

الإسمنت السعودية
SAUDI CEMENT



Annual Report 2019

Power to Build

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Board of Directors' Report

About the Company's business for the 61st Ordinary General Assembly Meeting
Held on 28 Shaban, 1441 (April 21, 2020)



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The Founder
King Abdulaziz bin
Abdulrahman Al Faisal Al Saud



Custodian of the Two Holy Mosques
King Salman bin
Abdulaziz Al Saud



His Royal Highness
Crown Prince Mohammed bin
Salman bin Abdulaziz Al Saud
Crown Prince, First Deputy Prime
Minister and Minister of Defence



Board of Directors

Board of Directors



Mr. Khaled Abdulrahman Al-Rajhi
Chairman



Mr. Mohammed Abdulkarim Al-Khereiji
Vice Chairman



Dr. Mohammad Sulaiman Balghonaim
Board Member



Mr. Khaled Abdulrahman Al-Abdulkarim
Board Member



Mr. Amin Mousa Al-Affi
Board Member



Mr. Hamad Abdullah Al-Olayan
Board Member



Dr. Abdulrahman Suleiman Al-Rajhi
Board Member



Mr. Mubarak Jaber Al-Mohaimeed
Board Member



Mr. Ahmed Mohammed Al-Omran
Board Member



Ms. Hala Walid Al-Juffali
Board Member



Mr. Mohammed Ali Al-Garni
Board Member & Chief Executive Officer

Vision, Mission and Values

VISION

To be a world class producer of building materials and strive for excellence.

MISSION

As a cement industry pioneer in the region, Saudi Cement Company aims to maintain its leadership position and reputation for safety, health, environment, quality, cost efficiency and advanced operations; through a highly motivated team. Saudi Cement Company's goal is to exceed the expectations of all its stakeholders including customers, employees, shareholders and the community at large.

VALUES

- To provide our customers with quality products and services.
- To provide an environment for our people to excel, develop and grow.
- To achieve attractive returns for our shareholders and finance growth, while adhering to the highest ethical standards and Islamic principles.

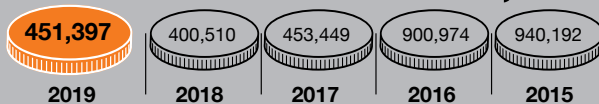
Board of Directors' Statement

Respected Shareholders,

The Board of Directors welcomes you to the Sixty-One Ordinary General Assembly Meeting of Saudi Cement Company and thank you for attending this meeting.

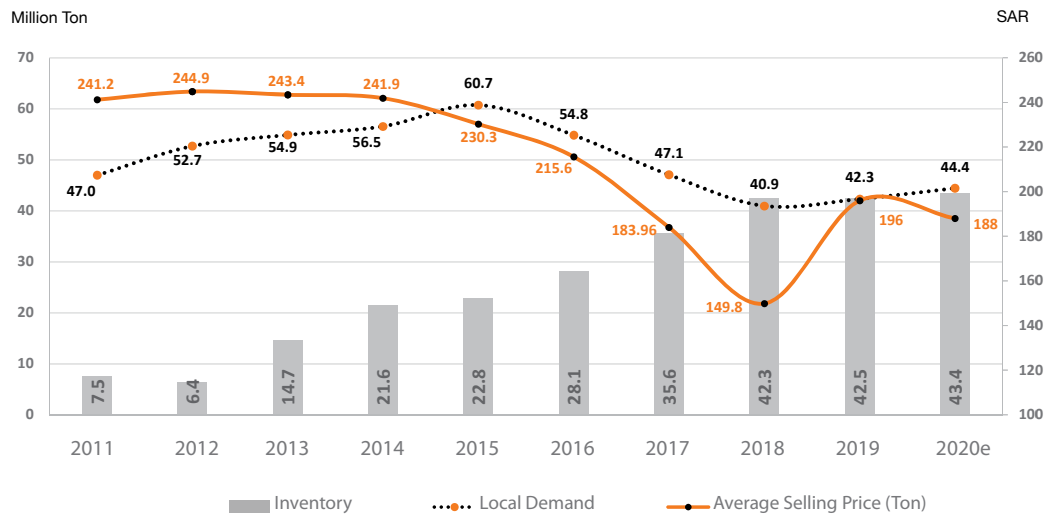
The Board is pleased to present to you 2019 "Annual Report" along with 2019 Financial Statements and Auditor's Report.

Net Profit SAR 000's



Statement from the Chairman of the Board of Directors

Average Selling Price , Inventory and Local Sales Demand Trend for Saudi Cement Sector During The Period (2011 to 2019) and 2020 Estimated



2019 ended with an improvement in local demand after the local market witnessed three years in continuous decline, and the improvement mainly came as a result of the growth in local demand during the second half of 2019 (starting from June in particular), which erased the entire decline that local market recorded during the first half of 2019, the year 2019 ended with a total local demand of 42.3 million tons, compared with 40.9 million tons for the year 2018, i.e. an increase of 3.4%.

Considering the improvement in the relative demand during the year 2019, it is expected that during 2020 the local market will witness a continuation of growth in demand around 4-6% with the commencement of some government projects up to 44.4 million tons

The increase in demand was accompanied with the increase in local selling prices up to approximately SAR 200 per ton for all companies operating in the sector, which led to the increase in profit margins and improved the financial results for the sector during the year 2019, and that was after many companies realized the importance of focusing on selling prices instead of quantities after the experience of going into price wars during 2017 and 2018 which caused many companies operating in the sector to report huge losses.

Despite the difficult global market conditions, exporting considerable quantities of cement and clinker contributed to maximizing the revenues of companies operating in the sector, even though, this did not reduce the volume of clinker stocks, as the level of clinker inventory for the entire sector ranged between 41 and 43 million tons during the period of Q4 2018 until the end of 2019, and the total exports by the sector during 2019 amounted to about 7.5 million tons compared to 4.3 million tons during 2018, while our company managed to export approximately 2.1 million tons of cement and clinker during 2019, which contributed to improving the financial results of our company as a result of improving operational efficiency and also to maximizing revenues and improving cash flows.

Moreover, the company has continued to excel in its financial results, as the company's performance during 2019 was among the best in the sector in spite of the intense competition, which is mainly due to the fact that the company continue to adopt strategies to raise operational efficiency and sales and marketing strategies that it takes into consideration the different market conditions, while preserving the company's earnings and the interests of its shareholders in a manner that guarantees the achievement of the best financial results, and this has encouraged the foreign investor to invest and own Saudi Cement Company's share reaching to 8.72% total ownership percentage at the end of December 2019 which is the highest percentage of foreign investors' ownership in the cement sector

Following is a summary of the operational and financial indicators for 2019:

- Clinker production during 2019 was 6.4 million tons, an increase of approximately 3.5% compared to 2018.
- Total sales of cement reached to 5.7 million ton during 2019, an increase of 10% compared to 2018.
- Clinker stock at the end of 2019 reached to 5.67 million tons, a slight increase of approximately 0.2% compared to the end of 2018.
- Total clinker and cement exported during 2019 amounted to 2.1 million tons, an increase of 57% compared to 2018.
- Sales revenue for 2019 was SAR 1,442 million, an increase of 28.7% compared to 2018.
- Operating profit for 2019 reached to SAR 491 million, an increase of 17.8% compared to 2018.
- Earnings per share for 2019 amounted to SAR 2.95 compared to SAR 2.62 for the year 2018.
- Net cash flow from operations for 2019 increased by 61% to reach SAR 721 million.
- Dividends distributed during the year amounted to SAR 497.25 million (profits for the second half of 2018 and the profits for the first half of the year 2019).
- Total assets at the end of the year decreased by 0.5% to reach an amount of SAR 3,909 million, compared to SAR 3,927 million at the end of 2018.
- Total shareholders' equity at the end of the year decreased by 2.0% to reach an amount of SAR 2,730 million, compared to SAR 2,787 million at the end of 2018.

Eventually, we will strive to continue achieving high levels of operational efficiency and to manage the market requirements and conditions in a way that maintains the leadership of the company at the local and regional level.

Khaled Abdulrahman Al-Rajhi
Chairman of the Board of Directors

Production Capacities

Production Capacities (Operating)

CLINKER

Annual Available Production Capacity (tons) Kilns	9,240,000
Tons per day	2 x 12,000
Tons per day	1 x 4,000

CEMENT

Annual Grinding (Capacity) tons	11,500,000
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MILLS CEMENT

Tons per HOUR	3 x 280
Tons per HOUR	2 x 160
Tons per HOUR	3 x 120
Tons per HOUR	2 x 80

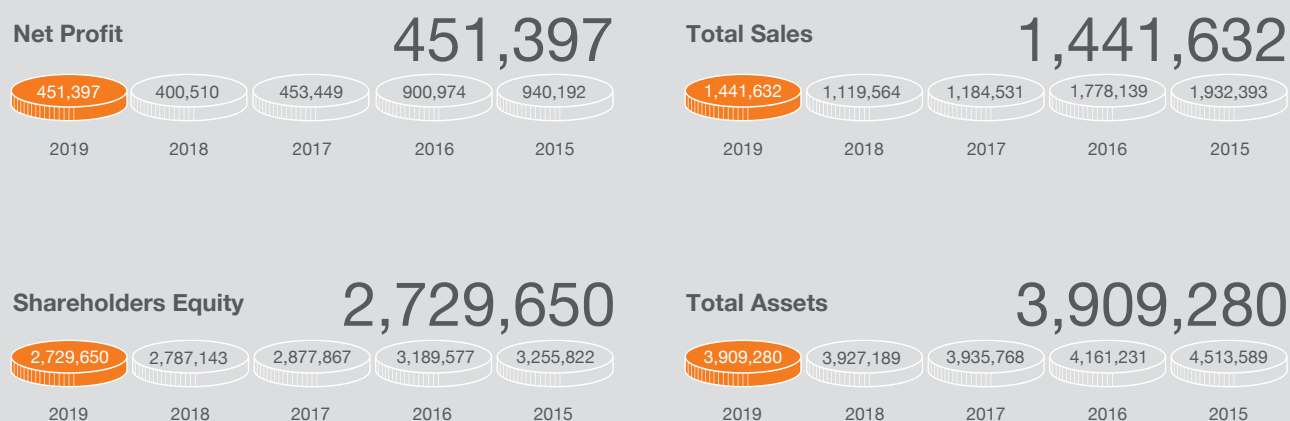
Old Cement Mills will be utilized to grind quantities in excess of the grinding capacity of the new mills.

TYPES OF CEMENT PRODUCED

Ordinary Portland Cement (ASTM Type 1 Specification)
Sulphate Resisting Cement (ATM Type V Specification)
Special Cement of any type & specification as per market demand.

Financial Highlights

All figures expressed in SAR 000's

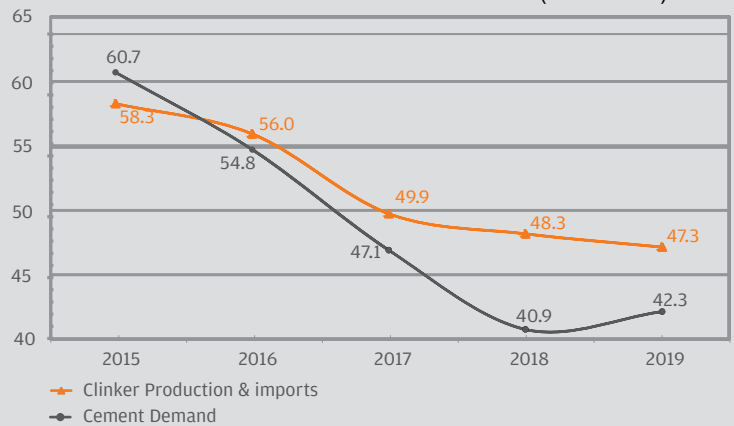


SR 000's	2019	2018	2017	2016	2015
Sales	1,441,632	1,119,564	1,184,531	1,778,139	1,932,393
Cost of Sales	(791,839)	(581,572)	(615,733)	(747,557)	(796,371)
Gross Profit	649,793	537,992	568,798	1,030,582	1,136,022
Impairment loss of property, plant & equipment	0	0	0	0	(66,150)
General, Admin & Marketing Exp.	158,808	121,189	95,279	98,467	106,256
Operating Income	490,985	416,803	473,519	932,115	963,114
Other Income / (Expenses)	(23,097)	(12,123)	(8,524)	(7,618)	785
Zakat	(16,491)	(4,170)	(11,546)	(23,523)	(24,209)
Net Income	451,397	400,510	453,449	900,974	940,192

Production - Stock



Clinker Production & Cement Demand in KSA (2015-2019)



Clinker Production:

Total quantity of clinker produced during 2019 amounted to 6.4 million tons compared to a quantity of 6.2 million tons for 2018 i.e. an increase of 200 thousand tons or approximately 3.5%.

On the other hand, total clinker production for all cement companies in the Kingdom during 2019 was 47.3 million tons in comparison with 48.3 million tons for 2018, i.e. a decrease of (1) million tons or approximately 2%.

Cement Production:

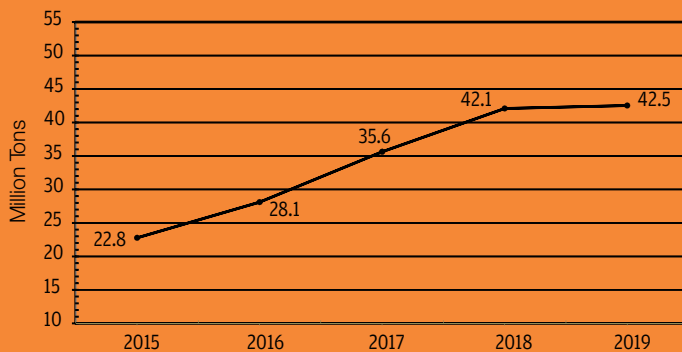
Cement production for 2019 totaled 5.7 million tons in comparison with 5.3 million tons for 2018, i.e. an increase of 400 thousand tons or approximately 8%.

Clinker Stock:

The clinker inventory at the end of 2019 amounted to 5.67 million tons, in comparison with a quantity of 5.65 million tons at the end of 2018, i.e. an increase of approximately 0.2%. On the other hand, clinker inventory for all cement companies in the Kingdom has reached to a new record level of 42.52 million tons in 2019, i.e. an increase of approximately 0.4% compared to the end of 2018.

Operation and Maintenance - Sales - Exports

Cement Companies Clinker Closing Stock - KSA (2015-2019)



Operation and Maintenance:

Saudi Cement Company continues its wisely scheduled and efficient preventive maintenance program and apply the best practices and endeavor to increase its operating efficiency which had a positive impact on the Company's results.

Saudi Cement Company has maintained its supremacy in producing high-quality types of cement products and has the capability and flexibility to produce other types of cement, if that proves to be economically viable.

Sales:

Cement demand witnessed a slight increase during 2019 after a three-year drop in market demand to reach 42.3 million tons in comparison to 40.9 million tons during 2018.

Overall Local & Export sales of Cement & Clinker amounted to 50.2 million tons during 2019. Export sales represent approximately 15%.

Saudi Cement Company's local cement sales volume for the year 2019 was 4.8 million tons in comparison with 4.5 million tons for 2018 i.e. an increase of 300 thousand tons which represent approximately 7%, while the total cement sales volume (local & export) for 2019 amounted to 5.7 million tons in comparison to 5.2 million tons for the year 2018 i.e. an increase of 500 thousand tons or 10%.

Exports:

The total Cement exported quantities during the year 2019 reached to 903 thousand tons compared to 682 thousand tons in the year 2018 i.e. an increase of 221 thousand tons or 32%.

Also, the total Clinker exported quantities during the year 2019 reached to 1.15 million tons compared to 630 thousand tons in the year 2018 i.e. an increase of 520 thousand tons or 84%.

Although the export sales were affected negatively as a result of political situation in the Arab Gulf region, which was reflected in an increased insurance prices, shipping, and export movement, the company noticable growth achieved in export sales compared to 2018.

What was applied and not applied from the Corporate Governance regulations and reasons - Board Members

What was applied and not applied from the Corporate Governance regulations and reasons – Board Members

What was applied and not applied from the Corporate Governance regulations and reasons:

Saudi Cement Company has already issued its own Corporate Governance Charter, which was previously approved by the Board of Directors on 22nd of Safar 1430 (17 February 2009). Saudi Cement Company is currently applying all the Corporate Governance Regulations, except for the following:

Article	Pertinent Article/Para	Reasons for non-adoption
	Optional Classes:	
	Article (28), Article (39), Article (41), Article (54) para (b), Article (70) Article (71), Article (72), Article (76), Article (77), Article (78), Article (83), Article (85), Article (87) Article (88) ,Article (89) item(3) ,Article (95).	
	Mandatory Clauses:	
	None	

Name of Board members, committee's members and executive management, their current and previous positions, qualifications and experience:

A) Board Members:

	Khaled Abdulrahman Al-Rajhi	Chairman – Saudi Cement Company
1	<p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - Bachelor of Finance - Chairman of the Executive Committee of the Saudi Cement Company. - Chairman and CEO of Abdulrahman Saleh Al Rajhi & Partners Group. - Member of the Board of Directors and member of the Executive Committee of Bank Al-bilad. - Member of the Board of Directors and member of the Risk Committee and Chairman of the Investment Committee of Walaa Cooperative Insurance Company. - Member of the Board of Directors and Chairman of the Compensation Committee of Takween for Developed Industries. - Member of the Board of Directors of Arab Tanami Company. - Member of the Board of Directors - Dana Gas (UAE) (2005-2015). 	<ul style="list-style-type: none"> - Member of the Board of Directors - Saudi Telecommunications Company (2006-2012). - Member of the Board of Directors and member of the Executive Committee of the Saudi National Shipping Company (2002-2004). - Member of the Board of Directors - Nass Company (Bahrain) (2006-2008). - Financial management. - Investments. - Transactions and cash transfers. - General Administration and Business. Development. - CEO of Al Rajhi Trading Est. (1994-2005).

Board Members (Continued)

2	<p>Mohammed Abdulkareem Al-Khereiji</p> <p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - Bachelor of Information Systems Management. - Member of the Audit Committee of Saudi Cement Company. - Executive Director of Al-Khuraiji Group from 2006 to date. - General Manager of Al-Khuraiji Trading and Electronics Company from 2007 to date. - Member of the trade Committee at Asharqia Chamber - Vice Chairman of the Board of Directors of the Arab Paper Manufacturing Company (Waraq) from 2012 until to date. - Member of the Executive Committee of the Arab Paper Manufacturing Company (Waraq) from 2012 until 2017. 	<p>Vice Chairman – Saudi Cement Company</p> <ul style="list-style-type: none"> - Vice Chairman and Member of the Executive Committee of the Arab Paper Manufacturing Company (Waraq) from 2012 until to date. - A number of courses at the Saudi Banking Institute and the Central Bank of Bahrain. - Member of the Board of Directors and Chairman of the Investment Committee and member of the Executive Committee of the Chupp Arabia Cooperative Insurance Company since 2003 to date. - Member of the Board of Directors of Dar Al-Youm for Press, Printing and Publishing. - Member of the Executive Committee of Dar Al-Youm for Press, Printing and Publishing. - Relationship Manager, Saudi Hollandi Bank (Corporate Finance) from March 2004 to May 2006.
3	<p>Dr. Mohammed Suleiman Balghonaim</p> <p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - PhD in political science and economics. - Chairman of Nominations and Remuneration Committee at Saudi Cement Company. - Member of the Audit Committee of the Saudi Cement Company for three election sessions. 	<p>Board Member – Saudi Cement Company</p> <ul style="list-style-type: none"> - Chairman of the Savings Committee of the Saudi Cement Company. - Owner and Director of Mohammed Suleiman Balghonaim Trading & Contracting Est.
4	<p>Khalid Abdul Rahman Al-Abdulkarim</p> <p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - BA and MBA. - Member of the Executive Committee of Saudi Cement Company. - Member of Nomination and Remuneration Committee at Saudi Cement Company. - The Chief Executive Officer of Al-Abd Al-Karim Holding Company, Chairman of Industrial Systems Group (Industry) and Chairman of Al-Naizak Global Engineering Systems Company. These companies are engaged in various fields including commercial and industrial sectors, contracting and services for the oil and gas, petrochemicals, energy, control and communications sectors. Electrical stations, universities, research institutes and research centers). - Member of the Board of Directors of Samba Financial Group (2010-2018) - Member of the strategic sectors committee of the Eastern Chamber. - Member of the Saudi Business Council: American - British - Chinese. - Member of the Board of Directors of Mitsu Plant, Saudi Arabia specialized in the manufacture of industrial control valves. - Founding member of the Board of Directors of Prince Muhammad bin Fahd University since 2002 until to date. 	<p>Board Member – Saudi Cement Company</p> <p>In addition to the following responsibilities and participations:</p> <ul style="list-style-type: none"> - Member of the Board of Directors of the Chamber of Commerce and Industry of the Eastern Region for the 14th and 15th sessions from 2002 to 2009. - Member of the National Committee for Accreditation - Saudi Arabian Organization for Standardization and Metrology. - Member of the Local Council for the development of Al-Khobar District until 2014. - Member of the Board of Directors of the General Organization for Military Industries since 2007 until 2013 - Founding member of the Board of Directors of Charitable Society for the Care of Orphans (Bena)

Board Members (Continued)

Board Members (Continued)

5	Amin Mousa Al-Afifi	Board Member - Saudi Cement Company
	<p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - Bachelor of Business Administration. - Member of Nomination and Remuneration Committee at Saudi Cement Company. - Group CEO of Ibrahim Al -Jafali & Brothers, Head Of- fice, Jeddah, May 2010 to date. - Head of Corporate Sector, National Commercial Bank, General Administration, Jeddah, April 2006 to April 2010. - Regional Manager for the Eastern Region, Banque Sau- di Fransi, Regional Administration, May 2001 to Febru- ary 2006. - Regional Director for the Eastern Region, Saudi Hol- landi Bank, Regional Administration, Khobar, December 1994 to May 2001. 	<ul style="list-style-type: none"> - Saudi American Bank, Regional Administration, Jeddah August 1985 - December 1994 Started as a trainee and joined several administrative positions until he became Assistant General Manager of the Corporate Banking Group in the Western Region. - Current member of most Boards of Directors of Ibrahim Al-Jafali & Brothers Group. - Member (former) in most of the executive committees of the National Commercial Bank. - Member (former) of the Credit and Risk Committee of Banque Saudi Fransi. - Member (former) in most of the executive committees of the Saudi Hollandi Bank.
6	Hamad Abdullah Al-Olayan	Board Member - Saudi Cement Company
	<p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - Bachelor of Business Administration. - Chairman of the Audit Committee of Saudi Cement Company. - Member of the Board of Directors of Al-Olayan Saudi Holding Company. - Various administrative roles commercial banks from 1989 to 1995. - Various administrative roles Al-Olayan Financial Com- pany 1995 till 2015. - Member of the Board of Directors of United Cement Company (Bahrain). 	<ul style="list-style-type: none"> - Group International Cement Company - Kuwait until May 2016. - Member of the Board of Directors of the Arab Com- pany for the manufacture of medical products (care) in 2001. - Chairman of Baxter Limited. - Member of the Board of Directors of Shindler Saudi Arabia in 2011. - Member of the Board of Directors of the Arab Com- pany for Solar Energy in 2010.
	Dr. Abdulrahman Suleiman Al-Rajhi	Board Member - Saudi Cement Company
7	<p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - Master and PhD. - Bachelor of Accounting - Saudi Arabia. - Chief Executive Officer of National Information Systems Company. - Former Chartered Accountant. - Deputy General Manager and Director of Technical De- partment of Suleiman Abdul Aziz Al-Rajhi (Al Watania Poultry). - General Manager and Board Member of Suleiman Ab- dul Aziz Al-Rajhi Holding Company. - Chief Executive Officer of the Advanced Educational Company. - Member of the Board of Directors of Arab Ceop Com- pany (Closed Company). - Member of the Board of Directors and Chairman of the Audit Committee of the Saudi Industrial Investment Group. - Member of the Committee of Accountants in non-ac- counting offices of the Saudi Organization for Certified Public Accountants. - Chairman of the National Company for Information Sys- tems. 	<ul style="list-style-type: none"> - Member of the Board of Directors and member of the Executive Office and Chairman of the Audit Committee of Al-Watania Poultry Group. - Chairman of the Board of Trustees Chairman of the Ex- ecutive Council, Chief Officer of the Colleges and Hos- pital Suleiman Abdul Aziz Al-Rajhi. - Chairman of the Board of Directors and Chairman of the Executive Committee (Advanced Educational Com- pany) Closed Joint Stock Company. - Chairman of the Board of Directors of Suleiman Bin Ab- dul Aziz Al-Rajhi for Education and Development. - Member of the Board of Directors of the International Islamic Organization for Economics and Finance. - Chairman of the Board of Trustees of Suleiman Abdul Aziz Al-Rajhi Charity Foundation and Chairman of the Executive Committee. - Member of the Board of Directors of Al Rajhi Brothers Company (Closed Joint Stock Company). - Member of the Board of Directors of Awqaf Suleiman Abdul Aziz Al-Rajhi. - Fellow and member of the Saudi Organization for Certi- fied Public Accountants (SOCPA). - Member of the Saudi Association of Accountants (SAA).

Board Members (Continued)

	Mubarak Jaber Al-Mohaimeed (Representative of the General Organization for Retirement)	Board Member - Saudi Cement Company
8	<p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - Master of Business Administration and Strategic Planning (MBA) - Bachelor of Business Administration (BBA) majoring in project management. - Chief Administrative Adviser at the Public Pension Agency from 2017 to date. - Secretary General of the Board of Directors of the Public Pension Agency from 2015 to 2017. - Director General of the Retirement Portfolio Office and Secretary of the Board of Directors from 2007 to 2015 - Teaching assistant, lecturer and trainer for administration materials in colleges of technology in Al-Ahsa and Riyadh, and responsible for scholarship and training administration from March 1990 to 2007. 	<ul style="list-style-type: none"> - 9 years of experience and strategic work in cement sector as a member of the board of Directors of Yamamah Cement Company. - Former head of the audit committee at Yamamah Cement Company. - Member of the board and member of the Audit Committee and member of the risk committee of the Saudi Pharmaceutical and Medical Supplies Company until April 2019. - Member of the Board of Directors of a number of companies affiliated to the Saudi Company for Pharmaceutical and Medical Supplies (CAD, Qassim Medical Services, and Spimaco Egypt).
9	<p>Mohammed Ali Al-Garni</p> <p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - Bachelor of Business Administration - Specialized and working in the cement sector for more than 30 years. - Chief Executive Officer of Saudi Cement Company. - General Manager of Saudi Cement Company. - Deputy General Manager of Saudi Cement Company. - Deputy Director of Finance Department, Saudi Cement Company. - Deputy General Manager for Financial Affairs of Saudi Cement Company. 	<p>Board Member - Saudi Cement Company</p> <ul style="list-style-type: none"> - Chairman of the Board of United Cement Company in Bahrain. - Chairman of the Board of Cement Products Company Limited. - Member of the Board of Directors of the World Cement Association based in London. - Vice Chairman of GICC. - Representative of Saudi Cement membership at the Arab Union for Cement and Building Materials. - Member of the National Committee for cement companies, which emanates from the Council of Saudi Chambers.

Board Members (Continued)

Board Members (Continued)

	Ahmed Mohammed Al-Omran (Representative of the General Organization for Social Insurance)	Board Member - Saudi Cement Company
10	<p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - Master of Science in Computer Science. - Bachelor degree in Information Systems. - Director General of infrastructure of the General Organization for Social Insurance (2001-2011) - Assistant to the Governor of Information Technology, Chairman of the Commission on e-government transactions in the institution. (2011 - present) - Launch of a number of projects and implementation of technical solutions for the institution in line with the strategic plans and the vision of the Foundation, including: <ul style="list-style-type: none"> • Restructuring the IT sector in line with the best standards, focusing on customer service and keeping pace with the business needs of the organization. • Enhancing the role of technical architecture and planning, expanding governance and information security to include risk study and audits as well as creating a unit for standardizing procedures, measuring performance and supporting IT resources. • Ensuring consistency between business objectives of the organization and IT objectives and technical structure and working to create a unified vision by developing a road map that supports the achievement of the future goals of the institution. • Management and follow-up of the technical strategic plan and annual technical operation plan. 	<ul style="list-style-type: none"> • Monitoring the portfolio of projects and ensuring the implementation of projects according to approved standards, and taking the necessary solutions for improvement in terms of resources, budget, risks and problems. • Participated in many technical and non-technical conferences and seminars both inside and outside the Kingdom.
11	<p>Hala Walid Al-Juffali</p> <p>Qualifications, experience, current and previous positions:</p> <ul style="list-style-type: none"> - Bachelor of Business Administration. - Director of Ibrahim Al-Jafali & Brothers Group. - Director of Waleed Al-Jafali & Associates, USA, Europe, Middle East, Far East and China. - Executive Partner and Board Member of Waleed Ahmed Al-Jafali. - Member of the Board of Directors of the China Asian Trade and Investment Company. - Member of the Board of Directors of Energy and Basic Facilities Company Limited. 	<p>Board Member - Saudi Cement Company</p> <ul style="list-style-type: none"> - Member of the Board of Directors of Hitachi Saudi for the transfer and distribution of energy. - Participated in many projects implemented by Waleed Charity Foundation, which was founded by Dr. Walid Al-Jafali to support charitable societies in the development and finding stable sources of income through adopting the ideas of entrepreneurship. - Member of the Board of Directors of Suad Ibrahim Al-Jafali Charitable Foundation. - Worked as part-time business analyst at London-based W Investment Company. - Worked at W Investment Co., Ltd., China Branch.

Committees' Members - Audit Committee

B) Committees Members:

1. Nominations & Remunerations committee

No.	Name	Current position	Previous position	Qualifications
1	Hala Walid Al-Juffali	Chairman of the Nominations & Remunerations committee	-	Bachelor of Business Administration – International Business
2	Khaled Abdulrahman Al-Abdulkarim	Member of the Nominations & Remunerations committee	Member of the Nominations & Remunerations committee	BA and Master of Business Administration.
3	Amin Mousa Al-Affi	Member of the Nominations & Remunerations committee	Member of the Nominations & Remunerations committee	Bachelor of Business Administration.

2. Audit Committee

No.	Name	Current position	Previous position	Qualifications
1	Hamad Abdullah Al-Olayan	Chairman of Audit Committee	Chairman of Audit Committee	Bachelor of Business Administration.
2	Mohamed A. Al-Khuraiji	Member of Audit Committee	Member of Audit Committee	Bachelor of Management Information Systems
3	Dr. Ahmad Abdulla Al-Meghamis (External Member)	Member of Audit Committee	Member of Audit Committee	PhD in Business Administration - Accounting

Experiences of Dr. Ahmad Abdulla Al-Maghamis:

- | | |
|--|---|
| <ul style="list-style-type: none"> - From 1430 AH until 1435 AH: Member of the Board of Trustees of the Accounting and Auditing Organization for Islamic Financial Institutions. - From 1435 AH till now Member of the Board of Directors of YANSAB. - From 1427 AH till 1430 AH Vice-Chairman of the Committee for the development of remote accounting bodies affiliated with the International Federation of Accountants. - From 1431 AH till now Member of the Audit Committee at Bank Al-Bilad. - From 1429 AH till now Member of the Audit Committee at Saudi Cement Company. - From 1438 AH Chairman of the Audit Committee of Al-Bilad Finance Company. - From 1424 AH until 1434 AH Member of the National Commission for Academic Assessment and Accreditation, Ministry of Higher Education. - From 1423 AH until 1425 AH Member of the Board of Directors of the Saudi National Shipping Company. - From 1427 AH until 1433 AH Member of the Audit Committee of Saudi Telecom Company. - From 1439 AH until now Member of the Audit Committee of Tokyo Maryout Development Company. - From 1439 AH until now Member of the Audit Committee of Saudi Air Line. | <ul style="list-style-type: none"> - From 1423 AH to 1431 AH Chairman and member of the Audit Committee of the Saudi National Shipping Company. - From 1417 AH until 1427 AH Assistant Professor, King Saud University. - From 1409 AH till 1416 AH Lecturer at King Saud University. - From 1423 AH until 1424 AH Chairman of the Management Committee of the Saudi Accounting Association - From 1423 AH until 1427 AH member of the Standing Committee of the phenomenon of the recruitment of funds. - From 1418 AH until 1419 AH Member of the Graduate Studies Committee, King Saud University. - Membership of professional and scientific bodies, organizations and associations. - Member of the Saudi Organization for Certified Public Accountants since 1419 AH. - Member of the Saudi Accounting Association since 1417 AH. - Member of the Organization of Outstanding Students in Business Administration since 1415 AH. |
|--|---|

Committees' Members (Continued) - Executive Management

Committees' Members (Continued) - Executive Management

3. Executive Committee

No.	Name	Current position	Previous position	Qualifications
1	Khaled Abdulrahman Al-Rajhi	Chairman of the Executive Committee	Chairman of the Executive Committee	Bachelor of Finance Sciences.
2	Khaled Abdulrahman Al-Abdulkarim	Member of the Executive Committee	Member of the Executive Committee	Bachelor of Business Administration & MBA.
3	Mubarak Jaber Al-Mohaimed	Member of the Executive committee	-	Master of Business Administration (MBA) & Strategic Planning, Bachelor of Business Administration
4	Ahmed Mohammed Al-Omran	Member of the Executive committee	-	Master of Computer Science, Bachelor of Management Information System

C) Executive Management:

1	Mohammed Ali Al-Garni	Chief Executive Officer
Current, Previous Qualifications & Experiences:		<ul style="list-style-type: none"> - Member of the Board of Directors of the World Cement Association based in London. - Vice Chairman of GICC. - Representative of the membership of the Saudi Cement Company to the Arab Union for Cement and Building Materials. - Member of the National Committee for cement companies, which emanates from the Council of Saudi Chambers.
2	Mohammedine El Baraka	Operation & Maintenance Manager
Current, Previous Qualifications & Experiences:		<ul style="list-style-type: none"> - Bachelor of Electromechanical Engineering. - Previous posts at Holcim Cement Company as (Electricity engineer - Maintenance Manager - Grinding Plant Manager). - 8.5 years' experience with Saudi Cement Company. - 14 years' experience with Holcim Cement Company.
3	Evan Abaza	Finance Manager
Current, Previous Qualifications & Experiences:		<ul style="list-style-type: none"> - B.SC. Accounting. - Certified Public Accountant (CPA). - Group Financial Controller for Al-Rushaid Group from Feb 2007 until Feb 2017 in Khobar, And a member of the executive committee of several companies within the group - Financial Controller for Move One North American in New Jersey, USA, from Mar 1999 until Dec 2006. - Project Accountant for the International Confederation of Free Trade Unions from Jun 1997 until Oct 1998
4	Salah Mohammed Hakim	Human Resources Manager
Current, Previous Qualifications & Experiences:		<ul style="list-style-type: none"> - Master of Business Administration. - Bachelor of Industrial Management. - Director of the National Organization for Joint Training in the Eastern Region. - A group of training, supervisory and administrative functions in the General Organization for Technical Education and Vocational Training.

Executive Management (Continued)

5	Yousef Ahmed Al-Mozaini	Sales Manager
Current, Previous Qualifications & Experiences:		
<ul style="list-style-type: none"> - Master of Business Administration (MBA). - Bachelor of Electrical Engineering. 		<ul style="list-style-type: none"> - Regional Manager for the Eastern Region, Saudi Chemical Company from 2006 to 2015.
6	Shady Fayez Yousef	Information Technology Manager
Current, Previous Qualifications & Experiences:		
<ul style="list-style-type: none"> - Bachelor of Computer Science. - Certified PMI professional Project Manager. - He holds many international professional certificates specialized in the field of IT - Technical projects manager for many projects locally and abroad. 		<ul style="list-style-type: none"> - Director of Systems and Information Technology for Pan Gulf Industrial Investment Group from February 2015 to February 2017. - Director of Information Technology Department for Al-Oula Holding Company and its subsidiaries inside and outside the kingdom, from January 2003 to February 2015.
7	Mutlaq Turki Al-Otaibi	Material Supply Manager
Current, Previous Qualifications & Experiences:		
<ul style="list-style-type: none"> - Bachelor of Management Information System. - Electrical Engineering Diploma. - A group of Administrative jobs in the Saudi Kayan petrochemical company (the Director of Materials Management, the Director of Central Planning and the Senior Maintenance Planners during the period from 2013 to 2018). 		<ul style="list-style-type: none"> - He worked as an expert in SAP applications (plant maintenance) during Fanar Plus project implementation 2016, USA - New York (SABIC) - Maintenance planner for Saudi Aramco from October 1996 to February 2008.

Name of Companies wherein the board member is currently or previously was a member

Name of Companies wherein the board member is currently or previously was a member

Names of in Kingdom and out of Kingdom companies of which the Board member is currently or previously was a member of its Board of Directors or one of its executives:

Board Member Name	Names of companies in which the board member is a member of its current board of directors or its managers	Inside the Kingdom / Outside the kingdom	Legal entity (listed Company / closed stock / limited liability / ...)	Names of the companies in which the member of the board of directors was a member of its board of directors or its managers	Inside the Kingdom / Outside the kingdom	Legal entity (listed company / closed stock / limited liability / ...)
Khaled Abdulrahman Al-Rajhi	Saudi Cement Company	In-Kingdom	Joint Stock Company	Saudi Telecom Company	In-Kingdom	Joint Stock Company
	Bank Al-Bilad	In-Kingdom	Joint Stock Company	Al Salam Private Schools Complex	In-Kingdom	Limited liability Company
	Takween Advanced Industries Co.	In-Kingdom	Joint Stock Company	Health care Hospital (Procure)	In-Kingdom	Limited liability Company
	Tanami Arabia Company	In-Kingdom	Closed Joint stock company	Dana Gas Company (United Arab Emirates)	Out of Kingdom	Joint Stock Company
	Abdurahman Saleh Al-Rajhi and Co. Ltd.	In-Kingdom	Limited liability Company	Nass Company (Kingdom of Bahrain)	Out of Kingdom	Joint Stock Company
				Fakhry & Al Rajhi Hospital	In-Kingdom	Limited liability Company
				The National Shipping Company of Saudi Arabia	In-Kingdom	Joint Stock Company
Mohammed Abdulkarim Al-Khereiji	Saudi Cement Company	In-Kingdom	Joint Stock Company	Saudi Holdandi Bank (Corporate Finance)	In-Kingdom	Joint Stock Company
	CHUBB Arabia Cooperative Insurance Co.	In-Kingdom	Joint Stock Company			
	Arab Paper Manufacturing Co. Ltd.-WARAQ.	In-Kingdom	Closed Joint stock Company			
	Dar Al Yaum for Press, Printing & Publishing.	In-Kingdom	Closed Joint stock Company			
	Al Khuraiji Group	In-Kingdom	Limited liability company			
	Al-Khereiji Trading & Electronics Co.	In-Kingdom	Limited liability Company			

Name of Companies wherein the board member is currently or previously was a member (Continued)

Name of Companies wherein the board member is currently or previously was a member (Continued)

Board Member Name	Names of companies in which the board member is a member of its current board of directors or its managers	Inside the Kingdom / Outside the kingdom	Legal entity (listed Company / closed stock / limited liability / ...)	Names of the companies in which the member of the board of directors was a member of its board of directors or its managers	Inside the Kingdom / Outside the kingdom	Legal entity (listed company / closed stock / limited liability / ...)
Dr. Mohammad Sulaiman Balghonaim	Saudi Cement Company	In-Kingdom	Joint Stock Company			
	Mohammed Suleiman Balghonaim Trading & Contracting Est	In-Kingdom	Private Establishment			
Khaled Abdulrahman Al-Abdulkarim	Saudi Cement Company	In-Kingdom	Joint Stock Company	Gulf Union Cooperative Insurance Company	In-Kingdom	Joint Stock Company
	Abdulkarim Hoding Company	In-Kingdom	Joint Stock Company	Samba Financial Group	In-Kingdom	Joint Stock Company
	Mitsu Plant Saudi Arabia	In-Kingdom	Limited liability Company			
	Naizak Global Engineering Systems Company.	In-Kingdom	Limited liability Company			
Amin Mousa Al-Affi	Saudi Cement Company	In-Kingdom	Joint Stock Company	National commercial bank	In-Kingdom	Joint Stock Company
	Arabian Chemical Company (Latex)	In-Kingdom	Limited liability Company	Banque Saudi Fransi	In-Kingdom	Joint Stock Company
	Arabian Chemical Insulation Company	Out of kingdom	Limited liability Company			
	Arabian Air-conditioning Co.	In-Kingdom	Limited liability Company			
	Carrier Saudi Service Co.	In-Kingdom	Limited liability Company			
	Fluor Arabia Limited	In-Kingdom	Limited liability Company			
	National Automobile Co.	In-Kingdom	Limited liability Company			
	Al-Juffali PolyOne Master Batches Co.	In-Kingdom	Limited liability Company			

Name of Companies wherein the board member is currently or previously was a member (Continued)

Name of Companies wherein the board member is currently or previously was a member (Continued)

Board Member Name	Names of companies in which the board member is a member of its current board of directors or its directors	Inside the Kingdom / Outside the kingdom	Legal entity (listed contribution / unlisted contribution / limited liability / ...)	The names of the companies in which the member of the board of directors is a member of its previous board of directors or its directors		
Amin Mousa Al-Affi	SNIC BSC Co.	Out of kingdom	Bahraini Closed Joint stock Company			
	SAMCO	In-Kingdom	Limited liability Company			
	SBSM / SBS	In-Kingdom	Limited liability Company			
	Saudi Ericsson Communication Co.	In-Kingdom	Limited liability Company			
	Saudi Liebherr Co.	In-Kingdom	Limited liability Company			
	STEPCO	In-Kingdom	Limited liability Company			
	ProMinentJuffali FZC	Out of kingdom	Limited liability Company			
	ACC (Polystyrene)	In-Kingdom	Limited liability Company			
	Wataniya Insurance Co.	In-Kingdom	Joint Stock Company			
	Otis Elevator Co.,	In-Kingdom	Limited liability Company			
	Juffali Univar SA Chemicals Co.	In-Kingdom	Limited liability Company			
	Juffali Tyres Company	In-Kingdom	Limited liability Company			
	Heidelberg Middle East FZCO	Outside the kingdom	Limited liability Company			
	Juffali Airconditioning, Mechanical & Electrical Company.	In-Kingdom	Limited liability Company			
	Maintenance of Airconditioning & Refrigeration Company Ltd.	In-Kingdom	Limited liability Company			
	Juffali Technical Equipment Company	In-Kingdom	Limited liability Company			
	Wiskey for Information Technology	In-Kingdom	Limited liability Company			
	Siemens Co.	In-Kingdom	Limited liability Company			

Name of Companies wherein the board member is currently or previously was a member (Continued)

Name of Companies wherein the board member is currently or previously was a member (Continued)

Board Member Name	Names of companies in which the board member is a member of its current board of directors or its directors	Inside the Kingdom / Outside the kingdom	Legal entity (listed contribution / unlisted contribution / limited liability / ...)	The names of the companies in which the member of the board of directors is a member of its previous board of directors or its directors		
Amin Mousa Al-Afifi	EIC – Electric Industries Company	In-Kingdom	Limited liability Company			
	ISCOSA - SIEMENS	In-Kingdom	Limited liability Company			
	Siemens Healthineers	In-Kingdom	Limited liability Company			
	Fatiq TND Co.	In-Kingdom	Limited liability Company			
	Saudi Advanced Technical company	In-Kingdom	Limited liability Company			
Hamad Abdullah Al-Olayan	Saudi Cement Company	In-Kingdom	Joint Stock Company	Group International Cement Company Kuwait up to May 2016.	Outside the Kingdom	Kuwaiti Closed Joint Stock Company
	Al-Olayan Elevator Co.	In-Kingdom	Limited liability Company	Medical Products Manufacturing Company (ENAYAH) 2001	In-Kingdom	Limited liability Company
	Al-Olayan Saudi holding Co.	In-Kingdom	Limited liability Company	Baxter Co.	In-Kingdom	Limited liability Company
	Gulf Steel works Co.	In-Kingdom	Closed Joint Stock Company	Arab Solar Energy Co.	In-Kingdom	Limited liability Company
	United Cement Co. (Bahrain)	Out of kingdom	Closed Joint Stock Company			



Name of Companies wherein the board member is currently or previously was a member (Continued)

Name of Companies wherein the board member is currently or previously was a member (Continued)

Board Member Name	Names of companies in which the board member is a member of its current board of directors or its directors	Inside the Kingdom / Outside the kingdom	Legal entity (listed contribution / unlisted contribution / limited liability / ...)	The names of the companies in which the member of the board of directors is a member of its previous board of directors or its directors		
Abdulrahman Suleiman Al-Rajhi	Saudi Cement Company	In-Kingdom	Joint stock Company	National Poultry Company	In-Kingdom	Joint Stock Company
	Saudi Industrial Investment Group	In-Kingdom	Joint Stock Company	Al-Rajhi Holding Co.	In-Kingdom	Joint Stock Company
	Al-Rajhi brothers Co.	In-Kingdom	Closed Joint Stock Company	Advance Educational Co.	In-Kingdom	Closed Joint Stock Company
	Syuop Arabian Company	In-Kingdom	Closed Joint Stock Company	National Poultry Company	Out of kingdom	Closed Joint Stock Company
	National Information Systems Company	In-Kingdom	Closed Joint Stock Company	National Hatching Company	Out of kingdom	Closed Joint Stock Company
	Suleiman Al-Rajhi Colleges.	In-Kingdom		National Company for Poultry Breeding	Out of kingdom	Closed Joint Stock Company
	Suleiman Abdul Aziz Al-Rajhi Establishment	In-Kingdom	Charitable Foundation	National Company for slaughterhouses	Out of kingdom	Closed Joint Stock Company
	Suleiman Abdul Aziz Al-Rajhi Foundation for Education and Development	In-Kingdom	Limited liability Company	National Feed Company	Out of kingdom	Closed Joint Stock Company
	Suleiman Abdul Aziz Al-Rajhi Foundation for Development Finance	In-Kingdom	Charitable Foundation	National Company for Poultry	Out of kingdom	Closed Joint Stock Company
	King Saud University	In-Kingdom	University	National Company for Transportation	Out of kingdom	Closed Joint Stock Company
	Ajwad Association for Community Services.	In-Kingdom	National Society	National Pharmaceutical Company	Out of kingdom	Closed Joint Stock Company
	Tamkeen Association	In-Kingdom	Charitable Foundation	National Holding Company	Out of kingdom	Closed Joint Stock Company
	Meznah Mohammed AlRajhi Endowments	In-Kingdom	Charitable Foundation			
	Mazoon International Investment company	In-Kingdom	Closed Joint Stock Company			
	Spirit for Consultancy Services in Egypt	Out of kingdom	Closed Joint Stock Company			

Name of Companies where in board member is currently or previously was a member (Continued)

Name of Companies where in board member is currently or previously was a member (Continued)

Board Member Name	Names of companies in which the board member is a member of its current board of directors or its directors	Inside the Kingdom / Outside the kingdom	Legal entity (listed contribution / unlisted contribution / limited liability / ...)	The names of the companies in which the member of the board of directors is a member of its previous board of directors or its directors		
Mubarak Jaber Al-Mohaimeed	Saudi Cement Company	In-Kingdom	Joint Stock Company	SPIMACO AD-DWAEIH	In-Kingdom	Joint Stock Company
	Al-Qassim Medical Services Company	In-Kingdom	Closed Joint Stock Company	Yamama Cement Company	In-Kingdom	Joint Stock Company
	SPIMACO Egypt Co.	Out of kingdom	Unlisted joint stock company			
	CAD Middle East Pharmaceutical Industries LLC	In-Kingdom	Limited liability Company			
Mohammed Ali Al-Garni	Saudi Cement Company	In-Kingdom	Joint Stock Company	Group International Cement Company Kuwait up to May 2016.	Out of Kingdom	Closed Joint Stock Company
	United Cement Co. (Bahrain)	Out of Kingdom	Closed Joint Stock Company			
	Cement Product Industry Co	In-Kingdom	Limited liability Company			
Ahmed Mohammed Al-Omran	Saudi Cement Company	In-Kingdom	Joint Stock Company	Saudi Industrial Investment Group	In-Kingdom	Joint Stock Company
	Takamol Holding Co.	In-Kingdom	Limited liability Company	Samba Financial Group	In-Kingdom	Joint Stock Company
	Saudi Telecom Company	In-Kingdom	Joint Stock Company			
	Madad Company for Information Systems Technology	In-Kingdom	Limited liability Company			
	Masdar Company	In-Kingdom	Limited liability Company			
Hala Walid Al-Juffali	Saudi Cement Company	In-Kingdom	Joint Stock Company			
	Ibraheem Al-Juffali & Co.,	In-Kingdom	Closed Joint Stock Company			
	Waleed Al-Juffali and Brothers Co. USA, Europe, Middle East and China.	Out of Kingdom	Limited liability Company			
	Suad Ibrahim Al-Juffali Charitable Foundation	In-Kingdom	Limited liability Company			
	China Asian Trading and Investment Co.	Out of Kingdom	Limited liability Company			
	Hitachi Saudi Arabia for the transfer and distribution of energy	In-Kingdom	Limited liability Company			

Board of Directors' structure - Shareholders' proposals and comments

Board of Directors' structure - Shareholders' proposals and comments

Board of Directors' structure and members' classification:

The Board of Directors consists of eleven (11) members, and their classification for 2019 as follows:

	Name of Board Member	(Executive /Non-Executive & Independent)
1	Khaled Abdulrahman Al-Rajhi	Non-Executive
2	Mohammed Abdulkharim El-Khereiji	Independent
3	Dr.Mohammed Suleiman Balghonaim	Non-Executive
4	Khaled Abdulrahman Al-Abdulkarim	Non-Executive
5	Amin Musa Al-Affi	Non-Executive
6	Hamad Abdulla Al-Olayan	Non-Executive
7	Dr.Abdulrahman Suleiman Al-Rajhi	Independent
8	Mubarak Jaber Al-Mohameed (Representative of General Organization for Retirement)	Independent
9	Mohammed Ali Al-Garni	Executive
10	Ahmed Mohammed Al-Omran (Representative of the General Organization for Social Insurance)	Independent
11	Hala Walid Al-Juffali	Independent

Procedures and measures taken by the Board of Directors to inform its members - especially non-executives – about any shareholders' proposals and comments with regards to Company's performance

The Board and during its meetings, reviews shareholders' comments, questions and inquiries, if any, through the shareholders' section of the Company as well as through the questions of shareholders in the General Assemblies. There was no proposals or observations about the Company and its performance during 2019.



Audit Committee - Nominations & Remunerations Committee

A brief description of the Company's committees and their functions, chairmen, members, number of meetings & dates and attendance records for each meeting:

Audit Committee:

The Audit Committee consist of two members of the Board of Directors as well as an External Member.

The Committee has performed its duties and responsibilities through six meetings held during 2019 and the details as follows:

	Member Name	Nature of membership	Number of meetings (6)					
			24 January 2019	21 February 2019	25 April 2019	25 July 2019	23 October 2019	18 November 2019
1	Hamad Abdullah Al-Olayan	Chairman	✓	✓	✓	✓	✓	✓
2	Mohammed A. Al-Khereiji	Member	✓	✓	✓	✓	✓	✓
3	Dr. Ahmad Abdulla Al-Maghamis (External) Member	Member	✓	✓	✓	✓	✓	✓

The most important duties and responsibilities of the committee are:

Review of the interim and yearend Financial Statements before being reported to the Board of Directors for approval, recommending to the Board of Directors the appointment, dismissal and determining the audit fees of the External Auditors; follow up of the work of the appointed External Auditors and study of their audit plan and their observations shown in the management letter about the internal controls related to the preparation of the Financial Statements and the implementation of the agreed corrective actions of these observations (if any) ; studying the internal control system and giving a written report expressing their opinion & provide recommendations thereon including the study of the accounting policies implemented in the Company; supervising the Company's internal audit department and studying their reports and following up on the implementation of the corrective actions of all observations in the internal audit reports if any. The committee Review the reports of the external supervisory authorities (if any), review the proposed contracts and or transactions that the company conducts with the related parties (if any) and verify the company's compliance with the laws, regulations and policies. The term of the committee started on 01/01/2019 and will ended on 31/12/2021

Nominations & Remunerations Committee:

	Member Name	Nature of membership	Number of meetings (3)		
			06 February 2019	29 May 2019	25 November 2019
1	Hala Walid Al-Juffali	Chairman	✓	✓	✓
2	Mr. Khaled Abdulrahman Al-Abdulkarim	Member	✓	✓	✓
3	Mr. Amin Musa Al-Affifi	Member	✓	✓	✓

The Committee has performed its duties and responsibilities through three meetings held during the year. The most important duties and responsibilities of the Committee are; recommend to the Board nomination of Directors, review the structure of the Board, annual review of the capabilities and qualifications of its members, and recommend possible changes that can be made for the Company's benefit; set clear policies for the compensation & remuneration of the Board members and the Executive Management on the basis of their performance, ensuring that the compensation and rewards are adequate to retain qualified and competent persons, as well as to attract qualified people by giving offers which are compatible with the market's competitive levels of compensation and rewards. Verify annually the independence of the independent Board members and prevent any conflict of interest for members holding Directorship in other companies.

Executive Committee - Board of Directors' remuneration policy

Executive Committee - Board of Directors' remuneration policy

Executive Committee:

The Committee has performed its duties and responsibilities through five meetings held during the year. The most important duties and responsibilities of the Committee are the implementation of the financial limits of authorities granted by the Board of Directors, carrying out the functions and duties assigned by the Board and the reporting in this regard.

	Member Name	Nature of membership	Number of meetings (5)				
			06 February 2019	16 April 2019	29 May 2019	16 June 2019	25 November 2019
1	Khaled Bin Abdulrahman Al-Rajhi	Chairman	✓	✓	✓	✓	✓
2	Khaled Abdulrahman Al-Abdulkarim	Member	✓	✓	✓	✓	✓
3	Mubarak Jaber Al-Mohaimeed	Member	X	✓	✓	✓	✓
4	Ahmed Mohammed Al-Omran	Member	✓	✓	✓	✓	✓

Mubarak bin Jaber Al-Mohaimeed was appointed after the first meeting on February 14, 2019.

How the Board of Directors has relied on to evaluate the performance of the Board, its committees and members, the external parties that has performed the evaluation and its relations with the Company, if any:

None

Board of Directors' remuneration policy:

In accordance with the Saudi Cement Company's bylaws and the Corporate Governance Regulations issued by the Capital Market Authority the Boards of Directors', Board Committees and Executive management remuneration policy has been prepared and approved during the 60th General Assembly meeting on Shabban 11 1440 (April 16, 2019) and it includes the following rules:

First: General Rules:

1. Definitions:

- A- Company: Saudi Cement Company.
 - B- Board / Board of Directors: The Board of Directors of Saudi Cement Company.
 - C- Committee / Committees: committees formed permanently based on the requirements dictated by government regulations or based on the internal requirements of the Company.
 - D- Member of the Board of Directors / Board Member / Member: means a member of the Board of Directors appointed by the nomination of the General Assembly or appointed by the Board of Directors as an alternate member in a vacant position.
 - E- External Member: A member of the committee who is not a member of the Board of Directors of the Company.
 - F- Executive Management / Senior Executives: Persons who are responsible for managing the Company's daily operations, and proposing and implementing strategic decisions, such as the CEO and his subordinates including the Finance Manager..
2. The policy covers the guidelines with regard to the remunerations of Board of Directors and committee's members of the company, taking in consideration what is stated in paragraph (3) below.
 3. The policy covers the company audit committee members remuneration according to the below table.
 4. The policy determine the chairman of the Board of Directors' remuneration as to government laws& regulations and by laws.
 5. The policy covers the guidelines of the company executive management remuneration and bounces.
 6. The policy disallow any Board member participation in more than two Board committees.
 7. The policy allow the participation of non- Board member into the Board committees and identify his/her remuneration.

Board of Directors' remuneration policy – Board member's remunerations

8. Board of director's remuneration is paid on a pro –rata based on number of meetings attended by the member.
9. Committees members remuneration is be paid on a pro –rata based on number the meetings attended by the member.

Second: Remuneration for the chairman, Board members and secretary of the Board of Directors:

The chairman, Board of Directors and the secretary of the Board of director's remuneration are as detailed in the below schedule:

S#	position	Annual remuneration (SR)	allowances and Travel expenses (SR)	Remarks
1	Chairman of the Board of Directors	200,000		For his work as Chairman of the Board of Directors established by the Government Regulations and the Company's Bylaws.
2	Member of the Board of Directors	460,000	1. The value of first class tickets for those who are from outside the region. 2. Residence allowance of SR 1,000 for those who are outside the region.	The annual remuneration shall be paid in proportion to the number of meetings attended by the member subject to the approval of the General Assembly.
3	Member of the Board of Directors (A representative of the company on the Board of Directors of a subsidiary or Associated Company).	-	1. The value of first class tickets for those who are from outside the region. 2. Residence allowance of SR 1,000 for those who are outside the region.	Subject to the regulations of the subsidiary and the Associated Company in respect of the annual remuneration.
4	Member of the Board of Directors Membership in each of the following Board Committees: • Nominations and Remuneration Committee. • Executive committee	20,000	1. The value of first class tickets for those who are from outside the region. 2. Residence allowance of SR 1,000 for those who are outside the region.	The annual remuneration shall be paid in proportion to the number of meetings attended by the member of the Committee.
5	Audit Committee Member	100,000		The remuneration shall be paid in proportion to the number of meetings attended by the member of the Committee.
6	External Audit Committee Member	100,000	1. The value of first class tickets for those who are from outside the region. 2. Residence allowance of SR 1,000 for those who are outside the region.	
7	Board Secretary	50,000		

Third: Senior executive's remuneration

The executive management team shoulders extra burdens in terms of responsibilities and commitments, their work and decisions have big impact on company's performance and results therefore, they have granted wages, allowances and yearly encouragement & motivational bonuses that go along with the extra burdens.

To retain, motivate and encourage the senior executives, the company has stated a set of bases to grant and calculate the executive management remuneration.

Remuneration of Board Members, Committees Members and Executive Management

Board of Directors' remuneration policy – Board member's remunerations

The bases and measures that should be taken in consideration for defining the bounces of the executive management are as follows:

- A. The bonus shall be in accordance with the contributed effort.
- B. The bonus shall be in accordance with the level of commitment to achieve Company's objectives.
- C. The bonus shall be in accordance with the developments and improvements to enhance operational efficiency and performance.

Fourth: General Rules:

1. The CEO recommend to the Nomination and Remuneration Committee the bonus of the executive management (Excluding his bonus).
2. The Nomination and Remuneration Committee shall review and discuss the bonus of the Senior Executives listed in (1) above and agree to what it deems appropriate.
3. The Nomination and Remuneration Committee shall discuss the incentive and motivational remuneration of the CEO, agree on it and submit it to the Chairman of the Board for approval.

Fifth: Amending this policy:

Based on the proposal of the Nomination and Remuneration Committee the Board of Directors may amend this policy in accordance with any practical requirements, decisions or instructions issued by the competent governmental authorities. This amendment shall be presented to the General Assembly at its first meeting.

Remuneration of Board Members, Committees Members and Executive Management:

1. Board members' remunerations:

Name	No. of meetings attended	Attending Board meetings Annual Bonus	Other allowances			Total
			Transportation allowance	Accommodation allowance	Chairman's & Secretary annual remuneration	
1. Non-Executive members:						
Khaled Abdulrahman Al-Rajhi	4	460,000			200,000	660,000
Fahad Abdullah Al-Saleh	4	460,000	4,032	4,000		468,032
Amin Mousa Al-Afifi	4	460,000	9,120	4,000		473,120
Hamad Abdullah Al-Olayan	4	460,000				460,000
Ahmed Mohammed Al-Omran	4	460,000	4,032	4,000		468,032
2. Independent members:						
Mohammed A. Al-Khereiji	4	460,000				460,000
Dr. Mohammad Sulaiman Balghonaim	4	460,000	4,032	4,000		468,032
Khaled Abdulrahman Al-Abdulkarim	4	460,000				460,000
Abdulrahman Suleiman Al-Rajhi	4	460,000	4,032	4,000		468,032
Hala Walid Al-Juffali	3	345,000	6,840	3,000		354,840
3. Executive members:						
Mohammed Ali Al-Garni	4	460,000			50,000	510,000
Total		4,945,000	32,088	23,000	250,000	5,250,088

Remuneration of Board Members, Committees Members and Executive Management:

2. Committees' members' remunerations:

	Name	Remuneration	Total SR
Audit Committee:			
1	Hamad Abdullah Al-Olayan	100,000	100,000
2	Mohammed A. Al-Khereiji	100,000	100,000
3	Dr. Ahmad Abdulla Al-Maghamis (External Member)	104,000	104,000
Total		304,000	304,000

The Nominations & Remunerations Committee:			
1	Dr. Mohammad Sulaiman Balghonaim	20,000	20,000
2	Khaled Abdulrahman Al-Abdulkarim	20,000	20,000
3	Amin Musa Al-Afifi	20,000	20,000
Total		60,000	60,000

	Name	Remuneration	Total SR
Executive Committee:			
1	Khaled Abdulrahman Al-Rajhi	20,000	20,000
2	Khaled Abdulrahman Al-Abdulkarim	20,000	20,000
3	Fahad Abdullah Al-Saleh	20,000	20,000
Total		60,000	60,000

3. Remunerations & Compensations paid to top five from the Executive management during 2019:

Description	Annual Salaries & compensation	Annual Allowances	Annual Bonus	Annual Performance Incentives
Amounts in SR (000's)	3,802	3,108	3,202	3,914

All above declared data for the remunerations of Board members, committees' members and executive management are within the Board of Directors' Remunerations Policy and there is no deviation from it.

Punishment, penalty, or preventive restriction imposed on the Company by CMA or any other supervisory or regulatory or judiciary body:

None

Results of Annual Audit on the effectiveness of internal control procedures in addition to the Audit Committee opinion:

The Internal Audit Department of the Company implements continuous operational, financial and compliance audits to ensure the effectiveness of internal control system and procedures in safeguarding the Company's assets and assess operational risks and the adequacy of performance effectiveness. These internal audits did not show any material weakness in the internal control system of the Company and found that the internal control procedures were operating effectively. In addition, the External Auditors usually conduct an evaluation of that system as part of their audit of the Company's financial statements, whereby they are enabled to access all the minutes of the audit committee as well as also to access the reports of the internal audit department for the period subject to their examinations.

Audit Committee Opinion - Social Contributions

Audit Committee Opinion:

Based on the yearly approved Internal Audit Plan, the Internal Audit of the Company performs periodic audits and reviews of the various departments / activities of the Company including the review of internal control and submit their reports to the audit committee. Based on the results of these audits and reviews performed during the year 2019 and previous years, the audit committee assessment of the operational and financial internal control and systems and procedures did not show any material weakness and found that the internal control systems were operating effectively.

On the other hand, the External Auditor also performs an evaluation of the system of Internal Control during the annual audit. The Company enables them to access all documents, systems, policies & procedures and the minutes of the meetings of the Audit Committee and the Internal Audit Department audit reports for the period / fiscal year under the audit.

Audit Committee recommendation in regarding of the requirement to employ an internal auditor in the Company in case if the Company does not have one:

The Company has an internal auditor Department.

Audit Committee's recommendations which are in conflict with the Board of Directors resolutions, or which the Board has rejected in regards of the appointment of the Company's external auditor, his dismissal, the determination of his fees, his performance evaluation or the appointment of an internal auditor, justification of these recommendations and reasons of rejections:

Not available.

Details of the Company's social contributions:

Your Company continues its support toward local community institutions and this is part of its commitment to serve and improve the local society, our culture urges for giving and help the others and a good number of the employees contributed in such initiatives.

During the year 2019, the company supported the below Societies:

1. Social Charitable Societies:

Albir Charitable Society in Eastern Province, Albir Charitable Society in Al Ahsa Province, Charitable Holy Qura'an Memorization Society in Eastern Province, Charitable Holy Qura'an Memorization Society in Al Ahsa Province, Fatat Al Ahsa Charitable Society, Al Oyoan Charitable Society, Al Helailah Charitable Society, Al Mouwasat Charitable Society, Al Foddol Charitable Society, Al Mansourah Charitable Society, Charitable Women Society for Social Services, Qafelat El Khair Society for Social Services, Benevolence Charitable Society in El Kalabiah, El Bataliah Charitable Society, Al Morah Charitable Society, El Tarf Charitable Society, El Jesha Charitable Society, El Jaffer Charitable Society

2. Specialized Charitable Societies:

Prince Sultan Disabled Rehabilitation Center in Eastern Province, Al Rahma Charitable Medical Society, Saudi Charitable Society for Cancer Patients Care, Charitable Anti Drugs Society, Saudi Charitable Diabetics & Endocrinology Society, Anti Smokind Charitable Society in Dammam, Anti-Smoking Charitable Society in Al- Ahsa, Charitable Disabled Care & Rehabilitation Society, Charitable Marriage Facilitation & Family Care Society, the National Committee for the Care of Prisoners and their Families in the Eastern Region (Tarahom), Anti - Cancer Society in Al-Ahsa.

3. Accidents & Casualty (Trauma) Center in the National Guard Hospital, Al Ahsa:

Based on Company's social responsibility towards the community and as to the approval of the Extraordinary General Assembly held on 4/6/1431H (18/5/2010) after the recommendation of Saudi Cement Company's Board of Directors for allotting an amount of SR 50 million (Fifty Million Saudi Riyals) from the Conventional Reserve for the construction of the Accidents & Casualties Center in King Abdul Aziz Hospital of the National Guard Health Affairs in Al- Ahsa Governorate. Since the Health Affairs have started the execution of the project, and following a visit to the project site by some Company's officials, the Executive Management has signed a contract for donating the construction of the Center in King Abdul Aziz Hospital in Al -Ahsa on 23/6/2014. Saudi Cement Company paid three instalments amounting SR 30 million as of the end of 2019, and the remaining will be paid based on the project progress.

4. In addition to that, Saudi Cement Company has sponsored many occasions and ceremonies including

- Contribute to support the National Day Celebrations Fund – Al-Ahsa Governorate.
- Golden sponsorship of the Thirteenth Geological Conference (SSG2020) – Ministry of Industry and Mineral Resources.

Assembly Meeting – Principal Activity – Plans, Decision & Future Expectations

A schedule of the general assembly meetings' dates held during the last financial year and names of the Board of Directors attended these meetings:

	Member Name	Attendance Record
		1 st meeting 16 April 2019
1	Khaled Abdulrahman Al-Rajhi	✓
2	Mohammed A. El-Khereiji	✓
3	Dr. Mohammed Suleiman Balghonaim	✓
4	Khaled Abdulrahman Al-Abdulkarim	✓
5	Amin Musa Al-Afifi	✓
6	Hamad Abdulla Al-Olayan	✓
7	Dr. Abdulrahman Suleiman Al-Rajhi	✓
8	Mubarak Jaber Al-Mohaimeed	✓
9	Mohammed Ali Al-Garni	✓
10	Ahmed Mohammed Al-Omran	✓
11	Hala Walid Al-Juffali	✓

Description of the principal activities of the Company and its associated companies:

Principal Activity:

Saudi Cement Company's principal and sole activity is confined to the manufacturing and trading of clinker and cement and cement related products. Hence, the Company does not carry out any other activities nor does it produce any other products.

Plans, Decisions & Future Expectations:

Saudi Cement Company has no immediate plans of expansion in production facilities in the short and medium-term due to the sufficient production capacities in response to the current level of demand Kingdom-wise, as Clinker inventory quantities has reached massive levels and require years to consume at current consumption pattern. As for the projects related to improving the operation and production efficiency to be in line with local and international standard based on the Board of Directors approval in regards of the waste heat recovery project, the Company has already appointed the consultant who will supervise and manage the project. Also, feasibility study for few minor projects for efficiency improvement has been carried out and these projects may be implemented during the year which covers both Hofuf plant and Dammam port.

Risks that the Company might encounter

Risks that the Company might encounter

Risks that the Company might encounter:

Saudi Cement Company faces operating risks such raw materials and fuel prices increase which impact operation cost, in addition to market volatilities and the decline in local cement demand because of the regression in government spending towards infrastructure projects.

The Company might face financing risk of rising Murabaha rates related to the outstanding Islamic loans within its liabilities, also the risk of foreign currency exchange rates fluctuation related to its foreign liabilities.

To manage the operating risks the Company implemented intensive preventive maintenance programs for the operating assets, even though, the Company still may face the risk of unscheduled sudden stoppage of production lines. To manage its financing risks the Company ensures that adequate Islamic banking financing is available to address the liquidity risk concerning its inability to raise funds from operations to meet its obligations when they are due. To manage its collection and credit risk, the Company limits credit sales only to customers with high credit standing and against bank guarantees, as well as dealing with highly credit rated banks licensed by the Saudi Arabian Monetary Agency.



Saudi Cement Company's sales volume of all cement types for 2019 reached to 5.7 million tons compared to 5.2 million tons for 2018, i.e. an increase of approximately 10%.

Last five years' Operating results, Assets and Liabilities

Last five years Operating results, Assets and Liabilities:

1. Operating Results Comparison:

(SR 000's)

Description	Years				
	2019	2018	2017	2016	2015
Revenues	1,441,632	1,119,564	1,184,531	1,778,139	1,932,393
Cost of revenues	(791,839)	(581,572)	(615,733)	(747,557)	(796,371)
Gross Profit	649,793	537,992	568,798	1,030,582	1,136,022
Net Income	451,397	400,510	453,449	900,974	940,192

2. Assets and Liabilities Comparison:

(SR 000's)

Description	Years				
	2019	2018	2017	2016	2015
Current Assets	1,279,353	1,257,888	1,136,122	1,206,460	1,416,231
Non-Current Assets	2,629,927	2,669,301	2,799,646	2,954,771	3,097,358
Total Assets	3,909,280	3,927,189	3,935,768	4,161,231	4,513,589
Current Liabilities	1,067,235	1,065,431	978,982	884,203	1,166,451
Non-Current Liabilities	112,395	74,615	78,919	87,451	91,316
Total Liabilities	1,179,630	1,140,046	1,057,901	971,654	1,257,767

Total Exports Increase

+32%

From last year
(Expressed in Thousand Tons)

* Total clinker exports during 2019
amounted to 1.15 thousand tons.

680



2018

903



2019



Geographical Analysis of 2019 Revenue - Differences in operating results

Geographical Analysis of 2019 Revenue - Differences in operating results

Geographical Analysis of 2019 Revenue - Differences in operating results

(SR 000's)

Year	Geographical Analysis of 2019 Revenue for the Company		
	Domestic Sales	Export Sales	Total
2019	1,159,029	282,603	1,441,632

Explanations to any material differences in operating results from previous year and announced forecasts, if any:

(SR 000's)

Description	2019	2018	Changes+/-	Changes %
Sales/Revenue	1,441,632	1,119,564	322,068	28.8
Cost of sales/Revenue	(791,839)	(581,572)	(210,267)	36.2
Gross Profit	649,793	537,992	111,801	20.8
Operating expenses - Others	(158,808)	(121,189)	(37,619)	31.0
Operating Income/(Loss)	490,985	416,803	74,182	17.8

Departure from Accounting Standards accepted by SOCPA:

None



List of Subsidiary Companies – Dividend Distribution Policy

Net Income

12.8%

Increase from last year

(Expressed in SAR millions)



List of Subsidiary Companies:

Saudi Cement Company owns shares in the following associated companies:

Company name	Paid-up capital	% age of ownership	Established at	Country of operation	Main activity
1. United Cement Company (Bahraini closed Joint Stock Company) Issued shares one million @ one BD nominal value/share and there are no issued debt instruments	One million Bahrain Dinar	36%	Bahrain	Bahrain	Trading and transporting cement in Bahrain.
2. Cement Product Industry Co. Ltd. (Saudi Limited Liability Company). 18,000 issued shares @ SR 1,000 nominal value/share.	18 million Saudi Riyals	33.33%	KSA	KSA, Jeddah	Manufacturing and selling of paper bags for cement packing.

Details of issued shares and debt instruments of every subsidiary:

None

Dividend Distribution Policy:

The Company distributes its annual net profits after deducting all general and administrative expenses and all other costs and provision for Zakat as follows:

- 10% of the net profit is set aside to formulate the Statutory Reserve, the Ordinary General Assembly has the right to stop contribution to that reserve when it reaches 30% of the paid-up capital.
- The Ordinary General Assembly and based on Board of Directors' recommendation has the right to set aside up to 5% of the net profit to establish a Voluntary Reserve for specific purpose(s).
- The Ordinary General Assembly has the right to establish other reserves, to the extent that it serves the interest of the Company or ensures a steady dividend distribution to shareholders. The said General Assembly may also deduct from the net profits amounts for the establishment of new social institutions for the Company's employees or to assist the existing institutions.
- Distribute out of the remaining profit a first payment to shareholders representing 5% of paid up capital.

Dividend Distribution Policy (Continued)

Dividend Distribution Policy (Continued)

5. As to article 19 from the Company's article of association and article 76 from the corporate governance a maximum of 10% of the remaining profit is set aside as Board of Directors remunerations for the year, taking into consideration the maximum amount allowed by the regulatory and in accordance with the number of attended meetings.
6. It is allowed to distribute the remaining of profit (or part of it) as dividends to the shareholders or retain it as to the recommendations of the Board of director's subject to the approval of the General Assembly.
7. The Company can distribute yearly, quarterly or semiannually interim dividends as to CMA regulations and as to the approval and the authority given by the General Assembly to the Board of Directors to distribute interim dividends.

SR million

Distributed dividends for the first half of 2019		Proposed dividends for the Second half of 2019	Total Dividends
Date of Payment	02 July 2019	05 May 2020	
Percentage	15 %	20 %	35%
Total	229.50	306	535.5

Description of any interest in a class of voting shares held by persons (other than the Saudi Cement Company's Directors, senior executives and their relatives) that have notified the issuer of their holdings pursuant to Article (45) of these Rules, together with any change to such interests during the last financial year:

None

Description of any interest in any contractually based securities and subscription rights belongs to any of the Board of Directors, senior executives and their relatives in Company's shares or debt instruments or any of its subsidiaries, in addition to any changes to such interest or rights during the last financial year:

None

List of any Shares Interests and Rights for Board Members and their relatives

List of any Shares Interests and Rights for Board Members and their relatives

List of any Shares Interests and Rights for Board Members and their relatives:

Name	No. of Shares		Change (Share)	Percentage of change
	Beginning of the year	End of the year		
Khalid Abdulrahman Al Rajhi	12,324,500	12,324,500	-	-
Mohammed Abdulkarim A. El Khereiiji	1,056,937	1,056,937	-	-
Dr. Mohammed Suleiman Balghonaim	202,684	202,684	-	-
Khalid Abdulrahman Al Abdulkarim	17,137	17,137	-	-
Amin Musa Al-Afifi	2,718	2,718	-	-
Hamad Abdulla Olyan	1,500	1,500	-	-
Dr. Abdulrahman Suleiman Al Rajhi	1,000	1,000	-	-
Mubarak Jaber Al-Mohaimeed	Non-Owner	Non-Owner	-	-
Mohammed Ali Al-Garni	1,500	1,500	-	-
Ahmed Mohammed Alomran	Non-Owner	Non-Owner	-	-
Hala Walid A-Juffali	1,000	1,000	-	-

List of any Shares Interests and Rights for Executive Management and their relatives:

Name	No. of Shares	
	Beginning of the year	End of the year
Mohammedine El Baraka (Operation and Maintenance Manager)	Non-Owner	Non-Owner
Evan Abaza (Finance Manger)	Non-Owner	Non-Owner
Salah Mohammed Hakim (Human Resource Manager)	Non-Owner	Non-Owner
Yousef Ahmed Al-Mozaini (Sales Manager)	Non-Owner	Non-Owner
Shady Fayez Yousef (Information Technology Manager)	Non-Owner	Non-Owner
Mutlaq Turkiye Al-Otaibi (Material Supply Manager)	Non-Owner	Non-Owner

Loans and bank financing

Loans and bank financing

Loans and bank financing:

SR Million

	The Bank	Principle Loan amount	Duration Of Loan	Balance as of 01/01/2019	Used during the year	Repaid during the year	Balance as of 31/12/2019
1	SAMBA	N/A Revolving (Short term and renewable)	Revolving	150	200	50	300
2	Riyadh	N/A Revolving (Short term and renewable)	Revolving	170	0	115	55
3	SFB	N/A Revolving (Short term and renewable)	Revolving	150	0	110	40
4	Al-Rajhi	N/A Revolving (Short term and renewable)	Revolving	150	150	100	200
Total				620	350	375	595

Description of any Convertible debt instruments and subscription rights issued by the Company during the financial year with details of the compensation received by the Company in return:

None

Description of any Conversion and subscription rights under any convertible debt instruments, any contractually based securities, warrants or similar rights issued or granted by the Company:

None

Description of any redemption, purchase, or cancellation by the Company for any redeemable debt instruments and the value of such instruments and the ones purchased by its subsidiaries:

None

Board Members' Meetings and Attendance – Register of shareholders

Board Members' Meetings and Attendance:

The Board of Directors held (five) meetings during 2019, with the following attendance record:

Name of Board Member	Attendance register				25 November 2019	Total
	06 February 2019	16 April 2019	29 May 2019	16 June 2019		
Khaled Abdulrahman Al-Rajhi	✓	✓	✓	✓	✓	5
Mohammed Abdulkarim El-Khereiji	✓	✓	✓	✓	✓	5
Dr.Mohammed Suleiman Balghonaim	✓	✓	✓	✓	✓	5
Khalid Abdulrahman Al- Abdulkarim	✓	✓	✓	✓	✓	5
Mubarak Jaber Al-Mohaimed	✓	✓	✓	✓	✓	5
Amin Musa Al-Affi	✓	✓	✓	✓	✓	5
Hamad Abdulla Al-Olayan	✓	✓	✓	✓	✓	5
Dr. Abdulrahman Suleiman Al-Rajhi	✓	✓	✓	✓	✓	5
Mohammed Ali Al-Garni	✓	✓	✓	✓	✓	5
Ahmed Mohammed Al-Omran	✓	✓	✓	✓	✓	5
Hala Walid Al-Juffali	✓	✓	✓	X	✓	4

Number of Company requests for the register of shareholders and the dates and reasons of such requests:

	Date of requests	Reasons
1	12/3/2019	Company procedures
2	14/04/2019	Company procedures
3	16/04/2019	General Assembly meeting
4	18/04/2019	Dividend file
5	16/06/2019	Dividend file
6	30/05/2019	Company procedures
7	10/6/2019	General Assembly meeting
8	15/09/2019	Company procedures
9	31/12/2019	Company procedures

Related Party Transactions

Related Party Transactions

Description of any business or contract in which the company is a party or in which there is an interest of a member of the board of directors of the company or its senior executives or any person related to any of them, including the names of the business or contracts, the nature of these works or contracts and the terms, duration and amount thereof. If such works or contracts exist, the Company shall provide an acknowledgment thereof.

1. The Company has awarded the contract for 2019 insurance services (excluding medical insurance) to Wataniya Insurance Company a related party to Mr. Amin Mousa Al-Afifi who is a Board Member of Wataniya Insurance Company. There are no exceptional conditions to the contract.
2. The Company has awarded a contract to Cement Product Industry Co. Ltd. for purchasing cement bags a related party to Mr. Mohammed Ali Al-Garni Board Member & Chief Executive Officer as he represents Saudi Cement Company in Cement Product Industry Co. Ltd. There are no exceptional to the contract.
3. The Company has contracted with the United Cement Company (Closed Company in Bahrain) for Cement sales. a related party to Mr. Mohammed Ali Al-Garni Board Member & Chief Executive Officer and Mr. Hamad Abdulla Al-Olayan as they represent Saudi Cement Company and Board member in United Cement. There are no exceptional to the contract.

Related Party	Type of Company Relationship	Type of transaction	Duration	Value (Million Saudi Riyal)
Mr. Amin Mousa Al-Afifi	Board Member-Wataniya Insurance Company.	Fixed Assets insurance	1 year	6.9
Mr. Mohammed Ali Al-Garni	Board Member- Cement Product Industry Co. Ltd	purchasing cement bags	1 year	41.2
	Board Member- United Cement Bahrain	Cement sales	5 years	54.8
Mr. Hamad Abdulla Al-Olayan	Board Member- United Cement Bahrain			

Description of any arrangement or agreement under which a director or a senior executive of Saudi Cement Company has waived any salary or compensation:

None



Outstanding Statutory Payments:

Outstanding Statutory Payments:

Description of any arrangement of agreement under which a shareholder of Saudi Cement Company has waived any rights to dividend:

None

Outstanding Statutory Payments:

(SR 000's)

Details	2019		Remarks
	Paid	Outstanding	
Zakat & Income Tax	10,178	Will be determined later	The Company is subject to zakat and income regulations in Saudi Arabia, and provision made for Zakat on an accrual basis. Zakat calculated based on the zakat base or adjusted net income, whichever is greater.
Value Added Tax (VAT)	27,418	801	The company is subject to VAT regulations that have been implemented the Kingdom since the beginning of 2018.
General Organization for Social Insurance	8,300	754	The Company is subject to the General Organization and Social Insurance regulations and the social insurance contributions are recognized on accrual basis.
Raw Materials Exploitation Fees	32,373	34,118	The payment of the fees for the exploitation of raw materials as per the quarry special licenses in accordance with Mining Investment Law articles 71, 73 and 74 issued by Royal Decree No. M / 47 and the date of 20/08/1425.



Thrift Saving Program for Saudi Cement Company employees

Thrift Saving Program for Saudi Cement Company employees

Thrift Saving Program for Saudi Cement Company employees:

The Company contributes to a Thrift Savings Program for its employees that was approved by the Ministry of Labor & Social Affairs on 11/05/1414 (27/10/1993) to motivate employees to exert their best efforts in serving the Company and increase their loyalty.

The following is the movement of Company's contribution to the Thrift Saving Program During 2019.

Description	Amounts in SR
Balance at the beginning of the year	7,736,437
Additions during 2019	1,097,048
Deletions during 2019	565,030
Balance at the end of the year	8,268,455



Board of Directors' Declarations

Board of Directors' Declarations:

The Board of Directors declares that:

- A - Proper books of accounts have been maintained;
- B - The system of internal control is sound in design, and has been effectively implemented; and
- C - There are no significant doubts about the Company's ability to continue as a going concern.

If the External Auditor qualified his opinion in his financial report of the year, this annual report must clarify the reasons behind such qualification and disclose all related information:

None

If the Board of Directors has recommended to change the External Auditors during the financial year and before the end of the audit period, this annual report must indicate the recommendation and the reasons:

None

Declaration in regards of any treasury stocks, if any:

None

Board approval of Interim and Annual Financial Statements:

The Board of Directors approved the interim and annual financial statements for 2019.

Quality Certificates – Hiring and Training of Saudi Nationals

Other matters related to the Company:

Quality Certificates:

The Company continues its application and compliance with the International Organization for Standardization (ISO 9001-2015) certifications obtained from specialized and accredited by German Company (TUV NORD) for the Hofuf Plant. This reaffirms the commitment of the Company towards full compliance and implementation of the quality management programs in all its internal administration and production / technical processes with the purpose of attaining the desired level of efficiency, effectiveness, and continuous improvement for all Company's different operating sectors and functional lines.

The Company continue to comply with the quality standards of the Saudi Standards, Metrology and Quality Organization (SASO), as well as the special quality requirements of some GCC countries.

The Company has continued to comply with the quality specifications of European Conformity (EC) required by European countries for its products from Hofuf Plant.

Hiring and Training of Saudi Nationals:

A number of specialized technical and administrative training courses have been implemented for the Company's employees during 2019.

The Company also contracted with Human Resources Development Fund (HRDF) to train a group of Saudi youth.

Additionally, Saudi Cement carried out co-operative training for college and university students, as well as its students' summer training programs.

The percentage of Saudi workforce at the end of 2019 had reached to 55.86%. Saudi Cement Company sought to reinforce its Saudization plan as a national strategic goal and is continuing that endeavor.

Occupational Health and Safety:

Occupational health and safety is Saudi Cement's number one priority. Our aspiration is to conduct our business with zero harm and to create a healthy and safe environment for our employees, customers, contractors, visitors.

To achieve the above, Saudi Cement Company:



Saudi Cement Company continued to comply with quality standards of the Saudi Arabian Standards Organization (SASO), as well as other International Standards.

Occupational Health and Safety (Continued) - Environment Protection and Pollution Control

The percentage of Saudi workforce at the End of 2019 has reached around 55.86%. Saudi Cement Company is adopting Saudization plan as a national strategic goal and will continue this endeavor.



Ensure effective, implementation of EHS (Environment, Health, Safety) System.

make sure to maintain a safe work place environment.

Constantly improve the work culture throughout the Company

The Company has managed to renew its Occupational Health and Safety certificate OSHAS 18001 issued by “Société Générale” which reflects the objective of commitment to comply with the highest level of health and safety standards.

Environment Protection and Pollution Control:

Saudi Cement Company is recognized with its awareness towards the environment and its protection, to continue in the same path many steps and procedures were taken in regards of anti-pollution measures and emissions controls:

- Implementing the most recent technologies for dust emissions in all projects including the latest major expansion of Hofuf plant during 2008.
- The replacement of the old Electrostatic filters for Line 6 with the latest technologies to prevent dust emissions.
- Continuance improvement of the filters' efficiency and the addition of new ones. In this context the emission level of the main filters for furnaces 7 and 8 has been reduced to less than 10 mg/Nm³.
- Implementing a strict preventive maintenance program for all existing filters to ensures the continuity of its performance efficiency, in addition to the periodic visits and inspections by experts from well-known worldwide companies.
- Continuous measurements and monitoring of emissions using advanced equipment in all stacks as well as periodic measurements by specialized companies.

All above measures enabled the Company to maintain all emissions below the defined level by General Authority of Meteorology and Environment Protection, in addition the Company has been able to renew the ISO 14001 certificate which reflects the commitment in implementing all kind of standards in this matter.

Conclusion

The Board of Directors concluded 2019 Annual Report and expresses its appreciation and gratitude to all Saudi Cement Company shareholders for their confidence and support, and prays to Allah Almighty for His Blessings to our country and to our leaders, His Majesty the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al-Saud, and his Royal Highness Crown Prince Mohammed bin Salman bin Abdulaziz Al-Saud, First Deputy Prime Minister and Minister of Defense.

The Board of Directors also extends its appreciations and gratitude to all government agencies, private sector entities, banks and to all Saudi Cement Company's customers and suppliers for their continuous support and last but not least, to the Company employees for their continues efforts and their determination for the Company to continue its growth and prosperity.

May Allah bless you all,

The Board of Directors

Financial Statements and Independent Auditors' Report

31 December 2019

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Auditors Report to the Shareholders of

Saudi Cement Company

(A Saudi Joint Stock Company)

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

Saudi Cement Company – Joint Stock Company

Dammam – Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of Saudi Cement Company (a Saudi Joint Stock Company) ("the Company") which comprise the statement of financial position as at 31 December, 2019 and the statement of income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes from 1 to 30 to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") endorsed in the Kingdom of Saudi Arabia.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

Independent Audit Report

Existence and valuation of inventories

Refer to note 5 for the accounting policy and note 8 for the related disclosures.

Key audit matter

The inventory of the Company includes raw material and work in process with total amount of SR 562 million, this mainly comprises Clinker, Bauxite, limestone, and gypsum, which are stored in stockpiles. As the weighing of these inventories is not practicable, management appoints external surveyor to assess the reasonableness of the quantities on hand by obtaining measurements of the stockpiles and converting these measurements to unit of volumes by using angle of repose and bulk density.

Due to the significance of inventory balances and related estimations involved, this is considered as a key audit matter.

How the matter was addressed in our audit

Our audit procedures to assess the existence and valuation of inventory included the following:

- Attended physical inventory counts performed by the Company;
- Evaluated the competence, capabilities and objectivity of the surveyor;
- Obtained and reviewed the inventory count report for the external surveyor for major stock items in sample basis;
- Assessed management's measurements of stockpiles during the physical count and calculation of the conversion to the volumes;
- Tested the valuation of yearend inventory on sample basis;
- Assessed the completeness and sufficiency of disclosures relating to the inventories in the financial statements

Revenue recognition

Refer to note 5 for the accounting policy and note 17 for related disclosures

Key audit matter

The Company has recognized revenue from operations of SR 1,442 million. The Company expects the revenue recognition to occur at point in time when control over the goods are transferred to the customer generally on delivery of the goods. Accordingly this requires the management to establish the fact that control over goods is transferred at the time of dispatch in accordance with IFRS 15. The variety of terms that define when control are transferred to the customer as well as the high value of the transactions give rise to the risk that revenue is not recognized in the correct period. The Company focuses on revenue as a key performance measure which could create an incentive for revenue to be recognized before the control has been transferred.

Accordingly due to the significant risk associated with revenue recognition in accordance with terms of IFRS 15 'Revenue from contracts with customers' it was determined to be a key audit matter.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

- Assessed Company's revenue recognition policy and its compliance in terms of IFRS 15 'Revenue from contracts with customers';
- Assessed the design and implementation of internal controls related to revenue recognition;
- Performed sample tests of individual sales transaction and traced to sales invoices, sales orders and other related documents. Further in respect of the samples tested we checked that the revenue has been recognized as per the shipping terms;
- Selected sample of revenue transactions made pre- and post-year end agreeing the period of revenue recognition to third party support such as transporter invoice and customer confirmation of receipt of goods;
- Performed revenue analysis by streams to identify any unusual trends.
- Assessed the completeness and sufficiency of disclosures relating to revenue in the financial statements.

Independent Audit Report

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Company but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Those Charged with Governance ("TCWG") for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia, and Regulations of Companies requirements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance, in particular the Audit Committee, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
-

Independent Audit Report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management and Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For Dr. Mohamed Al-Amri & Co.

Dr. Mohamed Al-Amri

Certified Public Accountant

License No. 60

March 5, 2020

Rajab 10, 1441 H

Statement of Financial Position

Statement of Financial Position

As at 31 December 2019

	Note	2019 SR "000"	2018 SR "000"
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,541,955	2,612,392
Right of use assets	4	30,842	-
Investments in associates	7	57,130	56,909
Total non-current assets		2,629,927	2,669,301
Current assets			
Inventories	8	753,723	810,439
Trade receivables	9	368,613	310,465
Prepayments and other receivables	10	29,825	67,428
Cash and cash equivalents	11	127,192	69,556
Total current assets		1,279,353	1,257,888
TOTAL ASSETS		3,909,280	3,927,189
EQUITY AND LIABILITIES			
Equity			
Share capital	12	1,530,000	1,530,000
Statutory reserve		459,000	459,000
Retained earnings		798,650	798,143
Total equity		2,729,650	2,787,143
LIABILITIES			
Non-current liabilities			
Employees' benefits	13	86,729	74,615
Lease liabilities	4	25,666	-
Total non-current liabilities		112,395	74,615
Current liabilities			
Islamic financing	14	595,000	620,000
Trade payables		60,652	79,811
Dividends payable		221,619	219,183
Accruals and other payables	16	160,516	130,498
Lease liabilities	4	7,197	-
Provision for zakat	20	22,251	15,939
Total current liabilities		1,065,235	1,065,431
TOTAL LIABILITIES		1,179,630	1,140,046
TOTAL EQUITY AND LIABILITIES		3,909,280	3,927,189

The accompanying notes from 1 to 30 form integral part of these financial statements.

Statement of Income and other Comprehensive Income

Statement of Income and other Comprehensive Income

For the year ended 31 December 2019

	Note	2019	2018
		SR "000"	SR "000"
Revenue	17	1,441,632	1,119,564
Cost of revenue		(791,839)	(581,572)
GROSS PROFIT		649,793	537,992
Selling and distribution expenses	18	(82,097)	(60,410)
General and administrative expenses	19	(76,711)	(60,779)
OPERATING PROFIT		490,985	416,803
Other income		5,009	9,142
Share in net results of associates	7	(2,593)	(602)
Financial charges		(25,513)	(20,663)
INCOME BEFORE ZAKAT		467,888	404,680
Zakat	20	(16,491)	(4,170)
NET INCOME FOR THE YEAR		451,397	400,510
Other comprehensive income Item that will not be reclassified to profit or loss			
Re-measurement (loss) / gain on defined benefit plan	13	(10,550)	6,016
Share of associates OCI	7	258	-
Total other comprehensive income		(10,292)	6,016
TOTAL COMPREHENSIVE INCOME		441,105	406,526
Earnings per share (Saudi Riyals)			
Basic and diluted earnings per share attributable to the equity holders of the Company	21	2.95	2.62

Statement of Changes in Equity

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital	Statutory reserve	Retained earnings	Total
	SR "000"	SR "000"	SR "000"	SR "000"
Balance at 01 January 2018	1,530,000	459,000	888,867	2,877,867
Net income for the year	-	-	400,510	400,510
Other comprehensive income	-	-	6,016	6,016
Total comprehensive income	-	-	406,526	406,526
Dividends (note 15)	-	-	(497,250)	(497,250)
Balance at 31 December 2018	1,530,000	459,000	798,143	2,787,143
Balance as at 01 January 2019	1,530,000	459,000	798,143	2,787,143
Impact of adoption of IFRS 16 (note 4)			(1,348)	(1,348)
Net income for the year	-	-	451,397	451,397
Other comprehensive income	-	-	(10,292)	(10,292)
Total comprehensive income	-	-	441,105	441,105
Dividends (note 15)	-	-	(497,250)	(497,250)
Balance at 31 December 2019	1,530,000	459,000	740,650	2,729,650

Statement of Cash Flows

For the year ended 31 December 2019

	2019	2018
	SR "000"	SR "000"
Cash flows from operating activities		
Income before zakat	467,888	404,680
Adjustment to reconcile income before zakat to net cash generated by operating activities:		
Depreciation of property, plant and equipment	207,023	200,959
Depreciation right of use assets	6,660	-
Gain on disposal of property, plant and equipment	(358)	(497)
Share in net results of associates	2,593	602
Employees' benefits, net	1,563	1,712
Financial charges	25,513	20,663
	710,882	628,119
Working capital changes:		
Inventories	56,716	(68,985)
Trade receivables	(58,148)	(73,182)
Prepayments and other receivables	34,153	(29,919)
Trade payables	(19,159)	(11,933)
Accruals and other payables	32,449	45,522
	46,011	(138,497)
Financial charges paid	(25,513)	(20,663)
Zakat paid	(10,178)	(21,310)
Net cash generated from operating activities	721,202	447,649
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases to property, plant and equipment	(136,644)	(73,552)
Proceeds from disposal of property, plant and equipment	406	506
Dividends received from associates	894	2,237
Net cash used in investing activities	(135,344)	(70,719)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net movements in Islamic financing	(25,000)	70,000
Repayment of lease liability	(5,972)	-
Dividends paid	(497,250)	(497,250)
Net cash used in financing activities	(528,222)	(427,250)
Net Change in cash and cash equivalents	57,636	(50,320)
Cash and cash equivalents at the beginning of the year	69,556	119,876
Cash and cash equivalents at the end of the year	127,192	69,556

Notes to the Financial Statements

For the year ended 31 December 2019

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 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 extraction of limestone, gypsum and clay and all the necessary materials for the manufacture of cement in Al Hassa for 30 years period.

Thereafter, the Company obtained the licenses for the existing quarries under the Royal Decree number M/11 dated 29/04/1405H (corresponding to 22/01/1985) which gives mining concession for the extraction of limestone, gypsum and clay and all the necessary materials for the manufacture of cement for 30 years period.

In the year 1985, a Saudi Bahraini Company obtained the right of the mining concession for the extraction of limestone, gypsum and clay under the Royal Decree number M/12 dated 29/04/1405H (corresponding to 22/01/1985) which was merged with the Saudi Cement Company in 1990. Accordingly, the Ministry of Petroleum and Mineral Resources resolved on 04/01/1412H (corresponding to 15/07/1991) to transfer all quarries and related licenses of Saudi Bahraini Company to the Saudi Cement Company.

These licenses were expired in 2015. The delay in renewing licenses is due to ownership issues as the main quarry is situated on a land designated to one of the concerned ministries. Later on, a committee was formed by the Ministry of Industry and Mineral Resources to coordinate and finalize the process of the renewals.

Currently, the Company is in the process to renew the rights of mining and concession. The Company has obtained the consent of all the concerned parties with certain conditions, including the Ministry of Petroleum and Mineral resources with regards to the renewal of the rights of mining concession in accordance with the Royal decree number 11 dated 29/04/1405H (corresponding to 22/01/1985) in accordance with clauses (23 and 43) from the Mining Investment Regulation. However, the Company continues to extract minerals from the quarries and is paying extractions fees as agreed with the Ministry, annually. Management is in the view that the renewal of the rights of mining and concession is highly certain.

2 - Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia.

2.2 Basis of measurement

These financial statements are prepared under the historical cost convention, using the accruals basis of accounting, except for certain employees' benefits which are measured at present value.

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

2.3 Functional and presentation currency

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

3 - Significant accounting estimates, assumptions and judgments

The preparation of the Company's 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 reporting date, that have a significant risk of causing a material carrying amounts of assets and liabilities within the financial year include:

- Useful lives of property, plant and equipment
- Impairment test of non-financial assets
- Provisions
- Long-term assumptions for employees' benefits
- Going concern
- Provision for slow moving spare parts
- Existence of Inventory

3.2 Critical judgments in applying accounting standards

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

- Component parts of property, plant and equipment
- Cash generating unit (CGU)
- Decommissioning and restoration costs
- Determining the lease term of contracts with renewal and terminations options

4 - Adoption of new and revised Standards

4.1 New and amended IFRS Standards that are issued but not yet effective for the current year

The Company has not early adopted any new standard, interpretation or amendment that have been issued but which are not yet effective. Those standards and interpretation or amendments are not disclosed in this financial statements as the management did not considered these relevant to the company operation or will have a material impact on the financial statements of the Company in future periods.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4 Adoption of new and revised Standards (continued)

4.2 New and amended IFRS Standards that are effective for the current year

A number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements except as noted below:

Impact of initial application of IFRS 16 Leases and change in accounting policy

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019, the previous and revised accounting policies have been disclosed on note 5.

IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 'Leases' introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. The Company has adopted IFRS 16 from 1 January 2019 (date of initial application) by using "Modified Retrospective Method" with cumulative effects recognized at the date of initial application. The Company has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.5% per annum.

The re-measurements to the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application:

	SR '000
Operating lease commitments as at 31 December 2018	43,013
Discounted using the Company's incremental borrowing rate at inception	(5,998)
Lease liability recognized at 1 January 2019	37,015

Lease liabilities as at year end are as follows:

	31 December 2019	01 January 2019
	SR '000	SR '000
Non-current portion of lease liabilities	25,666	30,857
Current portion of lease liabilities	7,197	6,158
Total lease liabilities	32,863	37,015

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4 Adoption of new and revised Standards (continued)

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The Company applies IAS 36 – “Impairment of Assets” to determine whether a right of use asset is impaired. Lease liabilities have an interest rate of 4.5 percent, with maturity ranging from years 2019 to 2027.

The recognized right-of-use assets relate to the following types of assets:

	31 December 2019	01 January 2019
	SR '000	SR '000
Land	17,034	17,352
Building	295	383
Vehicles	13,513	17,907
Equipment	-	25
Total right-of-use assets	30,842	35,667

The right-of-use assets are depreciated over the shorter of the lease term or useful life of the underlying assets.

The change in accounting policy has affected the following items in the statement of financial position as of 1 January 2019:

	SR '000
-Right -of-use assets – increased by	35,667
-Lease liabilities – increased by	37,015
-The net impact on retained earnings on 1 January 2019 was a decrease of	1,348

5 - Summary of significant accounting policies

Property, plant and equipment

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 statement of income and other comprehensive income as incurred.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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.

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 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the 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.

Leases

The Company has applied IFRS 16 using the cumulative approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 January 2019

The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired.

Variable lease payments

In case of leases which contain variable payment linked to the usage or performance of the leased assets, such payments are recognized in the statement of profit or loss and other comprehensive income.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within control.

Policies applicable prior to 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Investments in 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.

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.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

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 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 for the Company as whole, 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 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) for impairment on annual basis.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

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.

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 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 capitalization 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 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 Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

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.

Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of Association, the Company established a statutory reserve by the appropriation of 10% of net income until the reserve equaled 30% of the share capital.

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 statement of financial position.

Employees' end of services benefits

The liability or asset recognized in the 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.

Employees' saving fund

The Company operates a saving plan to encourage its 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 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

Provisions

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 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. The provision is charged to the statement of income and other comprehensive income.

Financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The Company determines the classification of its financial assets at initial recognition. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

i. Initial recognition and measurement

At initial recognition, the Company 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 the statement of income and other comprehensive income as incurred.

ii. Subsequent measurement

The financial assets are classified in the following measurement categories for the purpose of subsequent measurement:

- a) Those to be measured subsequently at fair value (either through other comprehensive income, or through statement of income), and
- b) Those to be measured at amortized cost.

For assets measured at fair value, gains and losses will either be recorded in the statement of income or other comprehensive income. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets at amortized cost

Subsequent measurement of financial assets at amortized cost depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies financial assets at amortised cost based on the below:

- a) The asset is held within a business model with the objective of collecting the contractual cash flows, and
- b) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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. Shareholder loans to joint venture entities are carried at amortized cost.

The Company's financial assets at amortized cost include trade receivables, due from related parties and cash and cash equivalents.

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 30 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 statement of income and other comprehensive income as incurred.

De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of the transferred financial asset, the Company continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

Impairment of financial assets

The Company applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets and credit risk exposure that are debt instruments and are measured at amortized cost e.g., advances to affiliates, Murabaha deposits and certain long-term investments.

Expected credit losses are the probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that the Company expects to receive. The expected credit losses consider the amount and timing of payments and hence, a credit loss arises even if the Company expects to receive the payment in full but later than when contractually due. The expected credit loss method requires assessing credit risk, default and timing of collection since initial recognition. This requires recognizing allowance for expected credit losses in the statement of income and other comprehensive income even for receivables that are newly originated or acquired.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

Financial assets at amortized cost (debt instruments)

Impairment of financial assets (continued)

Impairment of financial assets is measured as either 12 month expected credit losses or life time expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. '12 month expected credit losses' represent the expected credit losses resulting from default events that are possible within 12 months after the reporting date. 'Lifetime expected credit losses' represent the expected credit losses that result from all possible default events over the expected life of the financial asset.

Trade receivables are of a short duration, normally less than 12 months and hence the loss allowance measured as lifetime expected credit losses does not differ from that measured as 12 month expected credit losses. The Company applies simplified approach for measuring expected credit losses for trade receivables using a provision matrix based on ageing of receivables.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value. Financial liabilities accounted at amortized cost like borrowings are accounted at the fair value determined based on the effective interest rate method (EIR) after considering the directly attributable transaction costs.

The financial liabilities are classified in the following measurement categories:

- a) Those to be measured as financial liabilities at fair value through profit or loss, and
- b) Those to be measured at amortized cost.

The Company classifies all financial liabilities as subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

The effective interest rate ("EIR") method calculates the amortized cost of a debt instrument by allocating interest charge over the relevant effective interest rate period. The effective interest rate is the rate that exactly discounts estimated future cash outflow (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. This category generally applies to borrowings and trade payables.

The Company's financial liabilities include trade and other payables, borrowings including bank overdrafts and amounts due to related parties. The Company measures financial liabilities (except derivatives) at amortized cost.

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income and other comprehensive income.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

Financial instruments (continued)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

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 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

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.

All assets and liabilities for which fair value is measured or disclosed in the 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.

Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values. As of 31 December 2019 and 31 December 2018, none of the financial instruments of the Company have been carried at fair value.

Revenue recognition

Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the cement and clinkers. The normal credit term is 60 to 90 days upon delivery. The Company considers whether there are other promises in the contract that are separate performance obligations i.e. transportation, to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of cement and clinkers, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. No element of financing component is deemed present as the sales are either made on cash or credit terms with less than 12 months. The Company acts as principal and record sale on gross basis.

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 statement of income and other comprehensive income. Earnings on time deposits are recognized on an accrual basis.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

Earnings per share

Basic earnings per share are 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 year and excluding treasury shares, if any.

Diluted EPS is calculated by dividing the net profit 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.

Dividend

Interim dividends are recorded as liability in the period in which these are approved by the Board of directors. Final dividends are recorded in the financial statements in the period in which these are approved by the shareholders.

Notes to the Financial Statements

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

6. Property, plant and equipment

	Land	Buildings and civil works	Plant and equipment	Tools and transportation equipment	Furniture, fixtures and office equipment	Construction work in progress	Total
	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"
Cost:							
At the beginning of the year	69,607	1,869,611	5,085,025	293,945	86,294	206,911	7,611,393
Additions	-	254	52,007	648	461	83,274	136,644
Transfer from construction work in progress	-	-	83,895	-	-	(83,895)	-
Disposals	-	-	-	(13,947)	(728)	-	(14,702)
At the end of the year	69,607	1,869,865	5,220,927	280,619	86,027	206,290	7,733,335
Accumulated depreciation:							
At the beginning of the year	-	1,248,055	3,409,564	271,600	69,782	-	4,999,001
Charge for the year	-	31,551	164,226	6,355	4,891	-	200,023
Disposals	-	-	-	(13,917)	(727)	-	(14,644)
At the end of the year	-	1,279,606	3,573,790	264,038	73,946	-	5,191,380
Net book amounts:							
At 31 December 2019	69,607	590,259	1,647,137	16,581	12,081	206,290	2,541,955
At 31 December 2018	69,607	621,556	1,675,461	22,345	16,512	206,911	2,612,392

6.1 Certain property, plant and equipment are constructed on the land provided under the right of the mining concession provided by the government (note 1).

6.2 Construction work in progress represents the ongoing construction work of a bulk railway loading facility and its railway link which are expected to be finalized in 2020, in addition to other construction projects.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

6 - Property, plant and equipment (continued)

2018:

	Land	Buildings and civil works	Plant and equipment	Tools and transportation equipment	Furniture, fixtures and office equipment	Construction work in progress	Total
	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"
Cost:							
At the beginning of the year	69,607	1,869,999	5,039,166	294,344	86,270	182,372	7,540,758
Additions	-	612	18,499	1,051	1,491	51,899	73,552
Transfer from construction work in progress	-	-	27,360	-	-	(27,360)	-
Disposals	-	-	-	(1,450)	(1,467)	-	(2,917)
At the end of the year	69,607	1,869,611	5,085,025	293,945	86,294	206,911	7,611,393
Accumulated depreciation:							
At the beginning of the year	-	1,214,051	3,256,422	265,988	64,489	-	4,800,950
Charge for the year	-	34,004	153,142	7,059	6,754	-	200,959
Disposals	-	-	-	(1,447)	(1,461)	-	(2,908)
At the end of the year	-	1,248,055	3,409,564	271,600	69,782	-	4,999,001
Net book amounts:							
At 31 December 2018	69,607	621,556	1,675,461	22,345	16,512	206,911	2,612,392
At 31 December 2017	69,607	654,948	1,782,744	28,356	51,781	182,372	2,739,808

Notes to the Financial Statements

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

7 - Investment in associates

The movement of investments in associated companies was as follows:

	United Cement Company	Cement Product Industry Company Limited	Total 2019	Total 2018
	SR "000"	SR "000"	SR "000"	SR "000"
Percentage of ownership	36%	33.33%		
At the beginning of the year	26,887	30,022	56,909	59,838
Share in OCI (Loss)	299	(41)	258	-
Share in net income	(1,868)	(725)	(2,593)	(602)
Dividends received from associates	(894)	-	(894)	(2,327)
Reclassification of loan	-	3,450	3,450	-
At the end of the year	24,424	32,706	57,130	56,909

United Cement Company is a Bahraini closed joint stock company registered and operating in the Kingdom of Bahrain. The company is engaged in the import, storage and selling of cement in different forms.

Cement Product Industry Company Limited is a limited liability company registered and operating in the Kingdom of Saudi Arabia. The company is engaged in the manufacturing of cement derivative products and other products necessary for manufacturing and packing cement.

8 - Inventories

	2019	2018
	SR "000"	SR "000"
Spare parts	160,512	138,987
Less: provision for slow moving and obsolete spare parts	(1,082)	(1,082)
	159,430	137,905
Raw materials	90,174	82,051
Work in progress	471,718	569,920
Finished goods	32,401	20,563
At 31 December	753,723	810,439

9 - Trade receivables

	2019	2018
	SR "000"	SR "000"
Trade accounts receivable due from third parties	353,711	298,043
Trade accounts receivable due from a related party (note 22)	14,902	12,422
	368,613	310,465

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

As at 31 December, aging of trade receivables are as follows:

	2019	2018
	SR "000"	SR "000"
Not due yet	255,793	175,863
Past due but not impaired- 1 to 120 days	94,841	131,678
Past due but not impaired- 121 days or more	17,979	2,924
	368,613	310,465

Total trade receivables against which bank guarantees are received amount to SR 349.1 million (December 31 2018: SR 276.8 million).

10 - Prepayments and other receivables

	2019	2018
	SR "000"	SR "000"
Advances to suppliers	21,193	44,478
Custom deposits	1,478	1,659
Advance to a related party (note 22)	-	3,450
Prepaid expenses	262	393
Others	6,892	17,448
	29,825	67,428

11 - Cash and cash equivalent

	2019	2018
	SR "000"	SR "000"
Cash at banks	126,932	69,221
Cash in hand	260	335
	127,192	69,556

12 - Share capital

The authorized issued and paid up capital is SR 1,530 million, which is divided into 153 million shares (31 December 2018: 153 million shares) of SR 10 each.

Notes to the Financial Statements

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

13 - Employees' benefits

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

	2019	2018
	SR "000"	SR "000"
At the beginning of the year	74,615	78,919
Current service cost	5,405	6,003
Interest cost	3,210	2,453
Payments during the year	(7,051)	(6,744)
Re-measurement of the year	10,550	(6,016)
At the end of the year	86,729	74,615

(i) The significant actuarial assumptions are as follows:

	2019	2018
Discount rate used for calculation of interest cost-per annum	2.85%	4.30%
Salary increment rate-per annum Year 1- 4	2.85%	2.00%
Mortality rates	WHO SA 16-75%	WHO SA 16-75%
Long term salary increase rate for the fifth year and onwards-per annum	2.85%	4.30%
Rate of employee turnover	Moderate	Moderate

(ii) The weighted average duration of the defined benefit obligation is 7.48 years (2018: 7.66 years).

(iii) The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions for year ended 31 December, 2019 is as follows:

	2019	2018
Discount rate +0.5%	83,584	71,847
Discount rate -0.5%	90,083	77,569
Long term salary increases +0.5%	90,285	76,420
Long term salary increases -0.5%	83,366	72,897

14 - Islamic financing

The Islamic facilities have been obtained from various local banks to meet the working capital requirements with a total amount of 31 December 2019: SR 1,950 million (31 December 2018: SR 1,800 million). The utilized balance as of 31 December 2018: SR 595 million (31 December 2018: SR 620 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 statement of financial position as it is repayable within 12 months from the financial position date.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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

15 - Dividends

On 24 Ramadan 1440H (corresponding to 29 May 2019), the Board of Directors has resolved to distribute interim cash dividends amounting to SR 1.50 per share (SR 229.50 million in total) for the first half of 2019. Payment of this dividend distribution was commenced on 29 Shawwal 1440 (corresponding to 2 July 2019).

On 11 Sha'ban 1440H (corresponding to 16 April 2019), the General Assembly approved the Board of Directors' proposal to distribute cash dividends amounting to SR 1.75 per share (SR 267.75 million in total) for the second half of 2018.

On 13 Ramadan 1439H (corresponding to 28 May 2018), the Board of Directors has resolved to distribute interim cash dividends amounting to SR 1.50 per share (SR 229.50 million in total) for the first half of 2018. Payment of this dividend distribution was commenced on 18 Shawwal 1439H (corresponding to 02 July 2018).

On 29 Rajab 1439H (corresponding to 15 April 2018), the General Assembly approved the Board of Directors' proposal to distribute cash dividends amounting to SR 1.75 per share (SR 267.75 million in total) for the second half of 2017.

Subsequent to the year end, on 11 Jamada II 1441 (5 February 2020), the Board of Directors proposed to distribute cash dividends amounting to SR 2.00 per share (SR 306 million) for the second half of 2019.

16 - Accruals and other payables

	2019	2018
	SR "000"	SR "000"
Accrued expenses	112,124	99,691
Liability for charitable contribution	20,000	20,000
Advances from customers	28,392	10,807
	160,516	130,498

17 - Revenue

	2019	2018
	SR "000"	SR "000"
Sales of goods	1,441,632	1,119,564

17.1 Disaggregation of revenue

A. By Product

	2019	2018
	SR "000"	SR "000"
Cement	1,299,831	1,042,134
Clinker	141,831	77,430
	1,441,632	1,119,564

Notes to the Financial Statements

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

B. By geography

	2019	2018
	SR "000"	SR "000"
Local	1,159,029	932,175
Export	282,603	187,389
	1,441,632	1,119,564

18 - Selling and distribution expenses

	2019	2018
	SR "000"	SR "000"
Employees' costs	11,611	9,381
Depreciation	6,189	6,916
Transportation fees	42,702	30,996
Others	21,595	13,117
	82,097	60,410

19 - General and administrative expenses

	2019	2018
	SR "000"	SR "000"
Employees' costs	39,156	32,623
Depreciation	4,272	6,150
Board of directors' remunerations	5,833	5,616
Professional fees	2,656	1,032
Donation	1,123	1,797
Publication fees	187	222
Training	27	155
Other	23,457	13,184
	76,711	60,779

20- Zakat provision**A . The principal elements of the zakat base are as follows**

	2019	2018
	SR "000"	SR "000"
Non-current assets	(2,629,927)	(2,669,301)
Non-current liabilities	112,395	74,615
Opening shareholders' equity	2,787,143	2,877,867
Net income before zakat	467,888	404,680

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

B. The movement in Company's zakat is as follows:

	2019	2018
	SR "000"	SR "000"
At beginning of the year	15,939	33,079
Provision made during the year	16,490	4,170
Paid during the year	(10,178)	(21,310)
At the end of the year	22,251	15,939

C. Status of zakat assessment

The Company has submitted its zakat declarations and obtained certificates till the year 2018. The last Zakat final assessment received by the Company was for the year 2016.

21 - Earnings per share

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

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

	2019	2018
	SR "000"	SR "000"
Net Income attributable to equity holders	451,397	400,510
Number of shares outstanding	153,000	153,000
Earnings per share	2.95	2.62

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

Notes to the Financial Statements

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

22 - Related party transactions and balances

Related party	Relationship	Nature of transaction	Amount of transaction		Ending balance	
			31 December 2019	31 December 2018	31 December 2019	31 December 2018
			SR "000"	SR "000"	SR "000"	SR "000"
I) Trade receivables due from a related party						
United Cement Company	Associate	Sales	54,773	42,957	14,902	12,422
II) Advances to a related party						
Cement Product Industry Company Limited	Associate	Advance paid	-	-	-	3,450
III) Trade payables due to a related party						
Cement Product Industry Company Limited	Associate	Purchases of raw material	41,157	22,077	131	491
Wataniya Insurance Company	Affiliate	Insurance on property plant and equipment	6,912	6,185	24	79

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made in the ordinary course of business. Outstanding balances at the year ended 31 December 2019 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 year ended 31 December 2019, 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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

Key management personnel	2019	2018
	SR "000"	SR "000"
Short term employment benefits	15,199	14,842
Post-employment benefits	3,261	799
	18,460	15,641

23 - Lease liabilities and right of use assets

Following are the amounts recognised for lease liabilities and right of use assets in statement of profit or loss and other comprehensive income:

	2019
	SR "000"
Depreciation expense of right-of-use assets	6,660
Interest expense on lease liabilities	1,574
Total amount recognised in profit or loss	8,234

The Company had total cash outflows for leases of SR 5.97 million in 2019.

Notes to the Financial Statements

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

The aggregate repayment schedule of lease liabilities is as follows:

	2019
	SR "000"
Within one year	7,982
1-2 years	12,711
2-5 years	13,747
Thereafter	2,446
Lease obligation	36,886

Lease liabilities and right of use assets position as at 31 December 2019 are disclosed in note 4 of these financial statements.

24 - Contingencies and commitments

a) The capital expenditure contracted by the Company but not incurred till year end was approximately SR 34.94 million (2018: SR 117.12 million).

b) The company's bankers have given guarantees, on behalf of the Company, amounting to SR 3.21 million (2018: SR 3.66 million) in respect of performance guarantees.

25 - 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 manufacturing and are substantially sold to local customers. Accordingly, segmental analysis by geographical and operating segment has not been presented.

26 - Employees' savings plan

The Company has established an employees' saving plan for its employees, which was approved by the Ministry of Labor on 11 Jumada I 1414H (corresponding to 27 October 1993). The contributions from the Company and the participants are deposited in separate bank accounts as thrift saving accounts. These bank accounts with a total balance of SR 19.1 million (2018: SR 17.5 million) do not form part of the Company's available cash resources and have been accounted for, together with the related liability against the contributions, in its own standalone accounting records, as required by the saving plan's by-laws, and has not been integrated with the Company's accounting records.

27 Financial risk management objectives and policies

The Company's principal financial liabilities comprise Islamic financing, trade payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include trade and other receivables, and cash and bank balances that derive directly from its operations.

The Company's management reviews and agrees policies for managing each of these risks which are summarized below.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives. The Company does not engaged into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Market risk

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

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Company's exposure to the risk of changes in market commission rates relates primarily to the Company's islamic financing with floating commission rates. The Company manages its exposure to this risk by continuously monitoring movements in commission rates. The sensitivity of the income to possible changes in commission rate by 100 basis points, with all other variables held constant, is not considered material by the management.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company deals mainly in US \$ and Saudi Riyal (SR). As the SR is pegged to the US \$, balances in SR are not considered to represent significant currency risk.

Commodity price risk

The Company is exposed to the impact of market fluctuations of the price of various inputs to production including oil, natural gas and electricity. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices to manage the risk.

Notes to the Financial Statements

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk on its bank balances, deposits and receivables as follows:

	2019	2018
	SR "000"	SR "000"
Cash and cash equivalent	127,192	69,556
Trade receivables	368,613	310,465
Advances to a related party	-	3,450
Custom duty	1,478	1,659

27 Financial risk management objectives and policies (continued)

The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and obtaining bank guarantees from certain customers. Funds are placed in banks with sound credit ratings. Financial position of related parties is stable.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry. Trade receivables outstanding balance comprises of 92% in KSA, 4% in GCC (other than KSA) and 4% in other Countries. The five largest customers account approximately for 82.10% of outstanding trade receivables at 31 December 2019 out of which 93.76% are secured by bank guarantees and 6.24% is receivable from a government entity and therefore considered as secured.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring bank facilities are available when required. The Company's terms of sales require amounts to be paid within 60 to 90 days of the date of sale. Trade payables are normally settled within 60 to 120 days of the date of purchase.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at 31 December 2019, based on contractual payment dates and current market interest rates:

	Less than 3 months	3 to 12 months	Total	2018
	SR "000"	SR "000"	SR "000"	SR "000"
Islamic financing	-	595,000	595,000	620,000
Dividends payable	-	219,183	219,183	219,183
Trade payables	54,304	6,348	60,652	79,811
Accrued expenses	28,392	132,124	160,516	130,498
	82,696	952,655	1,035,351	1,049,492

Lease liabilities undiscounted maturities are disclosed in note 23 of these financial statements.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Capital management

For purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management is to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares. In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial period.

28 - Fair values of financial instruments

As of 31 December 2019, 31 December 2018, all of the Company's financial instruments have been carried at amortized cost and the Company does not hold any financial instruments measured at fair value. However, the carrying value of the financial assets and liabilities in the statement of financial position approximates to their fair value.

29 - Subsequent events

There have been no significant subsequent events since the year ended 31 December 2019 that would have a material impact on the financial position of the Company as reflected in these financial statements except as mentioned in note 15.

30 - Approval of financial statements

These financial statements were authorized for issue and approved on February __, 2020 G by the Board of Directors of the Company.

Contacts

SAUDI CEMENT COMPANY

HEAD OFFICE

3964 - King Saud - Alamamra
Unit No. 1
Dammam 32415 - 7102
Tel. +966 (013) 835 8000
Fax. +966 (013) 834 3091
e-mail: saudicement@saudicement.com.sa
website: saudicement.com.sa

HOFUF PLANT

Telephone: (013) 533 2222
Fax: (013) 533 1437
E-mail: saudicement@saudicement.com.sa

AIN DAR PLANT

Telephone : (013) 566 0600
Fax: (013) 566 1992
E-mail: saudicement@saudicement.com.sa

RIYADH OFFICE

Telephone : (011) 477 3021
Fax: (011) 478 0362
E-mail : saudicement@saudicement.com.sa

Power to Build
saudicement.com.sa

Saudi Cement Company

A Saudi Joint Stock Company (Listed)

3964 - King Saud - Almamra

Unit No. 1 - Dammam 32415 - 7102

Kingdom of Saudi Arabia

Tel. +966 (013) 835 8000

Fax. +966 (013) 834 3091