SAUDI CEMENT COMPANY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

INDEX

BDO الدكتور محمد العمري وشركاه
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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 consolidated financial statements of Saudi Cement Company ("Saudi Joint Stock Company") ("the Company") and its subsidiary (collectively referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of income and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes from 1 to 34 to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, its consolidated financial performance and its consolidated 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 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the professional code of conduct endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated 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 consolidated financial statements for the year ended 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Existence and valuation of inventories	
Refer to note 4 for the accounting policy and note 11 for the related disclosures.	
Key audit matter	**How the matter was addressed in our audit**
The inventory of the Group includes raw materials and work in process with total amount of SR 415.69 million. This mainly include 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. 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 Group and the external surveyor; • Evaluated the competence, capabilities and objectivity of the surveyor; • Obtained and reviewed the inventory count report of the external surveyor for major stock items in sample basis; • Assessed the management's measurements of stockpiles during the physical count and calculation of the conversion to the volumes; • Tested the valuation of year-end inventory including NRV on sample basis; • Assessed the completeness and adequacy of disclosures relating to the inventories in the consolidated financial statements.

Revenue recognition	
Refer to note 4 for the accounting policy and note 20 for related disclosures	
Key audit matter	**How the matter was addressed in our audit**
The Group has recognized revenue from operations amounted to SR 1,569.63 million. The Group 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 - Revenue from contracts with customers". 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 Group 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 ' it was determined to be a key audit matter.	Our audit procedures to assess the recognition of revenue included the following: • Assessed Group's revenue recognition policy and its compliance in terms of IFRS 15; • Assessed the design and implementation of 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 and agreed the period of revenue recognition to third party support such as transporter invoice and customer confirmation of receipt of goods;

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	• Performed revenue analysis by streams to identify any unusual trends. • Assessed the completeness and sufficiency of disclosures relating to revenue in the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Group but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia, other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"), Regulations of Companies requirements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group 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 Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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:

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- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

February 18, 2021 G
Rajab 6, 1442 H

	Note	2020 SR '000	2019 SR '000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**2,434,391**	2,532,707
Right-of-use assets	7	**27,893**	30,842
Intangibles	8	**18,685**	9,248
Investments in associates	9	**32,731**	57,130
Equity investment designated at fair value through other comprehensive income (FVOCI)	10	**2,971**	-
Total non-current assets		**2,516,671**	2,629,927
Current assets			
Inventories	11	**632,045**	753,723
Trade receivables	12	**368,748**	368,613
Prepayments and other receivables	13	**35,744**	29,825
Term deposit		**110**	-
Cash and cash equivalents	14	**124,513**	127,192
Total current assets		**1,161,160**	1,279,353
TOTAL ASSETS		**3,677,831**	3,909,280
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**1,530,000**	1,530,000
Statutory reserve		**459,000**	459,000
Fair value reserve		**111**	-
Retained earnings		**662,974**	740,650
Equity attributable to shareholders of the parent		**2,652,085**	2,729,650
Non-controlling interest		**24,851**	-
Total equity		**2,676,936**	2,729,650
LIABILITIES			
Non-current liabilities			
Employees' benefits	16	**91,077**	86,729
Lease liabilities	7	**21,974**	25,666
Retention payable		**1,400**	-
Total non-current liabilities		**114,451**	112,395
Current liabilities			
Lease liabilities	7	**8,793**	7,197
Short term loans	17	**400,000**	595,000
Trade payables		**63,871**	60,652
Dividend payable		**221,000**	221,619
Accruals and other payables	19	**170,815**	160,516
Provision for zakat	23	**21,965**	22,251
Total current liabilities		**886,444**	1,067,235
TOTAL LIABILITIES		**1,000,895**	1,179,630
TOTAL EQUITY AND LIABILITIES		**3,677,831**	3,909,280

Designated Member / CEO — **Mohammed Ali Al-Garni**

Finance Manager — **Evan Abaza**

The accompanying notes from 1 to 34 form integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
For the Year ended 31 December 2020

	Note	2020 SR '000	2019 SR '000
Revenue	20	**1,569,633**	1,441,632
Cost of revenue		**(903,255)**	(791,839)
GROSS PROFIT		**666,378**	649,793
Selling and distribution expenses	21	**(117,398)**	(82,097)
General and administrative expenses	22	**(69,911)**	(76,711)
OPERATING PROFIT		**479,069**	490,985
Other income		**11,556**	5,009
Share in net results of associates	9	**25**	(2,593)
Impairment of goodwill	5	**(1,679)**	-
Financial charges		**(13,413)**	(25,513)
INCOME BEFORE ZAKAT		**475,558**	467,888
Zakat	23	**(24,000)**	(16,491)
NET INCOME FOR THE YEAR		**451,558**	451,397
Other comprehensive income / (loss)			
Item that will not be reclassified to profit or loss in subsequent periods			
Re-measurement gain / (loss) on defined benefit obligations	16	**1,865**	(10,550)
Share of other comprehensive income of associates	9	**-**	258
Fair value changes in equity investment designated at FVOCI	10	**176**	-
Total other comprehensive income / (loss)		**2,041**	(10,292)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**453,599**	441,105
Net income for the year attributable to :			
Equity holders of the parent		**455,959**	451,397
Non-controlling interest		**(4,401)**	-
		451,558	451,397
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**457,935**	441,105
Non-controlling interest		**(4,336)**	-
		453,599	441,105
Earnings per share (Saudi Riyals)			
Basic and diluted earnings per share attributable to the equity holders of the Company	24	**2.98**	2.95

Designated Member / CEO	**Finance Manager**
Mohammed Ali Al-Garni	**Evan Abaza**

The accompanying notes from 1 to 34 form integral part of these consolidated financial statements.

Saudi Cement Company
(Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year ended 31 December 2020

	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Balance at 01 January 2019	1,530,000	459,000	-	798,143	2,787,143	-	2,787,143
Impact of adoption of IFRS 16	-	-	-	(1,348)	(1,348)	-	(1,348)
Net income for the year	-	-	-	451,397	451,397	-	451,397
Other comprehensive loss	-	-	-	(10,292)	(10,292)	-	(10,292)
Total comprehensive income	-	-	-	441,105	441,105	-	441,105
Dividend (note 18)	-	-	-	(497,250)	(497,250)	-	(497,250)
Balance at 31 December 2019	1,530,000	459,000	-	740,650	2,729,650	-	2,729,650
Transaction with non-controlling interest	-	-	-	-	-	**29,187**	**29,187**
Net income for the year	-	-	-	**455,959**	**455,959**	**(4,401)**	**451,558**
Other comprehensive income	-	-	**111**	**1,865**	**1,976**	**65**	**2,041**
Total comprehensive income	-	-	**111**	**457,824**	**457,935**	**(4,336)**	**453,599**
Dividend (note 18)	-	-	-	**(535,500)**	**(535,500)**	-	**(535,500)**
Balance at 31 December 2020	**1,530,000**	**459,000**	**111**	**662,974**	**2,652,085**	**24,851**	**2,676,936**

Designated Member / CEO

Mohammed Ali Al-Garni

Finance Manager

Evan Abaza

The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

	Note	2020 SR '000	2019 SR '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before zakat		**475,558**	467,888
Adjustment to reconcile income before zakat to net cash generated by operating activities			
Depreciation of property, plant and equipment	6	**214,103**	203,852
Depreciation right-of-use assets	7	**7,593**	6,660
Amortization of intangibles	8	**3,171**	3,171
Gain on disposal of property, plant and equipment		**(1,858)**	(348)
Share in net results of associates	9	**(25)**	2,593
Impairment of goodwill	5	**1,679**	-
Employees' benefits, net		**2,464**	1,563
Provision for slow moving and obsolete inventories	11	**103**	-
Gain on derecognition of associate	5	**(3,973)**	-
Financial charges		**13,413**	25,513
		712,228	710,892
Working capital changes			
Inventories		**127,384**	56,716
Trade receivables		**(19,466)**	(58,148)
Prepayments and other receivables		**(3,772)**	34,144
Trade payables		**(140)**	(19,159)
Accruals and other payables		**31,436**	32,449
		135,442	46,002
Financial charges paid		**(11,893)**	(25,513)
Zakat paid	23	**(24,286)**	(10,179)
Net cash generated from operating activities		**811,491**	721,202
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	**(75,504)**	(136,644)
Proceeds from disposal of property, plant and equipment		**1,873**	406
Additions to intangibles	8	**(12,608)**	-
Additional investment made in subsidiary-net	5	**10,833**	-
Dividend received		**-**	894
Term deposit		**(4)**	-
Net cash used in investing activities		**(75,410)**	(135,344)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movements in short term loans		**(195,000)**	(25,000)
Repayment of lease liabilities	7	**(8,260)**	(5,972)
Dividend paid	18	**(535,500)**	(497,250)
Net cash used in financing activities		**(738,760)**	(528,222)
Net change in cash and cash equivalents		**(2,679)**	57,636
Cash and cash equivalents at the beginning of the year		**127,192**	69,556
Cash and cash equivalents at the end of the year	14	**124,513**	127,192

Designated Member / CEO

Mohammed Ali Al-Garni

Finance Manager

Evan Abaza

The accompanying notes from 1 to 34 form integral part of these consolidated financial statements.

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 expired in 2015. The delay in renewing licenses was 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. In the year 2020, all of the above licenses which have been issued under the Royal Decree numbers M/11 and M/12 dated 29/04/1405H (corresponding to 22/01/1985) are renewed by the Ministry of Industry and Mineral Resources for a period of 30 years started from 29/4/1435 H (corresponding to 01 March 2014) except quarry license for Aba Hamama area in Al-Ahsa region which has been renewed for 10 years started from 11/12/1441 (corresponding to 01 August 2020).

As of 31 December 2020, the Company has one subsidiary, United Cement Company (UCC) (31 December 2019: UCC was an associate) collectively referred to as "the Group". Details of UCC are given here-under. Also refer note 5 for further details.

Name	Country of incorporation	Relationship	% of holding
United Cement Company	Kingdom of Bahrain	Subsidiary	63%

2 BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Basis of measurement

These consolidated 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 and equity investment at FVOCI which is measured at fair value.

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

2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) which is the Company's functional and Group's presentation currency.

2.4 Standards, interpretations and amendments to existing standards

2.4.1 New standards, interpretations and amendments effective in the current year

The following are the new interpretations and amendments to the standards that are effective in the current year and which either do not give rise to significant changes or not applicable to the Group's accounting policies:

Standards	Title	Effective date
IFRS 3	Business Combinations-Amendments to clarify the definition of a business	1 January 2020
IAS 1	Presentation of Financial Statements- Amendments regarding the definition of materiality	1 January 2020
IAS 41	Agriculture – The amendment removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reforms	1 January 2020
IFRS 16	Amendment-to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification	1 June 2020
	Revised Conceptual Framework for Financial Reporting	1 January 2020

2.4.2 New and amended IFRS Standards that are not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows:

Standards	Title	Effective date
IFRS 3	Business Combinations-Amendments updating a reference to the Conceptual Framework	1 January 2022
IAS 1	Presentation of Financial Statements - Amendments regarding the classification of liabilities	1 January 2022
IAS 16	Property, Plant and Equipment - Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	1 January 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets- Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022
IFRS 4	Insurance Contracts-Amendments regarding the expiry date of the deferral approach	1 January 2023
IFRS 9	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2023
IFRS 17	Insurance Contracts - Amendments to address concerns and implementation challenges that were identified after IFRS 17	1 January 2023

2.5 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiary as at the reporting date. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, assets, liabilities, income and expenses of a subsidiary acquired or disposed off during the period are included in the consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control over its subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Non-Controlling Interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

All material intergroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Group's consolidated 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 adjustment to the carrying amounts of assets and liabilities include:

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

3.2 Critical judgments in applying accounting standards

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value with the exception of liabilities related to employee benefit arrangements which are recognized and measured in accordance with IAS 19 - "Employee benefits".

The Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value. Any resulting gain/loss is recognized in profit or loss. The fair value of previously held interest in the acquiree is then derecognized and included in the calculation of goodwill.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

The initial accounting for a business combination can be determined provisionally by the end of the measurement period (not exceeding 12 months from the acquisition date) and the business combination is accounted for using provisional amounts. Adjustments to provisional amounts and the recognition of newly identified asset and liabilities are made within the 'measurement period' where they reflect new information obtained about facts and circumstances that were in existence at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9: Financial Instruments, is measured at fair value with the changes in fair value recognized in the other comprehensive income.

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 Group 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 consolidated statement of income and other comprehensive income as incurred.

4 Summary of significant accounting policies (continued)

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 Group periodically assesses 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 Group'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 consolidated 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.

Goodwill and intangible assets

Goodwill arising on acquisition of a business is included in intangible assets and is initially measured at cost (being the excess of the aggregate of the fair value of consideration transferred and the amount recognised for non-controlling interest and fair value of any previous interest held) over the fair value of net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired in excess of the aggregate consideration transferred, the group re-assess whether it has correctly identified all of the assets acquired and all the liabilities assumed and review the procedures used to measure the amounts to be recognised at the business combination date. If the re-assessment still results in a excess of the fair value of the net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of income. Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less impairment losses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets are not capitalized and expenditure is recognized in the consolidated statement of income when it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

4 Summary of significant accounting policies (continued)

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Softwares are amortised using straight-line method over 10 years. Cost of obtaining / renewing quarry licenses to extract minerals is capitalised as intangibles and is amortised over the term of the licensing period using straight-line method.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Right of use assets and leases

<u>The Group as a lessee</u>

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group 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 Group 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 Group 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 consolidated 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.

4 Summary of significant accounting policies (continued)

Right of use assets and leases (continued)

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

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group 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 consolidated statement of financial position.

The Group 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 consolidated 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 Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within control.

Investments in associates

Associates are entities over which the Group 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 Group holds between 20% and 50% of the voting rights.

4 Summary of significant accounting policies (continued)

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 Group's share of the post-acquisition profits or losses of the investee in income and the Group'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 Group'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 Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group'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 Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group 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 consolidated statement of income and other comprehensive income.

Impairment of goodwill and other non-financial assets

Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units ("CGU") that are expected to benefit from the synergies of the combination and represents the lowest level at which goodwill is monitored for internal management purposes. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on pro-rata based on the carrying amount of each asset in the CGU. Any impairment loss is recognized immediately in the consolidated statement of income. Impairment of goodwill is not subsequently reversed.

Other non-financial assets

The Group 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 Group 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.

4 Summary of significant accounting policies (continued)

The Group's impairment calculation is based on detailed budgets and forecast calculations which are prepared for the Group as whole, as the Group 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 consolidated 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 Group 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 Group 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 consolidated statement of income and other comprehensive income.

Inventories

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

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

The cost of inventories is assigned by using weighted average cost formula. The Group is using the same cost formula for all inventories having a similar nature and use to the Group. 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.

<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.

4 Summary of significant accounting policies (continued)

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 Group 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 consolidated statement of income and other comprehensive income upon their installation or use. Where such items meet criteria for capitalization, their depreciation method is similar to repairable items as noted above.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, 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 consolidated statement of financial position.

Employees' end of services benefits
The liability or asset recognized in the consolidated statement of financial position in respect of the defined end of service benefit plan is the present value of the defined benefit obligations at the end of the reporting period. The defined benefit obligation is calculated by an independent actuary using the projected unit credit method.

4 Summary of significant accounting policies (continued)

The net interest cost is calculated by applying the discount rate to the net balance of the defined end of service benefit obligations. This cost is included in employee benefit expense in the consolidated 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 obligations resulting from plan amendments or curtailments are recognised immediately in consolidated statement of income and other comprehensive income as past service costs.

Employees' saving fund

The Group 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 Group'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.

Provisions

Provisions are recognized when the Group 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 Group 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 consolidated 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 consolidated statement of income and other comprehensive income.

Financial instruments

Financial instruments are recognised when the Group 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 Group 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.

4 Summary of significant accounting policies (continued)

i.Initial recognition and measurement

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

b) Those to be measured at amortized cost.

Financial assets at fair value

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL. Net gains and losses, including any interest or dividend income, are recognised in consolidated statement of income. Dividends on financial assets at FVOCI are recognised as income in consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment.

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

Financial assets at amortized cost

Subsequent measurement of financial assets at amortized cost depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group 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 Group's financial assets at amortized cost include trade receivables, due from related parties and cash and cash equivalents.

4 Summary of significant accounting policies (continued)

Financial assets (continued)

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 Group'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 consolidated statement of income and other comprehensive income as incurred.

iii.De-recognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of the transferred financial asset, the Group continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

Financial assets at amortized cost (debt instruments)
iv. Impairment of financial assets

The Group 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., trade receivables and Murabaha deposits.

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 Group expects to receive. The expected credit losses consider the amount and timing of payments and hence, a credit loss arises even if the Group 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 consolidated statement of income and other comprehensive income even for receivables that are newly originated or acquired.

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 Group applies simplified approach for measuring expected credit losses for trade receivables using a provision matrix based on ageing of receivables.

4 Summary of significant accounting policies (continued)

Financial liabilities

The Group 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 Group 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.

Financial instruments

The Group's financial liabilities include trade and other payables, borrowings including bank overdrafts and amounts due to related parties. The Group 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 consolidated statement of income and other comprehensive income.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 Group or the counterparty.

4 Summary of significant accounting policies (continued)

Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded by the Group 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 consolidated 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 consolidated 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.

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 Group expects to be entitled in exchange for those goods.

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 Group 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 Group 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 Group 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 Group acts as principal and record sale on gross basis.

4 Summary of significant accounting policies (continued)

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 Group. 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 Group.

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

Earnings per share

Basic earnings per share are calculated as follows:

- Dividing the net income attributable to equity holders of the Group, 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 Group (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 consolidated financial statements in the period in which these are approved by the shareholders.

5 BUSINESS COMBINATION

5.1 Acquisition of a subsidiary (step acquisition)

As of 31 December 2019, the Company had 36% investment in shares of United Cement Company (UCC), a company registered in the Kingdom of Bahrain amounted to SR 24.42 million (carrying value). On 09 January 2020 (acquisition date / business combination date), the Company acquired additional 27% shares of UCC at a cash consideration of SR 22.98 million and consequently, it becomes a subsidiary of the Company with an aggregate shareholding of 63%. At acquisition date, the Group had accounted for the transaction provisionally as per its accounting policy considering the carrying values as at 31 December 2019 as the management considered that the impact of the transactions from 01 January 2020 to 08 January 2020 was not material to the consolidated financial statements. In the fourth quarter of 2020, the Group has finalized the allocation of purchase consideration to the identifiable assets and liabilities acquired which has resulted in the goodwill of SR 1.68 million.

The following table summarizes the allocation of the purchase price based on the fair values of the assets acquired and liabilities assumed on the business combination date:

	SR '000
Assets	
Property plant and equipment	**40,299**
Right of use assets	**2,505**
Financial assets at fair value through other comprehensive income	**2,796**
Inventories	**5,809**
Trade receivables	**19,461**
Prepayments and other receivables	**2,145**
Term deposit	**106**
Cash and cash equivalents	**33,807**
	106,928
Liabilities	
Lease liabilities	**(2,505)**
Retention payable	**(1,400)**
Employee's benefits	**(3,752)**
Trade payables	**(3,359)**
Accruals and other liabilities	**(17,030)**
	(28,046)
Net identifiable assets acquired	**78,882**

In determining the fair value, a combination of the cost and market approaches were used depending on the asset or liability being fair valued, primarily using Level 3 inputs. Inputs were generally determined by taking into account historical data, supplemented by current and anticipated market conditions. The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Property, plant and equipment:
The fair valuation of property, plant and equipment is determined by an independent consultant using market price obtained from sources such as quotation from manufacturers, pricing trends etc.

5 BUSINESS COMBINATION (continued)

Gain on derecognition of UCC as an associate at acquisition date:

	SR '000
Fair value of previously held interest in UCC	28,397
Carrying value (note 9)	(24,424)
Gain recorded in other income in consolidated statement of income and other comprehensive income	3,973

Goodwill

Goodwill recognized at acquisition date is as follows:

	SR '000
Fair value of consideration paid - cash	22,977
Fair value of NCI	29,187
Fair value of previously held interest	28,397
Total consideration	80,561
Fair value of net assets acquired	(78,882)
Goodwill at acquisition date	1,679

As UCC is in continuous losses, the management of the Group has impaired the goodwill as of 31 December 2020.

Net cash acquired

For the purpose of consolidated statement of cash flows, net cash acquired (or net additional investment made in UCC) amounted to SR 10.83 million was derived by taking the difference between cash and cash equivalent of UCC acquired amounted to SR 33.81 million and cash consideration paid amounted to SR 22.98 million.

Non-controlling interest

Non-controlling interest at acquisition date

	SR '000
Fair value of net assets at acquisition date	78,882
Share of non-controlling interest - 37%	29,187

5 BUSINESS COMBINATION (continued)

Summarized financial information of the Group's subsidiary that has non-controlling interest is set out below. The summarized financial information below represents amount before intragroup eliminations.

	31 December 2020 SR' 000
Current assets	60,325
Non-current assets	38,408
Current liabilities	(23,464)
Non-current liabilities	(8,106)
Equity	67,163
Attributable to:	
Equity holder of parent	42,312
Non-controlling interest	24,851

	For the year ended 31 December 2020 SR' 000
Revenue	76,463
Net loss for the year	(11,895)
Other comprehensive income	176
Total comprehensive loss	(11,719)
Attributable to:	
Equity holder of parent	(7,383)
Non-controlling interest	(4,336)

6 PROPERTY, PLANT AND EQUIPMENT

2020:

	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	1,869,865	5,220,927	280,619	60,846	206,290	7,708,154
Effect of business combination (note 5)	-	22,131	58,173	29,933	1,517	-	111,754
Additions	-	4,227	42,824	3,032	2,929	22,492	75,504
Transfer from construction work in progress	-	-	24,964	-	-	(24,964)	-
Disposals	-	(20)	(671)	(10,729)	(2,535)	-	(13,955)
At the end of the year	**69,607**	**1,896,203**	**5,346,217**	**302,855**	**62,757**	**203,818**	**7,881,457**
Accumulated depreciation:							
At the beginning of the year	-	1,279,606	3,573,790	264,038	58,013	-	5,175,447
Effect of business combination (note 5)	-	9,439	41,951	18,975	1,091	-	71,456
Charge for the year		32,932	166,697	12,700	1,774	-	214,103
Disposals		(13)	(670)	(10,725)	(2,532)	-	(13,940)
At the end of the year	-	1,321,964	3,781,768	284,988	58,346	-	5,447,066
Net book value:							
At 31 December 2020	**69,607**	**574,239**	**1,564,449**	**17,867**	**4,411**	**203,818**	**2,434,391**

6.1 Certain property, plant and equipment are constructed on the land provided under the right of the mining concession 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 completed in 2021 and other construction projects.

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)
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
Transfer to intangibles (note 8)	-	-	-	-	(25,181)	-	(25,181)
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**	**60,846**	**206,290**	**7,708,154**
Accumulated depreciation:							
At the beginning of the year	-	1,248,055	3,409,564	271,600	69,782	-	4,999,001
Transfer to intangibles (note 8)	-	-	-	-	(12,762)	-	(12,762)
Charge for the year		31,551	164,226	6,355	1,720	-	203,852
Disposals		-		(13,917)	(727)	-	(14,644)
At the end of the year	-	1,279,606	3,573,790	264,038	58,013	-	5,175,447
Net book value:							
At 31 December 2019	**69,607**	**590,259**	**1,647,137**	**16,581**	**2,833**	**206,290**	**2,532,707**

7 RIGHT OF USE ASSETS AND LEASE LIABILITIES

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

	2020 SR '000	2019 SR '000
Land	**14,935**	17,034
Building	**2,699**	295
Vehicles	**9,120**	13,513
Equipment	**1,139**	-
Total right-of-use assets	**27,893**	30,842

Movement of right-of-use assets

	2020 SR '000	2019 SR '000
Opening	**30,842**	35,667
Effect of business combination (note 5)	**2,505**	-
Additions	**2,139**	1,835
Depreciation	**(7,593)**	(6,660)
Closing	**27,893**	30,842

Following are the amounts recognised for lease liabilities and right-of-use assets in the consolidated statement of income and other comprehensive income:

	2020 SR '000	**2019 SR '000**
Depreciation on right-of-use assets	**7,593**	**6,660**
Interest expense on lease liabilities	**1,520**	**1,574**
Total amount recognised in consolidated statement of income	**9,113**	**8,234**

Lease liabilities movement

	2020 SR '000	2019 **SR '000**
Opening	**32,863**	37,015
Effect of business combination (note 5)	**2,505**	-
Additions	**2,139**	246
Interest expense	**1,520**	1,574
Payments	**(8,260)**	(5,972)
Closing	**30,767**	32,863

The break-up of lease liabilities is as follows:

	2020 SR '000	2019 SR '000
Non-current portion of lease liabilities	21,974	25,666
Current portion of lease liabilities	8,793	7,197
Total lease liabilities	30,767	32,863

The weighted average incremental borrowing rate used in the calculation of lease liabilities is 4.5% per annum (2019: 4.5% per annum) with maturity till 2027.

The aggregate undiscounted repayment schedule of lease liabilities is as follows:

	2020 SR '000	2019 SR '000
Within one year	**9,898**	7,982
1-2 years	**11,013**	12,711
2-5 years	**16,155**	13,747
Thereafter	**-**	2,446
Lease obligations	**37,066**	36,886

8 INTANGIBLES

Softwares and quarry licenses renewal cost	**2020 SR '000**	2019 SR '000
Cost		
At 01 January	**25,181**	25,181
Additions (note 8.1)	**12,608**	-
At 31 December	**37,789**	25,181
Accumulated amortization		
At 01 January	**(15,933)**	(12,762)
Charge for the year	**(3,171)**	(3,171)
At 31 December	**(19,104)**	(15,933)
Net book values	**18,685**	9,248

8.1 It represents quarry licenses renewal cost which is amortised over the term of the licenses period.

9 INVESTMENT IN ASSOCIATES

The movement of investments in associates is as follows:

	2020 SR '000	2019 SR '000
At the beginning of the year	57,130	56,909
De-recognition of UCC (note 5)	(24,424)	-
Share of income / (loss)	25	(2,593)
Share of other comprehensive income	-	258
Reclassification of loan	-	3,450
Dividend received	-	(894)
At the end of the year (note 9.1)	**32,731**	57,130

9.1 The balance at 31 December 2020 represents investment in 33.33% (2019: 33.33%) shares of Cement Product Industry Company Limited, 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. The balance at 31 December 2019 also included investment in 36% shares of UCC which became subsidiary during the year 2020 (refer note 5).

10 EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIE INCOME (FVOCI)

The investment of SR 2.97 million represents a 4.5% equity stake in Banz Group B.S.C. (c), a Bahrain registered closed company. As there is no quoted price available, level 3 hierarchy of IFRS 13 fair value measurement framework has been used for fair value measurement.

11 INVENTORIES

	2020 SR '000	2019 SR '000
Spare parts	**177,657**	160,512
Less: provision for slow moving and obsolete spare parts	**(3,249)**	(1,082)
	174,408	159,430
Raw materials	**67,723**	90,174
Work in progress	**347,968**	471,718
Finished goods	**41,946**	32,401
	632,045	753,723

Movement of provision for slow moving and obsolete spare parts

	2020	2019
Opening	**1,082**	1,082
Effect of business combination (note 5)	**2,064**	-
Provision for the year	**103**	-
Closing	**3,249**	1,082

12 TRADE RECEIVABLES

	2020 SR '000	2019 SR '000
Trade receivable - due from third parties	**368,748**	353,711
Trade receivable - due from a related party (note 25)	**-**	14,902
	368,748	368,613

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

	2020 SR '000	2019 SR '000
Not due yet	**286,621**	255,793
Past due but not impaired- 1 to 120 days	**71,173**	94,841
Past due but not impaired- 121 days or more	**10,954**	17,979
	368,748	368,613

Trade receivables amounted to SR 332.58 million (31 December 2019: SR 349.10 million) are secured against bank guarantees.

13 PREPAYMENTS AND OTHER RECEIVABLES

	2020 SR '000	2019 SR '000
Advances to suppliers	**21,975**	21,193
Custom deposits	**1,908**	1,478
Prepaid expenses	**3,059**	262
Others	**8,802**	6,892
	35,744	29,825

14 CASH AND CASH EQUIVALENTS

	2020 SR '000	2019 SR '000
Cash at banks	**99,248**	126,932
Cash in hand	**265**	260
Murabaha investments	**25,000**	-
	124,513	127,192

Murabaha investments represent investments with banks having original maturity of less than three months and carry profits at commercial rates.

	2020 SR '000	2019 SR '000
In local currency	**73,019**	104,418
In foreign currencies	**51,494**	22,774
	124,513	127,192

15 SHARE CAPITAL

The authorized, issued and paid up capital of the Company is SR 1,530 million which is divided into 153 million shares (31 December 2019: 153 million shares) of SR 10 each.

16 EMPLOYEES' BENEFITS

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

	2020 SR '000	2019 SR '000
At the beginning of the year	**86,729**	74,615
Effect of business combination (note 5)	**3,752**	-
Current service cost	**6,706**	5,405
Interest cost	**2,477**	3,210
Payments during the year	**(6,722)**	(7,051)
Re-measurement (gain) / loss	**(1,865)**	10,550
At the end of the year	**91,077**	86,729

(i) The significant actuarial assumptions are as follows:

	2020	2019
Discount rate used for calculation of interest cost-per annum	**1.80%**	2.85%
Salary increment rate-per annum Year 1 – 4	**1.80%**	2.85%
Mortality rates	**WHO SA 16-75%**	WHO SA 16-75%
Long term salary increase rate for the fifth year and onwards-per annum	**1.80%**	2.85%
Rate of employee turnover	**Moderate**	Moderate

(ii) The weighted average duration of the defined benefit obligation is 7.30 years (2019: 7.48 years).

(iii) The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions for year ended 31 December 2020 is as follows:

	2020	2019
	SR '000	SR '000
Discount rate +0.5%	**83,710**	83,584
Discount rate -0.5%	**90,054**	90,083
Long term salary increases +0.5%	**90,285**	90,285
Long term salary increases -0.5%	**83,490**	83,366

17 SHORT TERM LOANS

Short term loans represent Tawarruq facilities obtained from various local banks to meet the working capital requirements with a total facility amount of SR 2,250 million (31 December 2019: SR 1,950 million). The utilized balance as of 31 December 2020 amounted to SR 400 million (31 December 2019: SR 595 million). These facilities carry 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 Group and carry charges agreed with the facilities' providers.

The outstanding financing is classified under current liabilities in the consolidated statement of financial position as these are repayable within 12 months from the reporting date.

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

18 DIVIDEND

On 18 Shawwal 1441 (corresponding to 10 June 2020), the Board of Directors has resolved to distribute interim cash dividend amounted to SR 1.50 per share (SR 229.50 million in total) for the first half of 2020. Payment of this dividend distribution was commenced on 04 Dhu al-Qadah 1441 (corresponding to 25 June 2020).

On 28 Sha'ban 1441 (corresponding to 21 April 2020), the General Assembly approved the Board of Directors' proposal to distribute cash dividend amounted to SR 2.00 per share (SR 306 million in total) for the second half of 2019.

On 24 Ramadan 1440 (corresponding to 29 May 2019), the Board of Directors has resolved to distribute interim cash dividend amounted 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 1440 (corresponding to 16 April 2019), the General Assembly approved the Board of Directors' proposal to distribute cash dividend amounted to SR 1.75 per share (SR 267.75 million in total) for the second half of 2018.

Subsequent to the year end, on 21 Jamada II 1442 (corresponding to 03 February 2021), the Board of Directors proposed to distribute cash dividends amounted to SR 2.00 per share (SR 306 million in total) for the second half of 2020.

19 ACCRUALS AND OTHER PAYABLES

	2020 SR '000	2019 SR '000
Provision and accrued expenses	**134,648**	112,124
Liability for charitable contribution	**20,000**	20,000
Advances from customers	**16,167**	28,392
	170,815	160,516

20 REVENUE

	2020 SR '000	2019 SR '000
Sales of goods	**1,569,633**	1,441,632

20.1 Disaggregation of revenue

	2020 SR '000	2019 SR '000
A. By product		
Cement	**1,359,297**	1,299,801
Clinker	**210,336**	141,831
	1,569,633	1,441,632

B. By geography

	2020 SR '000	2019 SR '000
Local	**1,185,887**	1,159,029
Export	**383,746**	282,603
	1,569,633	1,441,632

21 SELLING AND DISTRIBUTION EXPENSES

	2020 SR '000	2019 SR '000
Employees cost	**13,989**	11,611
Depreciation	**6,338**	6,189
Transportation fees	**68,168**	42,702
Others	**28,903**	21,595
	117,398	82,097

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2020 SR '000	2019 SR '000
Employees cost	**39,842**	39,156
Depreciation	**4,952**	4,272
Board of directors' remunerations	**5,870**	5,833
Professional fees	**1,881**	2,656
Donation	**6,173**	1,123
Publication fees	**33**	187
Training	**53**	27
Other	**11,107**	23,457
	69,911	76,711

23 PROVISION FOR ZAKAT

A The principal elements of the zakat base are as follows

	2020 SR '000	2019 SR '000
Non-current assets	**(2,516,671)**	(2,629,927)
Non-current liabilities	**114,451**	112,395
Opening shareholders' equity	**2,729,650**	2,787,143
Net income before zakat	**475,558**	467,888

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

	2020 SR '000	2019 SR '000
At beginning of the year	**22,251**	15,939
Provision made during the year	**24,000**	16,491
Paid during the year	**(24,286)**	(10,179)
At the end of the year	**21,965**	22,251

C Status of zakat assessment

The Company has submitted its zakat declarations and obtained certificates till the year 2019. The last Zakat final assessment received by the Company was for the year 2018.

24 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net income for the year attributable to ordinary equity holders of the Group 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:

	2020	2019
	SR '000	SR '000
Net income attributable to equity holders	**455,959**	451,397
Number of shares outstanding	**153,000**	153,000
Earnings per share	**2.98**	2.95

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

25. RELATED PARTY TRANSACTIONS AND BALANCES

	Related party	Relationship	Nature of transaction	**Amount of transaction** 31 December 2020 SR '000	31 December 2019 SR '000	**Ending balance** 31 December 2020 SR '000	31 December 2019 SR '000
i)	**Trade receivables due from a related party**						
	United Cement Company	Associate (note 5)	Sales	-	54,773	-	14,902
ii)	**Advances to a related party**						
	Cement Product Industry Company Limited	Associate	Advance paid	-	-	**3,020**	-
iii)	**Trade payables due to a related party**						
	Cement Product Industry Company Limited	Associate	Purchases of raw materials	**28,742**	41,157	-	131
	Wataniya Insurance Company	Common directorship	Insurance on property plant and equipment	**6,867**	6,912	-	24

Terms and conditions of transactions with related parties

The purchases from related parties are made in the ordinary course of business. Outstanding balances at the year ended 31 December 2020 are unsecured and settled in cash. There have been no guarantees provided to amounts due to related parties.

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

Key management personnel	**2020 SR '000**	2019 SR '000
Short term employment benefits	**14,517**	15,199
Post-employment benefits	**921**	3,261
	15,438	18,460

26 CONTINGENCIES AND COMMITMENTS

(a)The capital expenditure contracted by the Group but not incurred till year end was approximately SR 14.94 million (2019: SR 34.94 million).

(b)The Group's bankers have given guarantees, on behalf of the Company, amounting to SR 3.22 million (2019: SR 3.21 million) in respect of performance guarantees.

27 SEGMENT INFORMATION

A segment is a distinguishable component of the Group 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.

The Group's operations are related to two operating geographical segments which are Saudi Cement Company operating in the Kingdom of Saudi Arabia and United Cement Company operating in Kingdom of Bahrain, both segments engage in cement manufacturing and are substantially sold to local and foreign customers. Accordingly, segmental analysis by geography are presented as follows:

As at and for the year ended 31 December 2020	**Kingdom of Saudi Arabia SR '000**	**Kingdom of Bahrain SR '000**
Revenue	**1,493,169**	**76,464**
Cost of revenue	**819,395**	**83,860**
Net income/(loss) for the year	**463,453**	**(11,895)**
Total assets	**3,579,098**	**98,733**
Total liabilities	**988,721**	**12,174**

As at and for the year ended 31 December 2019	Kingdom of Saudi Arabia SR '000	Kingdom of Bahrain SR '000
Revenue	1,441,632	-
Cost of revenue	791,839	-
Net income for the year	451,397	-
Total assets	3,909,280	-
Total liabilities	1,179,630	-

28 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 20.72 million (2019: SR 19.10 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.

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise short term loans, trade payables, and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include trade and other receivables, cash and cash equivalents, equity instrument at FVOCI and term deposit that derive directly from its operations. The Group's management reviews and agrees policies for managing each of these risks which are summarized below.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group'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 Group's policies and risk objectives. The Group does not engaged into any hedging activities. The Board of Directors also 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 Group's exposure to the risk of changes in market commission rates relates primarily to the Group's short term loans with floating commission rates. The Group 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 Group 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 Group is exposed to the impact of market fluctuations of the price of various inputs to production including oil and electricity. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices to manage the risk.

29 Financial risk management objectives and policies (continued)

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 Group is exposed to credit risk on its bank balances, deposits and receivables as follows:

	2020	2019
	SR '000	SR '000
Cash and cash equivalent	**124,513**	127,192
Trade receivables	**368,748**	368,613
Other receivables	**1,908**	1,478
Term deposit	**110**	-
	495,279	497,283

The Group 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.

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 Group's performance to developments affecting a particular industry. Trade receivables outstanding balance comprises of 95% in KSA, 5% in GCC (other than KSA). The five largest customers account approximately for 85% of outstanding trade receivables at 31 December 2020 out of which 87% are secured by bank guarantees and 13% is receivable from a government entity and therefore considered as secured.

Liquidity risk

Liquidity risk is the risk that the Group 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 Group 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 Group's financial liabilities at 31 December 2020 and 31 December 2019, based on contractual payment dates and current market interest rates:

2020	**Up to 1 year**	**From 1 year to 5 year**	**Above 5 years**	**Total**
	SR '000	**SR '000**	**SR '000**	**SR '000**
Lease liabilities	**8,793**	**21,974**	-	**30,767**
Short-term loans	**400,000**	-	-	**400,000**
Dividend payable	**221,000**	-	-	**221,000**
Trade payables	**63,871**	-	-	**63,871**
Accruals and other payables	**154,648**	-	-	**154,648**
	848,312	**21,974**	-	**870,286**

29 Financial risk management objectives and policies (continued)

2019	Upto 1 year	From 1 year to 5 year	Above 5 years	Total
	SR '000	SR '000	SR '000	SR '000
Lease liabilities	7,197	23,220	2,446	32,863
Short-term loans	595,000	-	-	595,000
Dividend payable	219,183	-	-	219,183
Trade payables	60,652	-	-	60,652
Accruals and other payables	132,124	-	-	132,124
	1,014,156	23,220	2,446	1,039,822

Lease liabilities undiscounted maturities are disclosed in note 7 of these consolidated financial statements.

Capital management

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

The Group 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 Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders or issue shares.

30 FAIR VALUES OF FINANCIAL INSTRUMENTS

As of 31 December 2020 and 31 December 2019, all of the Group's financial instruments have been carried at amortized cost and the Group does not hold any financial instruments measured at fair value except investment designated at FVOCI which has been classified in level 3 of fair value hierarchy. The carrying value of the other financial assets and liabilities in the consolidated statement of financial position approximates to their fair values.

31 IMPACTS OF COVID 19

The existence of novel coronavirus (COVID-19) was confirmed during the first quarter of 2020 and has spread across multiple geographies, causing disruptions to businesses and economic activities. As a result, the Group management has taken preventive measures to ensure the health and safety of its employees, customers and environment to ensure the continuity of its operations. In light of COVID-19, the Group has considered whether any adjustments and changes in judgments, key sources of estimation uncertainty and risk management are required to be considered and reported in these consolidated financial statements. For the Group, the peak of COVID-19 impact was during April 2020 and May 2020, when sales have been dropped as compared to the same periods in 2019. However, in May 2020, the Government has reorganized some of the rules and regulations related to the curfew that impacted the industry and accordingly, there was a significant recovery in terms of sales in the second and third quarters of 2020. Since then, there is stability in the Group's operations and as such management did not observe any significant impact on the operations of the Group till 31 December 2020. The Group's management continues to monitor the situation closely based on prospective developments.

32 EVENTS AFTER THE REPORTING DATE

There have been no significant subsequent events since the year ended 31 December 2020 till the date of authorization of these consolidated financial statements by the Board of Directors that require either an adjustment or disclosure in these consolidated financial statements.

33 COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform current year presentation.

34 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue and approved on February 17, 2021 G by the Board of Directors of the Group.