

**HAIL CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2022**

# **HAIL CEMENT COMPANY**

(A Saudi Joint Stock Company)

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## **Financial statements for the year ended December 31, 2022**

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## INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS  
 HAIL CEMENT COMPANY  
 (A SAUDI JOINT STOCK COMPANY)  
 JEDDAH- SAUDI ARABIA

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of Hail Cement Company (the Company), which comprise the statement of financial position as at December 31, 2022, and the statement of profits or losses and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

#### Basis for opinion

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, A description of how our audit addressed the matter is set out below:

Key audit matters	How the matter was addressed in our audit
<b>Existence, valuation and disclosure of Inventory</b>	
<p>As stated in note No. (8), the stock of raw materials amounted to SR 5.8 million, the semi-finished goods (clinker) reached amounted to SR 212 million in the form of piles as at December 31, 2022, the company uses an independent inspection and measurement expert to estimate stock quantities using some practical methodological measurements.</p> <p>Due to the importance of the inventory balances and related estimates used in determining the quantities, this matter was considered a key audit matters.</p>	<p>We performed the following procedures with regard to the verification of the existence and valuation of inventory:</p> <ul style="list-style-type: none"> <li>- Attending the actual physical count of stocks done by the company's management and the independent inspection expert.</li> <li>- Evaluating the competence, qualifications, objectivity and previous work of the independent inspection expert in this field.</li> <li>- Obtaining physical counting report submitted by the independent inspection expert on key inventory and the inspection elements.</li> <li>- Inventory assessment test at the end of the year.</li> <li>- Evaluate the completeness and adequacy of the disclosures related to the inventory item in the company's financial statements.</li> </ul>



**INDEPENDENT AUDITOR'S REPORT**

TO THE SHAREHOLDERS  
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**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**
**Key Audit Matters (Continued)**

Key audit matters	How the matter was addressed in our audit
<b>Evaluate of slow moving Spares &amp; Consumables stock</b>	
<p>As stated in note No. (8), the stock of Spares &amp; Consumables amounted to SR 58.9 million, including the amount of SR 38 million for items held for a period of more than a year, and this may affect the spare parts valuation, which includes the use of provisions for estimating Spares &amp; Consumables stock.</p> <p>The use of the provisions is required to assess the appropriate level of provisions for the Spares &amp; Consumables stock items and the management expectations regarding the use of these spare parts in the future or the plans for exclude or sell them.</p> <p>Due to the importance of Spares &amp; Consumables stocks and the related estimates used in determining the provision, this matter was considered a key audit matters.</p> <p>Please refer to Note (3.7) in the significant accounting policies for the policy relating to spare parts stock, and note (8) For more details concerning the stock of Spares &amp; Consumables and the related provision.</p>	<ul style="list-style-type: none"> <li>- We have implemented the following procedures regarding the existence and evaluation of the Spares &amp; Consumables stock.</li> <li>- Evaluate the key assumptions the company has used in determining the provision for Spares &amp; Consumables.</li> <li>- Ensure the correct implementation of the policy for establishing the provision for Spares &amp; Consumables.</li> <li>- Attending Spares &amp; Consumables physical count.</li> <li>- Implement the following procedures on the sample basis :               <ul style="list-style-type: none"> <li>- Spares &amp; Consumables aging test.</li> </ul> </li> <li>- Ensure that the provision is recognized in accordance with the company's policy.</li> <li>- Evaluate the completeness and adequacy of the disclosures related to the inventories item in the company's financial statements.</li> </ul>
<b>Revenue recognition</b>	
<p>Revenue is an important component of the company's performance and profitability. It also includes inherent risk by recognizing revenue at more than its actual value to increase profitability.</p> <p>Therefore, this matter was considered a key audit matters.</p> <p>As stated in note No. (21), the company's revenues amounted to SR 365.4 million, for the financial year ended on December 31, 2022</p>	<p>We performed the following procedures among others matters with regard to revenue recognition:</p> <ul style="list-style-type: none"> <li>- Verification of the appropriateness of accounting policies to the company's revenue recognition in accordance with the requirements of the IFRS 15 Revenue from contracts with customers.</li> <li>- Test the design of internal control procedures and operational effectiveness with regard to revenue recognition and receivables.</li> <li>- Testing a sample of the products sales and verifying the proper application of the revenue recognition policy.</li> <li>- Carrying out cut-off procedures to ensure that revenue is recognized in the correct period.</li> <li>- Evaluate the completeness and adequacy of the disclosures related to the revenue item in the company's financial statements.</li> </ul>



**INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS  
HAIL CEMENT COMPANY  
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JEDDAH- SAUDI ARABIA**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**Other information included in the Company's annual report for the year ended 31 December 2022**

Other information consists of other information from the information included in the Company's annual report for the year ended 31 December 2022, other than the financial statements and the auditors' report thereon. Management is responsible for the other information included in the annual report. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the other information and discover a material misstatement therein, we are required to communicate the matter to those charged with governance.

**Responsibilities of Management and those charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

**INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS  
HAIL CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
JEDDAH- SAUDI ARABIA**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS****Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

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

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

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

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

**FOR EL SAYED EL AYOUTY & CO.**

Jeddah: March 03, 2023  
Shaba'an 11, 1444 H



*A. Balamesh*  
**Abdullah Ahmed Balamesh**  
Certified Public Accountant  
License No. (345)



# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

## Statement of financial position

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	As at December 31,	
		2022	2021
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net	(5)	641,917,276	701,580,422
Intangible assets, net	(6)	1,824,020	997,357
Right to use assets, net	(7)	8,040,988	8,470,651
<b>Total non-current assets</b>		<b>651,782,284</b>	<b>711,048,430</b>
<b>Current assets</b>			
Inventory – Net	(8)	273,283,337	352,504,625
Trade receivables – net	(9)	13,146,301	16,282,219
Prepayments and other receivable balances	(10)	20,754,546	12,398,025
Investments at FV through profit or loss	(11)	54,078,728	57,762,605
Cash and cash equivalents	(12)	130,972,569	47,914,295
<b>Total current assets</b>		<b>492,235,481</b>	<b>486,861,769</b>
<b>Total assets</b>		<b>1,144,017,765</b>	<b>1,197,910,199</b>
<b>Shareholders' equity and Liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	(13)	979,000,000	979,000,000
Statutory reserve	(14)	58,348,557	56,707,109
Retained earnings		36,128,606	69,883,755
Treasury equities	(15)	(19,261,619)	-
Actuarial profits / (losses) from other comprehensive income		6,787,420	(1,040,037)
<b>Total shareholders' equity</b>		<b>1,061,002,964</b>	<b>1,104,550,827</b>
<b>Non-current liabilities</b>			
Lease obligations	(7)	8,781,388	9,665,595
Employee defined benefits obligations	(16)	14,749,826	20,608,230
Other provisions	(17)	4,152,568	4,031,620
<b>Total non-current liabilities</b>		<b>27,683,782</b>	<b>34,305,445</b>
<b>Current liabilities</b>			
Trade payable	(18)	19,630,274	28,617,153
Accrued expenses and dividends payable	(19)	22,400,588	19,642,329
Zakat provision	(20)	13,300,157	10,794,445
<b>Total current liabilities</b>		<b>55,331,019</b>	<b>59,053,927</b>
<b>Total liabilities</b>		<b>83,014,801</b>	<b>93,359,372</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,144,017,765</b>	<b>1,197,910,199</b>

The financial statements appearing on pages (1) to (27) have been approved by the Board of Directors and signed on their behalf by:



Finance Manager



Chief Executive Officer and  
Board Member



BOD Chairman

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

# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

## Statement of profit or loss and other comprehensive income

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Revenue	(21)	365,463,971	253,305,663
Cost of revenue		(301,983,380)	(190,035,609)
<b>Gross profit</b>		<b>63,480,591</b>	<b>63,270,054</b>
Selling and distribution expenses	(22)	(4,042,405)	(3,104,780)
General and administrative expenses	(23)	(27,558,108)	(19,282,800)
Provisions	(24)	394,872	321,396
<b>Profit for the year from main operations</b>		<b>32,274,950</b>	<b>41,203,870</b>
Finance costs	(25)	(1,566,158)	(1,145,043)
Income from Murabaha deposits		895,852	1,823,476
Other income		341,887	2,830,391
(Losses) / profit from changes in fair value of investments through profit or losses	(11)	(3,683,877)	8,657,922
<b>Net profit for the year before zakat</b>		<b>28,262,654</b>	<b>53,370,616</b>
Zakat	(20)	(11,848,173)	(10,963,148)
<b>Net profit for the year</b>		<b>16,414,481</b>	<b>42,407,468</b>
<b>Other comprehensive income:</b>			
Profit / (Loss) from re-measurement of employee benefit obligations	(16)	7,827,457	(1,468,664)
<b>Total comprehensive income for the year</b>		<b>24,241,938</b>	<b>40,938,804</b>
<b>Basic and diluted earnings per share for the year:</b>	(26)		
Basic earnings per share		0.17	0.43
Diluted earnings per share		0.17	0.43
Weighted average number of shares		97,386,024	97,900,000

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Finance Manager



Chief Executive Officer and  
Board Member



BOD Chairman

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



# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

## Statement of changes in equity for the year ended at December 31, 2022

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Share capital</u> <u>SR</u>	<u>Statutory</u> <u>reserve</u> <u>SR</u>	<u>Retained</u> <u>earnings</u> <u>SR</u>	<u>Treasury</u> <u>equities</u> <u>SR</u>	<u>Actuarial profit</u> <u>/ (losses) from</u> <u>other</u> <u>comprehensive</u> <u>income</u> <u>SR</u>	<u>Total equity</u> <u>SR</u>
Balance as at January 01, 2021	979,000,000	52,466,362	129,617,034		428,627	1,161,512,023
Net profit for the year	-	-	42,407,468		-	42,407,468
Re-measurement of employee's defined benefits obligations					(1,468,664)	(1,468,664)
<b>Total comprehensive income for the year</b>			<b>42,407,468</b>		<b>(1,468,664)</b>	<b>40,938,804</b>
Dividends during the year			(97,900,000)			(97,900,000)
Transfer to statutory reserve		4,240,747	(4,240,747)		-	-
<b>Balance as at December 31, 2021</b>	<b>979,000,000</b>	<b>56,707,109</b>	<b>69,883,755</b>	<b>-</b>	<b>(1,040,037)</b>	<b>1,104,550,827</b>
Balance as at January 01, 2022	979,000,000	56,707,109	69,883,755		(1,040,037)	1,104,550,827
Net profit for the year	-	-	16,414,481			16,414,481
Re-measurement of employee's defined benefits obligations					7,827,457	7,827,457
<b>Total comprehensive income for the year</b>			<b>16,414,481</b>		<b>7,827,457</b>	<b>24,241,938</b>
Dividends during the year			(48,528,182)			(48,528,182)
Purchase of treasury equities during the year				(19,261,619)		(19,261,619)
Transfer to statutory reserve		1,641,448	(1,641,448)		-	-
<b>Balance as at December 31, 2022</b>	<b>979,000,000</b>	<b>58,348,557</b>	<b>36,128,606</b>	<b>(19,261,619)</b>	<b>6,787,420</b>	<b>1,061,002,964</b>

The financial statements appearing on pages (1) to (27) have been approved by the Board of Directors and signed on their behalf by:



Finance Manager



Chief Executive Officer and Board Member



BOD Chairman

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

# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

## Statement of cash flows

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2022	2021
<b>Operating activities</b>			
Net profit for the year before Zakat		28,262,654	53,370,616
<b>Adjustment:</b>			
Depreciation of property, plant and equipment	(5)	62,416,084	63,266,104
Amortization of intangible assets	(6)	236,462	656,729
Right to use depreciation	(7)	429,663	429,663
Rental financing cost	(7)	285,402	286,001
Interest cost resulting from re-measurement	(17)	120,948	117,426
(Reversal) Provision for expected credit losses	(9)	(394,872)	(321,396)
Employee benefit obligations	(16)	3,833,139	3,092,515
Provision for slow moving inventory	(8)	1,224,675	3,063,766
Loss / (Gain) from change in fair value of investments at fair value through profit or loss	(11)	3,683,877	(8,657,922)
Proceeds of Murabaha deposits		(895,852)	(1,823,476)
Loss / (Gain) on disposal of property, plant and equipment	(5)	1,012,797	(31,974)
Financing expenses	(25)	452,779	470,042
<b>Changes in operating assets and liabilities</b>			
Inventories	(8)	77,996,613	(44,554,817)
Trade receivables and prepaid expenses and other receivable		(4,063,200)	9,053,031
Trade payable and accrued expenses		(6,620,229)	(4,488,923)
Financing expenses - paid	(25)	(452,779)	(470,042)
Proceeds of Murabaha deposits- Received		133,321	1,823,476
Employee benefit obligations - paid	(16)	(1,864,086)	(823,932)
Zakat paid	(20)	(9,342,461)	(10,368,779)
<b>Net cash flows provided by operating activities</b>		<b>156,454,935</b>	<b>64,088,108</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(5)	(3,765,735)	(3,566,601)
Payments for purchase intangible assets	(6)	(1,063,125)	(1,444,452)
Proceeds from sale of property, plant and equipment	(5)	-	32,890
<b>Net cash (used in) investing activities</b>		<b>(4,828,860)</b>	<b>(4,978,163)</b>
<b>Cash flows from financing activities:</b>			
Purchase of treasury equities	(15)	(19,261,619)	-
Dividend paid	(31)	(48,528,182)	(97,900,000)
Lease payments	(7)	(778,000)	(469,995)
<b>Net cash flows (used in) financing activities</b>		<b>(68,567,801)</b>	<b>(98,369,995)</b>
Net increase / (decrease) in cash and cash equivalents		83,058,274	(39,260,050)
Cash and cash equivalents, beginning of the year	(12)	47,914,295	87,174,345
<b>Cash and cash equivalents, end of the year</b>	(12)	<b>130,972,569</b>	<b>47,914,295</b>
<b>Non-monetary Transactions</b>			
(Profit) / loss from re-measurement of employee benefits	(16)	(7,827,457)	1,468,664

The financial statements appearing on pages (1) to (27) have been approved by the Board of Directors and signed on their behalf by:



Finance Manager



Chief Executive Officer and  
Board Member



BOD Chairman

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

# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 1. The company and activity

HAIL CEMENT COMPANY (the "Company"), is a Saudi joint stock company, registered in Hail, Saudi Arabia under Commercial Registration No. 3350026399 dated November 30, 2010 (corresponding to 24 Dhul Hijjah 1431 H). Furthermore, the Company has also obtained a ministerial resolution No. 384/G on November 30, 2010 (corresponding to 24 Dhul Hijjah 1431 H) from the Ministry of Commerce and Industry.

The Company has obtained an industrial investment license No. 141931098717 dated August 26, 2010 (corresponding to 16 Ramadan 1431H) from the former Saudi Arabian General Investment Authority (SAGIA), (currently the Ministry of Investment).

The Company's shares are listed in Saudi Share Market (Tadawul) supervised by the Capital Market Authority (CMA).

### The company's main activity:

The company is engaged in the production and distribution of cement of all kinds and its derivatives, building materials and their accessories and derivatives inside and outside the Kingdom of Saudi Arabia, and trading in cement and building materials and their accessories and derivatives inside and outside the Kingdom of Saudi Arabia. The company operates through its factory located in the Hail region.

### Company Address:

The Company's main address is: Hail. P.O. Box: 1008, Postal Code: 81431.

### Amendments to the company's articles of association:

The Extraordinary General Assembly of the company, held on February 17, 2021, resolved to change some articles in the company's articles of association, which are as follows:

#### a. Article (3) related to the company's activities

##### The amendment has been made so that the article after the amendment is as follows:

The purposes for which the company was established are the manufacture and production of cement and its derivatives and components and trading within and outside the Kingdom of Saudi Arabia, and it has the right to achieve this purpose by concluding all types of contracts, and to carry out all aspects of activities that achieve its purposes, such as the practice of transporting cement, raw materials and all materials related to the cement industry. The company carries out its activities in accordance with the applicable regulations and after obtaining the necessary licenses from the competent authorities, if any.

#### b. Article (49) related to dividends

##### The following clause was added to the clauses of that article, so that the sixth clause of the article states the following:

The company may distribute interim dividends to its shareholders on a semi-annual or quarterly basis in accordance with the regulations issued by the Capital Market Authority.

### 2. Basis of preparation

#### 2.1. Statement of compliance

The Company's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted in Saudi Arabia and other standards and issuances approved by the Saudi Organization for Chartered and Public Accountants (SOCPA).

#### 2.2. Basis of measurement

These financial statements have been prepared according to the accrual basis of accounting using the concept of going concern and on the basis of historical cost, except for:

- Investments that are measured at fair value through profit or loss.
- Employee defined benefit obligations that are measured at the present value of future liabilities according to the projected credit unit method.

#### 2.3. Functional and presentation currency

These financial statements' items are presented in Saudi Arabian Riyals "SR" which is the functional and presentation currency of the Company. All figures are rounded to the nearest Saudi Riyals unless otherwise stated.



# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 2. Basis of preparation...(continued)

#### 2.4. Significant accounting estimates, assumptions and judgments

The preparation of financial statements requires the use of estimates and assumptions that affect the application of accounting policies on the amounts listed for assets, liabilities, revenues and expenses.

Although these estimates and judgments are based on the best information available to management on operations and current events, actual results may differ from these estimates.

The underlying estimates are reviewed on regular basis. Adjustments to the accounting estimates are recognized in the period in which these estimates are adjusted and in any future periods affected with such adjustments.

The following is an explanation of the information on the most important estimates and uncertainties when applying accounting policies that have a significant effect on the amounts shown in the financial statements:

- Assumptions about employee benefits
- Impairment of inventories
- Provisions
- Useful lives of property, plant and equipment.
- Test for impairment of non-current assets.
- Continuity

#### Employee defined benefit obligations Measurement

The Company's commitment to benefit plans is calculated by estimating the value of future benefits that employees have acquired in the current and previous periods, and the value is deducted to reach the present value. The calculation is performed annually by an independent actuary using the projected credit unit method. Judgment has been used in estimating actuarial assumptions.

#### Impairment in inventory

The management assesses the impairment of inventories to reach the net realizable value.

Where the goods are measured at cost or net realizable value, whichever is lower. Factors that affect the inventory value include obsolescence, changes in demand for the goods, technological changes, or the presence of damaged inventory or part of it, or if the selling price is less than its cost.

#### Provision for expected credit losses

The Company applies the expected credit loss model to determine losses of the impairment of trade receivables and other receivables, and this requires the Company to take some factors to ensure that the receivables are not overvalued as a result of the possibility of not collecting them, such as the ageing of receivables and the continuous credit evaluation. The provisions are recorded when there is evidence indicates the possibility of non-collection and also on receivables according to IFRS 9

#### Impairment of non-financial assets

At each reporting date, the carrying amounts of the Company's non-financial assets (except inventories) are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit. The recoverable amount of an asset or cash-generating unit is the higher of value in use and its fair value less costs to sell. Value in use depends on future cash flows that are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets of cash-generating unit. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation if no impairment loss had been recognized.

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

Management determines the estimated useful lives of property, plant and equipment for the purpose of calculating depreciation. This estimate is determined after taking into account the expected use of the assets, obsolescence and maintenance programs to which these assets are exposed. The Management reviews the remaining value and useful lives annually, and the change in depreciation expenditures (if any) is adjusted in the current and future periods.

# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 2. Basis of preparation...(continued)

#### 2.4. Significant accounting estimates, assumptions and judgments...(continued)

##### Fair value measurement

##### The fair value of the assets and liabilities

The fair value is the selling price received in exchange for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of a financial asset or liability, the Company uses data that can be monitored in the market as much as possible.

The fair values are categorized into hierarchical levels based on the data used in valuation methods as follows:

**Level 1:** Fair value measurement using quoted prices (unadjusted) in active markets for identical asset or liability.

**Level 2:** Fair value measurement using inputs other than the quoted prices included within level 1 that are observable for the asset and liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

**Level 3:** Fair value measurement using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

If the inputs used to measure the fair value of an asset or liability are located at different levels of the fair value hierarchy, then the measurement is completely categorized under the lowest level of input that is significant to the measurement as a whole.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period in which the change has occurred. As on December 31, 2022, and December 31, 2021 there are no shifts in between levels.

##### Going Concern

The company's ability to continue as a going concern was evaluated according to the going concern basis. The management is convinced that it has the resources to continue operating in the near future. Moreover, the management is not aware of any material doubts that may cast significant doubt on the Company's ability to continue as a going concern, accordingly, the financial statements have been prepared on a going concern basis.

### 3. Significant accounting policies

The accounting policies described below have been consistently applied to all of the periods presented in these financial statements.

#### 3.1. Foreign currency

Transactions in currencies other than the Saudi Riyal are recorded according to the exchange rates prevailing on the dates of those transactions. At the reporting date, monetary assets and liabilities in foreign currencies are translated into Saudi Riyals at the rates of exchange prevailing on that date. The resulting exchange gains or losses are recognized in the statement of profit or loss and other comprehensive income.

#### 3.2 Revenue Recognition

Revenue is recognized when the Company fulfills its obligations in contracts with customers at an amount that reflects the material compensation for the goods sold. The Company establishes contracts with clients based on a five-step model as defined in IFRS 15:

##### Step 1. Identify the contract with the customer:

A contract is an agreement concluded between two or more parties that establishes rights and undertakings and sets out the criteria that must be fulfilled for each contract.

##### Step 2. Identify the performance obligations in the contract:

A performance obligation is a promise in the contract with the customer to transfer goods or provide services to the customer.

# HAIL CEMENT COMPANY

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 3. Significant accounting policies...(continued)

#### 3.2 Revenue Recognition...(continued)

##### Step 3. Determine the transaction price:

The transaction price is the amount of the consideration that the company expects to receive in exchange for transferring the goods or services promised to the customer, excluding the amounts collected on behalf of third parties.

##### Step 4. Allocate the transaction price

In a contract that contains more than one performance obligation, the company will allocate the transaction price to each performance obligation in an amount that determines the amount of the consideration that the company expects to receive in exchange for fulfilling each performance obligation.

##### Step 5. Recognize revenue when a performance obligation is satisfied.

If the amount intended to be paid in the contract includes a variable amount, the company shall estimate the amount that the company is entitled to in exchange for transporting the goods and services promised to the customer.

##### Sale of goods

The Company sells cement, and the sales is made under specific independent sales invoices and/or contracts with customers. With regard to contracts concluded with customers in which it is generally expected that selling products will be the only performance obligation, the Company has reached the conclusion that revenues from the sale must be recognized at the time when control over the asset is transferred to the customer at a specific point in time, which is usually done upon delivery.

Revenue from the sale of scrap resulting from industrial waste is treated as other revenues in the statement of profit or loss and other comprehensive income. The Company takes into account the following indicators to evaluate the transfer of control to the asset pledged to the customer:

- The Company has the right to obtain return for the assets
- The customer has the legal right to the assets
- The asset has been physically transferred by the Company
- The customer has all the risks and benefits related to the ownership of the asset
- Customer acceptance of the assets

##### Rebate

Additional Rebate are often granted to customers according to competitive and market conditions. Therefore, revenue from sales is recognized on The basis of the price specified in the contract or agreed upon with the customer, after deducting the specific discounts for each customer.

#### 3.3 Employee benefits

##### Employee defined benefit obligations

According to the Saudi Labor Law in the Kingdom of Saudi Arabia, the company is required to pay end-of-service benefits (a defined benefit plan) and it is calculated based on half the salary of the last month of each year of the first five years of service, including fractions of the year, in addition to full salary for each of the following years of service, including fractions of the year. End of service benefits are not funded.

##### The valuation method and main assumptions of the actuarial study

Commitment to the requirements of International Accounting Standard No. (19) Employee benefits, end-of-service benefits obligations are calculated using the actuarial valuation using the projected unit credit method at the end of each financial year, and the profits or losses resulting from the actuarial revaluation are recorded in the comprehensive income statement for the period in which it is specified reevaluation. The re-measurement recognized in other comprehensive income is immediately included in retained earnings and is not included in profit or loss. Past service cost is calculated in profit or loss during the period of plan amendment. Interest is calculated using the discount rate at the beginning of the period on the defined employee benefit obligation.

The current service cost of a defined benefit plan is recognized in the profit or loss statement within the employee benefit expense, to reflect the increase in the obligation resulting from the employee's services for the current year and cases of change, reduction or settlement of benefits. The cost of services for the previous years is included directly in the statement of profit or loss. Actuarial gains and losses resulting from adjustments and changes in actuarial assumptions in equity are charged and recognized in the statement of other comprehensive income in the period in which they occur.



# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 3. Significant accounting policies...(continued)

#### 3.3 Employee benefits...(continued)

##### The valuation method and main assumptions of the actuarial study...(continued)

The defined benefit costs are classified as follows:

Service cost (including current service costs and past service costs)

Cost of interest and re-measurement

##### Short-term employee benefits

The obligation for benefits related to wages, salaries, annual leave and sick leave is recognized and measured in the period in which the service is provided on the undiscounted amounts of the benefits expected to be paid for those services.

##### Costs of retirement benefits

The Company contributes to the costs of employee retirement benefits in accordance with the regulations of the General Organization for Social Insurance, and it is calculated as a percentage of the employees' wages. Payments for semi-government managed retirement benefit plans are treated as payments for defined benefit plans because the Company's commitment to these plans equals the commitment resulting from the defined benefit plans. Payments to retirement plans are recognized as an expense when due.

#### 3.4 Zakat and Value Added Tax

##### 3.4.1 Zakat

The Company is subject to Zakat in accordance with the regulations issued by the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia. Provision for Zakat is formed on an accrual basis and this provision is charged to the statement of profit or loss and other comprehensive income. Zakat provision is calculated according to the Zakat base or the adjusted net profit, whichever is greater. Recording any differences in the estimates between the computed Zakat and the final assessment (if any) within the profit or loss in the year in which the assessment is terminated. Zakat is calculated based on 2.5% of the Zakat base or adjusted net income, whichever is greater.

##### 3.4.2 Value Added Tax (VAT)

Value Added Tax (VAT) is a tax on the supply of goods and services that is ultimately borne by the final consumer. Therefore, the treatment of VAT in the company's accounts must reflect its role as a tax collector, and VAT should not be included in income or expenses. However, there will be circumstances in which the company bears VAT, and in such cases where VAT is not refundable and must be included in the cost of the product or service.

##### Withholding tax

The management withholds taxes on non-resident parties, if any, in accordance with ZATCA regulations which are not recognized as expenses due to the amounts of liabilities on the counterparty are withheld on their behalf.

#### 3.5 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses, if any.

The cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes costs of materials, direct labor and any other costs directly attributable to preparing the asset for its intended use and the costs of dismantling, removing, and reinstalling the asset on site.

When the useful lives of some items of property and equipment are different, they are accounted for as separate components (major components) of property and equipment.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amounts of the assets disposed of. Those gains and losses are included in the statement of profit or loss and other comprehensive income during the financial period in which the assets are disposed of.

##### Subsequent costs

The costs of replacing a part of an item of property, plant and equipment are recognized in the carrying cost of this item if it is probable that future economic benefits will flow to the Company that reside in that part, in addition to the possibility of measuring this cost reliably. The carrying amount of the replaced portion is excluded.

# HAIL CEMENT COMPANY

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 3. Significant accounting policies...(continued)

#### 3.5 Property, plant and equipment...(continued)

##### Depreciation

Depreciation is regular allocation of depreciable amount of property, plant and equipment (the cost of the asset less the residual value) over useful life.

Depreciation expense is recognized in the statement of profit or loss and other comprehensive income on a straight-line method over the estimated useful lives of each item of property, plant and equipment. Leased assets are depreciated on the lower of the lease period or the useful lives.

The estimated useful lives of items of property, plant and equipment are as follow:

Buildings	30 years
Property, plant and equipment, and Strategic spare parts	1-30 years
Computer and office equipment	2 years
Motor Vehicles	5-10 years
Leasehold improvements	5 years or the lease period whichever is shorter
Furniture & Fixtures	2-5 years

##### \* Strategic spare parts

Strategic spare parts are stated at cost and added to property, plant and equipment and are depreciated at a fixed rate annually.

During the year of 2021, the company has formed a special technical committee to conduct a comprehensive technical review of the components of spare parts inventory. The spare parts has been identified into normal spares which need to replace due to wear and tear of the machine and expensed as when it is used & strategic spares which are high in cost & cannot be locate quickly if it is required has been classified within the item of property, plant and equipment.

The Company reviews the methods of depreciation, useful lives and residual value of property, plant and equipment at the end of each financial year, and in the event that there is a difference, it is dealt with as variables in the accounting estimates (in the year of change and subsequent years)

##### Projects in progress

The cost of projects in progress is calculated on the basis of the actual cost and is presented under property, plant and equipment until it is ready for use, then it is transferred to property, plant and equipment and its depreciation calculation begins according to the estimated useful lives.

#### 3.6. Intangible assets

Intangible assets that include technical and computer programs that the company has acquired and a specified useful life for them are measured at cost minus the accumulated amortization and any impairment in value. The estimated useful life is five years.

- Amortization is calculated using the straight-line method over their estimated useful lives.
- The amortization method and the economic life of the asset are reviewed at each reporting date.

#### 3.7. Inventories

Inventory is stated at cost or net realizable value whichever is lower, after deducting the provision (impairment) for any obsolete or slow-moving inventory. The Company is currently using the weighted average cost method in evaluating the inventory.

Costs represent all expenditures incurred in bringing each product to its present location and condition, and are calculated according to the following basis:

- Raw materials, consumables and spare parts: Purchase cost on a weighted average basis.
- Semi-Finished and finished goods: The cost of direct materials, depreciation and labor plus indirect expenses.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete the sale.

# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 3. Significant accounting policies...(continued)

#### 3.7. Inventories...(continued)

##### **Spare parts and consumables (within inventories item)**

General spare parts and other consumable items that are not part of strategic parts and have a general nature, which may be required at any time for plant operations. They are generally classified as "spare parts" in inventory. These items are subject to the assessment of the provision for obsolescence and charged to the statement of profit or loss and other comprehensive income when installed or used.

#### 3.8. Financial instruments

##### **Financial assets**

##### **Initial measurement and recognition**

The financial asset and liability are recognized when the company becomes a party to the contractual obligations of the instrument.

All financial assets are classified and subsequently measured at amortized cost or fair value. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets as described below at the time of initial recognition.

All financial assets that are not classified as measured at amortized cost or at fair value through other comprehensive income, as described below, are measured at fair value through profit or loss. Net gains and losses, including any interest or dividend income, are recognized in the statement of profit or loss and other comprehensive income.

##### **Financial assets at amortized cost**

Financial assets are measured at amortized cost if both of the following conditions are met:

- That the objective of holding financial assets within the business model is to collect contractual cash flows, and
- It arises from the contractual terms of the financial asset, on specific dates cash flows from the principal amount and the interest on principal outstanding only.
- Financial assets are classified as trade receivables that are measured at amortized as it is held in the business model to collect contractual cash flows from payments of principal and interest only.
- The amortized cost is reduced by impairment losses (see below).

##### **Investments in debt instruments at fair value through other comprehensive income**

- Investments in debt instruments that meet the following conditions are at fair value through other comprehensive income
- It maintains financial assets within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give the right on specific dates to cash flows counted from the principal amount and interest on the principal amount.

These assets are subsequently measured at fair value. Dividends are recognized as income in the statement of profit or loss, except if these distributions represent a recovery of part of the investment cost.

Any other losses or gains are recognized in the statement of other comprehensive income and are not reclassified to the statement of profit or loss.

**The company has no investments in debt instruments at fair value through other comprehensive income.**

##### **Financial assets at fair value through profit or loss**

These assets are subsequently measured at fair value. Net profits or losses, including any interests or dividends, are recognized in the statement of profit or loss.

Financial assets are not subsequently reclassified to the initial measurement unless the company changes the business model for managing financial assets. In this case, all financial assets that will be affected by this are reclassified on the first day of the first financial period following the change in the business model.



# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 3. Significant accounting policies...(continued)

#### 3.8. Financial instruments...(continued)

##### De-recognition

The company derecognizes financial assets when the contractual cash flows for those assets expire, or when the company transfers the right to obtain the contractual cash flows from the financial asset in a transaction in which all the risks and rewards of ownership of the financial assets are substantially transferred.

##### Financial liabilities:

Financial liabilities are classified according to the contractual arrangements, which also include creditors, the amounts payable and loans. All financial obligations are initially measured at fair value, after the initial recognition, the direct transaction costs are recorded at amortized cost using the effective commission rate over the life of the instrument and are recognized in the statement of profit or loss and other comprehensive income.

##### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right and when the company has the intention to settle on a net basis to realize the asset and settle the liability simultaneously.

##### Impairment of financial assets

The company, based on the perspective view, evaluates the expected credit losses associated with its debt instruments as part of its financial assets carried at amortized cost and fair value through other comprehensive income.

For receivables, the Company applies the simplified approach, which requires the recognition of expected losses on a lifetime basis from the date of initial recognition of the receivables. To measure the expected credit losses, receivables have been grouped based on common credit risk characteristics and the number of days past due. Expected loss rates have been inferred from the Company's historical information and adjusted to reflect the expected future outcome. Other financial assets such as employees' other receivables balances and balances with banks have low credit risk and therefore the impact of applying expected credit losses is not significant.

##### Impairment presentation

Provisions for impairment losses of financial assets measured at amortized cost as deduct from the total of the assets' carrying amounts.

#### 3.9. Impairment of non-financial assets

At each reporting date, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The recoverable amount of a single asset is determined unless the asset is generating cash flows that are largely independent of inflows from other assets or other groups of assets. When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset is considered to be impaired and is reduced to its recoverable amount. When determining the fair value minus the costs of completing the sale, the latest market transactions are taken into account. In the event that such transactions are not determined, the appropriate valuation model is used. Value in use is based on a discounted flow model where the expected future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The losses resulting from the impairment are recorded in the statement of profit or loss.

An assessment is made at each reporting date to determine whether there is evidence that previously recorded impairment losses have disappeared or reduced. If such evidence exists, the company estimates the recoverable amount of the asset or cash-generating unit.

# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 3. Significant accounting policies...(continued)

#### 3.9. Impairment of non-financial assets...(continued)

An assessment is made at each reporting date to determine whether there is evidence that previously recorded impairment losses have disappeared or reduced. If such evidence exists, the company estimates the recoverable amount of the asset or cash-generating unit. A previously recognized impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognized. The reversal of the entry is limited so that the carrying amount of the asset does not exceed its recoverable value or exceeds the book value that would have been determined - after deduction of depreciation - with no impairment loss recorded for the asset in previous years. Such reversal is recorded in the statement of profit or loss. Any impairment of non-financial assets - except for goodwill, if any - is examined for the possibility of a reversal of the impairment at the end of each reporting period.

#### 3.10. Classification of assets and liabilities into current / non-current

The Company presents assets and liabilities in the financial statements based on their classification into current / non-current items.

The asset is current when:

- It is expected to be realized or there is an intention to sell or consume it in a normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be realized within twelve months after the financial reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least - 12 months after the reporting period.

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

A liability is current when:

It is expected to be paid in a normal operating cycle.

- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after reporting period.

#### 3.11. Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts at banks and other short-term, highly liquid investments, which maturity dates are within three months or less of the original investment date and available to the Company without restrictions.

#### 3.12. Provisions

A provision is recognized if the Company has a present (legal or constructive) obligations arising from previous events and it is probable that an outflow of economic benefit will be required to settle the obligations, and can be measured reliably. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to this liability.

#### 3.13. Trade Payables and Accruals

Trade payables are recognized for amounts payable in the future, for goods and services received, whether or not billed by suppliers.

#### 3.14. Right to use the assets and liabilities of the lease contracts

The company assesses whether the contract is a lease or contains a lease. At the beginning of the contract, the company establishes the right to use the asset and the corresponding lease commitment in relation to all lease agreements in which it is the lessee, except for short-term leases and low-value leases.

The assets and liabilities arising from the lease are initially measured on the basis of the present value. Lease assets and liabilities are recognized and each lease payment is allocated between the liabilities and finance cost. Charging the finance cost to profit or loss over the lease term.

# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 3. Significant accounting policies...(continued)

#### 3.14. Right to use the assets and liabilities of the lease contracts...(continued)

##### Right to use assets

The right to use the asset is depreciated over the useful life of the asset and the lease term, whichever is shorter, on a straight line basis.

The asset's right to use is measured at the date of initial application of leases previously classified as operating leases in its book value, as if the standard had been applied since the inception of the lease, But discounted using the additional borrowing rate of the lessee at the initial application date.

##### Lease obligations

- The lease obligation is recognized on the initial application date of the leases previously classified as operating leases at the present value of the remaining lease payments discounted using the additional borrowing rate of the lessee at the initial application date.

#### 3.15. Proceeds of Murabaha deposits

Murabaha deposits are placed with local banks for a period less than three months according to the prevailing rates in the market and the revenues from such deposits are recognized when earned.

#### 3.16. Expenses

Production costs of direct and indirect expenses related to production are classified as cost of sales. All other expenses are classified as general and administrative or selling and marketing expenses.

#### 3.17. Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that require a significant period of time to become ready for their intended use, are capitalized when all activities necessary to prepare the qualifying asset for its intended use are completed. All other borrowing costs are recognized as an expense and charged to the statement of profit or loss and other comprehensive income in the period in which they occur (refer IAS 23). The Company does not have any such costs to be capitalized in the current year.

#### 3.18. Segment reporting

The Company's core business is in one product inside and outside the Kingdom of Saudi Arabia and thus it does not report for operating segments in different products or in different geographical areas.

#### 3.19. Earnings per share

The Company presents basic and diluted (If any) earnings per share information for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### 3.20. Dividends

Final dividends are recorded in the financial statements in the period in which these dividends are approved by the general assembly of shareholders.

Dividends are recognized as a liability in the period in which they are approved by the Board of Directors.

# HAIL CEMENT COMPANY

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 4. New standards, interpretations and amendments applied by the Company

During 2022, the following amendments to the International Financial Reporting Standards became effective for the annual reporting period beginning on or after January 1, 2022.

<u>Amendments to Standards</u>	<u>Description</u>	<u>Effective for years beginning on or after</u>	<u>Summary of the amendment</u>
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.
IFRS 3	Reference to the Conceptual Framework	1 January 2022	The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.
IFRS 16	Annual Improvements to IFRS Standards 2018–2020	1 January 2022	IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements.
IFRS 1	Annual Improvements to IFRS Standards	1 January 2022	IFRS 1: The amendment provides additional relief for a subsidiary that, after the first application, becomes after the parent company with respect to the calculation of the accumulative currencies translation difference.
IAS 41	Annual Improvements to IFRS Standards	1 January 2022	IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude tax cash flows when measuring fair value.
IIFRS 9	Annual Improvements to IFRS Standards	1 January 2022	IIFRS 9: The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of 'testing whether an asset is functioning properly'.

- The application of these amendments does not have any material impact on the financial statements.

### Issued standards but not applied

Some new standards and interpretations of accounting standards that are not mandatory have been published for the current reporting period and that the company did not early adopt. The Company is in the process of evaluating the impact of these new and amended standards that have not yet been applied in the current or future reporting periods and on expected future transactions.

# HAIL CEMENT COMPANY

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## Notes to the financial statements for the year ended December 31, 2022

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### 5. Property, plant and equipment

<u>2022</u>	<u>Projects in-</u> <u>progress</u>	<u>Land</u>	<u>Buildings</u>	<u>Plant and</u> <u>equipment</u> <u>and strategic</u> <u>spare parts</u>	<u>Computer</u> <u>and Office</u> <u>Equipment</u>	<u>Motor</u> <u>Vehicles</u>	<u>Lease hold</u> <u>Improvement</u>	<u>Furniture</u> <u>and Fixtures</u>	<u>Total</u>
<b>Cost :</b>									
Balance at the beginning of the year	1,337,729	6,848,271	206,076,788	1,006,399,279	8,594,104	9,942,328	446,097	19,074,732	1,258,719,328
Addition during the year	-	-	682,877	2,265,503	278,803	304,283	-	220,769	3,765,735
Transferred during the year	(634,816)	-	-	6,340	628,476	-	-	-	-
Disposals	(702,913)	-	(177,942)	(1,013,781)	(148,939)	-	-	(938,546)	(2,982,121)
Balance at the end of the year	-	<u>6,848,271</u>	<u>206,581,723</u>	<u>1,007,657,341</u>	<u>9,352,444</u>	<u>10,246,611</u>	<u>446,097</u>	<u>18,356,955</u>	<u>1,259,502,942</u>
<b>Depreciation :</b>									
Balance at the beginning of the year	-	-	55,694,414	468,341,450	7,123,995	7,370,536	446,097	18,162,414	557,138,906
Charge for the year	-	-	7,488,650	52,796,218	880,609	1,015,745	-	234,862	62,416,084
Disposals	-	-	(52,596)	(830,708)	(147,589)	-	-	(938,431)	(1,969,324)
Balance at the end of the year	-	-	<u>63,130,468</u>	<u>520,306,960</u>	<u>7,857,015</u>	<u>8,386,281</u>	<u>446,097</u>	<u>17,458,845</u>	<u>617,585,666</u>
<b>Net book value :</b>									
<b>At 31 December 2022</b>	-	<u>6,848,271</u>	<u>143,451,255</u>	<u>487,350,381</u>	<u>1,495,429</u>	<u>1,860,330</u>	-	<u>898,110</u>	<u>641,917,276</u>
<b>At 31 December 2021</b>	<u>1,337,729</u>	<u>6,848,271</u>	<u>150,382,374</u>	<u>538,057,829</u>	<u>1,470,109</u>	<u>2,571,792</u>	-	<u>912,318</u>	<u>701,580,422</u>

- The commercial operation of the cement factory started in the second quarter of 2013 and accordingly all such costs related to the construction of the cement factory was capitalized during the quarter ended June 30, 2013.
- The land on which buildings are constructed have been leased from the Ministry of Energy, Industry and Mineral Resources for a period of 30 years starting from ,2012. The mining license from the Ministry of Energy, Industry and Mineral Resources confers the exclusive right to produce and exploit specified minerals in the licensed area. The total area is 46.4 sq.km and the rent is SR 10,000 per square kilometer per annum amounting to total of SR 470,000 per year and is being paid starting the date of the order issued by the Ministry.
- The company owns a plot of land with an area of 4,400 m<sup>2</sup> and a book value of 6.8 million, which was purchased since 2015 for the purpose of establishing an administrative headquarters on it.



# HAIL CEMENT COMPANY

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 5. Property, plant and equipment...(Continued)

<u>2021</u>	<u>Projects in-</u> <u>progress</u>	<u>Land</u>	<u>Buildings</u>	<u>Plant and</u> <u>equipment</u> <u>and strategic</u> <u>spare parts</u>	<u>Computer</u> <u>and Office</u> <u>Equipment</u>	<u>Motor</u> <u>Vehicles</u>	<u>Lease hold</u> <u>Improvement</u>	<u>Furniture</u> <u>and Fixtures</u>	<u>Total</u>
<b>Cost :</b>									
Balance at the beginning of the year	1,337,729	6,848,271	205,884,075	994,194,414	8,087,727	9,794,108	446,097	18,863,766	1,245,456,187
Transferred from spare parts inventories	-	-	-	9,812,352	-	-	-	-	9,812,352
Balance at the beginning of the year (restated)	1,337,729	6,848,271	205,884,075	1,004,006,766	8,087,727	9,794,108	446,097	18,863,766	1,255,268,539
Addition during the year	-	-	192,713	2,392,513	506,377	254,920	-	220,078	3,566,601
Disposals during the year	-	-	-	-	-	(106,700)	-	(9,112)	(115,812)
Balance at the end of the year	<b>1,337,729</b>	<b>6,848,271</b>	<b>206,076,788</b>	<b>1,006,399,279</b>	<b>8,594,104</b>	<b>9,942,328</b>	<b>446,097</b>	<b>19,074,732</b>	<b>1,258,719,328</b>
<b>Depreciation :</b>									
Balance at the beginning of the year	-	-	48,803,572	412,255,911	6,255,752	6,441,160	446,097	17,995,773	492,198,265
Depreciation of the transferred inventories	-	-	-	1,789,433	-	-	-	-	1,789,433
Balance at the beginning of the year (restated)	-	-	48,803,572	414,045,344	6,255,752	6,441,160	446,097	17,995,773	493,987,698
Charge for the year	-	-	6,890,842	54,296,106	868,243	1,036,074	-	174,839	63,266,104
Disposals during the year	-	-	-	-	-	(106,698)	-	(8,198)	(114,896)
Balance at the end of the year	-	-	<b>55,694,414</b>	<b>468,341,450</b>	<b>7,123,995</b>	<b>7,370,536</b>	<b>446,097</b>	<b>18,162,414</b>	<b>557,138,906</b>
<b>Net book value :</b>									
<b>At 31 December 2021</b>	<b>1,337,729</b>	<b>6,848,271</b>	<b>150,382,374</b>	<b>538,057,829</b>	<b>1,470,109</b>	<b>2,571,792</b>	<b>-</b>	<b>912,318</b>	<b>701,580,422</b>
<b>At 31 December 2020</b>	<b>1,337,729</b>	<b>6,848,271</b>	<b>157,080,503</b>	<b>589,961,422</b>	<b>1,831,975</b>	<b>3,352,948</b>	<b>-</b>	<b>867,993</b>	<b>761,280,841</b>

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 5. Property, plant and equipment (Continued)

#### 5.1. Depreciation for the year has been allocated as follows:

	<b>For the year ended December 31</b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
Cost of sales	61,873,653	62,611,173
General and administrative expenses	491,434	600,025
Selling and distribution expenses	50,997	54,906
	<b><u>62,416,084</u></b>	<b><u>63,266,104</u></b>

5.2. The property, plant and equipment item includes depreciated assets with a book value of SR.82.3 million (2021: SR. 44.7 million).

### 6. Intangible Assets – net

The item of intangible assets is represented in the system used in the operating activities of the Company, Computer software, where the balance on December 31, was as follows:

	<b>As at December 31,</b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Cost</b>		
Balance at the beginning of the year	6,929,934	5,485,482
Addition during the year	1,063,125	1,444,452
Balance at end of year	<b><u>7,993,059</u></b>	<b><u>6,929,934</u></b>
<b>Accumulated Amortization</b>		
Balance at the beginning of the year	5,932,577	5,275,848
Charged during the year	236,462	656,729
Balance at end of year	<b><u>6,169,039</u></b>	<b><u>5,932,577</u></b>
Netbook Value	<b><u>1,824,020</u></b>	<b><u>997,357</u></b>

### 7. Leases

	<b>As at December 31,</b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Right to use assets</b>		
Balance at the beginning of the year	8,470,651	8,900,314
<b>Less:</b> Depreciation of the right to use for the year	(429,663)	(429,663)
Right to use assets (net)	<b><u>8,040,988</u></b>	<b><u>8,470,651</u></b>
<b>Lease obligations</b>		
The present value of the obligation at the beginning of the year	9,998,068	10,182,062
Payment made during the year	(778,000)	(469,995)
Interest charged for the year	285,402	286,001
	<b><u>9,505,470</u></b>	<b><u>9,998,068</u></b>
Current portion of lease obligations (note 19)	<b><u>724,082</u></b>	<b><u>332,473</u></b>
Non-current portion of lease obligations	<b><u>8,781,388</u></b>	<b><u>9,665,595</u></b>
Balance at end of year	<b><u>9,505,470</u></b>	<b><u>9,998,068</u></b>

### 8. Inventory - net

	<b>As at December 31,</b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
Raw Materials	5,791,407	9,264,945
Spares & Consumables	58,974,719	59,714,305
Non-Finished Goods	212,276,427	285,973,963
Finished Goods	3,073,099	3,159,052
Impairment of consumables and spare parts inventories (note 8.1)	(6,832,315)	(5,607,640)
<b>Total</b>	<b><u>273,283,337</u></b>	<b><u>352,504,625</u></b>

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 8. Inventory – net...(Continued)

#### 8.1. Movement of impairment of consumables and spare parts inventories during the year:

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	5,607,640	2,543,874
Provided during the year (note 24)	1,224,675	3,063,766
Balance at end of year	<u>6,832,315</u>	<u>5,607,640</u>

### 9. Trade Receivables (Net)

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Trade Receivables	13,200,796	19,149,943
Provision for expected credit losses (note 9.1)	(54,495)	(2,867,724)
	<u>13,146,301</u>	<u>16,282,219</u>

#### 9.1. Provision for expected credit losses movement

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	2,867,724	3,189,120
Written-off during the year	(2,418,357)	-
Reimbursed during the year (note 24)	(394,872)	(321,396)
Balance at end of year	<u>54,495</u>	<u>2,867,724</u>

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

<u>Year</u>	<u>Total</u>	<u>Up to 30 days</u>	<u>from 31 to 60 days</u>	<u>from 61 to 90 days</u>	<u>91 days and above days</u>
2022	13,200,796	2,074,816	2,689,664	3,566,201	4,870,115
2021	19,149,943	7,040,294	4,665,431	4,331,306	3,112,912

### 10. Prepayments and other receivable balances

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Advances to suppliers and contractors	18,840,508	10,331,322
Prepaid expenses	128,763	490,828
Receivable deposits	762,531	-
Staff imprest and advances	1,022,744	1,575,875
<b>Total</b>	<u>20,754,546</u>	<u>12,398,025</u>

### 11. Investments at Fair value through profit or loss

The Company has invested SR 50 million, for the purpose of purchasing various shares, within the Discretionary Portfolio Management with Al Rajhi Capital. The fair value of the portfolio on December 31, 2021 amounted to SR 54,078,728, as follows:

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Balance at January 01,	57,762,605	49,104,683
(Loss) / Gain from change in the fair value	(3,683,877)	8,657,922
<b>Balance at December 31, 2022</b>	<u>54,078,728</u>	<u>57,762,605</u>

# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 12. Cash and cash equivalents

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Cash at Banks	35,972,569	47,914,295
Murabaha deposits	95,000,000	-
Total	<u>130,972,569</u>	<u>47,914,295</u>

### 13. Share capital

As at December 31, 2022, the Company's capital of SR **979,000,000** (Dec 31, 2021: SR 979,000,000) is authorized, issued and fully paid, which is divided into **97,900,000** ordinary shares (Dec 31, 2021: 97,900,000 shares), Saudi Riyal 10 per share.

### 14. Statutory reserve

According to the Companies' Article of association, the Company is required to retain 10% of net income in the statutory reserve. The Company may stop the transfers when this reserve reaches 30% of the share capital. This reserve is not available for dividend distribution.

### 15. Treasury equities

The Company's Extraordinary General Assembly, held on Tuesday 29 Dhul Qi'dah 1443H corresponding to June 28, 2022, resolved to approve the company's purchase of a number of its shares, with a maximum of (4,895,000) shares, and to keep them as treasury equities for a maximum period of (10) years from the date of the Extraordinary General Assembly approval, and after the expiration of this period, the company will follow the procedures and controls stipulated in the relevant rules and regulations.

During the year 2022, the company purchased 1,493,478 shares of the company's shares at a cost amounted to SR. 19,261,619.

### 16. Employees' defined benefits obligation

The following is the amounts recognized in the statement of financial position and the movement in employee benefits obligations during the year:

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Present fair value of defined benefit obligation	<u>14,749,826</u>	<u>20,608,230</u>

The movement of the recognized obligations was as follows:

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	20,608,230	16,870,983
Charged for the year	3,126,110	2,820,941
Interest charged for the year	707,029	271,574
(Gain) / Loss of re-measurement of obligation	(7,827,457)	1,468,664
Paid during the year	(1,864,086)	(823,932)
Balance at the end of the year	<u>14,749,826</u>	<u>20,608,230</u>

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Discount Rate	4.5%	3.57%
Salary Increase Rate	3.3%	1.65%
Salary Increase Timings	1 <sup>st</sup> Apr	1 <sup>st</sup> Apr

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 17. Other provisions

Other provisions are represented in the provision for the restoration of the quarry and factory land, where the Company is committed to re-settling the leased land from the Ministry of Energy, Industry and Mineral Resources (Ministry of Energy) at the end of the thirty-year lease period starting from the date of receiving the site.

The Company has estimated the cost of the settlement at SR 7.5 million.

Re-measure the obligation to determine the present value of the obligation at the date of the financial statements as follows.

	<b>As at December 31,</b>	
	<b>2022</b>	<b>2021</b>
Balance at the beginning of the year	4,031,620	3,914,194
Interest resulting from re-measurement (note 25)	120,948	117,426
Balance at the end of the year	<b>4,152,568</b>	<b>4,031,620</b>

### 18. Trade payables

	<b>As at December 31,</b>	
	<b>2022</b>	<b>2021</b>
Local suppliers	19,630,274	27,556,683
Foreign suppliers	-	1,060,470
<b>Total</b>	<b>19,630,274</b>	<b>28,617,153</b>

### 19. Accruals and dividend payables

	<b>As at December 31,</b>	
	<b>2022</b>	<b>2021</b>
Accrued Expenses	10,607,604	7,414,268
Payable tickets and vacation	3,801,435	4,049,095
Remuneration of the Board of Directors' members	1,905,832	2,205,856
Dividends Payable	264,021	263,222
Advance from Customers	3,171,770	3,936,538
Social Responsibility provision	-	369,207
Current portion of lease obligations (note 7)	724,082	332,473
VAT Payable – net	1,925,844	1,071,670
<b>Total</b>	<b>22,400,588</b>	<b>19,642,329</b>

### 20. Zakat provision

#### 20.1. Zakat calculation

	<b>As at December 31,</b>	
	<b>2022</b>	<b>2021</b>
Net book profit and adjusted by:	28,262,654	53,370,616
Provisions during the year	6,107,487	8,922,569
Adjusted net profit	<b>34,370,141</b>	<b>62,293,185</b>
Total added items	1,129,943,423	1,143,165,895
Total deducted items	(703,633,460)	(785,795,535)
Zakat base	<b>426,309,963</b>	<b>357,370,360</b>
Adjusting the calculation period to be 365 days instead of 354 days	<b>439,556,883</b>	<b>369,484,609</b>
Add / adjusted net profit	<b>34,370,141</b>	<b>62,293,185</b>
Zakat base	<b>473,927,024</b>	<b>431,777,794</b>
Zakat payable at 2.5%	<b>11,848,173</b>	<b>10,794,445</b>



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(A Saudi Joint Stock Company)

## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 20. Zakat provision...(Continued)

#### 20.2. The movement for Zakat

The movement for Zakat provision is as follows:

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
As at the beginning of the year	10,794,445	10,200,076
Zakat differences from previous years *	-	168,703
Zakat paid during the year	(9,342,461)	(10,368,779)
Zakat payable for the year *	11,848,173	10,794,445
As at the end of the year	<u>13,300,157</u>	<u>10,794,445</u>

- The company obtained a certificate No.3005572814 for the year 2021, dated 23/09/1443H, valid until 10/10/1444H (corresponding to April 30, 2023).
- The Company received Zakat assessments for the years from 2015 until 2018, which resulted in differences amounting to (SR 7,057,344). The Company objected to those differences, and escalated to the General Secretariat of the Zakat and Tax Committees.
- On 14/06/2022, the General Secretariat of the Tax and Zakat Committees of the Dispute Settlement Committee issued a decision regarding the years 2015 and 2018, rejecting the objection submitted by the Company, and the Company submitted an appeal against the committee's decision, and according to the opinion of the Company's Zakat advisor, the Company is expected that the Company will succeed in settling those differences without obligations or paying any differences arising from those Zakat differences.
- On 26/07/2022, the General Secretariat of the Tax and Zakat Committees at the Dispute Settlement Committee issued a decision regarding the years 2016 and 2017 rejecting the objection submitted by the Company to some of the objected items. The Company submitted an appeal against the committee's decision, and according to the opinion of the Company's Zakat advisor, the Company is expected that the Company will succeed in settling those differences without obligations or paying any differences arising from those Zakat differences.
- The Company received Zakat assessments for the years from 2019 until 2020, which resulted in differences amounting to (SR 231,879). All differences have been paid.

### 21. Revenue

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Sales	<u>365,463,971</u>	<u>253,305,663</u>

- No other classifications of revenues were disclosed as the company sells two products (cement and clinker) and there is no significant difference between the selling prices of the two types of bulk and packaged cement.
- The timing of revenue recognition from the aforementioned products is the time of delivery.

### 22. Selling and distribution expenses

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Staff salaries and other benefits	3,153,403	2,555,515
Depreciation and amortization	102,985	101,585
Communication expenses	118,882	117,427
Equipment rental	203,677	-
Maintenance and supplies	194,348	18,690
Advertising	17,575	183,400
Travel and transportation	44,093	19,295
Fees and subscriptions	88,278	38,838
Stationery and printing	62,732	7,760
Other expenses	56,432	62,270
<b>Total</b>	<u><b>4,042,405</b></u>	<u><b>3,104,780</b></u>

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## Notes to the financial statements for the year ended December 31, 2022

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### 23. General and administrative expenses

	<u>As at December 31,</u>	
	<u>2022</u>	<u>2021</u>
Staff salaries and other benefits	10,430,485	12,016,696
Legal and professional fees	1,280,222	2,379,297
Board of Directors remuneration	1,750,000	2,500,000
Board of Directors attendance allowance	165,000	126,000
Committees attendance allowances	708,000	126,000
Depreciation and amortization	547,737	755,130
Travel and Hotel expenses	334,118	136,806
Maintenance and repair	730,820	452,309
Communication expenses	412,977	423,398
Stationery and printing	195,190	80,893
Computers expenses	137,086	75,452
Social responsibility allowance	225,812	-
Government fines	10,000,000	-
Other expenses	640,661	210,819
<b>Total</b>	<b>27,558,108</b>	<b>19,282,800</b>

### 24. Finance cost

	<u>2022</u>	<u>2021</u>
Interest resulting from re-measurement (note 17)	120,948	117,426
Various bank charges	452,779	470,042
Lease finance cost (note 7)	285,402	286,001
Interest charged to employee benefits (note 16)	707,029	271,574
	<b>1,566,158</b>	<b>1,145,043</b>

### 25. Earnings per share

The basic and diluted earnings per share for the financial year ending on December 31, 2022, were calculated as follows:

### 26. Earnings per share...(Continued)

	<u>2022</u>	<u>2021</u>
Net profit for the year	16,414,481	42,407,468
Weighted average number of outstanding shares	97,386,024	97,900,000
Basic and diluted earnings per share for the year		
Basic earnings per share	0.17	0.43
Diluted earnings per share	0.17	0.43

The weighted average number of shares has been adjusted to reflect the effect of the treasury equities held by the company (note 15).

### 26. Contingent liabilities and capital commitments

As at 31 December 2022, the Company has letters of guarantee in favor of the Customs Department for custom duties amounting to SR 530 thousand (December 2021: SR 530 thousand).

### 27. Related parties

The transactions with related parties primarily consist of the salaries, allowances and remuneration of senior executives. The senior management personnel mean the persons who have the power and authority to plan, direct and control the activities of the Company, directly or indirectly, including members of the Board of Directors and shareholders (whether executive or otherwise).

# HAIL CEMENT COMPANY

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 27. Related parties...(continued)

The following is a statement of the total amounts included in the statement of profit or loss during the year:

	<u>For the year ending December 31</u>	
	<u>2022</u>	<u>2021</u>
Salaries and bonuses for senior management employees	4,364,705	5,310,033
Directors' remuneration	1,750,000	1,900,000
Company committees members' remunerations	600,000	600,000
Allowance for attending Board of Directors meetings	165,000	126,000
Allowance for attending the Company's committee meetings	108,000	126,000

### 28. Comparative figures

Certain comparative figures have been reclassified in line with the presentation for the current year.

### 29. Fair value of financial instrument

Fair value is the amount that is received upon the sale of one asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Financial instruments comprise the company's financial assets and financial liabilities.

Financial assets of the Company are cash and cash equivalents, Investment portfolios trade receivables and other receivables except for prepayments, while financial liabilities from loans made up of trade creditors, dividends payable and accrued expenses.

The fair values of financial instruments are not materially different from their carrying value, unless otherwise indicated.

The table below shows the book values and fair values of financial assets and liabilities, including their levels in the fair value hierarchy and does not include fair value information for financial assets and financial liabilities that are measured at fair value if the book value reasonably approximates the fair value:

<u>As at December 31, 2021</u>	<u>book values</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments at fair value through profit or loss	57,762,605	57,762,605	-	-
<u>As at December 31, 2022</u>				
Investments at fair value through profit or loss	54,078,728	54,078,728	-	-

### 30. Risk management

Financial risk is part of the Company's activities and it is managed through the process of determining its nature, measurement and continuous monitoring, according to risk limits and other control elements. The process of managing risk is important to the Company's ongoing operations. The Company's activities are exposed to a variety of financial risks, which mainly include market risk, credit risk and liquidity risk.

#### 30.1. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk consists of commission rate risk, currency risk and other price risk.

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 30. Risk management...(Continued)

#### 30.1. Market risk...(Continued)

##### (A) Interest rate risk

Interest rate risk is that the value of financial instruments will fluctuate due to changes in the market interest rates. As at December 31, 2022, the Company has banking facilities from a local bank to issue letters of guarantee and credit to suppliers, and therefore the Company is not exposed to such risks.

##### (B) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The company's management constantly monitors changes in foreign exchange rates against the Saudi riyal. The Company did not undertake significant transactions in currencies other than Saudi Riyals, Euro and US Dollar during the year. Therefore, the Company has not been exposed to significant risk in foreign exchange rates for the year ended 31 December 2022.

#### 30.2. Credit risk

Credit risk is the risk that one party, of a financial instrument, will not be able to fulfill its obligations and cause the other party to incur a financial loss. The Company is exposed to credit risk arising from its operating activities mainly from cash in banks and trade receivables (Clients). The Company deals with reputable banks and high credit rating. The Company has a policy regarding the amount of funds deposited in banks, and the management does not expect significant credit risks from this side.

Also, the management does not expect to be exposed to significant credit risks from customers' accounts, as it has a wide base of customers that operate in different locations and in different activities. It also monitors outstanding receivables periodically and the Company has made the necessary provision for the expected credit loss and use the provision to meet defaulting customers as shown in note 9.

The Company credit risk on the following balances:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	130,972,569	47,914,295
Trade receivables, net	13,146,301	16,282,219

#### 30.3. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Management endeavors to ensure that sufficient funds are available to meet any obligations when they fall due.

The following are the remaining contractual maturities of financial obligations at the end of the financial year.

<u>December 31, 2021</u>	<u>Book value</u>	<u>Less than 1</u> <u>year</u>	<u>1-5 years</u>	<u>More than 5</u> <u>years</u>
Trade payables	28,617,153	28,617,153		
Accrued expenses and dividend payables	19,642,329	19,642,329		
Zakat	10,794,445	10,794,445		
	<u>59,053,927</u>	<u>59,053,927</u>		

# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 30. Risk management...(Continued)

#### 30.3. Liquidity risk...(Continued)

<u>December 31, 2022</u>	<u>Book value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>
Trade payables	19,630,274	19,630,274		
Accrued expenses and dividend payables	22,400,588	22,400,588		
Zakat	13,300,157	13,300,157		
	<u>55,331,019</u>	<u>55,331,019</u>		

The company works to reduce liquidity risk by making sure that bank facilities are available when needed. The company's sales conditions require payment of amounts within 30 to 60 days from the date of sale. Accounts payable is usually paid within 30 to 60 days of the purchase date.

### 31. Dividends

- The Board of Directors of the company resolved by circulation on 27/01/1444H (corresponding to 25/08/2022) to distribute cash dividends to the company's shareholders amounting to SR. 24,426,551 (SR. 0.25 per share) for the financial period ending on June 30, 2022, provided that the eligibility is for the shareholders who own shares on the due and who are registered in the company's shareholder register at the Depository Center at the end of the second trading day following the due date corresponding to Wednesday 04/02/1444H (corresponding to 31/08/2022).
- The Board of Directors of the company resolved by circulation on 19/05/1444H (corresponding to 13/12/2022) to distribute cash dividends to the company's shareholders amounting to SR. 24,101,631 (SR. 0.25 per share) for the second period of the year 2022, provided that the eligibility is for the shareholders who own shares on the due and who are registered in the company's shareholder register at the Depository Center at the end of the second trading day following the due date corresponding to Wednesday 02/06/1444H (corresponding to 26/12/2022).
- The total dividends distribution during the year 2022 amounted to SR. 48,528,182 (December 31, 2021: SR. 97,900,000).

### 32. Significant events

On September 25, 2022, Hail Cement Company has signed a non-binding Memorandum of Understanding with Qassim Cement Company, pursuant to which the two companies have agreed to begin discussions regarding a securities swap deal whereby Qassim Cement Company will acquire all of the issued shares in Hail Cement Company (the "Potential Transaction"). Accordingly, Hail Cement Company and Qassim Cement Company will start the relevant due diligence studies related to the potential deal. Taking into account the successful completion of the financial evaluation studies and what the necessary professional due diligence studies may conclude, Hail Cement Company and Qassim Cement Company have agreed to move forward with the discussions in the context of a non-binding swap deal whereby the shareholders of Hail Cement Company will receive (0.1933) new shares in Qassim Cement Company for every share they own in Hail Cement Company ("Swap Factories"). In the event that the potential transaction is completed based on the swap factor, the total compensation that Qassim Cement Company will pay to the shareholders of Hail Cement Company will be approximately (18,924,070) new shares in Qassim Cement Company. Based on the closing price of Qassim Cement Company's share, amounting to (SR. 75) as at 09/21/2022, the evaluation of the share price of Hail Cement Company for the purposes of the potential deal – In the event that it is completed based on the swap factor – will be (SR. 14.5) per share, which represents an increase in the share price of Hail Cement Company by (18.7%) compared to the closing price of Hail Cement Company share as at 09/21/2022.



# HAIL CEMENT COMPANY

(A Saudi Joint Stock Company)

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## Notes to the financial statements for the year ended December 31, 2022

(All amounts in Saudi Riyals)

### 33. Subsequent events

- On January 16, 2023, corresponding to Jumada Al-Akhir 23, 1444H, and based on the resolution of the Minister of Commerce No. (284), the implementing regulations for the new Companies' Act were issued. On January 19, 2023, corresponding to Jumada Al-Akhir 26, 1444H, the new Companies' Act issued by Royal Decree No. (M / 132) entered into force. The company's management will make the necessary amendments to the company's articles of association as required by the new Companies' Act and its implementing regulations.
- The management believes that there are no other significant subsequent events from the statement of financial position date on December 31, 2022 until the date of approval of this financial statements that require amendments or disclosures in the financial statements.

### 34. Approval of the financial statements

The Company's financial statements has been approved by the board of directors on March 03, 2023 corresponding to Shaba'an 11, 1444 H.