overheads at period end for the purpose of inventory valuation are based on the higher of normal capacity or actual production for the period. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

### **Scrap inventory, co-product and by-product**

Production process in the Company sometimes results in production of co-product simultaneously, or may result in some by-products or scraps (either non-usable or recyclable). When the costs of conversion of such co/by-product and/or scrap are not separately identifiable from the main product cost, they are allocated on a rational and consistent basis to such products and co/by-product and scrap. The allocation is based on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.

Where by-products and scrap are immaterial and where costs cannot be allocated to them or it is inefficient to do so, these items are measured under inventory at net realizable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product inventory is not materially different from its cost.

In the interim condensed statement of income other comprehensive income, the net realizable value for the by-products and scrap reduces the cost of sales for the period. Upon subsequent sale of such by-product, the proceeds is recorded as revenue with a corresponding cost of sale being recorded based on earlier recorded net realizable value, while for scrap, the proceeds, net of cost is recorded as other income.

**5 Summary of significant accounting policies (continued)**

**Inventories (continued)**

Consumable spare parts

Consumables are ancillary materials which are consumed in the production of semi-finished and finished products. Consumables may include engineering materials, one-time packaging materials and certain catalysts.

Spare parts are the interchangeable parts of property, plant and equipment, which are considered to be essential to support routine maintenance, repair and overhaul of plant and equipment or to be used in emergency situations for repairs. The Company maintains the following different types of spare parts:

- Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalized as part of property, plant and equipment and depreciated from purchase date over a period which is shorter of the component's useful life or the remaining useful life of the plant in which it is to be utilized. These do not form part of inventory provided capitalization criteria under property, plant and equipment is met.
- Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalized as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the related property, plant and equipment in which it is installed. These do not form part of inventory.
- General capital spares and other consumables items which are not of a critical nature and are of a general nature, i.e., not plant specific and can be used in multiple plants or production lines and any other items which may be required at any time for facilitating plant operations. They are generally classified as 'consumables and spare parts' under inventory, unless they exceed the threshold and have a useful life of more than one year, under which case they are recorded under property, plant and equipment. Items recorded under inventory are subject to assessment for obsolescence provision and are charged to the interim condensed statement of income and other comprehensive upon their installation or use. Where such items meet criteria for capitalization, their depreciation method is similar to repairable items as noted above.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

**5 Summary of significant accounting policies (continued)**

**Trade receivables**

Trade receivables are stated at the amortized cost, which generally correspond to face value (original invoice amount), do not bear interest, and generally have a 60 to 90 days term, less any provision for doubtful debts and impairment. An allowance for doubtful debts is made based upon Company's best estimate of expected credit losses related to those receivables. Such estimate is based on customers' financial status and historical write-off experience. Account balances are written off against such allowance after all means of collection have been exhausted and potential of recovery is remote. Bad debts written off as such are recorded in the interim condensed statement of income and other comprehensive income as incurred.

Other receivables include supplier advances and employee receivables and other such receivables which are not 'trade' receivables. Other receivables are stated at amortized cost which generally corresponds to their face value. Allowance for doubtful receivables is assessed as per methodology noted above.

**Cash and cash equivalents**

Cash and cash equivalents include bank balances and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Employees' benefits**

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves, air fare, child education allowance, furniture allowance that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in interim condensed statement of financial position.

Employees' terminal benefits

The liability or asset recognised in the interim condensed statement of financial position in respect of the defined end of service benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method.

The net interest cost is calculated by applying the discount rate to the net balance of the defined end of service benefit obligation. This cost is included in employee benefit expense in the statement of income and other comprehensive income. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in statement of income and other comprehensive income as past service costs.

## **5 Summary of significant accounting policies (continued)**

### **Employees' benefits (continued)**

#### Employees' saving plan

The Company operates a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Company's normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance and for purpose of presentation in the interim condensed financial statements, it is offset with the related liability under the savings plan and net liability to employees is reported under the employee benefits liability.

### **Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

### **Provisions**

#### General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Company 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 any provision is presented in interim condensed statement of income and other 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

### **Zakat**

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and on accruals basis and is based on the period share of the estimated zakat for the whole year. The provision is charged to the interim condensed statement of income and other comprehensive income.

### **Financial assets**

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as accounts receivables, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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



## **5 Summary of significant accounting policies (continued)**

### **Financial assets (continued)**

#### Subsequent measurement

For purposes of subsequent measurement financial assets are classified as loans and receivables:

#### Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the interim condensed statement of income and other comprehensive income.

#### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Company's statement of financial position) when:

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

#### Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### **Financial liabilities**

#### Initial recognition and measurement

Financial liabilities are classified under either of the two classes at initial recognition:

- Financial liabilities at fair value through profit or loss,
- Other financial liabilities measured at amortized cost using the effective interest rate method.

## **5 Summary of significant accounting policies (continued)**

### **Financial liabilities (continued)**

#### Initial recognition and measurement (continued)

The category of financial liability at fair value through profit or loss has two subcategories:

- Designated: a financial liability that is designated by the entity as a liability at fair value through profit or loss upon initial recognition,
- Held for trading: a financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

All financial liabilities are recognized initially when the Company becomes party to a contractual provisions and obligations under the financial instrument. The liabilities are recorded at fair value, and in the case of loans and borrowings and payables, the proceeds received net of directly attributable transaction costs.

#### Subsequent measurement

Financial liabilities at fair value through profit and loss will continue to be recorded at fair value with changes being recorded in the interim condensed statement of income and other comprehensive income.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. Gain and losses are recognized in interim condensed statement of income and other comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortization is included as finance costs in the interim condensed statement of income and other comprehensive income.

#### De-recognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the interim condensed statement of income and other comprehensive income.

### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the interim condensed statement of financial position if there is a currently enforceable legal right to offset recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)  
At 31 March 2017

**5 Summary of significant accounting policies (continued)**

**Transactions and balances in foreign currency**

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in the interim condensed statement of income and other comprehensive income.

**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 presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Company.

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 best economic interest.

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

The Company 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 interim condensed financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities,
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable,
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the interim condensed financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the 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.

The policies and procedures for both recurring fair value measurement are evaluated periodically.

For the purpose of fair value disclosures, the Company 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

**5 Summary of significant accounting policies (continued)**

**Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding any taxes or duty. Amounts disclosed as revenue are net of returns.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenues represent the invoiced value of goods shipped by the Company during the period, net of any trade and quantity discounts.

Where the Company assesses itself as the principal, it records all relevant sales and costs of sale for the goods sold.

**Expenses**

Cost of sales

All expenses are recognized on an accrual basis. Operating costs are recognized on a historical cost basis. Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material, direct labor and other attributable overhead costs. Other costs such as selling costs are recorded as selling and distribution expenses while all remaining other costs are presented as general and administrative expenses.

Selling and distribution expenses

These include any costs incurred to carry out or facilitate all selling activities at the Company. These costs typically include marketing and distribution and logistics expenses as well as commissions. These also include allocations of certain general overheads.

General and administrative expenses

These pertain to operation expenses which are not directly related to the production of any goods or services. These also include allocations of general overheads which are not specifically attributed to cost of sales or selling and distribution expenses.

Allocation of overheads between cost of sales, selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis based on predetermined rates as appropriate by the Company.

**Finance income**

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the interim condensed statement of income and other comprehensive income. Earnings on time deposits are recognized on an accrual basis.

At 31 March 2017

## 5 Summary of significant accounting policies (continued)

### Earnings per share

Basic earnings per share is calculated by dividing:

- the net income attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares.

Diluted EPS is calculated by dividing the net income attributable to ordinary shareholders of the Company (after adjusting for interest on the convertible preference shares, if any) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion, if any of all the dilutive potential ordinary shares into ordinary shares.

## 6 First-time adoption of IFRS

For all periods up to and including the year ended 31 December 2016, the Company prepared and published its financial statements only in accordance with generally accepted accounting standards in Kingdom of Saudi Arabia ("SOCPA" or "Previous GAAP"). These are the Company's first interim condensed financial statements in accordance with IAS 34, "*Interim Financial Reporting*" and IFRS 1, "*First-time Adoption of International Financial Reporting Standards*" that are endorsed in Kingdom of Saudi Arabia.

Accordingly, the Company has prepared financial statements, which comply with IFRS that are endorsed in Kingdom of Saudi Arabia applicable for periods beginning on or before 1 January 2017, together with the comparative period data. In preparing the accompanying interim condensed financial statements, the Company's opening statement of financial position was prepared as at 1 January 2016 after incorporating certain adjustments made as required due to the first time adoption of IFRS as endorsed in Kingdom of Saudi Arabia.

In preparing its opening statement of financial position as at 1 January 2016 in accordance with IFRS that are endorsed in Kingdom of Saudi Arabia, the financial statements for the year ended 31 December 2016 and the interim financial statements for the three-month period ended 31 March 2016, the Company has analyzed the impact and noted following adjustments are required to the amounts reported previously in the financial statements prepared in accordance with SOCPA.

### Exemptions applied:

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Company has applied the following exemption:

The Company has applied the transitional provisions in IAS 23 Borrowing Costs and capitalises borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Company has not restated for borrowing costs capitalised under SOCPA on qualifying assets prior to the date of transition to IFRS.

The notes below explain the principal adjustments made by the Company in restating its SOCPA financial statements to IFRS:



SAUDI CEMENT COMPANY  
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.1 The following is a reconciliation of the Company's statement of financial position reported in accordance with SOCPA to its statement of financial position under IFRS at 31 December 2016:

	Note	SOCPA as at 31 December 2016 SR '000	Re- classificati ons SR '000	Re- measurements SR '000	IFRS as at 31 December 2016 SR '000
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	A,14	2,729,940	254,444	(89,713)	2,894,671
Construction work in progress		160,119	(160,119)	-	-
Investments in associates		60,100	-	-	60,100
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,950,159</b>	<b>94,325</b>	<b>(89,713)</b>	<b>2,954,771</b>
<b>CURRENT ASSETS</b>					
Inventories	A	817,469	(94,325)	-	723,144
Trade receivables		259,357	-	-	259,357
Prepayments and other receivables		40,139	-	-	40,139
Cash and cash equivalents		183,820	-	-	183,820
<b>TOTAL CURRENT ASSETS</b>		<b>1,300,785</b>	<b>(94,325)</b>	<b>-</b>	<b>1,206,460</b>
<b>TOTAL ASSETS</b>		<b>4,250,944</b>	<b>-</b>	<b>(89,713)</b>	<b>4,161,231</b>
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
Share capital		1,530,000	-	-	1,530,000
Statutory reserve		765,000	-	-	765,000
Retained earnings	6.2	980,464	-	(85,887)	894,577
<b>TOTAL EQUITY</b>		<b>3,275,464</b>	<b>-</b>	<b>(85,887)</b>	<b>3,189,577</b>
<b>LIABILITIES</b>					
<b>NON-CURRENT LIABILITY</b>					
Employees' benefits		91,277	-	(3,826)	87,451
<b>CURRENT LIABILITIES</b>					
Islamic financing		400,000	-	-	400,000
Trade payables		103,958	-	-	103,958
Current portion of liability for charitable contribution		20,000	(20,000)	-	-
Dividends payable		210,350	-	-	210,350
Accruals and other payables		112,701	20,000	-	132,701
Zakat provision		37,194	-	-	37,194
<b>TOTAL CURRENT LIABILITIES</b>		<b>884,203</b>	<b>-</b>	<b>-</b>	<b>884,203</b>
<b>TOTAL LIABILITIES</b>		<b>975,480</b>	<b>-</b>	<b>(3,826)</b>	<b>971,654</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,250,944</b>	<b>-</b>	<b>(89,713)</b>	<b>4,161,231</b>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

**6 First-time adoption of IFRS (continued)**

**6.2 Reconciliation of retained earnings as at 31 December 2016**

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

	Note	Impact on retained earnings at 31 December 2016 <u>SR '000</u>
Retained earnings as per SOCPA		980,464
IFRS adjustments related to:		
Difference in depreciation as a result of componentization of property, plant and equipment	14	(86,340)
Depreciation adjustment of spare parts	A	(15,318)
Actuarial valuations of employee benefits	B	3,826
Reversal of capital spare parts utilised	A	<u>11,945</u>
Retained earnings as per IFRS		<u>894,577</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.3 The following is a reconciliation of the Company's statement of financial position reported in accordance with SOCPA to its statement of financial position under IFRS at the transition date 1 January 2016:

	Note	SOCPA as at 1 January 2016 SR '000	Re- classificati ons SR '000	Re- measurements SR '000	IFRS as at 1 January 2016 SR '000
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	A,14	2,876,424	227,957	(91,887)	3,012,494
Construction work in progress		138,134	(138,134)	-	-
Investments in associates		82,800	-	-	82,800
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,097,358</b>	<b>89,823</b>	<b>(91,887)</b>	<b>3,095,294</b>
<b>CURRENT ASSETS</b>					
Inventories	A	754,934	(89,823)	-	665,111
Trade receivables		226,922	-	-	226,922
Prepayments and other receivables		51,375	-	-	51,375
Cash and cash equivalents		383,000	-	-	383,000
<b>TOTAL CURRENT ASSETS</b>		<b>1,416,231</b>	<b>(89,823)</b>	<b>-</b>	<b>1,326,408</b>
<b>TOTAL ASSETS</b>		<b>4,513,589</b>	<b>-</b>	<b>(91,887)</b>	<b>4,421,702</b>
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
Share capital		1,530,000	-	-	1,530,000
Statutory reserve		765,000	-	-	765,000
General reserve		20,000	-	-	20,000
Retained earnings	6.4	940,822	-	(96,486)	844,336
<b>TOTAL EQUITY</b>		<b>3,255,822</b>	<b>-</b>	<b>(96,486)</b>	<b>3,159,336</b>
<b>LIABILITIES</b>					
<b>NON-CURRENT LIABILITY</b>					
Employees' benefits	B	91,316	-	4,599	95,915
<b>CURRENT LIABILITIES</b>					
Current portion of Saudi Industrial Development Fund loan		120,000	-	-	120,000
Islamic financing		600,000	-	-	600,000
Trade payables		90,818	-	-	90,818
Current portion of liability for charitable contribution		30,000	(30,000)	-	-
Dividends payable		172,395	-	-	172,395
Accruals and other payables		120,393	30,000	-	150,393
Zakat provision		32,845	-	-	32,845
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,166,451</b>	<b>-</b>	<b>-</b>	<b>1,166,451</b>
<b>TOTAL LIABILITIES</b>		<b>1,257,767</b>	<b>-</b>	<b>4,599</b>	<b>1,262,366</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,513,589</b>	<b>-</b>	<b>(91,887)</b>	<b>4,421,702</b>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)  
At 31 March 2017

**6 First-time adoption of IFRS (continued)**

**6.4 Reconciliation of retained earnings as at 1 January 2016**

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

	Note	<i>Impact on retained earnings at 1 January 2016</i> SR '000
Retained earnings as per SOCPA		940,822
IFRS adjustments related to:		
Difference in depreciation as a result of componentization of property, plant and equipment	14	(82,988)
Depreciation adjustment of spare parts	A	(8,899)
Actuarial valuations of employee benefits	B	(4,599)
Retained earnings as per IFRS		<u>844,336</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

**6 First-time adoption of IFRS (continued)**

**6.5 The following is a reconciliation of the Company's statement of interim condensed financial position reported in accordance with SOCPA to its statement of interim condensed financial position under IFRS as at 31 March 2016:**

	Note	SOCPA as at 31 March 2016 SR '000	Re- classificati ons SR '000	Re- measurements SR '000	IFRS as at 31 March 2016 SR '000
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	A,14	2,843,158	248,629	(92,481)	2,999,306
Construction work in progress		155,634	(155,634)	-	-
Investments in associates		83,382		-	83,382
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,082,174</b>	<b>92,995</b>	<b>(92,481)</b>	<b>3,082,688</b>
<b>CURRENT ASSETS</b>					
Inventories	A	760,216	(92,995)	-	667,221
Trade receivables		231,108	-	-	231,108
Prepayments and other receivables		64,373	-	-	64,373
Cash and cash equivalents		83,940	-	-	83,940
<b>TOTAL CURRENT ASSETS</b>		<b>1,139,637</b>	<b>(92,995)</b>	<b>-</b>	<b>1,046,642</b>
<b>TOTAL ASSETS</b>		<b>4,221,811</b>	<b>-</b>	<b>(92,481)</b>	<b>4,129,330</b>
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
Share capital		1,530,000	-	-	1,530,000
Statutory reserve		765,000	-	-	765,000
Retained earnings	6.6	764,984	-	(97,080)	667,904
<b>TOTAL EQUITY</b>		<b>3,059,984</b>	<b>-</b>	<b>(97,080)</b>	<b>2,962,904</b>
<b>LIABILITIES</b>					
<b>NON-CURRENT LIABILITY</b>					
Employees' benefits	B	92,034	-	4,599	96,633
<b>CURRENT LIABILITIES</b>					
Current portion of Saudi Industrial Development Fund loan		120,000	-	-	120,000
Islamic financing		530,000	-	-	530,000
Trade payables		93,641	-	-	93,641
Current portion of liability for charitable contribution		30,000	(30,000)	-	-
Dividends payable		171,896	-	-	171,896
Accruals and other payables		84,607	30,000	-	114,607
Zakat provision		39,649	-	-	39,649
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,069,793</b>	<b>-</b>	<b>-</b>	<b>1,069,792</b>
<b>TOTAL LIABILITIES</b>		<b>1,161,827</b>	<b>-</b>	<b>4,600</b>	<b>1,166,426</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,221,811</b>	<b>-</b>	<b>(92,481)</b>	<b>4,129,330</b>



SAUDI CEMENT COMPANY  
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

**6 First-time adoption of IFRS (continued)**

**6.6 Reconciliation of retained earnings as at 31 March 2016**

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

	<i>Note</i>	<i>Impact on retained earnings at 31 March 2016</i>
		<i>SR '000</i>
Retained earnings as per SOCPA		764,984
IFRS adjustments related to:		
Difference in depreciation as a result of componentization of property, plant and equipment	14	(83,799)
Depreciation adjustment of spare parts	A	(10,151)
Actuarial valuations of employee benefits	B	(4,599)
Reversal of capital spare parts utilised	A	1,469
Retained earnings as per IFRS		<u>667,904</u>

SAUDI CEMENT COMPANY  
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.7 The following is a reconciliation of the Company's interim condensed statement of income and other comprehensive income for the three-month period ended 31 March 2016 from SOCPA to IFRS:

	Note	SOCPA for the three month period ended 31 March 2016 SR '000	Re- measurements SR '000	IFRS for the three month period ended 31 March 2016 SR '000
Sales		506,925	-	506,925
Cost of sales	6.9	(211,112)	(594)	(211,706)
GROSS PROFIT		295,813	(594)	295,219
Selling and distribution expenses		(7,533)	-	(7,533)
General and administrative expenses	6.9	(14,143)	(2,200)	(16,343)
OPERATING PROFIT		274,137	(2,794)	271,343
Other income		591	-	591
Share in net results of associates		582	-	582
Follow-up fees in respect of Saudi Industrial Development Fund loans		(1,050)	-	(1,050)
Islamic financial charges		(2,094)	-	(2,094)
INCOME BEFORE ZAKAT		272,166	(2,794)	269,372
Zakat		(6,804)	-	(6,804)
NET INCOME FOR THE PERIOD		265,362	(2,794)	262,568
Other comprehensive income		-	-	-
TOTAL COMPREHENSIVE INCOME		265,362	(2,794)	262,568

SAUDI CEMENT COMPANY  
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.8 The following is a reconciliation of the Company's interim condensed statement of income and other comprehensive income for the year ended 31 December 2016 from SOCPA to IFRS:

	Note	SOCPA for year ended 31 December 2016 SR '000	Re- measuremen ts SR '000	IFRS for the year ended 31 December 2016 SR '000
Sales		1,778,139	-	1,778,139
Cost of sales	6.9	(749,139)	1,582	(747,557)
GROSS PROFIT		1,029,000	1,582	1,030,582
Selling and distribution expenses		(35,501)	-	(35,501)
General and administrative expenses		(60,766)	(2,200)	(62,966)
OPERATING PROFIT		932,733	(618)	932,115
Other income		4,274	-	4,274
Share in net results of associates		5,045	-	5,045
Follow-up fees in respect of Saudi Industrial Development Fund loans		(3,715)	-	(3,715)
Islamic financial charges		(13,222)	-	(13,222)
INCOME BEFORE ZAKAT		925,115	(618)	924,497
Zakat		(23,523)	-	(23,523)
NET INCOME FOR THE PERIOD		901,592	(618)	900,974
Other comprehensive income				
Other comprehensive income not to be reclassified to income in subsequent periods:				
Re-measurement gain on defined benefit plans		-	9,017	9,017
OTHER COMPREHENSIVE INCOME		-	9,017	9,017
TOTAL COMPREHENSIVE INCOME		901,592	8,399	909,991

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)  
At 31 March 2017

**6 First-time adoption of IFRS (continued)**

*6.9 The following table illustrates the reconciliation of statement of income other comprehensive income from SOCPA to IFRS for Company on adoption of IFRS:*

*Reconciliation of statement of income and other comprehensive income*

		<i>For the year ended 31 December 2016</i>	<i>For the period ended 31 March 2016</i>
	<i>Note</i>	<i>SR '000</i>	<i>SR '000</i>
Net income under SOCPA		901,592	265,362
IFRS adjustments related to:			
Difference in depreciation as a result of componentization of property, plant and equipment	14	(3,352)	(811)
Depreciation adjustment of spare parts	A	(6,419)	(1,253)
Employees' end-of-service-benefits	B	(592)	-
Reversal of capital spare parts utilised	A	11,945	1,470
Board of Directors' remuneration	C	(2,200)	(2,200)
Net income under IFRSs		900,974	262,568
Other comprehensive income			
Re-measurement gain on actuarial valuations of employee benefits	B	9,017	-
Total comprehensive income under IFRS		909,991	262,568

**6 First-time adoption of IFRS (continued)**

**A Property, Plant and equipment and inventories**

Under SOCPA, the Company capitalised the cost of capital spare parts under inventory, which used to serve for more than one accounting year. However, under IFRS, such cost is capitalised under property, plant and equipment, and therefore the depreciation has been estimated for such cost and recognized through the retained earnings. This change resulted in a decrease in both the net book value of property, plant and equipment balances and retained earnings on the transition date.

**B Employee benefits and accrued and other liabilities**

Under IFRS, end of service benefits ("EOSB") are required to be calculated using actuarial assumptions. Historically, the Company has calculated these obligations based on the current provision. This change resulted in an increase in the EOSB liability balances on the transition date and a decrease in retained earnings.

**C Board of Directors' remuneration**

Under SOCPA, accepted practice was to charge the Board of Directors' remuneration in the statement of changes in equity. However, under IFRS, the Board of Directors' remuneration is charged to interim condensed statement of income and other comprehensive income.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

**7 Related party transactions and balances**

The following table provides the total amount of transactions that have been entered into with related parties during the three-month period ended 31 March 2017 and 2016 and related parties balances as at 31 March 2017, 31 December 2016 and 1 January 2016.

Related party	Relationship	Nature of transaction	Three-month period		Ending balance		
			Amount of transaction		31 March 2017	31 December 2016	1 January 2016
			31 March 2017	31 March 2016			
			SR '000	SR '000	SR '000	SR '000	SR '000
<b>i) Trade receivables due from a related party</b>							
United Cement Company	Associate	Sales	18,605	27,448	15,307	21,096	23,971
<b>ii) Advances to a related party</b>							
Cement Product Industry Company Limited	Associate	Advance received			3,450	3,450	3,950
<b>iii) Trade payables due to a related party</b>							
Cement Product Industry Company Limited	Associate	Purchases of raw material	7,622	10,055	1,089	617	-
Wataniya Insurance Company	Affiliate	Insurance on property plant and equipment	6,459	7,381	4,169	-	17
					5,258	617	17

**Terms and conditions of transactions with related parties**

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period ended 31 March 2017 are unsecured and settled in cash. There have been no guarantees provided to amounts due to related parties. However, amounts due from related parties were fully covered by bank guarantees. For the period ended 31 March 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

The Company has paid total compensations of SR 4.5 million to its key executives during the period (31 March 2016: SR 4.4 million).

Prices and terms of payments for the above transactions are approved by the Company's management.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

**8 Share capital**

The authorised, issued and paid up share capital is SR 1,530 million, which is divided into 153 million shares (31 December and 1 January 2016: 153 million shares) of SR 10 each.

**9 Employees' benefits**

The following table represents the movement of the employees' benefits:

	31 March 2017 SR '000	31 December 2016 SR '000	1 January 2016 SR '000
At the beginning of the period	87,451	95,915	91,673
Current service cost	2,085	7,040	10,046
Past service cost	-	-	4,599
Interest cost	-	3,389	-
Payments during the period	(1,971)	(9,876)	(10,403)
Actuarial adjustments during the period	-	(9,017)	-
At the end of the period	87,565	87,451	95,915

**10 Islamic financing**

The Islamic facilities have been obtained from various local banks to meet the working capital requirements with a total amount of SR 1,800 million (31 December 2016: SR 1,850 million and 1 January 2016: SR 1,850 million), the utilised balance as of 31 March 2017 is SR 350 million (31 December 2016: SR 400 million and 1 January 2016: SR 600 million). These Islamic facilities carry varying financial costs in excess of SIBOR and are consistent with the terms of each facility agreement that are secured by promissory notes issued by the Company and carry charges agreed with the facilities' providers.

The outstanding Islamic financing is classified under current liabilities in the interim condensed statement of financial position as it is repayable within 12 months from the financial position date.

The facility agreements contained certain covenants, which requires among other things, certain financial ratios to be maintained.

**11 Dividends**

Subsequent to period end, on 12 Rajab 1438H (corresponding to 9 April 2017), the General Assembly approved the Board of Directors' proposal to distribute cash dividends amounting to SR 2.75 per share (SR 420.75 million in total) for the second half of 2016.

On 15 Jumada' II 1437H (corresponding 24 March 2016), the General Assembly approved the Board of Directors' proposal to distribute cash dividends amounting to SR 3 per share (SR 459 million in total) for the second half of 2015.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 31 March 2017

**12 Zakat provision**

The movement in Company's zakat and income tax payable is as follows:

	31 March 2017 SR '000	31 December 2016 SR '000	1 January 2016 SR '000
At beginning of the period	37,194	32,845	36,927
Provided during the period	4,223	23,523	24,209
Paid during the period	-	(19,174)	(28,291)
At the end of the period	<u>41,417</u>	<u>37,194</u>	<u>32,845</u>

Zakat returns of the Company are submitted to the General Authority of Zakat and Tax (GAZT) based on financial statements prepared for zakat purposes only.

The Company has filed its zakat returns with GAZT, received the zakat certificates, settled the zakat dues and cleared its zakat assessments with GAZT up to the year ended 31 December 2012.

**13 Earnings per share**

Basic earnings per share amounts are calculated by dividing net income for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	31 March 2017 SR '000	31 March 2016 SR '000
Net income attributable to equity holders (SR'000)	164,699	262,568
Number of shares outstanding (in thousands)	153,000	153,000
Earnings per share for the period	<u>1.08</u>	<u>1.72</u>

There has been no item of dilution affecting the weighted average number of ordinary shares.

**14 Component change for the property, plant and equipment**

Under IFRS, the property, plant and equipment should be componentized and the components' useful lives identified separately. The componentization concept was not a followed practice in Saudi Arabia. It was not practically possible for the Company to clearly distinguish adjustments related to the change in useful lives from those relating to applying the componentization. As part of the transition to IFRS, the Company has applied the concept of assets components and accounted for its impact on the useful lives, which resulted in a decrease in property, plant and equipment and decrease in retained earnings on the IFRS transition date amounting to SR 83 million (note 6.4). The net impact has been booked as part of the transition adjustments.

**15 Capital commitments**

The capital expenditure contracted by the Company but not incurred till year-end was approximately SR 30.6 million.



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED) (continued)  
At 31 March 2017

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**16 Segment information**

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

All of the Company's operations are related to one operating segment which is cement and are substantially sold to local customers. Accordingly, segmental analysis by geographical and operating segment has not been presented.

**17 Subsequent events**

Except for the event disclosed in note 11, in the opinion of management, there have been no significant subsequent events since the period ended 31 March 2017 that would have a material impact on the financial position of the Company as reflected in these interim condensed financial statements