RIYADH CABLES GROUP COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
together with the
Independent Auditor's Report
For the year ended 31 December 2019

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License No. 46/11/323 issued 11/3/1992

Independent Auditors' Report

To the Shareholders of Riyadh Cables Group Company

Opinion

We have audited the consolidated financial statements of **Riyadh Cables Group Company** (A Saudi Closed Joint Stock Company) ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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 that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 9 Ramadan 1440H corresponding to 14 May 2019.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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, Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, Board of director members, are responsible for overseeing the Group's financial reporting process.

Independent Auditors' Report

To the Shareholders of Riyadh Cables Group Company (continued)

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with 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 of **Riyadh Cables Group Company** and its subsidiaries.

For KPMG Al Fozan & Partners
Certified Public Accountants

Fahad Mubarak Al Dossari
License No.: 469

Riyadh on:
Date: 14 May 2020
Corresponding to: 21 Ramadan 1441 H

KPMG Al Fozan & Partners
Certified Public Accountants
C.R. 46

RIYADH CABLES GROUP COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(All amounts are expressed in Saudi Riyals unless otherwise stated)

	Notes	2019	2018
ASSETS			
Non-current assets			
Property, plant and equipment	9	**1,228,550,434**	1,207,361,129
Financial assets in unquoted equity shares	11	**2,387,484**	2,387,484
Right-of-use assets	6	**14,429,329**	-
Total non-current assets		**1,245,367,247**	1,209,748,613
Current assets			
Inventories	12	**1,040,853,013**	1,029,085,209
Trade receivables	14	**1,084,250,518**	883,593,599
Contract assets	13	**13,809,346**	9,168,629
Advances and other current assets	10	**44,506,318**	59,499,266
Advances to purchase financial assets	27	**21,000,000**	-
Cash and cash equivalents	15	**53,614,705**	45,984,310
Total current assets		**2,258,033,900**	2,027,331,013
Total assets		**3,503,401,147**	3,237,079,626
EQUITY AND LIABILITIES			
Equity			
Share capital	28	**1,500,000,000**	1,500,000,000
Statutory reserve	29	**207,268,152**	187,580,045
Retained earnings		**189,479,708**	231,347,978
Acquisition reserve of a subsidiary under common control	1	**22,725,173**	22,725,173
Foreign currency translation reserve		**(604,124)**	(307,016)
Equity attributable to the shareholders of the parent company		**1,918,868,909**	1,941,346,180
Non-controlling interest		**392,048**	392,138
Total equity		**1,919,260,957**	1,941,738,318
Non-current liabilities			
Post-employment benefits	16	**96,146,476**	102,236,115
Lease liability on right-of-use assets	6	**12,385,358**	-
Total non-current liabilities		**108,531,834**	102,236,115
Current liabilities			
Islamic finance facilities	17	**1,209,531,500**	853,550,000
Accrued expenses and other liabilities	19	**91,721,315**	129,962,570
Trade and other payables	20	**90,017,183**	85,848,895
Provisions	18	**59,912,122**	79,165,387
Contract liabilities	13	**-**	24,175,754
Provision for Zakat and income tax	26	**22,123,551**	20,402,587
Lease liability on right-of-use assets - current portion	6	**2,302,685**	-
Total current liabilities		**1,475,608,356**	1,193,105,193
Total liabilities		**1,584,140,190**	1,295,341,308
Total equity and liabilities		**3,503,401,147**	3,237,079,626

The attached notes from 1 to 36 are an integral part of these consolidated financial statements.

RIYADH CABLES GROUP COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019
(All amounts are expressed in Saudi Riyals unless otherwise stated)

	Notes	2019	2018
Revenue	21	**4,565,676,154**	4,302,863,240
Cost of revenues		**(4,085,657,371)**	(3,946,417,494)
Gross profit		**480,018,783**	356,445,746
Operating expenses			
Selling and distribution costs	22	**(97,964,977)**	(83,222,455)
General and administrative expenses	23	**(85,119,353)**	(78,206,777)
Allowance / (reversal of) for expected credit losses	14	**(33,455,516)**	5,359,112
Other income, net	24	**15,019,810**	4,204,710
Income from operations		**278,498,747**	204,580,336
Finance costs	25	**(49,619,023)**	(45,326,092)
Income before Zakat and income tax		**228,879,724**	159,254,244
Zakat and income tax	26	**(31,875,390)**	(23,814,216)
Net income for the year		**197,004,334**	135,440,028
Attributable to:			
Shareholders of the parent company		**196,881,064**	135,285,613
Non-controlling interest		**123,270**	154,415
Net income for the year		**197,004,334**	135,440,028
Other comprehensive income			
Items that may be reclassified to profit or loss			
Foreign operations translation reserve		**(297,108)**	(529,984)
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations	16	**10,938,773**	1,633,029
Comprehensive income		**207,645,999**	136,543,073
Comprehensive income attributable to:			
Shareholders of the parent company		**207,522,729**	136,388,658
Non-controlling interest		**123,270**	154,415
		207,645,999	136,543,073

The attached notes from 1 to 36 are an integral part of these consolidated financial statements.

RIYADH CABLES GROUP COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019
(All amounts are expressed in Saudi Riyals unless otherwise stated)

		Equity attributable to the shareholders of the parent company							
	Notes	**Share capital**	**Statutory reserve**	**Retained earnings**	**Acquisition reserve of a subsidiary under common control**	**Foreign currency translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
For the year ended 31 December 2019									
Balance as at 1 January 2019		**1,500,000,000**	**187,580,045**	**231,347,978**	**22,725,173**	**(307,016)**	**1,941,346,180**	**392,138**	**1,941,738,318**
Net income for the year		**-**	**-**	**196,881,064**	**-**	**-**	**196,881,064**	**123,270**	**197,004,334**
Other comprehensive income for the year		**-**	**-**	**10,938,773**	**-**	**(297,108)**	**10,641,665**	**-**	**10,641,665**
Total comprehensive income for the year		**-**	**-**	**207,819,837**	**-**	**(297,108)**	**207,522,729**	**123,270**	**207,645,999**
Net income transferred to statutory reserve		**-**	**19,688,107**	**(19,688,107)**	**-**	**-**	**-**	**-**	**-**
Dividends	30	**-**	**-**	**(230,000,000)**	**-**	**-**	**(230,000,000)**	**(123,360)**	**(230,123,360)**
Balance at 31 December 2019		**1,500,000,000**	**207,268,152**	**189,479,708**	**22,725,173**	**(604,124)**	**1,918,868,909**	**392,048**	**1,919,260,957**
Balance at 1 January 2018 - restated		1,500,000,000	174,051,484	401,113,439	23,967,761	222,968	2,099,355,652	811,366	2,100,167,018
Net income for the year		-	-	135,285,613	-	-	135,285,613	154,415	135,440,028
Other comprehensive income for the year		-	-	1,633,029	-	(529,984)	1,103,045	-	1,103,045
Total comprehensive income for the year		-	-	136,918,642	-	(529,984)	136,388,658	154,415	136,543,073
Movement in acquisition reserve of a subsidiary under common control	1	-	-	-	(1,242,588)	-	(1,242,588)	-	(1,242,588)
Net income transferred to statutory reserve		-	13,528,561	(13,528,561)	-	-	-	-	-
Dividends	30	-	-	(293,155,542)	-	-	(293,155,542)	(573,643)	(293,729,185)
Balance at 31 December 2018		1,500,000,000	187,580,045	231,347,978	22,725,173	(307,016)	1,941,346,180	392,138	1,941,738,318

The attached notes from 1 to 36 are an integral part of these consolidated financial statements.

RIYADH CABLES GROUP COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(All amounts are expressed in Saudi Riyals unless otherwise stated)

	2019	2018
Operating activities:		
Profit for the year before zakat	**228,879,724**	159,254,244
Adjustments		
Allowance / (reversal of) for expected credit losses	**33,455,516**	(5,359,112)
Reversal for provision of slow-moving inventory	**(12,754,177)**	(47,181,547)
Finance costs	**40,179,926**	45,326,092
Depreciation	**66,758,688**	64,277,636
Depreciation of right-of-use of assets	**1,784,639**	-
Acquisition reserve	**-**	(1,242,588)
Provision for accounts receivable	**410,450**	-
Loss from disposal of property, plant and equipment	**268,180**	1,786
Interest on lease liabilities	**840,508**	-
Post-employment benefits	**16,964,952**	11,208,233
Changes in working capital:		
Trade receivables	**(234,112,435)**	268,817,514
Contract liabilities	**(24,175,754)**	(15,587,134)
Contract assets	**(4,640,717)**	(9,168,629)
Inventories	**986,373**	181,968,211
Advances and other current assets	**14,582,498**	(19,273,709)
Derivatives	**-**	8,420,602
Advances to purchase financial assets	**(21,000,000)**	-
Trade and other payables	**4,168,288**	(116,538,533)
Provisions	**(19,253,265)**	(75,832,061)
Lease liabilities	**(2,366,433)**	(831,706)
Accruals and other liabilities	**(40,125,154)**	9,858,567
Net finance costs paid	**(38,419,387)**	(41,877,081)
Zakat and income tax paid	**(30,154,426)**	(40,979,620)
Post-employment benefits paid	**(12,115,819)**	(9,979,292)
Net cash flows (used in) / generated from operating activities	**(29,837,825)**	365,281,873
INVESTING ACTIVITIES		
Payments to purchase of property, plant and equipment	**(89,168,439)**	(65,589,230)
Proceed from sale of property, plant and equipment	**952,267**	68,887
Net cash flows used in investing activities	**(88,216,172)**	(65,520,343)
FINANCING ACTIVITIES		
Repayment of Islamic financing facilities during the year	**(2,568,430,000)**	(53,981,772)
Proceeds from Islamic financing facilities during the year	**2,924,411,500**	-
Dividend paid	**(230,000,000)**	(293,729,185)
Net cash provided from/(used in) financing activities	**125,981,500**	(347,710,957)
Net change in cash and cash equivalents during the year	**7,927,503**	(47,949,427)
Cash and cash equivalents at beginning of the year	**45,984,310**	94,463,721
Effect of exchange rate changes on cash and cash equivalents	**(297,108)**	(529,984)
Cash and cash equivalents at end of the year	**53,614,705**	45,984,310

The attached notes from 1 to 36 are an integral part of these consolidated financial statements.

(All amounts are expressed in Saudi Riyals unless otherwise stated)

Consolidated Statement of Cash Flows (continued)

	2019	2018
Non cash transaction:		
Withholding tax against dividends to shareholders	**-**	6,844,458
Change in actuarial assumptions relating to employees' defined benefits obligations	**10,938,773**	(1,633,029)
Finance costs relating to employees' defined benefits obligations	**-**	3,338,880
Changes arising from right-of-use assets due to application of IFRS 16	**14,429,329**	-
Spare parts inventories transferred to property, plant and equipment	**-**	19,289,798
Allowance for expected credit losses charged to retained earnings	**-**	15,337,744

(All amounts are expressed in Saudi Riyals unless otherwise stated)

1- REPORTING ENTITY

Riyadh Cables Group Company (the "Company") was formed as a closed joint stock company according to Regulation for Companies in the Kingdom of Saudi Arabia and operating under Commercial Registration No. 1010052927 issued on 24 Jumada' II 1435H (corresponding to 24 April 2014). The Company operates under Industrial License No. 396/R dated 12 Jumada' II 1416H (corresponding to 25 November 1995) amended by Industrial License No. 36/R dated 5 Muharram 1418H (corresponding to 12 May 1997) amended by Industrial License No. 2572 dated 16 Rajab 1434H (corresponding to 26 May 2013). The Company's registered office is located at Second Industrial Area, P.O. Box 26862 Riyadh 11496, Kingdom of Saudi Arabia.

The Company and its subsidiaries listed below (collectively referred to as the "Group") are engaged in the production of cables made from copper aluminum isolated and non-isolated, for use with low, medium and high voltage transformers.

These consolidated financial statements have been prepared for Riyadh Cables Group Company and its subsidiaries listed below:

			Ownership interest held by the Group (directly or indirectly)	
Subsidiary	Legal status	Country of incorporation	**2019**	2018
1-Saudi Modem Company for Metals, Cables and Plastic Industry and its subsidiaries listed below:	A Closed Joint Stock Company	Kingdom of Saudi Arabia	**100%**	100%
1.1 Qatar Cables Company LLC	A Limited Liability Company	Qatar	**50%**	50%
1.2 Arabian Gulf Company for Electrical Cables LLC	A Limited Liability Company	Kuwait	**49%**	49%
1.3 Gulf Company Electrical Works	A Limited Liability Company	Oman	**100%**	100%
1.4 Egyptian Riyadh Cable for Electrical Works (*)	Joint Stock Company (E.S.C)	Egypt	**49%**	-
2-Saudi Modern Company for Specialized Wires and Cables Industry	A Closed Joint Stock Company	Kingdom of Saudi Arabia	**100%**	100%
3- Saudi Modern Company for Telephone Cables Industry	A Closed Joint Stock Company	Kingdom of Saudi Arabia	**100%**	100%
4- Riyadh Cables Company and its subsidiaries listed below:	A Closed Joint Stock Company	Kingdom of Saudi Arabia	**100%**	100%
4.1 National Cables Industry Company	A single shareholder limited liability company	United Arab Emirates	**100%**	100%
4.2 Alrowad Company for Production of Electrical Cables Limited (**)	A single shareholder limited liability company	Iraq	**100%**	**100%**
4.3 Iraqi National Company for Cables Industry	A limited liability company	Iraq	**100%**	**-**
5-Saudi Modern Company for Cables Limited	A limited liability company	Kingdom of Saudi Arabia	**100%**	100%

1- REPORTING ENTITY (CONTINUED)

<u>Information about subsidiaries:</u>

1) Saudi Modem Company for Metals, Cables and Plastic Industry

Saudi Modern Company for Metals, Cables and Plastic Industry (the “Company") was formed as a Saudi Closed Joint Stock Company according to the Regulation for Companies in the Kingdom of Saudi Arabia under Commercial Registration No. 1010081709 dated 24 Jumada’ II 1435H (corresponding to 24 April 2014). The Ministerial resolution No. 148/Q dated 17 Jumada’ II 1435H (corresponding to 17 April 2014) has been issued to approve the conversion of the Company into a closed joint stock company by converting the Company including its rights and obligations as of 17 April 2014.

The Company operates under industrial license No. 9 issued on 9 Muharram 1411H (corresponding to 31 July 1990) which has been amended by the industrial license No. 3263 dated 25 Dhul Qi'dah 1436H (corresponding to 9 September 2015).

The principal activities of the Company include production and sale of copper rods to manufacture telephone and electrical wires, single or multi-cores low voltage cables in addition to production and sale of copper pipes to manufacture refrigeration and aluminum conductors insolated PVC materials.

- Egyptian Riyadh Cable for Electrical Works (*)
Egyptian Riyadh Cable for Electrical Works was formed on 2 October 2019 and is an Egyptian joint stock company in accordance with the provisions of the laws applicable in the Arab Republic of Egypt. The headquarter of the Company is located at 33 Kasr El Nil Street - Abdeen - Cairo. According to the Company's contract No. 19-37814-01-1-01, the principal activities of the Company include import and export all kinds of electric cables and their sizes, electrical pneumatic conveyors, telephone cables, fiber optic cables, copper rods, aluminum rods, control cables, panels, transformers, electrical wires, electrical accessories, electrical machinery and equipment and electrical works contracting.

2) Saudi Modern Company for Specialized Wires and Cables Industry

Saudi Modern Company for Specialized Wires and Cables Industry (“the company”) was formed as a Saudi Closed Joint Stock Company according to the Regulations for Companies in Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010106953 on 24 Jumada’ II 1435H (corresponding to 25 April 2014). The Company conducts its industrial activities under an industrial license No. 89 dated 10 Muharram 1440H (corresponding to 20 September 2018) issued by Ministry of Energy, Industry and Mineral Resources.

The principal activities of the Company include production of wires and other electronic and electrical cables.

3) Saudi Modern Company for Telephone Cables Industry

Saudi Modern Company for Telephone Cables Industry (“the company”) was formed as a Saudi Closed Joint Stock Company according to the Regulations for Companies in Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010107248 dated 17 Jumada’ II 1435H (corresponding to 13 April 2014). The Company conducts its industrial activities under an industrial license No. 105 dated 27 Muharram 1413H (corresponding to 28 July 1992) issued by Ministry of Energy, Industry and Mineral Resources.

The principal activities of the Company include production of wires and other electronic and electrical cables.

1- REPORTING ENTITY (CONTINUED)

<u>Information about subsidiaries:</u>

4) Riyadh Cables Company

Riyadh Cables Company ("the company") was formed as a Saudi Closed Joint Stock Company according to the Regulations for Companies in Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010146019 issued on 24 Rajab 1435H (corresponding to 24 April 2014). The shareholders of the Company agreed in their meeting held on 27 Safar 1435H (corresponding to 30 December 2013) to convert the Company from a limited liability company into a Saudi closed joint stock company. The Ministerial resolution No. 148/Q dated 17 Jumada' II 1435H (corresponding to 17 April 2014) has been issued to approve the announcement of conversion of the Company into a closed joint stock company by converting the Company including its rights and obligations as of 17 April 2014.

- National Cables Industry Company
National Cables Industry Company was formed in 2001 with a capital of AED 80 million. The principal activities of the Company include the production and distribution of electric power transmission cables, the production of electrical wires, the production of telecommunications wires, the production of cables and metal strips and fire resistance.

- Alrowad Company for Production of Electrical Cables Limited (**)
On 31 August 2017, National Cables Industry Company (a subsidiary of Riyadh Cables Company) acquired 100% of Alrowad Company for Production of Electrical Cables Limited in Iraq in the amount of SR 23,008,317 from a related party, "Abdul Qadir Al Muhaidib & Sons Company". The net assets of the Company at the acquisition date amounted to SR 46,976,078. Gains from the acquisition of SR 23,967,761 was recognized in the consolidated statement of changes in equity, and the share in profit or loss from the investment in a subsidiary was recorded from the date of acquisition at 31 August 2017 to the report date at 31 December 2017 in the statement of profit or loss and other comprehensive income. During 2018, the acquisition provision was adjusted to SR 1,242,588 which is represented by additional costs incurred by the Company as a result of the acquisition of Alrowad Company.

- Iraqi National Company for Cables Industry
The Company was formed according to the Articles of Association No. (M.U / 02-8161) dated 18 September 2018 with a capital of IQD 5.5 billion. The Company aims to develop capital investment in the production of electrical wires and cables according to national development plans.

5) Saudi Modern Company for Cables Limited

Saudi Modern Company for Cables Limited ("the Company") was formed as a limited liability company under Commercial Registration No. 1010143896 issued in Riyadh on 1 Rajab 1417H (corresponding to 11 November1996). The Company is a subsidiary of Riyadh Cables Group Company (the Holding Company/Group). The principal activities of the Company according to the Commercial Registration include general constructional and architectural contracting, construction and maintenance of industrial buildings and production lines, industrial services in the maintenance, repair and operation of industrial, electrical and telephone machines, computers, laboratory equipment and its installation and operation, commercial services in marketing, import and export services, inspection services in non-insurance activities, and advertising services.

2- BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with IFRS as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and by-laws of the Group.

3- BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis and the going concern concept, except for the following:

- Employees' defined benefits obligations that have been actuarially evaluated and measured at their present value using the projected unit credit method.
- Financial assets carried at fair value through profit or loss

4- FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the functional and presentation currency of the Group. All amounts have been rounded to the nearest SAR, unless otherwise indicated.

5- BASIS OF CONSOLIDATION

Subsidiaries
Subsidiaries are all entities controlled by the Group. Control is achieved when the Group has rights to the returns, from its involvement in the investee has the ability to affect those returns through its control over the investee. Specifically, the Group controls an investee if, and only if, the Group has all the following:

- Power over the investee (i.e., existing rights that give it the ability to direct the activities of the investee);
- Exposure, or rights, to variable returns from its involvement in the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than the majority of the voting rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has control over the investee, including:

- The contractual arrangements with the other vote holders of the investee.
- Rights arising from other contractual arrangements. together with the
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes in one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases.

Accounting for business combinations involving entities or businesses under common control

Accounting for business combinations involving entities or businesses under common control is outside the scope of IFRS 3 "Business Combinations". In the case of an absence of specific guidance in IFRS, management uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making that judgement, the management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or Interpretation. Several such bodies have issued guidance and some allow the pooling of interests method in accounting for business combinations involving entities under common control.

5- BASIS OF CONSOLIDATION (CONTINUED)

The management has adopted the pooling of interest method to account for the business combinations of entities under common control. This method involves the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts (no fair valuation).
- No new goodwill is recognized as a result of combination. And if there is good will arising from the difference between the consideration paid and the equity acquired it is reflected directly in the equity.
- The consolidated statement of profit or loss of the combining entities reflects the results of the full year irrespective of when the combination took place.

Non-controlling interest
NCI are measured initially at their proportionate share of the acquirer's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The share of profits or losses and the net assets that the Group does not control if they exist is presented separately in the consolidated statement of profit and loss and within equity in the consolidated statement of financial position. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date when control is lost.

Transactions eliminated on consolidation
Intercompany transactions, balances and unrealized profits or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the Group.

6- ADOPTION OF NEW AND AMENDED IFRS

6.1 Effect of changes in accounting policies as a result of adoption of new IFRS

The Group has adopted IFRS 16 'Leases' for the first time. The nature and effect of the changes from adoption this new accounting standard as described below: Several other interpretations and amendments apply for the first time in 2019, but have no impact on the consolidated financial statements of the Group.

The Group has not early adopted any standards or interpretations and amendments that have been issued but are not yet effective.

<u>IFRS 16 'Leases'</u>

The Group adopted IFRS 16 'Leases' with effect from 1 January 2019.

The Group has adopted IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

When applying the modified retrospective approach, a lessee does not restate comparative figures. Instead, a lessee recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The Group considers that the right-of-use assets equal to "lease liabilities of the right-of-use assets" as at 1 January 2019, and therefore, the opening balance of the retained earnings has not been restated on the date of the initial application.

6- ADOPTION OF NEW AND AMENDED IFRS (CONTINUED)

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transitions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component or others on the basis of their fixed values prices.

For Leases previously classified as operating leases:

(a) lessee recognizes, a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee measures that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
(b) lessee recognizes, a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee chooses, on a lease-by lease basis, to measure that right-of-use asset its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application.

The details of accounting policies under IAS 17 Leases are disclosed separately if they are different from those accounting policies under IFRS 16 and the effect of the changes is disclosed below:

Policy applicable from 1 January 2019
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for specific consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

- the Group has the right to operate the asset; or
- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

Right-of-use assets
The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

6- ADOPTION OF NEW AND AMENDED IFRS (CONTINUED)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability

Lease Liability
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

The Group has presented separately the right-of-use assets and the lease liabilities in the consolidated statement of financial position.

Short-term leases and leases of low-value assets
The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases - estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

Under IAS 17
In a comparative period, assets held under operating leases were classified as operating leases and were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in consolidated statement of profit or loss on a straight-line basis over the term of the lease.

(All amounts are expressed in Saudi Riyals unless otherwise stated)

6- ADOPTION OF NEW AND AMENDED IFRS (CONTINUED)

Impact on the consolidated financial statements

On transition to IFRS 16, the Company has recognized right-of-use assets and lease liabilities, recognizing the difference in the consolidated statement of profit or loss and other comprehensive income. The impact on transition is summarized below.

	For the year ended 31 December 2019
Impact on the consolidated financial statements at 1 January 2019	
Lease Liabilities	**15,427,513**
Right-of-use assets	**15,427,513**
Prepayments	**786,455**
Right-of-use assets at 1 January 2019	**16,213,968**
Right-of-use assets	
Assets recognized during the year	**16,213,968**
Depreciation charged during the year	**(1,784,639)**
Right-of-use assets at 31 December 2019	**14,429,329**
Depreciation charge for the period ended 31 December 2019 has been allocated as follows:	
Cost of sales	**1,784,639**

Lease liabilities

Maturity Analysis – Contractual undiscounted cash flows	For the year ended 31 December 2019
Discounted lease liabilities included in the consolidated statement of financial position	
As at 31 December 2019	
Current	**2,302,685**
Non-current	**12,385,358**
	14,688,043

Amounts recognized in the consolidated statement of profit or loss	For the year ended 31 December 2019
Right of use assets depreciation	**1,784,639**
Interest on lease liabilities	**840,508**

6- ADOPTION OF NEW AND AMENDED IFRS (CONTINUED)

6.2 The new and amended IFRS applied that have no material impact on the financial statements

Amendments to IFRS 9 'Prepayment Features with Negative Compensation'

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification.

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments have had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement'

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset)reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

6.3 Annual Improvements - 2015-2017 Cycle

• *IFRS 3 "Business Combinations"*
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments have had no impact on the consolidated financial statements of the Group as there is no transaction contains joint control.

6- ADOPTION OF NEW AND AMENDED IFRS (CONTINUED)

6.3 Annual Improvements - 2015-2017 Cycle (continued)

• IAS 12 "Income Taxes"
The amendments clarify that the income tax consequences of the dividend are more directly related to previous transactions or events that have generated income that can be distributed from the dividends to the shareholders.

Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

These amendments have had no impact on the consolidated financial statements of the Group as there is no transaction resulting in income tax consequences from dividends.

• IAS 23 "Borrowing Costs"

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale is complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Current versus non-current classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period.
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current

A liability is current when:

- It is expected to be settled in the 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.
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group classifies all other liabilities as non-current.

Property, plant and equipment

Property, plant and equipment (except for lands and projects in progress) are stated at cost, net of accumulated depreciation and any accumulated impairment losses, if any. Lands and projects in progress are stated at cost less any accumulated impairment losses, if any. Cost includes all amounts necessary for bringing the asset to the existing location to be ready for its intended use by management. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met, as well as costs incurred during the pre-operating period, less proceeds from sale of experimental production.

When parts of property, plant and equipment are significant in cost compared with total cost of asset, and when these parts/components have useful lives different from other parts and required to be replaced at intervals, the Group has to recognize such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed (planned or unplanned), its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. This is recorded as a separated part with a useful life equal to the period up to the upcoming planned inspection. The carrying amount of the replaced part is derecognized. In case the upcoming inspection is made before the planned date, any outstanding carrying value for previous inspection is recorded as an expense. Other repair and maintenance costs are recognized in the consolidated statement of profit or loss as incurred.

Depreciation is calculated from the date for which assets are available for their intended use. Self-constructed assets are from the date of completing such assets and be ready for their intended use. Depreciation on other assets is calculated using the straight-line method over their estimated useful lives as follows:

Depreciation is calculated using the straight-line method over the useful lives of the assets as follows:

	Number of years
Buildings	25
Plant and equipment	20 - 30
Strategic spare parts	10
Motor Vehicles	4
Furniture and fixtures	4 – 10
Tools	5
Laboratory equipment	10
Computers	10

Lands and projects in progress are not depreciated. The assets’ residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at end of each year.

Any item of property, plant and equipment is derecognized upon disposal or when it is unlikely that any future economic benefits will arise from the continuing use of the assets. Profits and losses resulting from disposal of property, plant and equipment that are retired, sold or unrecognized are identified by comparing the proceeds with carrying amount of an asset and are recognized under “other income, net” in the consolidated statement of profit or loss.

An asset’s carrying amount is written-down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets
An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the highest of an asset's fair value less cost of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from assets or group of other assets (cash-generating units). Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment loss at the end of each reporting period.

Contract assets and liabilities
Under IFRS 15, when a party to a contract implements its liabilities, the entity shall present in its statement of financial position, contract assets or liabilities, depending on the relationship between the entity's performance and customer payments. Contract assets are an entity's right to consideration in exchange for goods or services that the entity has transferred or implemented to the customer.

Contract liabilities are an entity's obligation to transfer goods or perform services for the benefit of the customer for which the entity received consideration (or is entitled to a payment for) from the customer. If the consideration agreed in the contract includes a variable amount, the Company estimates the amount of consideration that the Company is entitled to in exchange for transferring the goods or services agreed upon with the customer.

Foreign currencies
<u>Transactions and balances</u>
Foreign currency transactions are initially recorded by the Group's entities denominated in the functional currency of each of them according to the exchange rate prevailing on the date when the transaction becomes qualified for recognition for the first time. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the reporting date.

The differences arising on the settlement or translation of monetary items are recognized in the consolidated statement of profit and loss and other comprehensive income of the Group.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate prevailing at the date of the initial transaction.

<u>Translate the financial statements of the Group's subsidiaries</u>
The results and financial position of foreign operations (dealing in currencies that are not economically inflated) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- items of assets and liabilities presented for each statement of financial position are translated at the closing rate at the date of statement of financial position.
- income and expenses for each statement of profit or loss and other comprehensive income are transferred at the average exchange rates (unless the average rate does not nearly reasonably represent the effect of the accumulated exchange rates prevailing on the transaction dates, in which case the income and expenses are translated at the exchange rates on the transaction dates);
- All currency exchange differences are recognized in other comprehensive income.

Inventories
Inventories include raw materials, work in progress, finished goods, supplies and spare parts that are recorded at the low cost and net realizable value (NRV). Work in progress and finished goods inventories include direct materials, direct labors and an appropriate proportion of fixed and variable indirect expenses, the last is recorded on the basis of normal operating capacity.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (Continued)
Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is considered as the estimated selling price in ordinary course of business, less estimated costs to completion and the estimated costs necessary to complete the sale.

Financial instruments

Recognition and initial measurement
Trade receivables issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes party to the contractual provisions of the instrument.

A financial asset (unless it is an accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component is initially measured at the transaction price.

Financial assets

Classification of financial assets
On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions:

a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVTOCI if both of the following conditions are met:

a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVTOCI.

Financial assets	IFRS 9 classification
Cash and bank balances	Amortized cost
Trade receivables	Amortized cost
Due from related parties	Amortized cost
Other non-current assets	Amortized cost

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net Profit and loss including interest revenue and dividends are recognized in the consolidated statement of profit or loss.
Financial asset at amortized cost	These assets are measured at amortized cost using the effective interest method. Amortized value is reduced by impairment losses. Interest revenue, foreign exchange gains and losses and impairment are recognized in the statement of income. Any gain or loss on derecognition of an investment is recognized in the consolidated statement of profit or loss.
Financial assets through other comprehensive income (debt investments)	Subsequently measured at fair value. Interest revenue calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net profits and losses are recognized in OCI. On derecognition, accumulated profits and losses in OCI are reclassified to the consolidated statement of profit or loss. As at 31 December 2019, the Group has no such assets.
Financial assets through other comprehensive income (investments in equity instruments)	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss. Any profit or loss on derecognition or recognition of investment is recognized in equity, and may not be reclassified to the consolidated statement of profit or loss. As at 31 December 2019, the Group has no such assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Derecognition

A financial asset is derecognized when:

• the rights to receive cash flows from the asset have expired, or
• the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:

(a) the Group has transferred substantially all the risks and rewards of the asset, or
(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Impairment of financial assets
IFRS 9 impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVTOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In applying this forward-looking approach, a distinction is made between:

• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
• financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').
'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Presentation of impairment
Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses related to receivables from customers are presented separately in the consolidated statement of profit or loss and other comprehensive income.

Expected credit loss assessment for trade and other receivables
The Group applies IFRS 9 simplified approach for measuring expected credit losses, which uses a lifetime expected loss allowance. This method is applied for assessing an allowance against:

- financial assets measured at amortized cost of the Group

The expected loss rates are based on the payment profiles of receivables over a period of 12 months before each reported period and corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified GDP of Kingdom of Saudi Arabia, inflation rate and Saudi government spending (the country in which it renders the services) to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected loss approach breaks the total loss amount modelling into the following parts: Probability of Default (PD), Loss Given Default (LGD), Exposure At Default (EAD). These are briefly described below:

Loss Given Default (LGD): This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

Probability of Default (PD): the likelihood of a default over a particular time horizon.

Exposure at default (EAD): This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The Group uses a point in time (PIT) probability of default model to measure its impairment on financial assets. Point-in-time PD models incorporate information from a current credit cycle and assess risk at a point-in-time. The point-in-time PD term structure can be used to measure credit deterioration and starting PD when performing the allowance calculations. Also, when calculating lifetime expected credit losses, after the inputs are correctly converted, cash flows can be projected and gross carrying amount, loss allowance, and amortized cost for the financial instrument are then calculated.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)
Impairment of financial assets (continued)

Macroeconomic weighted average scenarios
The Group includes macroeconomic factor of GDP to develop multiple scenarios, the purpose is towards the realization of most likely outcome using worst and best case scenarios. The scenario-based analysis incorporates forward-looking information into the impairment estimation using multiple forward-looking macroeconomic scenarios. The estimate of expected credit losses reflects an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes.

After the inputs to the model are adjusted for the above mentioned macroeconomic scenarios, PD of each scenario is calculated and then weighted average PD based on the likelihood of scenarios is calculated. In the last step, a weighted average lifetime ECL based on the likelihood of the scenarios is determined.

Definition of default
In the above context, the Group considers default when:

- the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the customer is more than 360 days past due on any material credit obligation to the Group. As the industry norm suggests that such a period fairly represents default scenario for the Group, this rebuts the presumption of 90 days mentioned in IFRS 9.

The carrying amount of the asset is reduced using the above model and the loss is recognized in the consolidated statement of comprehensive income. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced. If a write-off is later recovered, the recovery is recognized under other income in the consolidated statement of profit or loss.

Specific provision
Specific provision is recognized on customer to customer basis at every reporting date. The Group recognizes specific provision against receivables from certain customers. Provisions are reversed only when the outstanding amounts are recovered from the customers.

Write-off
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Financial liabilities

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities mainly includes trade and other payables, related party and borrowings as mentioned in note 20.

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Financial liabilities	IFRS 9 classification
Trade payables	Amortized cost
Accrued expenses and other current liabilities	Amortized cost
Loans	Amortized cost
Due to related parties	Amortized cost

Derecognition

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Modifications of financial assets and financial liabilities

Financial assets
If the terms of the financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in the de-recognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount adjusting the gross carrying amount as modification gain or loss in the consolidated statement of profit or loss.

Financial liabilities
The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms is recognized in the consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Non-current assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some held for sale assets such as financial assets, continue to be measured in accordance with the Group's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortization.

Any profit or loss arising from the sale of a discontinued operation or its remeasurement to fair value less costs to sell is presented as part of a single line item, profit or loss from discontinued operations.

Cash and cash equivalents
For the purpose of presentation of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, bank balances, short-term deposits, call deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, and which are not subject to significant risk of changes in value.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to settle a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Group uses appropriate valuation techniques with surrounding conditions for which sufficient data are available to measure fair value, maximizing the use of appropriate inputs that can be monitored and minimizing the use of inputs that cannot be monitored to the greatest extent possible.

The measurement of the fair value of a non-financial asset takes into account the ability of the market participant to generate economic benefits by using the asset at its maximum and best use or by selling it to another market participant who may use the asset at its maximum and best use.

All assets and liabilities whose fair values are measured or disclosed in the financial statements are classified in the fair value hierarchy. This is described as follows, based on the lowest input level that is important for the overall measurement:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be obtained at the measurement date.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for assets or liabilities either directly (such as prices) or indirectly (derived from prices).
- level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are measured in the financial statements at fair value on a recurring basis, the Group determines whether transfers have been made between hierarchy levels by reassessing the classification (based on the lowest input level that is significant for the overall measurement) at the end of each reporting period.

Statutory reserve
Statutory reserve is based on statutory requirements, and in accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Group is required to set aside 10% of its annual net income to the statutory reserve until such reserve equals 30% of the Group’s share capital. This statutory reserve is not available for distribution.

Dividends to the shareholders of the Group
Dividends to the shareholders of the Group are recognized as liability in the consolidated financial statements of the Group in the year in which the dividends are approved by the shareholders of the Group.

Employees’ benefits

Short-term employees’ benefits
Short-term employees’ benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Employees’ benefits are payable to all employees who are employed under the terms and conditions of the Labor Laws applicable on the Group on termination of their employment contracts.

Defined contribution plan
Retirement benefit in the form of General Organization of Social Insurance (GOSI) is a defined contribution scheme. The Group has no obligation, other than the contribution payable to the GOSI. The Group recognizes contribution payable to the GOSI as an expense when due.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' benefits (continued)

Defined benefit plans (employees' end-of-service benefits)
The Group operates defined benefit plans, under the Saudi Labor Law applicable based on employees' accumulated periods of service at the statement of financial position.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Previously, employees' end of service benefits' liability was calculated at the current value of the vested benefits to which the employee was entitled, should his service be terminated at the reporting date.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in the statement of profit or loss on the earlier of:

• the date of the plan amendment or curtailment, and
• The date on which the Group recognizes related restructuring costs
• Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The Group recognizes the following changes in the net defined benefit obligation in the consolidated statement of profit or loss:

• service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
• Net interest expense or income.

Deferred Tax
Deferred tax, if any, is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets for deductible temporary differences are recorded when it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is recognized, or the liability is settled, based on tax rates (and tax rules) that have been enacted or substantively enacted up to the end of the financial period.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of liabilities may be small.
Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-zakat rate that reflects current market assessments of the time value of money and the risks specific to liability. The increase in the provision due to the passage of time is recognized as interest expense.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

The Group has adopted IFRS 15: Revenue from Contracts with Customers, which was effective from 1 January 2018.

Revenue is measured based on consideration specified in a contract with a customer, includes unbilled revenue (contract asset) and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or service to a customer.

The Group assess the services promised in a contract with a customer and identifies as a performance obligation either:

a) service that is distinct.
b) series of distinct services that are substantially the same and that have the same pattern of transfer to the customer (i.e. each distinct service is satisfied over the time and the same method is used to measure progress).

The Group recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15:

Step 1 - Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2 - Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 - Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4 - Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 - Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognizes revenue over time, as it meets the following criteria:

(a) The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.
(b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
(c) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

As the performance obligations where one of the above conditions are met, revenue is recognized over time at which time the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised services it creates a contract based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognized this gives rise to a advance from customer (contract liability).

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

The application of IFRS 15 has required management to make the following judgments:

Satisfaction of performance obligations
The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognizing revenue. The Group has assessed that based on the agreement entered into with the customers, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date. In these circumstances the Group recognizes revenue over time. Where this is not the case revenue is recognized at a point in time. For sale of goods revenue is generally recognized at point in time.

Determination of transaction prices
The Group is required to determine the transaction price in respect of each of its agreements with customers. In making such judgment the Group assess the impact of any variable consideration in the contract, due to discount or penalties, the existence of any significant financing component in the contract and any non-cash consideration in the contract.

Transfer of control in contracts with customers
In case where the Group determines that performance obligations are satisfied at a point in time, revenue is recognized when control over the assets that is subject of contract is transferred to the customer.

In addition, the application of IFRS 15 has resulted in the following estimation process:

Allocation of transaction price to performance obligation in contracts with customers
The Group has elected to apply the input method in allocating the transaction price to performance obligations where revenue is recognized over time. The Group considers that the use of the input method, which requires revenue recognition on the basis of the Group’s efforts to the satisfaction of performance obligation, provides the best reference of revenue actually earned. In applying the input method, the Group estimates the efforts or inputs to the satisfaction of a performance obligation. In addition to the cost of meeting contractual obligation to the customers, these estimates mainly include the time elapsed for service contracts.

Other matters to consider

Variable consideration
If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which the Group is entitled in exchange for transferring the promised goods or services to a customer. The Group estimates the transaction price on contracts with variable consideration using the expected value or most likely amount method. The method is applied consistently throughout the contract and to similar types of contracts.

Significant financing component
The Group adjusts the promised amount of consideration for the time value of money if the contract contains a significant financing component.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue sources

The Group earns revenue from following sources:

Revenue sources	**Revenue recognition**
Sale of goods	at a point in time
Contract revenue	over time

Revenue from sale of goods
Revenue is measured based on consideration specified in the contracts with customers and excludes amounts collected on behalf of third parties. The Group recognizes revenue when control of the product is transferred to the customer, which happens upon delivery to the customer.

If the consideration promised in a contract includes a variable amount, the Group estimates the fees to which it is entitled in exchange for transferring the promised goods or services to the customer.

Contract revenue

Revenue from on-site installation contracts satisfies over time revenue recognition criteria. It is measured based on input method by the percentage of actual cost incurred to-date to estimated total cost for each contract.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances changed. Any resulting increase or decrease in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that lead to the revision become known to the management.

Estimated costs and profits in excess of invoices on incomplete contracts are included in current assets as contract assets, and invoices in excess of costs incurred and estimated profits, if any, are included in current liabilities as contract liabilities.

Contract costs
Additional costs are recognized to obtain the contract as an expense, unless the Group has reasonable expectation of recovering these costs from its customer, as these costs are explicitly charged to the customers. The Group consumes these costs on a regular basis in conformity with transferring goods or services to a customer.

Cost of sales
Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material, direct labors, depreciation and other related indirect overheads. This also includes share of the related common overheads.

Selling and distribution costs
This include any costs incurred to execute or facilitate all sale transactions in the Group. These costs typically include salaries of the sales employees, costs of managing the exhibitions, marketing and distribution expenses, and logistics expenses as well as commissions و fees and the like. This includes share of the related general common costs.

General and administrative expenses
This pertain to operational expenses that are not directly related to the production of any goods or services. This includes share of the related general common costs.

Allocations of common expenses between direct cost, selling and distribution expenses, general and administrative expenses, when required, are made on a consistent basis.

7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Finance cost

The finance cost consists of the interest and other costs that an entity incurs in connection with borrowing of allocated funds through the Group, the interest on the employee's end-of-service benefits according to IAS 19 'Employee Benefits', and interest expenses on lease liabilities in accordance with IFRS 16 'Leases'. All other borrowing costs are recognized in the consolidated statement of income in the year in which they are incurred.

Zakat and income tax

Zakat

Zakat is provided for in accordance with regulations of the General Authority of Zakat and Tax in the Kingdom of Saudi Arabia ("GAZT") on an accrual basis. The Zakat charge is recognized in the consolidated statement of profit or loss. The differences, if any, resulting from the final assessments are adjusted in the year when assessments are finalized.

Income tax

Income tax is applied at the specified rates on the adjusted share of the income of non-Saudi shareholders specified in accordance with the Saudi regulations that are endorsed in the Kingdom of Saudi Arabia and is included in the consolidated statement of profit or loss and other comprehensive income.

For subsidiaries incorporated and operating outside the Kingdom of Saudi Arabia, provision for tax is computed in accordance with the tax regulations of their respective countries, when it is material. The Group considers that both the current and deferred income tax for these subsidiaries are immaterial.

8- USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the asset or liability affected in the future.

These estimates and assumptions are based upon experience and other various factors that are believed to be reasonable under these circumstances and are used to estimate the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period, if the effect of revision is limited to that period only, or they are recognized in the revision period and future periods if the revision affects both current and future periods.

The key assumption concerning the future and key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year is discussed below:

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account.

8- USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. An impairment loss reversal is recognized immediately in the consolidated statement of profit or loss.

Useful life of property, plant and equipment
The management of the Group determines the useful life of property, plant and equipment for calculating depreciation. The estimate is carried out after considering the expected usage of the asset or obsolescence. Management performs periodic review for the estimated useful lives and depreciation method to ensure that depreciation duration and method are consistent with the expected pattern for the economic benefit of the assets.

Fair value estimation of financial instruments
The Group uses the most observable market inputs when measuring the fair value of an asset or a liability. Fair values are classified in a fair value hierarchy based on the inputs used in the valuation which are shown as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be obtained at the measurement date.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for assets or liabilities either directly (such as prices) or indirectly (derived from prices).
- level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Expected credit loss allowance for trade receivables
The Group uses a provision matrix to calculate ECLs of trade receivables. The provision rates are based on days past due for groupings of various customer segments.
The provision matrix is initially based on the Group’s historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. GDP of Kingdom of Saudi Arabia, inflation rate and Saudi government spending) are expected to deteriorate over the next year which can lead to an increased number of defaults in the industrial sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.
The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future. The information about the ECLs on the Group’s trade receivables is disclosed in Note 14.

Provision for slow moving and obsolete items
Inventories are stated at the lower of cost and net realizable value; When inventories become old or obsolete, an estimate is made for their net realizable value. For individually significant amounts, this estimate is made on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of aging or obsolescence.

8- USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

Assumptions of employees' benefits obligations
The Group operates an end-of-service benefits plan for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected credit unit method in accordance with the periodic actuarial valuations. For details of assumptions and estimate please refer Note 16.

Certain actuarial assumptions have been applied as set out in Note 16 to these consolidated financial statements for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect gains and losses in those years.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate for the consideration required to settle the present obligation at reporting date taking into account risk and doubts specific to liability. Where the provision is measured using the cash flows estimated to settle the present obligation, it carrying amount is the present value of those cash flows.

When the Company expects some or all of economic benefits that are required to settle a provision of third party to be reimbursed, the accrued amount is recognized as an asset if the reimbursed amount is virtually certain and its value can be reliably estimated.

Onerous contracts
Current liabilities - arising from onerous contracts - are identified and recognized as provisions. The contract is considered onerous contract if the company enters into a contract in which the unavoidable costs of meeting the contractual obligations exceed the financial returns expected to be received under the contract.

Zakat and income tax
When calculating the Zakat and income tax expense for the current period, the Group has adjusted its net income and applied certain assumptions to the Zakat and the income tax base used to calculate the Zakat and income tax expense. However, the Zakat legislations issued the General Authority of Zakat and Tax ("GAZT") with respect to these amendments are subject to amendments and interpretations that are subject to change. The Group's management has provided its best estimates for those assumptions.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease as the weighted average rate used is 4.72%.

Going concern
The Group management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group and the Group have the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis

(All amounts are expressed in Saudi Riyals unless otherwise stated)

9- PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings (**)	Plant and equipment	Motor vehicles	Furniture and fixtures	Tools	Laboratory equipment	Computers	Strategic spare parts	Assets under construction (*)	Total
Cost											
1 January 2019	222,959,721	360,384,834	1,825,853,550	15,565,673	25,350,656	45,413,919	107,760,959	13,733,958	10,622,811	87,718,709	2,715,364,790
Additions	-	5,742,923	5,746,104	715,657	936,585	3,761,292	344,403	898,996	-	71,022,479	89,168,439
Disposals	-	-	-	(616,872)	-	-	-	-	(915,719)	-	(1,532,591)
Transfers from asset under construction	-	3,715,273	36,416,449	-	-	-	-	-	-	(40,131,722)	-
Transfers between assets	-	(11,067)	11,067	-	-	-	-	-	-	-	-
Foreign operations translations	(22,639)	(61,079)	194,885	(1,040)	98,583	(425,369)	-	(9,623)	-	(29,899)	(256,181)
31 December 2019	222,937,082	369,770,884	1,868,222,055	15,663,418	26,385,824	48,749,842	108,105,362	14,623,331	9,707,092	118,579,567	2,802,744,457
Accumulated depreciation											
1 January 2019	-	179,883,171	1,179,404,263	13,549,903	18,879,670	37,794,471	65,199,904	10,365,726	1,046,314	1,880,239	1,508,003,661
Charge for the year	-	12,857,296	37,727,643	922,843	2,140,698	2,811,326	8,683,073	659,879	955,930	-	66,758,688
Disposals	-	-	-	(347,290)	-	-	-	-	(94,888)	-	(442,178)
Foreign operations translations	-	(22,096)	(95,637)	(593)	(1,642)	(4,569)	-	(1,611)	-	-	(126,148)
31 December 2019	**-**	**192,718,371**	**1,217,036,269**	**14,124,863**	**21,018,726**	**40,601,228**	**73,882,977**	**11,023,994**	**1,907,356**	**1,880,239**	**1,574,194,023**
Net book value											
31 December 2019	**222,937,082**	**177,052,513**	**651,185,786**	**1,538,555**	**5,367,098**	**8,148,614**	**34,222,385**	**3,599,337**	**7,799,736**	**116,699,328**	**1,228,550,434**
31 December 2018	222,959,721	180,501,663	646,449,287	2,015,770	6,470,986	7,619,448	42,561,055	3,368,232	9,576,497	85,838,470	1,207,361,129

* Represent the value of the work in progress related to the construction of the Group's plant facilities, in addition to the new accounting system "SAP System".
** This item includes buildings constructed on land leased from the Saudi Authority for Industrial Cities and Technology Zones (MODON) for a period of 20 years.

(All amounts are expressed in Saudi Riyals unless otherwise stated)

9- PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings (****)	Plant and equipment	Motor vehicles	Furniture and fixtures	Tools	Laboratory equipment	Computers	Strategic spare parts	Assets under construction (*)	Total
Cost											
1 January 2018	217,159,547	347,306,829	1,815,281,290	14,944,896	24,958,912	74,252,740	104,380,842	13,128,508	-	58,908,017	2,670,321,581
Reclassification to inventories (**)	-	-	-	-	-	(29,912,609)	-	-	-	-	(29,912,609)
Additions	5,800,174	1,182,959	4,423,292	785,032	710,308	1,086,509	781,938	605,450	-	50,183,695	65,559,357
Disposals	-	-	(771,626)	(164,255)	(318,564)	(1,778)	-	-	-	-	(1,256,223)
Transfers from asset under construction	-	11,895,046	17,722,252	-	-	393,461	2,598,179	-	-	(32,608,938)	-
Transfers between assets	-	-	(10,801,658)	-	-	(404,404)	-	-	-	11,206,062	-
Transfers from inventories (**)	-	-	-	-	-	-	-	-	10,622,811	-	10,622,811
Foreign operations translations	-	-	-	-	-	-	-	-	-	29,873	29,873
31 December 2018	222,959,721	360,384,834	1,825,853,550	15,565,673	25,350,656	45,413,919	107,760,959	13,733,958	10,622,811	87,718,709	2,715,364,790
Accumulated depreciation											
1 January 2018	-	167,356,019	1,146,511,240	12,639,549	16,908,236	35,639,307	56,102,954	9,754,270	-	-	1,444,911,575
Charge for the year	-	12,527,152	35,069,868	1,074,607	2,289,946	2,561,343	9,096,950	611,456	1,046,314	-	64,277,636
Disposals	-	-	(701,010)	(164,253)	(318,512)	(1,775)	-	-	-	-	(1,185,550)
Transfers between assets	-	-	(1,475,835)	-	-	(404,404)	-	-	-	1,880,239	-
31 December 2018	-	179,883,171	1,179,404,263	13,549,903	18,879,670	37,794,471	65,199,904	10,365,726	1,046,314	1,880,239	1,508,003,661
Net book value											
31 December 2018	222,959,721	180,501,663	646,449,287	2,015,770	6,470,986	7,619,448	42,561,055	3,368,232	9,576,497	85,838,470	1,207,361,129
31 December 2017	217,159,547	179,950,810	668,770,050	2,305,347	8,050,676	38,613,433	48,277,888	3,374,238	-	58,908,017	1,225,410,006

(All amounts are expressed in Saudi Riyals unless otherwise stated)

10- ADVANCES AND OTHER CURRENT ASSETS

	2019	2018
Value-added tax (VAT)	**2,573,104**	21,508,244
Advances to suppliers	**11,485,487**	12,044,635
Refundable deposits - customs	**4,933,392**	4,176,537
Prepaid expenses	**15,241,288**	14,624,750
Employees' receivables	**2,459,180**	1,851,682
Insurance deposit	**-**	1,703,364
Income tax paid in advance	**-**	2,492,899
Others	**8,224,317**	1,097,155
Less: decrease in advances and other current assets	**(410,450)**	-
	44,506,318	59,499,266

11- FINANCIAL ASSETS IN UNQUOTED EQUITY SHARES

	Shareholding %	**2019**	2018
Natural Gas Distribution Company *	7.67%	**1,916,660**	1,916,660
International Company for Insulation Materials *	19.7%	**470,824**	470,824
		2,387,484	2,387,484

* The aforementioned investments are the unquoted investments in active financial markets. There is no material difference between their fair value and their book value.

12- INVENTORIES

	2019	2018
Raw materials	**210,093,710**	215,178,184
Finished goods	**589,067,815**	632,874,122
Work in progress	**133,634,826**	124,503,817
Goods-in-transit	**60,697,960**	14,795,001
Packaging material	**18,645,354**	24,773,146
Spare parts	**71,775,909**	72,558,603
Others (project accessories)	**2,919,478**	3,138,552
Total	**1,086,835,052**	1,087,821,425
Less: allowance for slow moving inventory	**(45,982,039)**	(58,736,216)
Net inventories	**1,040,853,013**	1,029,085,209

Movement in allowance for slow moving inventory is as follows:

	2019	2018
1 January	**58,736,216**	105,917,763
Provision during the year	**3,602,918**	3,534,732
Provision reversed during the year	**(16,357,095)**	(50,716,279)
31 December	**45,982,039**	58,736,216

* The Group has entered into a variety of contracts to meet the price fluctuations risk of copper and aluminum, which are a group of futures contracts for the purchase of copper and aluminum in order to meet the entity's requirements expected from use in manufacturing processes. The effect of the change in the fair value of these contracts, which are not classified as hedging instruments, has been recorded in calculating the cost of production included in the consolidated statement of profit or loss and other comprehensive income. At 31 December 2019, the unimplemented future contracts for copper and aluminum was US $ 108 million, equivalent to SR 405 million.

(All amounts are expressed in Saudi Riyals unless otherwise stated)

13- CONTRACTS ASSETS / LIABILITIES

Contract assets

	2019	2018
Total costs incurred up to reporting date	**295,108,570**	77,408,917
Total income recognized up to reporting date	**33,629,561**	17,569,885
Less: Progress billings	**(314,928,785)**	(85,810,173)
	13,809,346	9,168,629

Contract liabilities

	2019	2018
Total costs incurred up to reporting date	-	241,378,444
Total income recognized up to reporting date	-	21,552,951
Less: Progress billings	-	(287,107,149)
	-	(24,175,754)

14- TRADE RECEIVABLES

	2019	2018
Trade receivables	**1,180,740,656**	956,798,324
Retention receivable	**18,224,000**	8,083,805
Allowance for expected credit losses	**(114,714,138)**	(81,288,530)
Net trade receivables	**1,084,250,518**	883,593,599

Accounts receivable amounts include due from related parties of SR 3,571,695 (2018: SR 1,571,736).

The ageing of trade receivables and retention receivable:

			Past due and impaired				
	Total	**1 to 90 days**	**From 91-180 days**	**From 181-270 days**	**271-365 days**	**366-455 days**	**More than 455 days**
2019	**1,198,964,656**	**815,121,748**	**264,752,001**	**30,526,937**	**75,445,637**	**2,758,609**	**10,359,724**
2018	964,882,129	791,616,487	88,636,816	40,591,799	2,936,751	8,642,835	32,457,441

Expected credit loss assessment for trade and other receivables:

The Group applies the simplified approach of IFRS 9 to measure expected credit losses, which are used specifically for the lifetime expected credit losses for all financial assets measured at amortized cost.

The key inputs into the measurement of ECL are the following variables:

- probability of default using a statistical model (i.e. normal distribution curve)
- GDP of the Kingdom of Saudi Arabia, the rate of inflation and Saudi government spending, as variables of the macroeconomic, to calibrate the historical loss rate.

(All amounts are expressed in Saudi Riyals unless otherwise stated)

14- TRADE RECEIVABLES (CONTINUED)

The movement in allowance for expected credit losses for trade receivables is as follows:

	2019	2018
1 January	**81,288,530**	71,309,898
IFRS 9 Adjustments	**-**	15,337,744
Allowance / (reversal of) allowance for expected credit losses *	**33,455,516**	(5,359,112)
Exchange translation differences	**(29,908)**	-
31 December	**114,714,138**	81,288,530

* The balance of the provision made during the year included an allowance for doubtful debts, for a customer of SR 17 million in which the Group has made it against a debt of SR 34 million as at 31 December 2019, which is currently being worked on to find a final settlement for the full debt through the Company's legal advisor.

15- CASH AND CASH EQUIVALENTS

	2019	2018
Bank balances	**53,121,000**	45,546,673
Cash on hand	**493,705**	437,637
	53,614,705	45,984,310

16- POST-EMPLOYMENT BENEFITS OBLIGATIONS

The Group operates defined benefit plans in line with the labor law requirements in the countries where the Group's entities operate. The payments under this plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment.

The employment benefits plans are unfunded.

Opening balance in the consolidated statement of financial position
The amounts recognized in the consolidated statement of financial position and the movements in the net defined benefits obligations during the year are as follows:

	2019	2018
1 January	**102,236,115**	99,301,323
Current service cost	**12,588,128**	11,208,233
Interest cost	**4,382,000**	3,338,880
Paid during the year	**(12,115,819)**	(9,979,292)
Actuarial gains	**(10,938,773)**	(1,633,029)
Exchange translation differences	**(5,175)**	-
31 December	**96,146,476**	102,236,115

Significant actuarial assumptions

The significant actuarial assumptions used were as follows:

	2019	2018
Discount rate	**2.70%**	4.38%
Salary growth rate	**2.00%**	4.38%

(All amounts are expressed in Saudi Riyals unless otherwise stated)

16- POST-EMPLOYMENT BENEFITS OBLIGATIONS (CONTINUED)

Sensitivity analysis
The sensitivity of the defined benefit obligation to changes in the weighted key assumptions made is as follows:

		Impact on the balance of the defined benefit obligation in 2019	
	Change	**Increase in assumption**	**Decrease in assumption**
Discount rate	**1%**	**(84,937,000)**	**98,049,000**
Salary growth rate	**1%**	**98,028,000**	**(84,843,000)**

		Impact on the balance of the defined benefit obligation in 2018	
	Change	Increase in assumption	Decrease in assumption
Discount rate	1%	(90,414,596)	103,338,753
Salary growth rate	1%	103,268,454	(90,360,271)

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to happen, and changes in some assumptions may be related to others. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognized in the consolidated statement of financial position.

17- ISLAMIC FINANCE FACILITIES

The Group entered into credit facilities agreements with several local banks to support working capital during the year with a total amount of SR 2.9 billion (2018: SR 3.4 billion) at Islamic Murabaha interest rates agreed upon with the banks. All credit facilities were granted according to promissory notes approved by some members of the Board of Directors according to the authorities granted to them and approved by the Board of the Company. Interest rates on short-term loan are linked to the SIBOR plus a variable rate during the year.

	2019	2018
1 January	**853,550,000**	886,700,000
Withdrawn during the year	**2,924,411,500**	2,554,350,000
Paid during the year	**(2,568,430,000)**	(2,587,500,000)
31 December	**1,209,531,500**	853,550,000

18- PROVISIONS

	2019	2018
Provision for onerous contracts (18-1)	**55,438,185**	55,114,996
Provision for warranty obligation	**-**	20,000,000
Provision for legal cases (18-2)	**4,473,937**	4,050,391
	59,912,122	79,165,387

(All amounts are expressed in Saudi Riyals unless otherwise stated)

18- PROVISIONS (CONTINUED)

18.1 A provision of SR 55,438,185 (2018: SR 55,114,996) has been created by the Group in relation to the contracts as the current commitment of some of these contracts entered into with the Group's customers (onerous contracts) that will require cash outflows to settle these contracts due to increased copper and aluminum prices (used in cable products) during the year.

18.2 This provision represents the management's best estimate to meet the flow of resources in exchange for a lawsuit filed against the Group by one of its clients.

19- ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2019	2018
Advances from customers	**37,082,465**	54,000,337
Rebate receivables	**-**	20,277,355
Employee accruals	**12,182,507**	7,362,980
Accrued project expenses	**4,946,946**	-
Accrued expenses	**30,861,661**	44,802,563
Accrued VAT	**6,647,736**	3,519,335
	91,721,315	129,962,570

20- TRADE PAYABLES

	2019	2018
Trade payables	90,017,183	85,848,895

- Accounts payable amounts include due to related parties of SR 76,502 (2018: SR 945,804).

21- REVENUE

	For the year ended 31 December	
	2019	2018
Sale of goods	**4,468,908,758**	4,216,853,893
Contract revenue	**96,767,396**	86,009,347
	4,565,676,154	4,302,863,240

22- SELLING AND DISTRIBUTION EXPENSES

	For the year ended 31 December	
	2019	2018
Salaries and employee related benefits	**42,815,636**	39,177,096
Shipping charges	**32,611,197**	25,972,396
Sales commission	**4,338,656**	3,574,082
Advertising and showrooms expenses	**4,044,867**	3,271,295
Rental expenses	**1,736,783**	1,494,633
Inspection and quality testing expenses	**727,220**	1,020,747
Insurance expense	**891,922**	578,003
Depreciation expense	**688,569**	637,294
Communication expenses	**784,274**	557,968
Other expenses	**9,325,853**	6,938,941
	97,964,977	83,222,455

(All amounts are expressed in Saudi Riyals unless otherwise stated)

23- GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2019	2018
Salaries and employee related benefits	**58,290,446**	59,645,504
Professional and legal fees	**11,801,325**	5,745,541
Depreciation expense	**4,514,111**	4,578,516
Maintenance and repair expense	**2,637,713**	2,074,827
Travel and insurance expense	**1,208,368**	503,577
Communications and network expense	**624,526**	497,331
Offices supplies expenses	**88,190**	131,877
Other expenses	**5,954,674**	5,029,604
	85,119,353	78,206,777

24- OTHER INCOME - NET

	For the year ended 31 December	
	2019	2018
Gain / loss on disposal of fixed assets	**(268,180)**	8,513
Reversal of provisions	**683,202**	-
(Loss) / gain on foreign currency translation	**(752,109)**	(463,583)
Others	**15,356,897**	4,659,780
	15,019,810	4,204,710

25- FINANCE COSTS

	For the year ended 31 December	
	2019	2018
Bank interest	**40,179,926**	37,768,164
Bank commissions	**4,898,589**	4,219,048
Interest on employees' defined benefits obligations	**3,700,000**	3,338,880
Interest on lease liabilities	**840,508**	-
	49,619,023	45,326,092

(All amounts are expressed in Saudi Riyals unless otherwise stated)

26- ZAKAT AND INCOME TAX

Zakat and income tax status

The Group received a final assessment up to 31 December 2015. The assessments for years 2016 through 2018 are still under review by the General Authority of Zakat and Income Tax (GAZT). Zakat and income tax are calculated on the independent financial statements of the Group's companies. Zakat due to Saudi shareholders and tax due to foreign shareholders have been calculated according to the separate financial statements of each company in the Group. The Company's shareholders structure has been changed as a result of foreign shareholders entering the shareholding structure as of 1 April 2017. Accordingly, Zakat due from Saudi shareholders and tax due from foreign shareholders are calculated and charged in accordance with separate financial statements of the Group’s companies.

The Group’s entities received Zakat and income tax certificates stating that these entities filed their tax and Zakat returns to GAZT in the Kingdom of Saudi Arabia up to the year ended 31 December 2018 and received the required receipts and certificates. Furthermore, the Group received Zakat certificate for the year 2019 valid up to 30 April 2021.

- The Group has calculated the deferred tax and it has not been recorded, as its amount is not material to the consolidated financial statements.

Provision for Zakat and income tax

The movement in zakat and income tax provision for the years ended 31 December 2019 and 2018 is as follows:

	For the year ended 31 December	
Zakat	**2019**	2018
1 January	**19,650,125**	34,454,934
Provision for the year	**28,466,101**	21,721,087
Prior year Zakat settlements	**(5,167,081)**	-
Paid during the year	**(24,496,063)**	(36,525,896)
31 December	**18,453,082**	19,650,125

	For the year ended 31 December	
Income tax	**2019**	2018
1 January	**752,462**	3,113,057
Provision for the year	**3,409,289**	2,093,129
Paid during the year	**(491,282)**	(4,453,724)
31 December	**3,670,469**	752,462

(All amounts are expressed in Saudi Riyals unless otherwise stated)

27- RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Company consist of the shareholders, key management personnel, directors, and companies which are directly or indirectly controlled or influenced by the shareholders, directors, key management personnel. The Group transacts with different related parties in ordinary course of its business. Transactions are entered into with the related parties on the terms and conditions approved by the Group's management or its board of directors.

Related party balances
Amounts due from / (to) related parties resulting from transactions with related parties are as follows:

	Nature of relationship with related parties	2019	2018
Advances to purchase financial assets - due from a related party			
Al-Atheer Real Estate Development Company *	Joint management	**21,000,000**	-
Due from related parties - classified as trade receivables			
Masdar Building Material	Owned by a shareholder	**51,680**	-
Serra Holding Group	One of the shareholders is a shareholder in the company	**24,822**	14,327
		76,502	14,327

* During the year 2019, Riyadh Cables Group Company paid SR 21 million to Al-Atheer Real Estate Development Company, as a down payment for a joint investment with Abdul Qadir Al-Muhaidib & Sons Company "Shareholder" and Al-Atheer International Limited, is a related party.

Due from related parties - classified as trade receivables	Nature of relationship with related parties	2019	2018
Thabat Contracting Company	Owned by a shareholder	**1,468,608**	319,768
Masdar Building Material Company	Joint management	**2,103,087**	640,259
		3,571,695	960,027

Transaction with related parties
Transactions with a related party that have been performed during the year, in the ordinary course of business, are summarized below:

	Nature of relationship with related parties	Nature of transaction	2019	2018
Masdar Building Material	Owned by a shareholder	Purchase	**1,427,914**	1,930,483
Masdar Building Material	Owned by a shareholder	Sales	**13,267,861**	6,275,749
Serra Holding Group	One of the shareholders is a member of the Board of Directors of the company	Purchase	**53,940**	91,187
Thabat Contracting Company	Owned by a shareholder	Sales	**9,845,002**	3,581,315

(All amounts are expressed in Saudi Riyals unless otherwise stated)

27 -RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key management personnel remuneration

The remuneration of the board of directors and other key management personnel during the year are as follows:

	2019	2018
Salaries and short-term benefits	**18,795,600**	16,590,759
Post-employment benefits	**398,125**	353,793
	19,193,725	16,944,552

28 SHARE CAPITAL

At 31 December 2019 and 2018, the Company's share capital consists of 150 million shares at SR 10 each. The total issued capital is SR 1.5 billion. There were no movements in share capital during the year. The Company’s shareholder structure includes Saudi and foreign shareholders.

	31 December 2019 and 2018		
	No. of shares	**Shareholding %**	**Value (SAR)**
A.K. Al Muhaidib & Sons Company	46,000,000	30.67%	460,000,000
Ajial Al Hekma Investments Company Ltd.	43,000,000	28.67%	430,000,000
Alma Limited Company *	17,854,167	11.9%	178,541,670
Ahmad Samer Zaim	17,854,167	11.9%	178,541,670
Mohammed Hekmat Zaim	7,500,000	5%	75,000,000
Mohammed Abdulaziz Towaijri	1,500,000	1%	15,000,000
Khader Mohsin Al-Ibraheem	1,500,000	1%	15,000,000
Ihsan Zaim	4,437,500	2.96%	44,375,000
Rana Hamdi Zaim	5,177,083	3.45%	51,770,830
Leena Hamdi Zaim	5,177,083	3.45%	51,770,830
	150,000,000	100%	1,500,000,000

* During 2019, shares owned by Mr. Saad Hamdi Zaim have been transferred to Alma Limited Company.

29 STATUTORY RESERVE

In accordance with the Regulations for Companies in Kingdom of Saudi Arabia, the Group has established a statutory reserve by the appropriation of 10% of net income for the year until such reserve equals 30% of the share capital.

30 DIVIDENDS

- During the year 2019, the Company distributed SR 230 million, based on the minutes of the Ordinary General Assembly meeting held on 25 June 2019, an amount of (SR 200 million) and based on the minutes of the Board of Directors dated 14 October 2019, an amount of (SR 30 million).

- During the year 2018, the Group distributed cash dividends to shareholders of SR 300 million based on the minutes of the Extraordinary General Assembly meeting held on 10 June 2018.

31 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, the most important of which are the risks listed below:

Credit Risk
Liquidity risk
Market risk (currency risk, interest rate risk and commodity risk)

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital, in addition to the quantitative disclosures included in these consolidated financial statements.

Risk management framework
The Board of Directors is full responsible for the establishment and oversight of the Group's risk management framework. The board of directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee will report regularly to the board of directors on its activities.

The Group's current risk management policies are established to identify and analyze the risks faced by the Group, so as to set appropriate risk limits and controls, and to monitor risks and abide by limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and establishment of standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee of the Group oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The internal audit provide assistance to the audit committee of the Group in its control role. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which will be reported to the audit committee.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and cash at banks.

Trade receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management takes into account the demographics of the Group's customer base, including the default risks for the industry and the country in which customers operate, as these factors may have an impact on credit risk, especially in current economic conditions. Geographically, there is no concentration of credit risk.

The Group only transacts with known and creditworthy third parties. It is the Group's policy that all customers who wish to transact on credit terms are subject to credit verification procedures. Credit quality of the customer is assessed based on an extensive credit rating scorecard. In addition, the receivables balances are continuously monitored, resulting in the Group being exposed to bad debts is not material.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers using on internal and external rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are monitored regularly.

(All amounts are expressed in Saudi Riyals unless otherwise stated)

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group establishes an allowance for trade receivables impairment that represents its estimate of lifetime expected credit losses on trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Financial institutions
The Group has policies that limits the amount of credit exposure to any financial institution and this is regularly monitored.

The other categories of financial events do not result in significant credit risk.

The table below shows the credit quality details of the Group's receivables by credit risk rating scores:

	For the year ended 31 December	
	2019	2018
Less than 3 months	**815,121,748**	791,616,487
More than 3 months and less than 6 months	**264,752,001**	88,636,816
More than 6 months and less than one year	**105,972,574**	43,528,550
Over 1 year	**13,118,333**	41,100,276
31 December	**1,198,964,656**	964,882,129

The provision for impairment losses in receivables is as follows:

	For the year ended 31 December	
	2019	2018
Allowance for expected credit losses	**(114,714,138)**	(81,288,530)

For trade receivables, the Group applies the simplified approach of IFRS 9 to measure expected credit losses, which are used specifically for the lifetime expected credit losses for all financial assets measured at amortized cost.

The key inputs into the measurement of ECL are the following variables:
- probability of default using a statistical model (i.e. normal distribution curve)
- GDP of the Kingdom of Saudi Arabia, the rate of inflation and Saudi government spending, as variables of the macroeconomic, to calibrate the historical loss rate.

For cash at banks, cash and cash equivalents are deposited with banks with a high credit rating. The Group regularly updates its cash flows. Customer credit risk is managed by each business unit subject to the Company’s established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers using on internal and external rating criteria. Outstanding customer receivables are monitored regularly.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Furthermore, the Group maintains various credit methods.

The table below summarizes the maturity terms of the Company's financial liabilities based on contractual undiscounted payments:

31 December 2019	**Less than one year**	**1-5 years**	**Over 5 years**	**Carrying amount**
Short-term Islamic finance facilities	1,209,531,500	-	-	1,209,531,500
Trade payables	90,017,183	-	-	90,017,183
Accruals and other payables	91,721,315	-	-	91,721,315
	1,391,269,998	-	-	1,391,269,998

31 December 2018	**Less than one year**	**1-5 years**	**Over 5 years**	**Carrying amount**
Short-term Islamic finance facilities	853,550,000	-	-	853,550,000
Trade payables	85,848,895	-	-	85,848,895
Accruals and other payables	129,962,570	-	-	129,962,570
	1,069,361,465	-	-	1,069,361,465

Market risk
Market risk is the risk that changes in market prices such as currency rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable standards, while optimizing the return.

The Group purchases financial derivatives and uses its financial obligations to manage market risks. All these transactions are carried out within the guidelines set by the Board of Directors.

Currency risks
The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group, which is primarily Saudi Riyals.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances, in addition to buying derivative instruments.

The following table demonstrates the sensitivity of the Group to a reasonably possible change in the Saudi Riyals against USD - EUR, by 5% higher or lower with all other variables held constant, of the Group's monetary assets and liabilities:

	Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2019 **USD sensitivity in SAR thousands**	Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2019 **EUR sensitivity in SAR thousands**
5% increase	**1,550,033**	**(158,903)**
5% decrease	**(1,550,033)**	**158,903**

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2018 **USD sensitivity in SAR thousands**	Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2018 **EUR sensitivity in SAR thousands**
5% increase	910,692	(69,370)
5% decrease	(910,692)	69,370

The Group's exposure to foreign currency risk at the end of the reporting year, expressed in SR, was as follows:

	2019			2018		
	USD	**EUR**	**CHF**	USD	EUR	CHF
Trade receivables	**74,249,888**	**-**	**-**	48,052,334	-	-
Trade payables	**43,249,223**	**3,178,056**	**51,775**	29,838,485	1,387,405	-

Interest rate risks

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate, because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is primarily related to the Group's long-term loans with floating interest rates obtained from the holding company.

To reduce volatility and increase predictability of interest expenses, the Group may use debt issuance or enter into simple financial derivatives such as interest rate swaps.

The Group is exposed to the risk of changes in the interest rate market mainly due to loans. Loans at variable rates expose the Group to a change in cash flows as a result of changes in interest rates.

The Group's exposure to risk of changes in interest rates is as follows:

	For the year ended 31 December	
	2019	2018
Variable interest rate loans	**1,209,531,500**	853,550,000

Interest rate sensitivity

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) gains or losses by the amounts shown below. The analysis assumes that all other variables, especially the foreign exchange rate, remain constant.

31 December 2019	**Statement of profit or loss**	
	Increase 100 Points	**Decrease 100 Points**
Variable interest rate loans	**12,095,315**	**(12,095,315)**
Change in cash flows	**12,095,315**	**(12,095,315)**

(All amounts are expressed in Saudi Riyals unless otherwise stated)

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2018	Statement of profit or loss	
	Increase 100 Points	Decrease 100 Points
Variable interest rate loans	8,535,500	(8,535,500)
Change in cash flows	8,535,500	(8,535,500)

Commodity risk
The Group is exposed to the impact of market fluctuations on the prices of various inputs to production including aluminum and copper. The Group manages some key elements of commodity price risk through the use of fixed-price forward contracts.

32 CAPITAL MANAGEMENT

Risk management
Capital is equity attributable to the equity holders of the Group. The primary objective to the Group's capital management is to support its business and maximize shareholder value.

The policy of the Board of Directors is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the Company. The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions.

The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by adjusted total equity. The Board of Directors also monitors the level of dividends to shareholders. There were no changes in the Group's approach to capital management during the year. Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements. The Group's debt to adjusted capital ratio at the end of the reporting year was as follows:

	2019	2018
Total liabilities	**1,584,016,830**	1,295,341,308
Less: cash and cash equivalents	**(53,614,705)**	(45,984,310)
Adjusted net debt	**1,530,402,125**	1,249,356,998
Total equity	**1,919,260,957**	1,941,738,318
Adjusted equity and net debt	**3,449,663,082**	3,191,095,316
Adjusted debt ratio from adjusted equity ratio	**44%**	39%

33 CONTINGENCIES AND COMMITMENTS

Capital commitments
At 31 December 2019, the Group has commitments of SR 14.6 million (31 December 2018: SR 18.5 million) relating to capital expenditures.

Legal claim contingency
The Group faces, in its ordinary course of business, lawsuits, which are under litigation. While the ultimate results of these matters cannot be determined with certainty, the Group's management does not expect that they will have a material adverse effect on the consolidated financial statements of the Group.

Contingent assets and liabilities
The contingent liabilities amounted to SR 622 million (31 December2018: SR 510 million) against bank facilities in the form of letters of credit and guarantees obtained by the Group from several local banks against commission for granting facilities without any bank cover.

(All amounts are expressed in Saudi Riyals unless otherwise stated)

34 COMPARATIVE FIGURES

Certain comparative figures for the year 2018 have been reclassified to conform to the current year's presentation.

Financial statement line item	Balance before reclassification	Reclassification	Balance after reclassification
Trade and other payables	82,930,542	2,918,353	85,848,895
Selling and distribution costs	77,863,343	5,359,112	83,222,455
Other income, net	4,476,625	(271,915)	4,204,710

35 SUBSEQUENT EVENTS

Subsequent to the date of the consolidated financial statements and at the beginning of 2020, the Coronavirus (COVID-19) pandemic invaded the world, causing disruption in the economic and commercial sectors in general.
The Kingdom of Saudi Arabia has taken precautions to reduce the adverse effects of this pandemic. The management believes that it is not currently possible to determine all the economic impacts that may result from that pandemic, up to the date of the consolidated financial statements. In spite of this, the management does not expect that there will be any significant future adverse impacts due to the existence of many initiatives to support and stimulate the economy undertaken by the government of the Kingdom of Saudi Arabia in this context.

36 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on 5 Ramadan 1441H (corresponding to 28 April 2020).