

**SAUDI CEMENT COMPANY
(SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER,
2019**

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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 and other standards and procurements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

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:

Existence and valuation of inventories	
Refer to note 5 for the accounting policy and note 8 for the related disclosures.	
Key audit matter	How the matter was addressed in our audit
<p>The inventory of the Company includes raw material and work in process with total amount of SR 562 million, this mainly comprises Clinker, Bauxite, Iron ore 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.</p> <p>Due to the significance of inventory balances and related estimations involved, this is considered as a key audit matter.</p>	<p>Our audit procedures to assess the existence and valuation of inventory included the following:</p> <ul style="list-style-type: none"> • 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	How the matter was addressed in our audit
<p>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.</p> <p>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.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> • 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

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, other standards and procurements endorsed by Saudi Organization for Certified Public Accountants ("SOCPA"), 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.

- 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.

M. A. Al-Amri

Dr. Mohamed A. Al-Amri
Certified Public Accountant
Registration No. 60

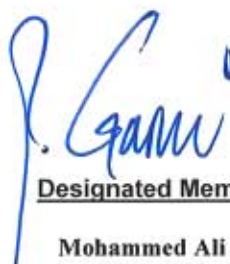


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STATEMENT OF FINANCIAL POSITION

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		740,650	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
Dividend 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		1,067,235	1,065,431
TOTAL LIABILITIES		1,179,630	1,140,046
TOTAL EQUITY AND LIABILITIES		3,909,280	3,927,189



Designated Member / CEO

Mohammed Ali Al-Garni



Finance Manager

Evan Abaza

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

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

For the Year ended 31 December 2019

	Note	2019 SR '000	2018 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)
Financing 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			
<i>Item that will not be reclassified to profit or loss</i>			
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


Designated Member / CEO
Mohammed Ali Al-Garni


Finance Manager
Evan Abaza

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

Saudi Cement Company
(Saudi Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2019

	Share capital SR '000	Statutory reserve SR '000	Retained earnings SR '000	Total 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
Dividend (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
Dividend (note 15)	-	-	(497,250)	(497,250)
Balance at 31 December 2019	1,530,000	459,000	740,650	2,729,650


Designated Member / CEO

Mohammed Ali Al-Garni


Finance Manager


Evan Abaza

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 SR '000	2018 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 of property, plant and equipment	(136,644)	(73,552)
Proceeds from disposal of property, plant and equipment	406	506
Dividend received from associates	894	2,327
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)	-
Dividend 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


Designated Member / CEO
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Finance Manager
Evan Abaza

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

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 and other standards and procurements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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	<u>37,015</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 Adoption of new and revised Standards (continued)

Lease liabilities as at year end are as follows:

	31 December 2019 SR '000	01 January 2019 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

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 SR '000	01 January 2019 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

Leases (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

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

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

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

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

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.

iii. 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.

iv. 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

For the year ended 31 December 2019

5 Summary of significant accounting policies (continued)

Financial assets at amortized cost (debt instruments)

iv. 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

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

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

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

For the year ended 31 December 2019

6 Property, plant and equipment 2019:

	Land SR '000	Buildings and civil works SR '000	Plant and equipment SR '000	Tools and transportation equipment SR '000	Furniture, fixtures and office equipment SR '000	Construction work in progress SR '000	Total 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	-	-	-	(13,974)	(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	-	207,023
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 value:							
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

For the year ended 31 December 2019

6 Property, plant and equipment (continued)
2018:

	Land SR '000	Buildings and civil works SR '000	Plant and equipment SR '000	Tools and transportation equipment SR '000	Furniture, fixtures and office equipment SR '000	Construction work in progress SR '000	Total SR '000
Cost:							
At the beginning of the year	69,607	1,868,999	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 value:							
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	21,781	182,372	2,739,808

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

7 Investment in associates

The movement of investments in associated companies was as follows:

	United Cement Company SR '000	Cement Product Industry Company Limited SR '000	Total 2019 SR '000	Total 2018 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 SR '000	2018 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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 equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

13 Employees' benefits

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

	2019 SR '000	2018 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 (gain)/loss	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 SR'000	2018 SR'000
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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

14 Islamic financing (continued)

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 Revenue

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

17.1 Disaggregation of revenue

	2019	2018
	SR'000	SR'000

A. By product

Cement	1,299,801	1,042,134
Clinker	141,831	77,430
	1,441,632	1,119,564

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' cost	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' cost	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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

20 Zakat provision

A The principal elements of the zakat base are as follows

	2019 SR '000	2018 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

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

	2019 SR'000	2018 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 SR '000	2018 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
For the year ended 31 December 2019

22 Related party transactions and balances

Related party	Relationship	Nature of transaction	<u>Amount of transaction</u>		<u>Ending balance</u>	
			31	31	31	31
			December	December	December	December
			2019	2018	2019	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.

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

Key management personnel

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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.

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 SR '000	2018 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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:

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>	<i>2018</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR,000</i>
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

For the year ended 31 December 2019

27 Financial risk management objectives and policies (continued)

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 March 1, 2020 G by the Board of Directors of the Company.