EASTERN PROVINCE CEMENT COMPANY
(A Saudi Joint Stock Company)

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

EASTERN PROVINCE CEMENT COMPANY
(A Saudi Joint Stock Company)

Financial statements and independent auditor's report
For the year ended December 31, 2019

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BDO الدكتور محمد العمري وشركاه
Dr. Mohamed Al-Amri & Co.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Eastern Province Cement Company
(A Saudi Joint Stock Company)
Dammam – Kingdom of Saudi Arabia

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Eastern Province Cement Company (a Saudi Joint Stock Company) ("the Company") which comprise the statement of financial position as at December 31, 2019 and the statement of income and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements from 1 to 37 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 December 31, 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 pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis of 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 and ethics 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 December 31, 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:

Partners: Dr. Mohamed Al-Amri (60), Jamal M. Al-Amri (331), Gihad M. Al-Amri (362)
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Existence and valuation of inventories	
Refer to note "6-H" for the accounting policy of inventory and note 12 for related disclosures.	
Key audit matter	**How the matter was addressed in our audit**
The inventory of the Company includes raw material and work in process with total amount of SR 323 million, this mainly comprises Clinker, Bauxite, limestone, and gypsum, which are stored in stockpiles. As the weighing of these inventories is not practicable, management assesses the reasonableness of the quantities on hand by obtaining measurements of the reserve inventory 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	Our audit procedures to assess the existence and valuation of inventory included the following: - Attended physical inventory counts performed by the Company. - Obtained the inventory count report prepared by the company relevant to the main items of inventory and examining it according to sample base. - 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 and implementation of IFRS 15 "Revenue from contracts with customers"	
Refer to note "6-Q" for the accounting policy of Revenue and note (24) for related disclosure.	
Key audit matter	**How the matter was addressed in our audit**
The Company has recognized revenue from operations of SR 729 million. The Company expects the revenue recognition to occur at point in time when control over the goods are transferred to the customer, according to the followings: - In cement segment with amount SR 610 million when the clients receive the goods. - In Precast segment with amount SR 119 million, according to the signed contract conditions with each client, so that the management should recognize revenue when the control transferred to the client according to the requirements of 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.	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.

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Other information

Management is responsible for the other information. The other information comprises the information included in the annual report 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 pronouncements endorsed by 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 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.

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- 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 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. AlAmri

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

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شركة مهنية رقم ٣٢٣/١١/٦٦/٢
س.ت ٢٠٥٠١٠٥٨٢٢
Dammam
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

Date: Rajab 24, 1441 H
Corresponding to: March 19, 2020 G

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EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019
(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

	Notes	31 December 2019	31 December 2018
ASSETS			
Non- current assets			
Property, Plant and equipment	7	**868,611**	946,818
Investments Property	8	**94,712**	96,344
Right-of-use assets	9,5	**1,583**	-
Investments in equity instrument at fair value through other comprehensive income	10	**536,423**	378,602
Investments in associate company through equity method	11	**169,991**	146,470
Total non-current assets		**1,671,320**	1,568,234
Current Assets			
Inventory	12	**505,713**	584,924
Trade Receivable	13	**197,962**	192,931
Prepayments and other current assets	14	**50,101**	59,169
Cash and cash equivalents	15	**339,838**	108,941
Total current assets		**1,093,614**	945,965
Total Assets		**2,764,934**	2,514,199
LIABILITIES AND SHAREHOLDER'S EQUITY			
Shareholders' Equity			
Share Capital	16	**860,000**	860,000
Statutory reserve	17	**430,000**	430,000
Voluntary reserve	17	**404,639**	404,639
Retained earnings		**535,218**	419,022
Reserve for valuation of equity instruments at fair value through other comprehensive income	10	**189,635**	88,584
Actuarial (losses) reserve through other comprehensive income		**(7,756)**	(361)
Total shareholders' equity		**2,411,736**	2,201,884
Non- current liabilities			
Provision for staff end of service benefits	18	**69,811**	61,826
Other provisions	19	**32,853**	30,000
Lease liabilities	5	**430**	-
Total Non-current Liabilities		**103,094**	91,826
Current liabilities			
Accounts payable and other current liabilities	20	**102,843**	117,063
Due to a related party	21B	**63,090**	21,993
Dividends payables	22	**58,965**	59,560
Lease liabilities	5	**1,183**	-
Provision for zakat	23	**24,023**	21,873
Total current liabilities		**250,104**	220,489
Total liabilities		**353,198**	312,315
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,764,934**	2,514,199

Finance Manager	Chief Executive Officer	Chairman

The accompanying notes from 1 to 37 considered as an integral part of these financial statements.

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

	Notes	31 December 2019	31 December 2018
Net Sales	24	**728,798**	565,744
Cost of sales		**(505,737)**	(434,582)
Gross profit		**223,061**	131,162
General and administrative expenses	25	**(47,982)**	(48,358)
Selling and marketing expenses	26	**(13,613)**	(13,945)
Operational profit		**161,466**	68,859
Investments income	27	**15,202**	4,655
Gains from Investment in an associate company through Equity method	11	**23,521**	23,836
Finance charges		**(1,361)**	(1,072)
Other income	28	**7,491**	12,582
Other expenses	29	**(9,198)**	(7,638)
Provision for credit losses		**4,010**	-
(Losses) on Foreign currency exchange		**(406)**	-
(Losses) on disposal of Property, plant, and equipment		**(429)**	(2,886)
Net income before zakat		**200,296**	98,336
Zakat expense	30,23	**(19,600)**	(28,588)
Net income for the year		**180,696**	69,748
Other comprehensive income items:			
Item that will not be reclassified to profit or loss:			
Actuarial (losses)/gains from re-measuring the end of service benefits		**(7,395)**	5,156
Unrealized Gains from investment in equity instruments through other comprehensive income		**101,051**	62,659
Total other comprehensive income items		**93,656**	67,815
Total comprehensive income for the year		**274,352**	137,563
Basic and diluted earnings per share	31	**2.10**	0.81

Finance Manager	**Chief Executive Officer**	**Chairman**

The accompanying notes from 1 to 37 considered as an integral part of these financial statements.

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

	Share capital	Statutory Reserve	Voluntary reserve	Retained earnings	Reserve for valuation of equity instruments at fair value through OCI	Actuarial (losses) reserve through OCI	Total shareholder's equity
Balance at January 1, 2018	860,000	430,000	404,639	435,274	25,925	(5,517)	2,150,321
Net income for the year	-	-	-	69,748	-	-	69,748
Gain from valuation of equity instruments at fair value through other comprehensive income	-	-	-	-	62,659	-	62,659
Actuarial gain through other comprehensive income	-	-	-	-	-	5,156	5,156
Dividends	-	-	-	(86,000)	-	-	(86,000)
Balance at December 31, 2018	860,000	430,000	404,639	419,022	88,584	(361)	2,201,884
Net income for the year	-	-	-	**180,696**	-	-	**180,696**
Gain from valuation of equity instruments at fair value through other comprehensive income	-	-	-	-	**101,051**	-	**101,051**
Actuarial (loss) through other comprehensive income	-	-	-	-	-	-	-
Other comprehensive income items for the year	-	-	-	-	-	**(7,395)**	**(7,395)**
Dividends	-	-	-	**(64,500)**	-	-	**(64,500)**
Balance at December 31, 2019	**860,000**	**430,000**	**404,639**	**535,218**	**189,635**	**(7,756)**	**2,411,736**

Finance Manager | **Chief Executive Officer** | **Chairman**

The accompanying notes from 1 to 37 considered as an integral part of these financial statements.

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

	Notes	For the year ended 31 December 2019	31 December 2018
Cash flows from operating activities:			
Net income for the year		**180,696**	69,748
Adjustments for:			
Depreciation of property, plant and equipment	7	**98,992**	103,267
Amortization of investment property	8	**1,632**	1,632
Depreciation of right to use	9	**1,645**	-
Investment income	27	**(15,202)**	(4,655)
The company's share from Investment in an associate company	11	**(23,521)**	(23,836)
Loss on disposal of Property, plant and equipment		**429**	2,886
The addition to the provision of decommissioning and restoration of the factory		**2,853**	-
Reversing of provisions for credit losses		**(4,010)**	-
Zakat provision	23	**19,600**	28,588
Addition to Provision for staff end of service benefits	18	**7,769**	8,108
		270,883	185,738
Changes in operating assets and liabilities :			
Trade receivable, Prepayments and other (net)		**10,017**	(14,553)
Inventory		**79,211**	(32,704)
Accounts payable and other current liabilities		**(14,220)**	2,363
Due to a related party		**41,097**	19,968
Staff end of service benefits paid	18	**(7,179)**	(4,891)
Zakat paid	23	**(17,450)**	(21,466)
Net cash generated from operating activities:		**362,359**	134,455
Cash flows from investing activities			
Addition to Property, plant and equipment		**(21,214)**	(27,255)
Purchasing of investment		**(56,770)**	-
Proceed from investment income		**13,232**	8,622
Proceed from disposal of Property, plant and equipment		**-**	62
Net cash (used in) investing activities		**(64,752)**	(18,571)
Cash flows from financing activities			
Dividends paid		**(65,095)**	(85,851)
The payment of lease liability		**(1,615)**	-
Net cash (used in) financing activities		**(66,710)**	(85,851)
Net change in cash and cash equivalents		**230,897**	30,033
Cash and cash equivalent at the beginning of the year	15	**108,941**	78,908
Cash and cash equivalent at the end of the year	15	**339,838**	108,941

Finance Manager **Chief Executive Officer** **Chairman**

The accompanying notes from 1 to 37 considered as an integral part of these financial statements.

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

1. Organization and activities

Eastern Province Cement Company ("the company") is a Saudi Joint Stock Company established in accordance with the royal decree No. M/11 dated on 14 Rabi alawwal, 1402 H (corresponding to January 9, 1982 G), and His Royal Highness the Minister of Commerce resolution No. 939 dated on 3 Rabi Al Thani 1403 H (corresponding to January 17, 1983 G), and registered in Dammam under the Commercial Registration No. 2050013400 dated on 22 Jumada alawwal 1403 H (Corresponding to September 7, 1983 G), and the company's head office is located in Dammam. The main activity is the wholesale and retail of cement and Gypsum, etc.
A sub-commercial record in Jubail for the Eastern Cement Factory No. 2055022383 dated 16 Jumada Al-Thani 1435 AH. Its activity includes the production of Portland cement, salt-resistant cement, ordinary cement and other cement under the National Industrial License No. 1300.
The Company obtained by Royal Decree No. M/6 dated 17 Rabi Al Thani 1405 H (Corresponding to 9 January 1985 G) the mining franchise for exploitation of limestone and clay in Al Khorasania area for a renewable period of thirty years. The Company has completed the legal procedures to renew the Franchise license. Ministerial Decree No. 5334/G dated 12-7-1438 G is issued to renew the company rights to utilize the limestone and clay for its factory located in Al-Tawy nearest to Al-khurasanya in Al-Jubail province for thirty Hijri years starting from 18-3-1436 G.

The Company also obtained by the Ministerial Decree No. 14/G dated 24 Safar, 1433-H (corresponding to 18 January, 2012-G) the mining Franchise for the exploitation of limestone and clay in Al Najabia valley at Al Ahsa Province in the Eastern region for ten Hijri years.

The financial statements appear the financial position, the results of its operations, its cash flows and the changes in the shareholders equity for the Company and its following branch:

Branch Commercial Registration No,	Date	Place of Issue	Commercial Name of Branch
2051035184	21/07/1428 H	Al-Dammam	Prainsa Saudi – Branch of Eastern Province Cement company.

The branch's activity is in producing items of pre-cast as per the industrial license No 3031328 dated on 3/3/1437 H, this branch is not issue separate financial statement, because all assets, liabilities, the result of operations, cash flow and changes in shareholders are recorded in the financial statement issued by the company.
At its meeting on December 11, 2018, the Board of Directors of Eastern Province Cement Company decided to commence the process of transferring the Saudi Prainsa branch to a separate limited liability company. Formal procedures have not yet been started.

2. Basis of preparation

- 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 pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

2. Basis of preparation (continued)

- Basis of measurement

The financial statements are prepared under the historical cost convention, using the accruals basis of accounting, except for some items like staff benefits are measured at present value and some items such as derivatives and investment in financial instruments at fair value through other comprehensive income measured at fair value.

Functional and presentation currency

-The financial statements are presented in Saudi Riyals which is also the functional and presentation currency of the Company.

-All values presented in the financial statements are rounded to the nearest thousand (SR '000), except otherwise stated.

3. Significant accounting estimates and assumptions

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.

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 life of property, plant, equipment and investment property
- Impairment test of non-financial assets
- Provisions
- Long-term assumptions for employee benefits
- Going concern
- Provision for slow moving spare parts
- Verification of inventory existence

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)
- Homogeneity of the inventory
- Decommissioning and restoration costs

The basic assumptions related to future and other basic resources for uncertainty at balance sheet date, which pose significant risk that, may result in material changes in the book values of assets and liabilities during next financial year. The Company's assumptions and estimates are based on available standards when preparing financial statements. These assumptions and estimates of future developments may change as a result of market changes and circumstances beyond the control of the Company. Such changes to assumptions are clarified when they occur.

3. Significant accounting estimates and assumptions (continued)

Critical judgments in applying accounting standards (continued)

A. Going Concern
The company doesn’t have any doubt about it ability to work as going concern, so the financial statements have been prepared as per going concern principle.

B. Estimated useful life for property, plant, equipment and investment property
The cost of property, plant and equipment is amortized over the estimated useful life of the asset based on the expected use and obsolescence of the asset, the maintenance program as well as the technical obsolescence and the recoverable value considerations of the asset.

C. Provision for slow moving goods
The inventory stated at lower of cost or net realizable value. The adjustments are recorded to reduce the cost of inventory to net realizable value, if it is required, at a product level for estimated increase or obsolescence.

The affecting Factors on those adjustments include changes in demand for goods, technological changes, deterioration of quality and quality matters. Accordingly, the Company is studding those factors and takes them in the considerations during the calculation of the provision for slow moving goods. Any adjustments that may result from the difference in these factors are periodically reviewed.

D. Provision for Expected Credit Losses
Provision for doubtful debts is determined by reference to a range of factors to ensure that receivables are not overdue due to the possibility of un collectability including the total quality and lifetime of receivables and the ongoing credit rating of financial customer positions and collateral required from customers in certain circumstances.
Specific provisions are also recorded for individual accounts when there is objective evidence that the receivable may not be recoverable.

E. Actuarial valuation of employees' end of service liabilities
The cost of the end of service benefit for employees is determined according to the Saudi labor system, and then it is measured using the actuarial valuation.
These assumptions include determining the discount rate, future salary increases, employee behavior and turnover. The complexity of the valuation and its long-term nature, the specific unfunded bonus obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at least annually if necessary.

F. Measuring of fair value
Fair value is the amount to be received for the sale of an asset or the payment to convert any of the liabilities in a regular transaction between the market participants at the measurement date under prevailing market conditions (such as the present price) regardless of whether it is directly or estimated using valuation techniques The fair value measurement is based on the assumption that the sale of the asset or the transfer of the obligation will be either:

- Through the main market of the asset or liability,
- Through the market the most benefit to the asset or liability in the absence of the main market.

The main or most beneficial market must be available to the company to reach it.
The fair value of an asset or liability is measured using the assumptions used by market participants when pricing an asset or liability on the assumption that market participants are working to the best of their economic interests.
The measurement of the fair value of a non-financial asset takes into account the ability of market participants to provide economic benefits by using the asset in the best interest of the asset or by selling it to another party in the market for use in the best interest. The Company uses valuation techniques that are appropriate to the circumstances and have adequate data available to measure fair value, maximize the use of relevant observable data, and minimize the use of non-observable data as possible.

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

F. Measuring of fair value (continued)

All assets and liabilities that are measured at fair value or fair value are disclosed in the financial statements are classified according to the hierarchy of the fair values as shown below:

- Level 1: Quoted prices (unadjusted) traded in active markets for assets or liabilities corresponding to those measured.
- Level 2: Inputs that are observable or monitored for an asset or liability, directly or indirectly, other than quoted prices included in Level 1.
- Level 3: inputs that cannot be monitored or observed for an asset or liability.

4. The 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.

5. The 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:

The impact of initial application of IFRS 16 - Leases and change in accounting policy

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 4.59% 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:

	Amount
Operating lease commitments as at 01 January 2019	2,863
Discounted using the Company’s incremental borrowing rate at inception	(101)
Lease liability recognized at 1 January 2019	2,762

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

5. The new and amended IFRS standards that are effective for the current year (continued)

Adjustments recognized on adoption of IFRS 16 (continued)

Lease liabilities as at year end are as follows:

	31 December 2019	1 January 2019
Lease liabilities – Noncurrent portion	**430**	1,113
Lease liabilities – Current portion	**1,183**	1,649
Total lease liabilities	**1,613**	2,762

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 4.59 %, with maturity ranging from years 2019 to 2021.

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

	31 December 2019	1 January 2019
Vehicles	**1,583**	2,762
Total right-of-use assets	**1,583**	2,762

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:

	Amount
Right-of-use assets – increased by	2,762
Lease liabilities – increased by	(2,762)
The net impact on the retained earnings on 1 January 2019	-

6. Summary of significant accounting policies

The followings are significant accounting policies, the company used in preparing the accompanying financial statements:

A. Classification of current and noncurrent items

The company presents the assets and liabilities in the statement of financial position on the basis of their classification as current / non-current.

The asset is classified as current when:

- It is expected to be realized, intended to be sold or consumed in a normal operating cycle.
- Held primarily for trading purposes.
- When expected to be achieved within twelve months after the financial period disclosed. Or
- Cash or cash equivalent, when there is no any restriction on disbursement or use to settle an obligation for at least twelve months after the disclosed financial year.

All other assets are classified as non-current assets.

The liability is classified as current when:

- It was expected to be settled in a regular operating cycle.
- Held primarily for trading.
- was settled within twelve months after the disclosed financial period.
- If there is an unconditional right to defer payment of the liability for a period of at least twelve months after the financial period disclosed.

The Company classifies all other liabilities as non-current liabilities.

6. Summary of significant accounting policies

B. Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and impairment loss, if any, Cost includes expenditures incurred directly to acquire the asset.
Subsequent expenditures are capitalized when such expenditures increases future economic benefits in the item of machinery and equipment.
All other expenses are recognized to maintain current production capacity in the statement of profit or loss and other comprehensive income as incurred.
Depreciation is charged to the statement of profit or loss and comprehensive income using the straight-line method over the estimated useful life of the asset.
Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal of the fixed asset with the net asset value of that asset and including it in other income in the statement of comprehensive income or loss.

The estimated useful lives of the main items of property, plant and equipment are as follows:

	Years
Buildings	40
Thermal bricks, Ball mill	1 – 5
Machinery and equipment	15 – 20
Furniture, fixtures and tools	5

C. Critical Spare parts

Critical spare parts are the necessary and required parts for the operational process and without them the operational process will be affected. It is recognized as fixed assets as follows:

- The Critical spare parts are classified into two categories as follows:
  - First category includes spare parts of production line equipment.
  - Second category includes heavy equipment spare parts for the quarry.
- The spare parts of production line equipment with value exceeding SR 5,000 per piece have been considered as critical spare parts.
- The spare parts of Heavy equipment have been considered as critical spare parts with neglecting the value because the parts linked to each other in sets with each equipment.
- The Critical spare parts are amortized over 10 years on a straight-line basis after deducting 3% as a residual value.

D. Investment properties

Investment properties consist of land held by the Company for the purpose of earning rental income or for the purpose of capital development, through an increase in value, or for both purposes and does not include land and buildings used for the production or supply of goods or services or for administrative purposes or for the purposes of regular sale.
Investment properties are stated at cost less accumulated depreciation (if any) and impairment losses (reducing) in accumulated value (if any), Land is not depreciated. The cost includes the purchase price plus all costs directly attributable with the establishment or acquisition of the investment property and the condition necessary to be used for the intended purpose. The significant parts of the investment property are amortized separately from other parts.
The fair value of the investment properties is disclosed, that have been evaluated by a qualified and independent expert, in accordance with the disclosure requirements in accordance with the international financial reporting standards endorsed in the Kingdom of Saudi Arabia.

6. Summary of significant accounting policies (continued)

D. Investment properties (continued)

The carrying amount of the investment property is derecognized when it is excluded (either through sale or through a finance lease contract) or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between, the net proceeds from the disposal of the investment property and the carrying amount of the investment property, is recognized in the statement of income and other comprehensive income in the year in which the asset is derecognized or written off.
If the use of the investment property changes to a property used in the company's operation, it is reclassified to the property, plant and equipment item.
The estimated life of the buildings item is as follows:

	Years
Buildings	40

E. 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, the recoverable amount of that asset is estimated to determine the extent of the loss. In cases where the recoverable amount of that asset cannot be estimated, the Company estimates the recoverable amount of the cash-generating unit to which that asset belongs.

Where the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the cost of that asset or cash-generating unit is reduced to its recoverable amount. The impairment loss is recognized as an expense in the statement of profit or loss and other comprehensive income for the finance year in which they occur.

If an impairment loss is subsequently reversed, the cost of the asset or cash-generating unit is increased to its recoverable amount, but its cost should not exceed the original cost which supposed to be determined if the impairment loss for that asset or cash-generating unit isn’t recognized in the prior years. Reversing entry for the impairment loss are recorded as income in the statement of profit or loss and other comprehensive income for the financial year in which it is incurred.

F. 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.

6. Summary of significant accounting policies (continued)

F. Leases (Continued)

Policies applicable from 1 January 2019 (continued)

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 re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- o 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 re-measured by discounting the revised lease payments using a revised discount rate.
- o 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 re-measured 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).
- o a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

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

Right-of-use assets

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 transfer 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 income 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.

6. Summary of significant accounting policies (continued)

F. Leases (Continued)

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.

G. Investment in Associate Company

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.

H. Inventory

Inventories are valued at the lower of cost or net realizable value, except for the inventory of spare parts and raw materials carried at cost. Cost is determined using the weighted average method.
The cost of finished products include the cost of raw materials, labor, manufacture overhead and other expenses incurred by the company to reach the inventory to its current location and condition.
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. Inventory is reduced by the value of obsolete and slow moving items according to management estimates and inventory movements.

<u>Consumable spare parts</u>
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.

- 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.

6. Summary of significant accounting policies (continued)

I. Trade receivable

Trade receivables are carried at original invoice amount less provision made for expected credit loss. A provision for doubtful accounts is established when there is a significant doubt that the Company will not be able to collect all amounts due according to the original terms of invoice. Such provision is charged to the statement of profit and loss and other comprehensive income. Bad debts are written off when identified and approved by the Board of Directors. When accounts receivable are uncollectible, it is written-off against the provision for doubtful debts (if any). Any subsequent proceeds of amounts previously written-off are included under “other income” in the Statement of Income and other comprehensive income.

J. Financial instruments

- Financial assets and liabilities are recognized when the company has contractual rights.
- Basically the financial assets are de-recognized when the contractual rights to cash flows from the financial assets expired. Or when the Company has transferred its contractual rights to receive cash flows or undertake to repay cash flows received in full and without delay to another party under immediate arrangements (a) the Company has substantially transferred all the risks and rewards of such assets, Or (b) the Company has neither transferred nor substantially retained all the risks and rewards of such assets, but has transferred its right to control such assets.
- When a financial asset or financial liability is derecognized, the difference between the carrying amount and the consideration received or paid is recognized in the statement of profit and loss.

a. Financial assets

Initial recognition and measurement

Management determines the classification of financial assets at initial recognition; financial assets are classified at initial recognition as financial assets either:

- Investments in financial instruments at fair value through profit or loss
- Investments in financial instruments at fair value through comprehensive income
- At amortized cost

Subsequent measurement

After initial recognition, the Company measure the financial assets as financial assets at amortized cost or financial assets at fair value through other comprehensive income, Or financial assets at fair value through profit or loss according to:

- Business model to manage financial assets .
- The characteristics of contractual Cash flow of the financial asset.

All investments in equity instruments are measured at fair value, Nevertheless, in limited cases, The cost may be an appropriate estimate of the fair value, this may be the case if the most recent available information is insufficient to measure fair value, or if there is a wide range of possible fair value measurements and that the cost reflects the best estimate of fair value within that range.

- Investments in financial instruments are classified at amortized cost, If they are acquired for the purpose of collecting periodic contractual cash flows from the original amount and the fixed return on investment.
- Investments in financial instruments classified at fair value through profit or loss If they are held for trading purposes and are held by the Company mainly to meet its daily liquidity needs, Through which it reduces the costs of managing its liquidity needs and therefore manages - Actively - the return on the portfolio.
- Financial investments are classified for acquisition purposes from the comprehensive income to which the business model is applied to obtain cash flow from it. And the collection of the financial return with the possibility of selling to achieve capital gains and they are recorded at cost at the date of acquisition and re-measured at market value, These investments are classified as non-current assets and changes in their fair value are recognized in comprehensive income, While any return are recognized in the statement of income and other comprehensive income.

6. Summary of significant accounting policies (continued)

J. Financial instruments (continued)

Revenue recognition

For all financial assets at amortized cost and financial assets that are bearing a return. Revenue is recognized using the effective rate of return, which reduces the estimated future cash receipts over the life expectancy of the financial instrument or for a shorter period, To the net carrying amount of the financial asset. Net gains and losses are recognized in profit or loss.

Impairment of financial assets and their non-recoverability

The Company applies the expected credit loss model (ECL) for measurement and recognition of the impairment loss on financial assets and credit risk exposure that are debt instruments and are measured at amortized cost, Such as loans, deposits and trade receivables.

The expected credit losses are calculated as a weighted estimate of the probability of credit loss (that is, the present value of all cash shortfalls) over the expected life of the financial asset. Cash shortfall is the difference between cash flows payable in accordance with the contract and the cash flows that the Company expects to receive .Because The expected credit losses consider the amount and timing of payments and hence, Credit loss arises even if the company expects to receive payments in full, But at a specific maturity date identified in the contract. 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 even for receivables that are newly originated or acquired.

Impairment of financial assets is measured either by 12-month expected credit losses Or life time expected credit losses of the asset, Depending on whether there has been a significant increase in credit risk since the initial recognition of the asset.'12-Month The expected credit losses' represent expected credit losses resulting from default events that are possible within a 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 assets.

Short-term trade receivables, Usually less than 12 months, Accordingly, the provision for credit losses is calculated in a manner that is not different from '12-month expected credit loss'. The Company uses the simplified approach in IFRS 9 to measure expected credit losses for receivables using a matrix based on the aging of receivables. The company also uses past historical experience and loss rates based on the past 12 months, where historical loss rates are adjusted to reflect information about current conditions and future forecasts of future economic conditions and the loss rates vary based on the age of the amounts due.

b. Financial Liabilities

Initial Recognition and Measurement

- The current financial liabilities carried at fair value through profit or loss, The Company determines the classification of financial liabilities at initial recognition.
- All financial liabilities are recognized initially at fair value less directly attributable transaction costs.
- The Company's financial liabilities include trade payables and other payables due.

Subsequent measurement

The measurement of financial liabilities depends on their classification as financial liabilities at fair value through profit or loss or other financial liabilities. The Company does not have any liabilities at fair value through profit or loss.

De-recognition of financial Liabilities

Financial liabilities are derecognized when the obligation is discharged, canceled or expired. When a current financial liability is replaced by another from the same lender on substantially different terms or substantially modify the terms of the existing obligations, This change or modification is treated as a de-recognition of the original liability and a new liability is recognized. The difference in the relevant carrying amount is recognized in the statement of profit or loss.

6. Summary of significant accounting policies (continued)

J. Financial instruments (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is recognized in the statement of financial position When there is a legally binding right to settle the recognized amounts There is an intention to settle the net asset/liability settlement simultaneously. The enforceable legal right shall not be subject to future events, it must be enforceable in the ordinary course of business and in case of default, insolvency or bankruptcy of the company or counterparty.

K. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, banks balances, and other high liquid short term Investments with a maturity periods of three months or less from the date of purchasing.

L. The statutory reserve

In accordance with the requirements of the Companies Law in Saudi Arabia and the Company's articles of Association, the Company established a statutory reserve by appropriation of 10% of net income. This reserve has been discontinued after the statutory reserve reaches the maximum limit.

M. Accounts payable and accrued expenses

Liabilities are recognized for amounts to be paid for goods received and services rendered, whether or not billed to the company.

N. Zakat and Tax

The Company is subject to the regulations of the General Authority of Zakat and Tax in the Kingdom of Saudi Arabia. Zakat is provided for on accrual basis and the provision for zakat and tax is calculated on the basis of the higher of zakat and tax base, or the adjusted net income. Any difference in the estimates between the calculated zakat and tax and the final assessment (if any) is to be recorded in the income statement of the year in which the assessment is finalized.

O. Foreign currencies

The Company maintains its records in Saudi Riyals. Foreign currency transactions denominated in foreign currencies are translated to Saudi Riyals at exchange rates prevailing on the date of such transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Saudi Riyals at exchange rate prevailing at that date. Gains or losses from settlement and translation of foreign currency transactions are included in the statement of income and other comprehensive income.

P. Employees' end of service benefits

Provision for end of Service is measured and stated based on the service periods acquired and accumulated for the employees in accordance with Saudi Arabian Labor Law, And in accordance with each employee period of service. The actuarial measurement of the provision for service remuneration is recognized and the actuarial gain or loss is recognized in other comprehensive income.

6. Summary of significant accounting policies (continued)

Q. Revenue recognition

Revenue is recognized when the Company meets its performance obligations in the contracts with the customer in the amount that reflects the material compensation that the entity expects for the goods or services
The standard provides a five-step revenue recognition model:

- Step 1: Identify contracts or contracts with customers.
- Step 2: Determine the performance obligations of the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price on the performance obligations in the contract.
- Step 5: Revenue recognition when an entity satisfies the performance obligations.

Revenue is recognized when the contractual obligations are performed, that is, when control over the goods that are assigned to the performance of a specific obligation is transferred to the customer. He can Use for the purpose purchased for or without restrictions under the contract.

Revenue from the sale of any by-products from industrial waste is treated as other income in the statement of income and other comprehensive income.

The company does not expect any contracts to exceed the period between the delivery of the products agreed to be sold to the customer and payment by the customer for one year, so the company does not modify any transaction prices in the time value of money.

R. Dividends income

Dividend income is recognized only when:

- The company's right to receive paid dividends is confirmed,
- The economic benefits associated with the dividend are likely to flow to the company,
- It is possible to measure the amount of dividends in a reliable way.

S. Rental income

The rental revenues are recognized according to the straight-line method over the life of the lease agreement and the terms of the lease.

T. Financial interest income

Interest income is recognized when interest accrues using the effective interest rate method. Interest income is to be recorded in statement of income.

U. Other income

Other income is recognized in statement of income and other comprehensive income when earned.

V. Expenses

Selling, marketing, general and administrative expenses include costs which are not specifically part of cost of sales. Allocations between cost of sales and selling, marketing, general and administrative expense are made on a consistent basis.

6. Summary of significant accounting policies (continued)

W. Segmental reports

The operating sector is an element in the company that is related to its activities through which it obtains revenues and incurs expenses including revenue and related expenses dealings with any other elements of the company.

X. Earnings per share

Basic earnings per share and diluted earnings per share (if any) are shown for regular shares, where basic earnings per share is calculated by dividing the profit or The loss attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, adjusted for the number of ordinary shares reacquired or Exported during the period. The diluted earnings per share is calculated by adjusting the company’s common shareholders ’profit or loss and the weighted average number of shares The list during the period has the effect of all potential dilutive ordinary shares outstanding.

Y. Dividends

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

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

7. Property, plant and equipment

2019	Land	Buildings	Thermal Bricks, Grinding Balls and Other	Machineries and equipment	Spare parts	Furniture, Fixtures & Tools	Construction-in-Progress	TOTAL
Balance at January 1, 2019	7,016	859,246	14,044	2,220,341	72,793	20,437	21,368	3,215,245
Additions during the year	-	183	-	224	226	295	20,286	21,214
Disposals during the year	-	(738)	-	(19,114)	(1,581)	(4,558)	-	(25,991)
Transfers	-	13,161	17,409	(9,861)	(2,806)	-	(17,903)	-
Balance at December 31, 2019	7,016	871,852	31,453	2,191,590	68,632	16,174	23,751	3,210,468
Accumulated depreciation:								
Balance at January 1, 2019	-	602,321	7,419	1,589,464	52,033	17,190	-	2,268,427
Charges during the year	-	15,133	7,271	72,503	2,739	1,346	-	98,992
Disposals during the year	-	(712)	-	(19,102)	(1,577)	(4,171)	-	(25,562)
Transfers	-	(1,039)	10,659	(7,841)	(1,779))	-	-	-
Balance at December 31, 2019	-	615,703	25,349	1,635,024	51,416	14,365	-	2,341,857
Net Book Value								
At December 31, 2019	**7,016**	**256,149**	**6,104**	**556,566**	**17,216**	**1,809**	**23,751**	**868,611**
At December 31, 2018	7,016	256,925	6,625	630,877	20,760	3,247	21,368	946,818

20% approximately of the administrative building in Dammam is used for the purposes of the Company’s main office and other administrative purposes.
The remaining part of the building (80%) approximately, is to be rented to various tenants for periods ranging from one year to five years. Rented part is classified as investment property.

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

2018	**Land**	**Buildings**	**Thermal Bricks, Grinding Balls and Other**	**Machineries and equipment**	**Spare parts**	**Furniture, Fixtures & Tools**	**Construction -in-Progress**	**TOTAL**
Balance at January 1, 2018	7,016	863,899	13,452	2,225,213	73,395	20,027	17,356	3,220,358
Additions during the year	-	702	-	2,106	3,293	410	20,744	27,255
Disposals during the year	-	(5,845)	(5,065)	(21,458)	-	-	-	(32,368)
Transfers	-	490	5,657	14,480	(3,895)	-	(16,732)	-
Balance at December 31, 2018	7,016	859,246	14,044	2,220,341	72,793	20,437	21,368	3,215,245
Accumulated depreciation:								
Balance at January 1, 2018	-	591,518	7,241	1,528,898	51,120	15,803	-	2,194,580
Charges during the year	-	16,387	5,243	76,971	3,279	1,387	-	103,267
Disposals during the year	-	(5,584)	(5,065)	(18,771)	-	-	-	(29,420)
Transfers	-	-	-	2,366	(2,366))	-	-	-
Balance at December 31, 2018	-	602,321	7,419	1,589,464	52,033	17,190	-	2,268,427
Net Book Value								
At December 31, 2018	**7,016**	**256,925**	**6,625**	**630,877**	**20,760**	**3,247**	**21,368**	**946,818**
At December 31, 2017	7,016	272,381	6,211	696,315	22,275	4,224	17,356	1,025,778

- **The yearly depreciation is allocated as follows:**

	31 December 2019	31 December 2018
Charged to cost of sales	**96,556**	100,313
Charged to general and administrative expenses (Note No.25)	**2,412**	2,925
Charged to selling and marketing expenses (Note No.26)	**24**	29
	98,992	103,267

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

8. Investment property

	Land	Buildings	Total
Balance at 1 January 2019	51,934	70,786	122,720
Balance at 31 December 2019	51,934	70,786	122,720
Accumulated Amortization			
Balance at 1 January 2019	-	26,376	26,376
Amortization charge during the year	-	1,632	1,632
Balance at 31 December 2019	-	28,008	28,008
Net book value			
At 31 December 2019	**51,934**	**42,778**	**94,712**
At 31 December 2018	51,934	44,410	96,344

Compliance with disclosure requirements in accordance with international financial reporting standards endorsed in the Kingdom of Saudi Arabia, investments property have been evaluated by independent and a qualified expert, Ahmed Al Naeem Real Estate Appraisal Office approved by the Saudi Authority for Accredited Values membership No.11000090 The fair value of investments property as at 31 December 2019 amounted to SR 210 million, of which SR 132 million for land and SR 78 million for buildings. (31 December 2018 amounted to SR 208 million, of which SR 128 million for land and SR 80 million for buildings.)

9. The right-of-use assets

	Vehicles
Cost	
The initial recognition of right-of-use assets as of January 1, 2019	2,762
Additions during the year	466
Balance at 31 December 2019	**3,228**
Accumulated depreciation	
Depreciation charged during the year	1,645
Balance at December 31, 2019	1,645
Net book value at December 31, 2019	**1,583**

10. Investments in equity instruments at fair value through other comprehensive income

	31 December 2019		31 December 2018	
	Number of shares	**value**	Number of shares	Value
Saudi Industrial Investment Group	**2,300**	**55,200**	2,300	52,624
Industrialization & Energy Services Company	**27,187**	**418,687**	27,187	325,978
Saudi Aramco	**1,774**	**62,536**	-	-
		536,423		378,602

- Saudi Industrial Investment Group is a Saudi Joint Stock Company listed in the Saudi Capital Market (Tadawul) in which the company owns 0.51%. The Company revalued its investment at fair value using the market value as at 31 December 2019, at that date the share price is SR 24 per share. (31 December 2019, at that date the share price is SR 22.88 per share.)

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

10. Investments in equity instruments at fair value through other comprehensive income (continued)

- Industrialization & Energy Services Company is Saudi closed joint stock company in which the company owns 5.44%. Whereas, the fair value of the share is on December 31 2019 amounting to SR 15.40 (corresponding to December 31, 2018, the fair value of the share, 11.99 SR), and the company's management has determined the value of the investments in the Industrialization and Energy Services Company based on the report of an independent evaluator
- The company purchased 1.8 million shares in the shares of Saudi Aramco at a price of 32 SR per share when offering Saudi Aramco shares for subscription, the share price has reached to 35.25 SR per share on December 31, 2019.

The company has recorded unrealized gains from valuing investments in equity instruments at fair value through other comprehensive income as follows:

	31 December 2019	31 December 2018
Opening year balance	**88,584**	25,925
Unrealized Gain from valuation of equity instruments at fair value through OCI	**101,051**	62,659
The balance at year end	**189,635**	88,584

11. Investments in associate company through equity method

The Company has an investment of 31.58% in the Arabian Yemen Cement Company (the associate company), a limited liability company, registered in the Republic of Yemen. The Associate Company was established to manufacture cement, and it started production in 2009

The investment movements during the year are as per the following:-

	31 December 2019	31 December 2018
Balance at January 1 (*)	**213,466**	195,551
Impairment in investment value	**(66,996)**	(66,996)
	146,470	128,555
Plus: share in the result of the Associate Company	**23,521**	23,836
Dividends paid	**-**	(5,921)
Balance at the end of year	**169,991**	146,470

12. Inventory

	31 December 2019	31 December 2018
Spare Parts and maintenance supplies	**147,787**	148,181
Less: Provision for spare parts	**(8,000)**	(6,000)
	139,787	142,181
Raw Material	**29,827**	41,919
Work in progress	**293,261**	357,733
Finished goods	**37,371**	25,906
Materials in-transit	**5,467**	17,185
Total	**505,713**	584,924

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

13. Trade receivable

	31 December 2019	31 December 2018
Accounts receivable - trade	**233,221**	229,009
Provision for Expected credit losses	**(35,259)**	(36,078)
	197,962	192,931

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

	31 December 2019	31 December 2018
Not yet due	**96,961**	84,721
Overdue 1 – 90 Days	**69,779**	81,629
Overdue 91 – 180 Days	**21,994**	14,532
Overdue 181 – 270 Days	**7,230**	8,404
Overdue 271 days and more	**37,257**	39,723
	233,221	229,009
Provision for expected credit losses	**(35,259)**	(36,078)
	197,962	192,931

14. Prepayments and other current assets:

	31 December 2019	31 December 2018
Retentions receivables– Debit	**38,908**	57,264
Provision for doubtful retention receivables (*)	**(26,445)**	(29,635)
	12,463	27,629
Advance payment to suppliers	**13,610**	10,285
Employees advances	**11,247**	9,386
Prepaid expenses	**7,964**	5,074
Debit balance for Tower lessee	**2,599**	3,676
Debit interest accrued	**1,970**	1,954
Others	**248**	1,165
	50,101	59,169

15. Cash and cash equivalent

	31 December 2019	31 December 2018
Cash at bank	**99,838**	38,941
Short term Murabaha deposits (*)	**240,000**	70,000
	339,838	108,941

(*) Deposits with local banks with an average return on short-term Murabaha deposits 2.28% (31 December 2018: with an average return of 1.80%).

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

16. Share capital

The issued and paid up share capital is SR 860 million, which is divided into 86 million shares (31 December 2018: 86 million shares) at SR 10 per share.

17. Reserves

- **Statutory reserve**
  As per the company's Articles of association and regulations for companies, 10% of the net income is required to be set aside to form a statutory reserve. The transferring to statutory reserve is stopped after reaching to its maximum limit. This reserve is not available for distribution to shareholders.

- **Voluntary reserve**
  The Company's General Assembly resolved during its meeting No. 35 held on 13 Rabi Al Akhar, 1431-H (corresponding to 29 March, 2010) to form a voluntary reserve, amount of SR 404.6 million through appropriation of the amount of SR 120 million from the reserve of the capital expansion and SR 284.6 million from the retrained earnings.

18. Provision for staff end of service benefits

A- Provision for Staff' end of service benefits movement:

	31 December 2019	31 December 2018
Beginning Balance	**61,826**	63,765
Add: Current year service	**5,211**	5,094
Interest cost	**2,396**	3,014
Less: Paid during the year	**(7,179)**	(4,891)
Actuarial Losses / (Gains)	**7,557**	(5,156)
Ending Balance	**69,811**	61,826

B -The main actuarial assumptions are as follows:

	2019	2018
A discount rate used to calculate interest cost per year	**3,08%**	4,52%
Annual salary increase rate	**3,50%**	3,50%

C -Sensitivity of the defined benefit obligations to changes in the weighted key assumptions for the year ended December 31, 2019 are as follows:

	2019	2018
Discount rate + 1%	**65,024**	57,899
Discount rate - 1%	**75,267**	66,247
Salary increase rate + 1%	**57,519**	66,540
Salary increase rate - 1%	**64,711**	57,569

19. Other provisions

Other provisions are provision for restoration and removal of the plant of areas under the Company's license. At the present value of the expected cost the settlement of the company's concession sites and the balance on December 31, 2019 amounted to SR 32.85 million (December 31, 2018 : 30 million SR).

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

20. Account payable and other current liabilities

	31 December 2019	31 December 2018
Accounts payable	**40,270**	60,043
Accrued expenses	**39,625**	32,903
Prepayments from customers	**13,174**	12,214
Retention Payable – Credit	**4,540**	6,248
Unearned revenues for the Tower	**1,636**	2,336
Value Added Tax	**1,901**	1,557
Other current liabilities	**1,697**	1,762
	102,843	117,063

21- Related parties

Related parties represent the associate companies, controlled companies, or subject to joint control or significant influence by these related parties. Price and terms and conditions of related parties transactions are approved the Board of Directors.

A- The transactions with related parties during the year were as follows:

- Remuneration payments for members of the Board of Directors and in return for attending Board meetings and committee meetings (Note No. 25).

- The company received amounts from the account of the Arab Yemeni Company for Cement (an associate company) in one of the banks of the State of Oman and from its customers until it was paid to suppliers and creditors of the associate on its behalf, as the associate faces difficulties in bank transfers to and from the Republic of Yemen.

The transactions with the Yemeni company were as follows:

	31 December 2019	31 December 2018
Amounts received from the Yemeni company	26,235	-
Amounts received from the clients of the Yemeni company	106,268	201,441
Amounts transferred to the account of the Yemeni Company in Amman	(18,746)	(3,302)
IFC installments payments	(30,734)	(49,841)
Payments to members of the Board of Directors of the Yemeni Company	(1,537)	(1,219)
Payments to Yemeni company suppliers	(40,389)	(121,190)
Eastern Province Cement dividends payments	-	(5,921)

B- The balance due to a related party as of 31 December 2019 is as follows:

	Relation ship	**Nature of transaction**	**31 December 2019**	31 December 2018
Arabian Yemeni Cement Company	Associate company	Current account	**63,090**	21,993
			63,090	21,993

22. Dividends payable

It represents the balance of dividends payables as at 31 December, 2019 with amount of SR 58.97 million which represents the un-received dividends from certain shareholders for the years from 1991 to 2018 (31 December, 2018: SR 59.56 million).

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

23. Provision for zakat

According to the regulations of the General Authority of Zakat and Tax, Saudi shareholders are subject to Zakat at 2.5% on the higher of Zakat Base or the adjusted net income. The credit account against zakat liabilities is classified under the current liabilities in the financial position.
Zakat and income tax are estimated on a quarterly basis and zakat differences are recorded in the period in which the final assessment is issued.

A) The significant components of the Zakat for the current year as at 31 December 2019 are as follows:

	31 December 2019	31 December 2018
Non-Current assets	**(1,671,320)**	(1,568,234)
Non-Current liabilities	**103,094**	91,826
Opening balance of shareholders' equity	**2,201,884**	2,150,321
Net income before zakat	**200,296**	98,336

B) Movement of zakat provision

	31 December 2019	31 December 2018
The balance at the beginning of the year	**21,873**	14,751
Paid for 2018	**(15,450)**	(14,509)
Charged to the current year	**19,600**	16,700
Provision for zakat claim	**-**	11,888
Payment for zakat claim	**(2,000)**	(6,957)
The balance at the end of the year	**24,023**	21,873

C) Status of Zakat

The GAZT reviewed the Zakat returns submitted by the Company for the years up to 2016 and the final assessment has been finished for those years.

The GAZT reviewed the Zakat returns submitted by the Company during the year On December 14, 2017, to the company's branch (Saudi Prainsa Precast Concrete) for the period from August 4, 2007 until January 14, 2013 (the period before the branch's merger in Eastern Province Cement Company).
The total zakat claim for that on December 31, 2019 amounted to SR 3.9 million, and the company paid SR 1.7 million until December 31, 2019, and submitted an objection to the General Authority of Zakat and Income in the amount of 2.2 million SR, and Company made a provision of SR 2 million.

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

24. Net sales

	For the Year ended	
	31 December 2019	31 December 2018
SALES	**728,798**	565,744

Sales classification:

a) Classified by product:

	For the Year ended	
	31 December 2019	31 December 2018
Cement	**589,747**	403,277
Clinker	**19,973**	-
Pre-cast Concrete	**119,078**	162,467
	728,798	565,744

b) Classified by geographical region:

	For the Year ended	
	31 December 2019	31 December 2018
Local	**684,121**	546,950
Export	**44,677**	18,794
	728,798	565,744

25. General and administrative expenses

	For the Year ended	
	31 December 2019	31 December 2018
Salaries, wages and allowances	**34,341**	33,284
Amortization	**2,412**	2,925
Materials, supporting tools, Licenses and Programs	**5,390**	6,354
Board of Directors' remuneration	**2,598**	1,978
Others	**3,241**	3,817
	47,982	48,358

26. Selling and marketing expenses

	For the Year ended	
	31 December 2019	31 December 2018
Salaries, wages and allowances	**7,825**	7,880
Technical assistance	**5,101**	5,469
Amortization	**24**	29
Other	**663**	567
	13,613	13,945

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27. Investment income

	For the Year ended	
	31 December 2019	31 December 2018
Dividends income from investments at FVOCI	**11,606**	4,025
Short term Murabaha income	**3,596**	630
	15,202	4,655

28. Other income

	For the Year ended	
	31 December 2019	31 December 2018
Rent income	**4,553**	7,976
Scrape sales	**1,014**	1,887
Other	**1,924**	2,719
	7,491	12,582

29. Other expenses

	For the Year ended	
	31 December 2019	31 December 2018
Expenses of administrative Tower of the Company	**5,239**	5,227
Miscellaneous expenses	**3,959**	2,411
	9,198	7,638

30. Zakat expenses

	For the Year ended	
	31 December 2019	31 December 2018
Provision of zakat for the year	**19,600**	16,700
Provision of zakat claim	**-**	10,000
Payment of zakat claim	**-**	1,888
	19,600	28,588

31. Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to the ordinary shareholders of the company by the weighted average number of ordinary shares List during the year. The following is the income statement and stock data used to calculate the basic and diluted earnings per share:

	For the Year ended	
	31 December 2019	**31** December 2018
Net profit for the year (in thousands of Saudi riyals)	180,696	69,748
Number of outstanding shares (in thousands of shares)	86,000	86,000
Earnings per share (SR)	2,10	0,81

There was no reduction clause affecting the weighted average number of ordinary shares.

32. Capital commitments

The Company's management has approved future capital projects of SR 10.34 million as at 31 December 2019 (31 December 2018: SR 6.65 million).

33. Contingent liabilities

As at December, 31 2019, the Company's contingent liabilities against letters of credit and letters of guarantees amounting to SR 101.069 million (31 December 2018: SR 102.21 million).

34. Dividends

On April 30, 2019 The General Assembly has been approved in their meeting to cash dividends distribution to the shareholders of the Company for the financial year 2018, With a total amount of 64.5 million SR, one share per share of 0.75 SR, and the number of shares eligible for the dividends 86 million shares whom are registered in Securities Depository Center company at the end of second trading day next of General Assembly meeting.

35. Segment information

The financial information summarized, according to the main activities as follows:

31 December 2019	**Cement**	**Precast**	**Total**
Trade receivable (net)	**144,676**	**53,286**	**197,962**
Sales	**609,720**	**119,078**	**728,798**
Costs and expenses	**(446,311)**	**(121,021)**	**(567,332)**
Income from main Operations	**163,409**	**(1,943)**	**161,466**

31 December 2018			
Trade receivable (net)	131,725	61,206	192,931
Sales	403,277	162,467	565,744
Costs and expenses	(336,914)	(159,971)	(496,885)
Income from main operating	66,363	2,496	68,859

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

35. Segment information (continued)

The financial information's are summarized according to the main Zones as follows:

31 December 2019	**Local**	**Export**	**Total**
Trade receivable (net)	**192,222**	**5,740**	**197,962**
Sales	**684,121**	**44,677**	**728,798**
Costs and expenses	**(529,930)**	**(37,402)**	**(567,332)**
Income from main Operations	**154,191**	**7,275**	**161,466**
31 December 2018			
Trade receivable (net)	187,453	5,478	192,931
Sales	546,950	18,794	565,744
Costs and expenses	(479,717)	(17,168)	(496,885)
Income from main Operations	67,233	1,626	68,859

36. Financial instruments

A. Risk management

Financial instruments reported in financial position mainly consists of investment in Murabha and for trading, cash and cash equivalents, trade and other receivables, accounts payable and other liabilities.

Market risk

Market risk is the risk of the possible impact of changes in market prices such as foreign exchange rates and commission rates. The objective of market risk management is to manage and control market risk exposure within acceptable limits while achieving the highest possible return.

- **Foreign exchange price risk**
  Foreign exchange risk arises from changes and fluctuations in the value of financial instruments as a result of changes in foreign exchange rates. The Company did not perform any material transactions in currencies other than the Saudi Riyal, the US Dollar. Since the Saudi riyal is fixed against the US dollar, it does not represent significant currency risk. The Company's management monitors currency exchange rates and believes that currency risk is not material.

- **Commission rate risk**
  Commission risk arises from changes and fluctuations in commission rates that affect future profit or fair values of financial instruments. The Company monitors commission rate fluctuations and believes that the impact of commission rate risk is not material.

- **Credit risk**
  Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. The Company's financial instruments that can be exposed to credit risk include mainly cash in banks and customer receivables. The Company deposits its funds with reliable and high credit rating Banks. The Company also has a policy regarding the volume of funds deposited in each bank and management does not expect significant credit risk from that. Management does not expect to be exposed to significant credit risk from customer accounts as it has a great base of customers engaged in various activities and multiple locations. It also monitors outstanding receivables periodically, as well as guarantees provided by customers to cover any debts not expected to be collected.

(ALL AMOUNTS IN THOUSANDS SAUDI RIYALS UNLESS OTHERWISE STATED)

36. Financial instruments (continued)

- **Credit risk (continued)**

The credit risk of the company is as follows:

	2019	2018
Cash and cash equivalent	**339,838**	108,941
Trade receivable	**197,962**	192,931
Other receivable	**17,032**	33,259

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its liabilities for financial liabilities once they due. Liquidity needs are monitored on a monthly basis and management ensures that sufficient funds are available to meet any liabilities once they due. The Company's financial liabilities consist of accounts payable, Accruals and other credit balances. The Company limits liquidity risk by ensuring that bank facilities are available, as well as matching the periods of collection of customer balances with the payment periods of supplier balances and other credit balances. All accounts payable and payables do not incur any financing expenses and are expected to be repaid within 12 months from the date of the consolidated financial statements.

B. Accounting classification and fair value

The table below shows the book values and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It doesn't Includes fair value information for financial assets and financial liabilities that are measured at fair value if the carrying amount approximates fair value reasonably:

	Book value	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
As of 31, December 2019					
Investments in equity instruments through OCI	**536,432**	**117,736**	**-**	**418,687**	**536,423**
As of 31, December 2018					
Investments in equity instruments through OCI	378,602	52,624	-	325,978	378,602

Fair value of financial instruments carried at amortized cost

Management considers that the carrying amounts of financial assets and financial liabilities carried at amortized cost in the financial statements approximate their fair values.

37. Authorization of the financial statements

These financial statements were approved by the Company's Board of Directors on 22 Rajab 1441 H (Corresponding to 17 March 2020 G).