

**RIYADH CABLES GROUP COMPANY**  
(A Saudi Closed Joint Stock Company)  
**Consolidated Financial Statements**  
For the year ended 31 December 2021  
together with the  
**Independent Auditor's Report**

**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 2021

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	<u>Pages</u>
- Independent Auditor's Report	-
- Consolidated statement of financial position	1
- Consolidated statement of profit or loss and other comprehensive income	2
- Consolidated statement of changes in equity	3
- Consolidated statement of cash flows	4
- Notes to the consolidated financial statements	5 - 48



## KPMG Professional Services

Riyadh Front, Airport Road  
P. O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia  
Commercial Registration No 1010425494

Headquarters in Riyadh

## كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار  
صندوق بريد ٩٢٨٧٦  
الرياض ١١٦٦٣  
المملكة العربية السعودية  
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

# Independent Auditor's Report

To the Shareholders of Riyadh Cables Group Company  
(A Saudi Joint Stock Company)

## Opinion

We have audited the consolidated financial statements of **Riyadh Cables Group Company** (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 Chartered and Professional Accountants (SOCPA).

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing as 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.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent Auditor's Report (continued)

To the Shareholders of Riyadh Cables Group Company  
(A Saudi Joint Stock Company)

### Key audit matters (continued)

#### Revenue recognition

Note (27) to the consolidated financial statements.

Key audit matter	How the matter was address in our audit
<p>The Group applies IFRS 15 'Revenue from contracts with customers'.</p> <p>During the year ended the year ended December 31, 2021 The Group recognized revenues totalling SR 4.9 billion.</p> <p>Revenue from the sale of goods is recognized when control of the product is transferred to the customer, on delivery to the customer.</p> <p>Revenue from on-site installation contracts is recognised over time. It is measured based on input method by the percentage of actual cost incurred to-date to estimated total cost for each contract.</p> <p>Revenue is considered to be one of the significant indicators for measuring the performance of the Group, resulting in a possible inherent risk of recognizing revenue which is more than its actual value.</p> <p>The revenue recognition is considered as a key audit matter due to the materiality of the revenue amount and the inherent risk of overstating revenue, which may have a material impact on the Group's consolidated financial statements.</p>	<p>We have, among other things, carried out the following procedures:</p> <ul style="list-style-type: none"> <li>● Assessed the appropriateness of the Group's accounting policies related to revenue recognition, including those related to discounts and incentives, as well as Assessed compliance with the requirements of applicable accounting standards.</li> <li>● Assessed the design, implementation and operating effectiveness of management's internal controls system which govern the process around recognition of Revenue.</li> <li>● Inquired about existence of any actual and / or suspected fraud from the management. Furthermore, inquired about management's philosophy on fraud awareness.</li> <li>● Assessed the impact of judgments and assumptions on management's estimates covering the revenue and accrued revenue recognized during the year.</li> <li>● Analytical procedures that include analysing the profit margin for sales compared to the previous year and obtaining explanations for any significant changes.</li> <li>● Procedures for testing the reliability and integrity of customer and sales master data for data submitted to us.</li> <li>● Tested a sample of journal entries which included specific risks of material misstatements and inspected underlying supporting documents.</li> <li>● Evaluated the adequacy of disclosures made by the management in the consolidated financial statements.</li> </ul>

## Independent Auditor's Report (continued)

To the Shareholders of Riyadh Cables Group Company  
(A Saudi Joint Stock Company)

### Key audit matters (continued)

#### Impairment in trade receivable balances

Note (14) to the consolidated financial statements.

Key audit matter	How the matter was address in our audit
<p>As of December 31, 2021, gross trade receivable amounted to SR 1.01 billion, against which a provision for impairment amounted to SR 48.6 million was recorded.</p> <p>In accordance with the requirements of IFRS 9 "Financial Instruments", the Group has applied the expected credit loss models to record an impairment against Trade receivables.</p> <p>The application of the expected credit loss models to record the impairment against trade receivable balances was considered as a key audit matter, because the impairment of trade receivables using the expected credit loss model involves material judgments and estimates that may have a significant impact on the Group's consolidated financial statements.</p>	<p>We have, among other things, carried out the following procedures:</p> <ul style="list-style-type: none"> <li>• Assessed the design, implementation and the operating effectiveness of the management's internal control systems which govern the trade receivables, including the provision for impairment of trade receivables.</li> <li>• Assessed the methodology, assumptions and estimates used by management in preparing Expected credit loss model, including the assessing projections for the future.</li> <li>• Assessing the completeness and accuracy of the aging report of trade receivables.</li> <li>• Involved our specialists to test the key assumptions used by management and assessed the reasonableness of the estimates used to record the provision for impairment of trade receivables.</li> <li>• Inspected a sample of cash receipts subsequent to the yearend of the consolidated financial statements relating to the trade receivables including any communications with major customers on the expected dates of payment or any cases of defaults</li> <li>• Evaluated the adequacy of the disclosures that the management has included in the consolidated financial statements.</li> </ul>

### Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Independent auditor's report (continued)

To the Shareholders of Riyadh Cables Group Company  
(A Saudi Joint Stock Company)

### 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 By-Laws 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 Directors, are responsible for overseeing the Group's financial reporting process.

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

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

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

- 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 auditors' 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.

## Independent auditor's report (continued)

To the Shareholders of Riyadh Cables Group Company  
(A Saudi Joint Stock Company)

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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**.

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

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

#### KPMG Professional Services

**Fahad Mubarak Al-Dossari**  
License No. 469

Riyadh on 8 Shawwal 1443H  
Corresponding to: 9 May 2022



**RIYADH CABLES GROUP COMPANY**  
(A Saudi Closed Joint Stock Company)  
Consolidated Statement of Financial Position  
As at 31 December 2021

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

	Note	2021	2020
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	1,154,744,180	1,144,404,191
Intangible assets	10	67,238,717	72,082,561
Investments at FVOCI	11	49,924,524	4,304,149
Right-of-use assets	12	10,842,109	12,639,802
<b>Total non-current assets</b>		<b>1,282,749,530</b>	<b>1,233,430,703</b>
<b>Current assets</b>			
Inventories	13	1,585,548,586	1,145,045,903
Trade receivables	14	962,664,504	818,985,307
Contract assets	15	11,746,691	6,822,102
Advances and other current assets	16	59,601,358	33,593,181
Cash and cash equivalents	17	50,356,201	64,252,757
<b>Total current assets</b>		<b>2,669,917,340</b>	<b>2,068,699,250</b>
<b>Total assets</b>		<b>3,952,666,870</b>	<b>3,302,129,953</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18	1,500,000,000	1,500,000,000
Statutory reserve	19	253,094,307	229,111,048
Retained earnings		261,078,163	207,953,866
Acquisition reserve of a subsidiary	1	22,725,173	22,725,173
Foreign operations – foreign currency translation differences		(1,264,063)	(428,649)
<b>Equity attributable to the shareholders of the company</b>		<b>2,035,633,580</b>	<b>1,959,361,438</b>
Non-controlling interests		433,204	(35,891)
<b>Total equity</b>		<b>2,036,066,784</b>	<b>1,959,325,547</b>
<b>Non-current liabilities</b>			
Employees' benefit obligations	21	107,410,714	96,426,743
Lease liabilities	12	9,052,975	10,431,847
<b>Total non-current liabilities</b>		<b>116,463,689</b>	<b>106,858,590</b>
<b>Current liabilities</b>			
Islamic Finance Facilities	22	1,324,175,000	858,675,000
Accrued expenses and other liabilities	23	140,816,581	107,882,441
Trade payables	24	221,031,943	127,607,217
Provisions	25	82,512,628	110,304,740
Provision for Zakat and income tax	26	29,690,240	29,422,275
Lease liabilities - current portion	12	1,910,005	2,054,143
<b>Total current liabilities</b>		<b>1,800,136,397</b>	<b>1,235,945,816</b>
<b>Total liabilities</b>		<b>1,916,600,086</b>	<b>1,342,804,406</b>
<b>Total equity and liabilities</b>		<b>3,952,666,870</b>	<b>3,302,129,953</b>

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The attached notes from 1 to 40 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 2021**  
(All amounts are expressed in Saudi Riyals unless otherwise stated)

	<i>Note</i>	<b>2021</b>	<b>2020</b>
Revenue	27	4,883,443,882	4,086,816,140
Cost of revenue	28	(4,420,360,895)	(3,650,438,801)
<b>Gross profit</b>		<b>463,082,987</b>	<b>436,377,339</b>
<b>Operating expenses</b>			
Selling and distribution expenses	29	(91,763,045)	(87,009,617)
General and administrative expenses	30	(79,477,135)	(84,497,147)
Reversal of allowance for expected credit losses	14	8,670,649	12,139,922
Other income, net	31	2,640,057	8,600,129
<b>Income from operations</b>		<b>303,153,513</b>	<b>285,610,626</b>
Finance costs	32	(31,780,551)	(35,350,544)
<b>Profit before zakat and income tax</b>		<b>271,372,962</b>	<b>250,260,082</b>
Zakat and income tax	26	(31,375,995)	(32,136,967)
<b>Net Profit for the year</b>		<b>239,996,967</b>	<b>218,123,115</b>
<b>Attributable to:</b>			
<b>Shareholders of the Company</b>		<b>239,832,593</b>	<b>218,428,959</b>
<b>Non-controlling interests</b>		<b>164,374</b>	<b>(305,844)</b>
<b>Net income for the year</b>		<b>239,996,967</b>	<b>218,123,115</b>
<b><i>Items that may be reclassified to profit or loss</i></b>			
Foreign operations – foreign currency translation differences		(835,414)	175,475
<b><i>Items that will not be reclassified to profit or loss</i></b>			
Investments at FVOCI- Net change in fair value	11	42,758,750	-
Re-measurements of employees' benefit obligations	21	(8,983,787)	388,095
<b>Other comprehensive income for the year</b>		<b>32,939,549</b>	<b>563,570</b>
<b>Total comprehensive income</b>		<b>272,936,516</b>	<b>218,686,685</b>
<b>Comprehensive income attributable to:</b>			
<b>Shareholders of the Company</b>		<b>272,772,142</b>	<b>218,992,529</b>
<b>Non-controlling interests</b>		<b>164,374</b>	<b>(305,844)</b>
		<b>272,936,516</b>	<b>218,686,685</b>
<b>Earnings per share</b>			
<b>Basic and diluted earnings per share</b>	34	<b>1.60</b>	<b>1.45</b>

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The attached notes from 1 to 40 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 2021

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

For the year ended 31 December 2020	Equity attributable to the shareholders of the company							Total equity	
	Note	Share capital	Statutory reserve	Retained earnings	Acquisition reserve of a subsidiary	Foreign operations – foreign currency translation differences	Total		Non-controlling interests
Balance as at 1 January 2020		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
Net income for the year		-	-	218,428,959	-	-	218,428,959	(305,844)	218,123,115
Other comprehensive income for the year		-	-	388,095	-	175,475	563,570	-	563,570
<b>Total comprehensive income for the year</b>		-	-	<b>218,817,054</b>	-	<b>175,475</b>	<b>218,992,529</b>	<b>(305,844)</b>	<b>218,686,685</b>
Net income transferred to statutory reserve		-	21,842,896	(21,842,896)	-	-	-	-	-
Dividend distribution	20	-	-	(178,500,000)	-	-	(178,500,000)	(122,095)	(178,622,095)
<b>Balance as at 31 December 2020</b>		<b>1,500,000,000</b>	<b>229,111,048</b>	<b>207,953,866</b>	<b>22,725,173</b>	<b>(428,649)</b>	<b>1,959,361,438</b>	<b>(35,891)</b>	<b>1,959,325,547</b>
<b>For the year ended 31 December 2021</b>									
Balance as at 1 January 2021		1,500,000,000	229,111,048	207,953,866	22,725,173	(428,649)	1,959,361,438	(35,891)	1,959,325,547
Net income for the year		-	-	239,832,593	-	-	239,832,593	164,374	239,996,967
Other comprehensive income for the year		-	-	33,774,963	-	(835,414)	32,939,549	-	32,939,549
<b>Total comprehensive income for the year</b>		-	-	<b>273,607,556</b>	-	<b>(835,414)</b>	<b>272,772,142</b>	<b>164,374</b>	<b>272,936,516</b>
Net income transferred to statutory reserve		-	23,983,259	(23,983,259)	-	-	-	-	-
Dividend distribution	20	-	-	(196,500,000)	-	-	(196,500,000)	304,721	(196,195,279)
<b>Balance as at 31 December 2021</b>		<b>1,500,000,000</b>	<b>253,094,307</b>	<b>261,078,163</b>	<b>22,725,173</b>	<b>(1,264,063)</b>	<b>2,035,633,580</b>	<b>433,204</b>	<b>2,036,066,784</b>

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The attached notes from 1 to 40 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 2021  
(All amounts are expressed in Saudi Riyals unless otherwise stated)

	Note	2021	2020
<b>Operating activities</b>			
Profit for the year before zakat and income tax		271,372,962	250,260,082
<b>Adjustments for:</b>			
Depreciation	9&10	63,392,212	62,161,104
Disposal loss of property, plant and equipment charged on cost of sales	9	256,235	-
Depreciation of right-of-use of assets	12	1,797,693	1,789,527
Interest on lease liabilities	12	398,993	275,566
(Reversal) / Provision against slow moving inventories	13	(1,322,839)	5,001,190
Reversal of allowance for expected credit losses	14	(8,670,649)	(12,139,922)
Provisions	25	(27,792,112)	50,392,618
Employees' benefit obligations	21	12,829,915	11,629,629
Gains from disposal of property, plant and equipment	31	-	(68,000)
Finance costs	32	26,896,230	24,557,668
<b>Working capital changes:</b>			
Inventories		(439,179,844)	(109,194,080)
Trade receivables		(135,008,548)	277,405,132
Contract assets		(4,924,589)	6,987,244
Advances and other current assets		(26,008,177)	10,913,137
Advances to purchase financial assets		-	21,000,000
Accruals and other liabilities		34,732,468	16,161,124
Trade and other payables		93,424,726	37,590,037
Net finance costs paid		(28,694,558)	(24,557,668)
Employees' benefit obligations paid	21	(10,829,731)	(10,961,267)
Zakat and income tax Paid	26	(31,108,030)	(24,838,243)
<b>Net cash flows (used in) / generated from operating activities</b>		<b>(208,437,643)</b>	<b>594,364,878</b>
<b>Investing activities</b>			
Payments to purchase of property, plant and equipment	9	(69,164,205)	(50,372,292)
Proceed from sale of property, plant and equipment	9	43,533	342,870
Payment for purchase of Intangible assets	10	(128,438)	-
Payment for Investments at FVOCI	11	(2,861,625)	(1,916,665)
<b>Net cash flows used in investing activities</b>		<b>(72,110,735)</b>	<b>(51,946,087)</b>
<b>Financing activities</b>			
Repayment of Islamic financing facilities during the year	22	(2,814,937,500)	(3,097,081,500)
Proceeds from Islamic financing facilities during the year	22	3,280,437,500	2,746,225,000
Repayment for Lease liabilities under right-of-use assets	12	(1,922,003)	(2,477,619)
Dividend paid	20	(196,195,279)	(178,622,095)
<b>Cash flows generated from / (used in) financing activities</b>		<b>267,382,718</b>	<b>(531,956,214)</b>
Net change in cash and cash equivalents during the year		(13,165,660)	10,462,577
Cash and cash equivalents at the beginning of the year	17	64,252,757	53,614,705
Effect of exchange rate changes on cash and cash equivalents		(730,896)	175,475
<b>Cash and cash equivalents at the end of the year</b>	17	<b>50,356,201</b>	<b>64,252,757</b>
<b>Non-Cash Transactions</b>			
Investments at FVOCI- Net change in fair value	11	42,758,750	-
Re-measurements of employees' benefit obligations	21	(8,983,787)	388,095
Statutory reserve		23,983,259	21,842,896

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The attached notes from 1 to 40 are an integral part of these consolidated financial statements.

**RIYADH CABLES GROUP COMPANY**

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****1- REPORTING ENTITY**

Riyadh Cables Group 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. 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.

On 11 December 2021, the board of directors held and decided to offer the Company in the Saudi Stock Exchange (Tadawul) and authorized the executive committee to contract with the parties it deems appropriate in this regard, accordingly during the period, The management has contracted with an advisor for the offering and a Financial Consultant to carry out the financial due diligence examination, The procedures for submitting the offering documents to the Capital Market Authority are still in progress.

The consolidated financial statements include the financial statements of the Company and its subsidiaries listed below (collectively referred to as the “Group”). The principal activities of the Group include the production of cables made from copper aluminum isolated and non-isolated, for use with low, medium and high voltage transformers and other cables related products.

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

Subsidiaries	Legal status	Country of incorporation	Ownership interest held by the Group (directly or indirectly)	
			2021	2020
1- Saudi Modern 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	Limited Liability Company	Qatar	50%	50%
1.2 Arabian Gulf Company for Electrical Cables LLC	Limited Liability Company	Kuwait	49%	49%
1.3 Gulf Company Electrical Works	Limited Liability Company	Oman	100%	100%
1.4 Egyptian Riyadh Cable for Electrical Works	Joint Stock Company (E.S.C)	Egypt	49%	49%
2- Saudi Modern Company for Specialized Wires and Cables Industry	A Closed Joint Stock Company	KSA	100%	100%
3- Saudi Modern Company for Telephone Cables Industry	A Closed Joint Stock Company	KSA	100%	100%
4- Riyadh Cables Company and its subsidiaries listed below:	A Closed Joint Stock Company	KSA	100%	100%
4.1 National Cables Industry Company	A single shareholder limited liability company	UAE	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	Limited Liability Company	Iraq	100%	100%
5- Saudi Modern Company for Cables Limited	Limited Liability Company	KSA	100%	100%

## **RIYADH CABLES GROUP COMPANY**

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2021

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

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### **1- REPORTING ENTITY (CONTINUED)**

#### **Information about subsidiaries:**

#### **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 interest in Alrowad Company for Production of Electrical Cables Limited in Iraq Owned by "Abdul Qader Al Muhaidib & Sons Company" (the company's shareholder), The net assets of the company in the acquisition date were greater than cash consideration as a result of the acquisition a gain of SR 22,725,173 was recognized in the consolidated statement of changes in equity

### **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.

#### **- Impact of Coronavirus (Covid-19) Outbreak**

Since the beginning of 2020, the Coronavirus pandemic (Covid 19) has swept the world, causing disruptions in the economic and commercial sectors in general. The group's management proactively assessed the impact on its operations and took a series of preventive measures, to ensure the health and safety of its employees and workers. Despite these challenges, the Group's business and operations currently remain largely unaffected, the core customer demand for the Group's products has not been affected to a large extent, although there has been a drop in demand during certain periods during the year. Based on these factors, the Group's management believes that the COVID-19 pandemic did not have a material impact on the reported financial results for the year ended December 31, 2021. The Group continues to closely monitor the development of the pandemic, although the management at this time is not aware of any expected factors that may change the impact of the pandemic on the Company's operations during or after 2022. The Group's management has also conducted an assessment of its ability to continue as a going concern and is convinced that the Company has sufficient resources to continue its business in the near future.

### **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 evaluated using actuarial technique and measured at their present value using the projected unit credit method.
- Financial assets carried at fair value through other comprehensive income

### **4- PRESENTATION AND FUNCTIONAL CURRENCY**

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

## **RIYADH CABLES GROUP COMPANY**

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2021

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

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### **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. And
- 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.

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 goodwill 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.

**5- BASIS OF CONSOLIDATION (CONTINUED)**

**Non – controlling interest (Continued)**

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 gains 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- APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company’s financial statements are disclosed below. The group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

<i>Standards</i>	<i>Particulars</i>	<i>Mandatory effective date</i>
International Financial Reporting Standards (IFRS 17)	Insurance Contracts	1 January 2023
International Financial Reporting Standards (IFRS 1)	First-time Adoption of International Financial Reporting Standards: A Subsidiary as First-time Adopter of IFRS	1 January 2022
International Financial Reporting Standards (IFRS 9)	Financial Instruments: fees within the 10% test thresholds for the purpose of derecognition of financial liabilities	1 January 2022
International Accounting Standards (IAS 41)	Agriculture: tax in fair value measurements	1 January 2022
(Amendments to International Accounting Standards “IAS 1”)	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to International Financial Reporting Standard (IFRS 3)	Business combinations: audit related to the conceptual framework	1 January 2022
(Amendments to the International Accounting Standards “IAS 16”)	Property, plant, and equipment: proceeds before intended use	1 January 2022
(Amendments to the International Accounting Standard “IAS 37”)	Onerous contracts: costs of contract fulfilment	1 January 2022
Amendments to the International Accounting Standard “IAS 8”	Definition of Accounting Estimates	1 January 2023
Amendments to International Accounting Standard (IAS 1) and International Accounting Standard (IAS 2) Practice Statement	Disclosure on accounting policies	1 January 2023

## **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.

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:



**RIYADH CABLES GROUP COMPANY**

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)**

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**7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Property, plant and equipment (continued)**

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

	Useful Lives
Buildings	25
Leased buildings	20
Plant and equipment	20 - 30
Strategic spare parts	10
Motor vehicles	4
Furniture & 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.

**Intangible assets**

Intangible assets are initially recognized at cost less accumulated amortization and impairment losses, if any. Costs associated with maintaining computer software are recognized as an expense as and when incurred.

Amortization is charged to statement of profit or loss by applying the straight-line basis whereby the carrying amount of an asset is amortized over its estimated useful life to the Company unless such life is indefinite. The estimated useful life of intangible assets (computer software) is 15 years.

The Company accounts for impairment, where indications exist, by reducing the asset's carrying amount to the recoverable amount.

**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 higher 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.

## 7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **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**

#### **Transactions and balances**

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.

#### **Translation of the financial statements of the Group's subsidiaries**

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 or net realizable value. 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.

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.

**7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 Group becomes a 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 (FVOCI) or fair value through profit or loss (FVTPL).

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

- 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 FVOCI 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.

<b>Financial assets</b>	<b>IFRS 9 classification</b>
Cash and bank balances	At amortized cost
Trade receivables	At amortized cost
Due from related parties	At amortized cost
Other non-current assets	At amortized cost

**7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

*Subsequent measurement*

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

<b>Financial assets at FVTPL</b>	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.
<b>Financial assets at amortized cost</b>	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.
<b>Financial assets through other comprehensive income (debt investments)</b>	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.
<b>Financial assets through other comprehensive income (investments in equity instruments)</b>	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.

*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 FVOCI, 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.

## **7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Financial instruments (continued)**

#### *Impairment of financial assets (continued)*

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.

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 and third 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.

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 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.

## 7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Financial instruments (continued)**

**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.

#### *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 above mentioned macroeconomic scenarios, PD of each scenario is calculated and then weighted average PD based on 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.

## **7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Financial instruments (continued)**

#### *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 Accrued expenses and other current liabilities, and Islamic Finance Facilities and Due to related parties.

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

<b>Financial liabilities</b>	<b>IFRS 9 classification</b>
Trade payables	At amortized cost
Accrued expenses and other current liabilities	At amortized cost
Borrowings	At amortized cost
Due to related parties	At 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 derecognition 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.

**RIYADH CABLES GROUP COMPANY**

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2021

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

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**7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

***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 are 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.

**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).



## **7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Fair value measurement (continued)**

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 employee's 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 employed under the terms and conditions of the labour 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.

### **Employees' benefits**

#### ***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 date of 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 Change in actuarial assumptions 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.

## **7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### ***Defined contribution plan (continued)***

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.

### **Zakat and income tax**

#### ***Zakat***

Zakat is calculated in accordance with regulations of the Zakat, Tax and Customs Authority (“ZATCA”) in the Kingdom of Saudi Arabia on the shares of Saudi shareholders 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 calculated 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 recognized 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.

#### **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.

The Group considers that both the current and deferred income tax for the foreign subsidiaries is immaterial.

#### **Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

## **7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Leases (continued)**

#### *i. 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.

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.

#### *ii) 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 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

## **7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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.

### **Revenue recognition**

The Group has adopted IFRS 15 'Revenue from Contracts with Customers.

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 of 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.

## **7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Revenue recognition (continued)**

The Group satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- (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 advances from customer (contract liability).

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:

## **7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Revenue recognition (continued)**

#### *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.

#### **Revenue streams**

The Group earns revenue from following sources:

<b>Revenue streams</b>	<b>Revenue recognition</b>
Sale of goods	At point in time
Contract revenue	over the 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 contracts is recognized over time. Revenue is measured and recognized on the percentage of completion method, which is calculated by comparing the actual percentage cost incurred to date to the estimated total cost of 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.

## **7- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Revenue recognition (continued)**

#### **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 general indirect costs. This also includes share of the related common overheads.

#### **Selling and distribution expenses**

This includes 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, 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.

#### **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.

#### **Segment Reporting**

IFRS 8 requires operating segments to be identified based on internal reports that are regularly reviewed by the Group executive management and used to allocate resources to segments and assess their performance. The operating segments described below has been prepared in accordance with IFRS 8. Most of the Group's revenues, profits and assets relate to its operations in Saudi Arabia and arise from specific business segments. The executive management monitors the operational results of these operating segments continuously for making decisions about resource allocation and performance evaluation. The performance of the segment is evaluated on a profit or loss basis and other performance indicators.

#### **Earnings per share**

The Company presents basic earnings per share for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding during the period.

## **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.

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 assets 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.



**RIYADH CABLES GROUP COMPANY**

(A Saudi Closed Joint Stock Company)

Notes to the consolidated financial statements

**For the year ended 31 December 2021**

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

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

*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.

*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.

*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.

Certain actuarial assumptions have been applied as set out in Note 21 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.

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

### 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, its 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 as 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 income tax base used to calculate the Zakat and income tax expense.

However, the Zakat legislations issued by the Zakat, Tax and Customs Authority ("ZATCA") 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.

### Going concern

The Group's management use estimates and assumptions to assess the group's ability to continue as a going concern, this includes an assessment of any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

**RIYADH CABLES GROUP COMPANY**

(A Saudi closed joint stock company)

Notes to the consolidated financial statements

For the year ended 31 December 2021

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

**9- PROPERTY, PLANT AND EQUIPMENT**

Cost	Land	Buildings (**)	Machine and equipment	Motor Vehicles	Furniture & fixtures	Tools	Laboratory equipment	Computers	Strategic spare parts	Assets under construction (*)	Total
<b>1 January 2021</b>	222,937,082	369,976,081	1,881,182,877	15,605,978	26,852,142	49,410,035	110,613,397	14,989,611	9,707,092	76,546,417	2,777,820,712
Additions	-	517,952	1,066,921	530,102	1,131,909	1,394,997	553,709	3,468,323	99,948	60,400,344	69,164,205
Disposals	-	-	-	-	(26,978)	-	-	(424,678)	(23,248)	-	(474,904)
Transfers from asset under construction	-	5,654,806	66,163,853	-	514,872	-	-	-	-	(72,333,531)	-
Transfer between related parties	-	-	(4,905,119)	-	-	-	-	-	-	4,905,119	-
Effect of movements in exchange rates	(250,044)	149,719	-	(5,371)	(46)	1,224	-	-	-	-	(104,518)
<b>31 December 2021</b>	<b>222,687,038</b>	<b>376,298,558</b>	<b>1,943,508,532</b>	<b>16,130,709</b>	<b>28,471,899</b>	<b>50,806,256</b>	<b>111,167,106</b>	<b>18,033,256</b>	<b>9,783,792</b>	<b>69,518,349</b>	<b>2,846,405,495</b>
<b>Accumulated depreciation</b>											
<b>1 January 2021</b>	-	206,835,103	1,247,607,586	14,598,007	23,037,114	43,786,822	81,136,404	11,649,390	2,885,856	1,880,239	1,633,416,521
Charge for the year	-	12,813,554	30,871,788	485,528	2,665,742	2,823,813	7,093,714	1,140,567	525,224	-	58,419,930
Disposals	-	-	-	-	(4,175)	-	-	(168,443)	(2,518)	-	(175,136)
Transfers from asset under construction	-	-	1,880,239	-	-	-	-	-	-	(1,880,239)	-
<b>31 December 2021</b>	<b>-</b>	<b>219,648,657</b>	<b>1,280,359,613</b>	<b>15,083,535</b>	<b>25,698,681</b>	<b>46,610,635</b>	<b>88,230,118</b>	<b>12,621,514</b>	<b>3,408,562</b>	<b>-</b>	<b>1,691,661,315</b>
Net carrying amount											
<b>31 December 2021</b>	<b>222,687,038</b>	<b>156,649,901</b>	<b>663,148,919</b>	<b>1,047,174</b>	<b>2,773,218</b>	<b>4,195,621</b>	<b>22,936,988</b>	<b>5,411,742</b>	<b>6,375,230</b>	<b>69,518,349</b>	<b>1,154,744,180</b>
<b>31 December 2020</b>	<b>222,937,082</b>	<b>163,140,978</b>	<b>633,575,291</b>	<b>1,007,971</b>	<b>3,815,028</b>	<b>5,623,213</b>	<b>29,476,993</b>	<b>3,340,221</b>	<b>6,821,236</b>	<b>74,666,178</b>	<b>1,144,404,191</b>

\* Represent the value of the work in progress related to the construction of the Group's plant facilities.

\*\* 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 till 1454 H. corresponding to 2033 AD.

**RIYADH CABLES GROUP COMPANY**  
(A Saudi closed joint stock company)

Notes to the consolidated financial statements

For the year ended 31 December 2021

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

**9- PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Land	Buildings (**)	Machine and equipment	Motor Vehicles	Furniture & fixtures	Tools	Laboratory equipment	Computers	Strategic spare parts	Assets under construction (*)	Total
<b>Cost</b>											
1 January 2020	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
Additions	-	205,197	849,037	130,560	466,318	737,193	2,508,035	366,280	-	45,109,672	50,372,292
Disposals	-	-	(188,000)	(188,000)	-	(77,000)	-	-	-	(274,870)	(727,870)
Transfers from asset under construction	-	-	12,299,785	-	-	-	-	-	-	(12,299,785)	-
Transfer to intangible assets	-	-	-	-	-	-	-	-	-	(74,568,167)	(74,568,167)
<b>31 December 2020</b>	<b>222,937,082</b>	<b>369,976,081</b>	<b>1,881,182,877</b>	<b>15,605,978</b>	<b>26,852,142</b>	<b>49,410,035</b>	<b>110,613,397</b>	<b>14,989,611</b>	<b>9,707,092</b>	<b>76,546,417</b>	<b>2,777,820,712</b>
<b>Accumulated depreciation</b>											
1 January 2020	-	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
Charge for the year	-	14,116,732	30,759,317	661,144	2,018,388	3,262,594	7,253,427	625,396	978,500	-	59,675,498
Disposals	-	-	(188,000)	(188,000)	-	(77,000)	-	-	-	-	(453,000)
<b>31 December 2020</b>	<b>-</b>	<b>206,835,103</b>	<b>1,247,607,586</b>	<b>14,598,007</b>	<b>23,037,114</b>	<b>43,786,822</b>	<b>81,136,404</b>	<b>11,649,390</b>	<b>2,885,856</b>	<b>1,880,239</b>	<b>1,633,416,521</b>
<b>Net carrying amount</b>											
31 December 2020	222,937,082	163,140,978	633,575,291	1,007,971	3,815,028	5,623,213	29,476,993	3,340,221	6,821,236	74,666,178	1,144,404,191
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

\* Represent the value of the work in progress related to the construction of the Group's plant facilities.

\*\* 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 till 1454 H corresponding to 2033 AD.

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****10- INTANGIBLE ASSETS**

	<u>2021</u>	<u>2020</u>
	<u>Computer software</u>	<u>Computer software</u>
<b>Cost:</b>		
As of 1 January	74,568,167	-
Additions during the year	128,438	74,568,167
As of 31 December	<u>74,696,605</u>	<u>74,568,167</u>
<b>Amortization:</b>		
As of 1 January	2,485,606	-
Charge for the year	4,972,282	2,485,606
As of 31 December	<u>7,457,888</u>	<u>2,485,606</u>
<b>Net book value as at 31 December</b>	<u>67,238,717</u>	<u>72,082,561</u>

The above intangible assets represent cost of SAP system which was used beginning of the year 2020.

**11- INVESTMENTS AT FVOCI**

	<u>Shareholding</u>	<u>2021</u>	<u>2020</u>
Natural Gas Distribution Company	7.67%	46,153,233	3,833,325
International Company for Insulation Materials *	19.70%	470,824	470,824
Alnayfat Company	0.011%	352,986	-
Saudi Tadawul Group	0.010%	1,494,630	-
Stc Solution Investment	0.050%	1,162,700	-
Almunajem Investment	0.008%	290,151	-
		<u>49,924,524</u>	<u>4,304,149</u>

\* The aforementioned investment is investment unquoted. The management estimated that there is no material difference between their fair value and their book value.

The movement on investments at FVOCI as follow:

	<u>Opening Balance</u>	<u>Additions</u>	<u>Net change in fair value</u>	<u>Ending Balance</u>
Natural Gas Distribution Company	3,833,325	-	42,319,908	46,153,233
International Company for Insulation Materials	470,824	-	-	470,824
Alnayfat Company	-	381,602	(28,616)	352,986
Saudi Tadawul Group	-	1,247,505	247,125	1,494,630
Stc Solution Investment	-	932,878	229,822	1,162,700
Almunajem Investment	-	299,640	(9,489)	290,151
	<u>4,304,149</u>	<u>2,861,625</u>	<u>42,758,750</u>	<u>49,924,524</u>

**12- RIGHT-OF-USE ASSETS**

	<u>2021</u>	<u>2020</u>
<b>Right-of-use assets</b>		
As at 1 January	12,639,802	14,429,329
Depreciation charged during the year	(1,797,693)	(1,789,527)
Right-of-use assets at 31 December	<u>10,842,109</u>	<u>12,639,802</u>

**Depreciation charge for the period ended has been allocated as follows:**

Cost of sales	<u>1,797,693</u>	<u>1,789,527</u>
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**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****12- RIGHT-OF-USE ASSETS (CONTINUED)****Lease liabilities****Maturity analysis – contractual undiscounted cash flows****Discounted lease liabilities included in the consolidated statement of financial position**

Current

Non-current

<b>2021</b>	<b>2020</b>
<b>1,910,005</b>	2,054,143
<b>9,052,975</b>	10,431,847
<b>10,962,980</b>	12,485,990

**For the year  
ended  
31 December  
2021**

**For the year  
ended  
31 December  
2020**

*Amounts recognized in the consolidated statement of profit or loss*

Depreciation of right-of-use assets

Interest on lease liabilities

<b>1,797,693</b>	1,789,527
<b>398,993</b>	275,566

**13- INVENTORIES**

	<b>2021</b>	<b>2020</b>
Finished goods	<b>868,135,090</b>	741,444,333
Work in progress	<b>339,652,655</b>	145,384,122
Raw materials	<b>291,775,177</b>	199,545,977
Spare parts	<b>71,054,915</b>	68,242,851
Packaging material	<b>35,018,161</b>	24,478,801
Goods-in-transit	<b>24,518,808</b>	15,774,723
Others	<b>5,054,170</b>	1,158,325
<b>Total</b>	<b>1,635,208,976</b>	1,196,029,132
Less: allowance for slow moving inventory	<b>(49,660,390)</b>	(50,983,229)
<b>Net inventories</b>	<b>1,585,548,586</b>	1,145,045,903

\* The Group has entered into a variety of future contracts to meet the price fluctuations risk of copper and aluminum, in order to meet the Group's requirements expected from use in manufacturing processes. The effect of closing these contracts - contracts to buy or sell non-financial instruments / or contracts for self-use which are not classified as hedging instruments is recorded in the cost of production included in the consolidated statement of profit or loss and other comprehensive income. The book value of the unexecuted future contracts for copper and aluminum on 31 December 2021, amounted to 46 million US dollars, equivalent to 172 million Saudi riyals.

Movement in allowance for slow moving inventory is as follows:

	<b>2021</b>	<b>2020</b>
As at 1 January	<b>50,983,229</b>	45,982,039
Provision during the year	<b>1,441,699</b>	7,753,410
Reversal of provision during the year	<b>(2,764,538)</b>	(2,752,220)
<b>As at 31 December</b>	<b>49,660,390</b>	50,983,229

**14- TRADE RECEIVABLES**

	<b>2021</b>	<b>2020</b>
Trade receivables	<b>1,011,313,814</b>	877,006,763
Less: Allowance for expected credit losses	<b>(48,649,310)</b>	(58,021,456)
<b>Net trade receivables</b>	<b>962,664,504</b>	818,985,307

Accounts receivable amounts include due from related parties of SR 2,864,366 (2020: SR 3,828,229) Note 35.

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****14- TRADE RECEIVABLES (CONTINUED)****The ageing of trade receivables is as follows:**

	<b>Total</b>	<b>Age bracket</b>				
		<b>0 to 90 Days</b>	<b>91-180 days</b>	<b>181-270 days</b>	<b>271-365 days</b>	<b>More than 365 days</b>
<b>2021</b>	<b>1,011,313,814</b>	<b>956,142,465</b>	<b>7,303,991</b>	<b>6,392,604</b>	<b>1,587,065</b>	<b>39,887,689</b>
<b>2020</b>	<b>877,006,763</b>	<b>818,623,722</b>	<b>11,178,135</b>	<b>6,745,703</b>	<b>3,954,393</b>	<b>36,504,810</b>

**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.

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

	<b>2021</b>	<b>2020</b>
As at 1 January	<b>58,021,456</b>	114,714,138
Reversal of allowance for expected credit losses	<b>(8,670,649)</b>	(12,139,922)
Utilization of provisions during the year	<b>(701,497)</b>	(44,552,760)
<b>As at 31 December *</b>	<b>48,649,310</b>	<b>58,021,456</b>

\* The balance of the provision includes an allowance for doubtful debts related to a customer of SR 34 million representing 100% of the customer's debt for which the Group has made as of 31 December 2020, which is currently being worked on to find a final settlement of the full the aforementioned debt, using the usual legal methods in this case.

**15- CONTRACT ASSETS**

	<b>2021</b>	<b>2020</b>
Total costs incurred up to reporting date	<b>281,702,818</b>	304,265,771
Total income recognized up to reporting date	<b>36,608,970</b>	30,454,170
Less: Progress billings	<b>(306,565,097)</b>	(327,897,839)
	<b>11,746,691</b>	<b>6,822,102</b>

**16- ADVANCES AND OTHER CURRENT ASSETS**

	<b>2021</b>	<b>2020</b>
Advances to suppliers	<b>28,481,220</b>	16,481,891
Suppliers – debit balances (*)	<b>11,749,771</b>	-
Prepaid expenses	<b>6,169,731</b>	5,492,044
Employees' receivables	<b>3,554,956</b>	1,243,689
Refundable deposits - customs	<b>2,118,054</b>	2,212,603
Value added tax	-	999,588
Other	<b>7,527,626</b>	7,163,366
	<b>59,601,358</b>	<b>33,593,181</b>

(\*) This balance represents the value of discounts due for the year from the suppliers of the company.

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****17- CASH AND CASH EQUIVALENTS**

	<u>2021</u>	<u>2020</u>
Bank balances	49,967,628	63,745,656
Cash in hand	388,573	507,101
	<u>50,356,201</u>	<u>64,252,757</u>

**18- SHARE CAPITAL**

At 31 December 2021 and 2020, 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 2021			31 December 2020		
	No. of shares	Share holding	Value (SR)	No. of shares	Share holding	Value (SR)
Abdulkadir Al Muhaidib & Sons	46,000,000	30.67%	460,000,000	46,000,000	30.67%	460,000,000
Ajjal Al Hekma Investments Company Ltd.	43,000,000	28.67%	430,000,000	43,000,000	28.67%	430,000,000
Alma Limited Company	17,854,167	11.90%	178,541,670	17,854,167	11.90%	178,541,670
Ahmad Samer Al Zaim	17,854,167	11.90%	178,541,670	17,854,167	11.90%	178,541,670
Mohammed Hekmat Al Zaim	7,500,000	5.00%	75,000,000	7,500,000	5.00%	75,000,000
Mohammed Abdulaziz Altwijri	-	-	-	1,500,000	1.00%	15,000,000
Mohammed Suliman alsaleem	1,500,000	1.00%	15,000,000	-	-	-
Khader Mohsin Al-Ibraheem	1,500,000	1.00%	15,000,000	1,500,000	1.00%	15,000,000
Ihsan Al Zaim	4,437,500	2.96%	44,375,000	4,437,500	2.96%	44,375,000
Rana Hamdi Al Zaim	5,177,083	3.45%	51,770,830	5,177,083	3.45%	51,770,830
Leena Hamdi Al Zaim	5,177,083	3.45%	51,770,830	5,177,083	3.45%	51,770,830
	<u>150,000,000</u>	<u>100%</u>	<u>1,500,000,000</u>	<u>150,000,000</u>	<u>100%</u>	<u>1,500,000,000</u>

**19- STATUTORY RESERVE**

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

**20- DIVIDENDS**

- During 2021, the Company has distributed an amount of SR 196.5 million, based on the minutes of the Ordinary General Assembly meeting held on 29 June 2021.
- During 2020, the Company has distributed an amount of SR 178.5 million to the shareholders, based on the minutes of the Ordinary General Assembly meeting held on 19 May 2020 (SR 165 million) and based on the resolution of the Board of Directors dated 21 September 2020 (SR 13.5 million).



**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****21- EMPLOYEES' BENEFIT 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:

	<u>2021</u>	<u>2020</u>
As at 1 January	96,426,743	96,146,476
Current service cost	10,142,915	9,136,629
Interest cost	2,687,000	2,493,000
Paid during the year	(10,829,731)	(10,961,267)
Change in actuarial assumptions	8,983,787	(388,095)
<b>As at 31 December</b>	<b><u>107,410,714</u></b>	<b><u>96,426,743</u></b>

***Significant actuarial assumptions***

The significant actuarial assumptions used were as follows:

	<u>2021</u>	<u>2020</u>
Discount rate	2.80%	2.90%
Salary growth rate	2.00%	2.00%

**Sensitivity analysis**

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

	Change	<b>Impact on the balance of the defined benefit obligation in 2021</b>	
		<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Discount rate	1%	(92,184,556)	107,687,556
Salary growth rate	1%	107,670,556	(92,065,556)

  

	Change	<b>Impact on the balance of the defined benefit obligation in 2020</b>	
		<u>Increase in assumption</u>	<u>Increase in assumption</u>
Discount rate	1%	(83,264,000)	96,935,000
Salary growth rate	1%	96,928,000	(83,152,000)

The above sensitivity analyses 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.

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****22- 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 3.2 billion (2020: SR 2.7 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 is based on the Saudi Interbank Offered Rate (SIBOR) plus a variable rate during the year.

	<u>2021</u>	<u>2020</u>
1 January	858,675,000	1,209,531,500
Withdrawn during the year	3,280,437,500	2,746,225,000
Paid during the year	<u>(2,814,937,500)</u>	<u>(3,097,081,500)</u>
<b>31 December</b>	<b><u>1,324,175,000</u></b>	<b><u>858,675,000</u></b>

**23- ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	<u>2021</u>	<u>2020</u>
Advances from customers	50,343,976	36,894,194
Accrued value added tax	45,252,538	20,799,066
Employees related accruals	21,396,635	18,304,131
Accrued project expenses	1,883,780	3,271,415
Accrued expenses	<u>21,939,652</u>	<u>28,613,635</u>
	<b><u>140,816,581</u></b>	<b><u>107,882,441</u></b>

**24- TRADE PAYABLES**

	<u>2021</u>	<u>2020</u>
Trade payables	<u>221,031,943</u>	<u>127,607,217</u>

- Accounts payable amounts include due to related parties of SR 28,594 (2020: SR 26,544) Note 35.

**25- PROVISIONS**

	<u>2021</u>	<u>2020</u>
Provision for onerous contracts (25.1)	78,038,691	105,830,803
Provision for lawsuits (25.2)	<u>4,473,937</u>	<u>4,473,937</u>
	<b><u>82,512,628</u></b>	<b><u>110,304,740</u></b>

25.1 A provision of SR 78,038,691 (2020: SR 105,830,803) 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.

25.2 This provision represents the management's best estimate against a lawsuit filed against the Group by one of its clients.

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(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 2020 are still under review by the Zakat, Tax and Customs Authority ("ZATCA").

Zakat and income tax have been calculated on the separate financial statements of the Group companies. Zakat related to Saudi shareholders and tax related to non-Saudi 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.

The Group's entities received Zakat and income tax certificates stating that these entities filed their tax and Zakat returns to Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia up to the year ended 31 December 2021 and received the required receipts and certificates.

Subsidiaries outside the Kingdom of Saudi Arabia are subject to the tax provisions of the countries of the Gulf Cooperation Council, Egypt and Iraq, and there are no tax disputes or claims from any tax authority for these companies mentioned to date.

Furthermore, the Group received Zakat certificate for the year 2021 valid up to 30 April 2022.

- 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 2021 and 2020 is as follows:*

	<u>2021</u>	<u>2020</u>
As at 1 January	29,422,275	22,123,551
Provision for the year	31,375,995	32,136,967
Payments made during the year	(31,108,030)	(24,838,243)
As at 31 December	<u>29,690,240</u>	<u>29,422,275</u>

**27- REVENUE**

	<u>For the year ended 31 December</u>	
	<u>2021</u>	<u>2020</u>
A- <u>Revenue recognition timing</u>		
Goods transferred at a point in time	4,803,910,264	4,076,598,020
Contract revenues over time during the contract period	79,533,618	10,218,120
	<u>4,883,443,882</u>	<u>4,086,816,140</u>
	<u>For the year ended 31 December</u>	
	<u>2021</u>	<u>2020</u>
B- <u>Geographical Markets</u>		
Local Sales	3,287,853,780	2,871,557,136
External Sales	1,595,590,102	1,215,259,004
	<u>4,883,443,882</u>	<u>4,086,816,140</u>

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****27- REVENUE**

C- Below is a summary of the information about the Group's performance obligations:

<b>Product type</b>	<b>The nature and timing of fulfillment of performance obligations</b>	<b>Revenue recognition in accordance with IFRS 15</b>
Revenue from Sales of Goods	The performance obligation is fulfilled at a point in time.	Revenue is recognized when control of the goods is transferred to the customer.
Contract revenues	The performance obligation is satisfied over time during the term of the contract. Payment is obtained based on the credit terms agreed with the customer.	Revenue is recognized on the percentage of completion method. The completion percentage is calculated using the input method.

**28- COST OF REVENUE**

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
Raw Material	<b>4,124,352,023</b>	3,358,095,238
Salaries and employees' related benefits	<b>164,610,929</b>	153,223,769
Depreciation	<b>55,450,831</b>	52,806,638
Repairs and Maintenance	<b>31,081,799</b>	35,341,608
Electricity and other Utilities	<b>38,596,022</b>	39,000,165
Other	<b>6,269,291</b>	11,971,383
	<b>4,420,360,895</b>	<b>3,650,438,801</b>

**29- SELLING AND DISTRIBUTION EXPENSES**

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
Salaries and employees' related benefits	<b>42,148,858</b>	41,070,972
Cargo charges	<b>29,595,112</b>	30,218,853
Sales commission	<b>3,700,294</b>	1,470,436
Inspection and quality testing expenses	<b>3,174,718</b>	732,261
Rental expenses	<b>1,894,769</b>	1,664,158
Insurance expense	<b>1,543,683</b>	1,404,324
Advertising and showrooms expenses	<b>1,536,797</b>	1,612,821
Depreciation expense	<b>475,054</b>	930,901
Communication expenses	<b>347,420</b>	374,726
Other expenses	<b>7,346,340</b>	7,530,165
	<b>91,763,045</b>	<b>87,009,617</b>

**30- GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
Salaries and employees' related benefits	<b>55,725,368</b>	61,062,514
Depreciation expense	<b>9,161,405</b>	7,220,998
Legal and Professional	<b>4,633,594</b>	4,561,542
Maintenance and repair expense	<b>2,158,847</b>	2,087,223
Travel and insurance expense	<b>957,413</b>	530,906
Communications and network expense	<b>368,365</b>	854,327
Offices supplies expenses	<b>196,804</b>	368,955
Other expenses	<b>6,275,339</b>	7,810,682
	<b>79,477,135</b>	<b>84,497,147</b>

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****31- OTHER INCOME – NET**

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
Gain on disposal of PPE	-	68,000
Foreign exchange losses	<b>(561,571)</b>	<b>(6,679,439)</b>
Others	<b>3,201,628</b>	<b>15,211,568</b>
	<b>2,640,057</b>	<b>8,600,129</b>

**32- FINANCE COSTS**

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
Bank interest	<b>22,382,797</b>	<b>24,557,668</b>
Bank commissions	<b>6,311,761</b>	<b>8,024,310</b>
Interest on employees' defined benefits obligations	<b>2,687,000</b>	<b>2,493,000</b>
Interest on lease liabilities	<b>398,993</b>	<b>275,566</b>
	<b>31,780,551</b>	<b>35,350,544</b>

**RIYADH CABLES GROUP COMPANY**

(A Saudi closed joint stock company)

Notes to the consolidated financial statements

**For the year ended 31 December 2021**

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

**33- SEGMENT REPORTS**

The Group's activities include a number of Segments as follows:

Cables & Wires Segment: This includes Electrical Cables

HV Project Segment: This includes Turnkey Projects.

Other Segments: This includes Telephone Cables and Services.

As at and for the year ending 31 December 2021

	<u>Cables &amp; Wires</u>	<u>HV Project</u>	<u>Other</u>	<u>Total</u>
Revenue	4,763,098,769	79,533,618	40,811,495	4,883,443,882
Cost of revenue	(4,316,228,030)	(71,375,233)	(32,757,632)	(4,420,360,895)
Operating expenses	(169,247,886)	(1,094,420)	(897,874)	(171,240,180)
Allowance / (reversal of) allowance for expected credit losses	8,889,798	250,821	(469,970)	8,670,649
Other income, net	2,173,711	259,573	206,773	2,640,057
Finance costs	(30,432,183)	(773,299)	(575,069)	(31,780,551)
Profit before zakat and income tax	258,254,179	6,801,060	6,317,723	271,372,962
Total assets	3,626,352,191	200,785,131	125,529,548	3,952,666,870
Total liabilities	1,806,688,413	69,004,749	40,906,924	1,916,600,086

As at and for the year ending 31 December 2020

	<u>Cables &amp; Wires</u>	<u>HV Project</u>	<u>Other</u>	<u>Total</u>
Revenue	4,009,906,267	20,387,536	56,522,337	4,086,816,140
Cost of revenue	(3,582,290,265)	(19,131,587)	(49,016,949)	(3,650,438,801)
Operating expenses	(169,410,961)	(556,012)	(1,539,791)	(171,506,764)
Allowance / (reversal of) allowance for expected credit losses	12,172,559	52,519	(85,156)	12,139,922
Other income, net	5,372,969	3,185,474	41,686	8,600,129
Finance costs	(34,326,377)	(46,650)	(977,517)	(35,350,544)
Profit before zakat and income tax	241,424,192	3,891,280	4,944,610	250,260,082
Total assets	2,432,262,405	693,809,974	176,057,574	3,302,129,953
Total liabilities	732,520,421	529,483,693	80,800,292	1,342,804,406

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****34- EARNINGS PER SHARE – BASIC AND DILUTED**

Basic and diluted earnings per share is calculated by dividing the profit for the period attributable to Shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

	<u>2021</u>	<u>2020</u>
Net profit for the year	<u>239,832,593</u>	<u>218,428,959</u>
Weighted average number of outstanding ordinary shares (share)	<u>150,000,000</u>	<u>150,000,000</u>
Basic and diluted earnings per share	<u>1.60</u>	<u>1.45</u>

The diluted earnings per share is equal to the basic earnings per share for the year ended 31 December 2021 and 31 December 2020 as there are no instruments with reduced earnings per share effect.

**35- RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties of the group 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**

Balances due from / (to) related parties resulting from transactions with related parties are as follows:

Due from related parties - classified as trade receivables	Nature of relationship with <u>related parties</u>	<u>2021</u>	<u>2020</u>
Thabat Contracting Company	Owned by one of the shareholders	<u>878,693</u>	<u>1,516,052</u>
Masdar Building Material Company	Owned by one of the shareholders	<u>1,985,673</u>	<u>2,312,177</u>
		<u>2,864,366</u>	<u>3,828,229</u>
Due to related parties - classified as trade Payable	Nature of relationship with <u>related parties</u>	<u>2021</u>	<u>2020</u>
Serra Holding Group	One of the shareholders is a member of the Board of Directors of the company	<u>26,544</u>	<u>26,544</u>
Masdar Technical Supplies	One of the shareholders is a member of the Board of Directors of the company	<u>2,050</u>	<u>-</u>
		<u>28,594</u>	<u>26,544</u>

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****35- RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)****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	2021	2020
Masdar Building Material	Owned by a shareholder	Purchases	1,947,419	1,150,737
Masdar Building Material	Owned by a shareholder	Sales	33,250,012	16,570,192
Serra Holding Group	One of the shareholders is a member of the Board of Directors of the company	Purchases	-	1,722
Thabat Contracting Company	Owned by a shareholder	Sales	3,391,280	6,357,583

**Key management personnel remuneration**

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

	2021	2020
Salaries and short-term benefits	18,426,462	16,363,226
Employees' benefit obligations	516,875	346,875
	<u>18,943,337</u>	<u>16,710,101</u>

**36- FINANCIAL INSTRUMENTS – FAIR VALUES AND 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.



**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****36- FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)****Risk management framework (continued)**

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.

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 individually, and other is 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.

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

The carrying amount of the financial assets represents the maximum exposure to credit risk

	31 December 2021		31 December 2020	
	<b>Balance</b>	<b>Impairment</b>	<b>Balance</b>	<b>Impairment</b>
Less than 3 months	<b>956,142,466</b>	<b>4,956,281</b>	818,623,722	12,994,265
More than 3 months and less than 6 months	<b>7,303,991</b>	<b>857,517</b>	11,178,135	1,420,419
More than 6 months and less than one year	<b>7,979,669</b>	<b>2,947,825</b>	10,700,096	7,101,962
More than 1 year	<b>39,887,688</b>	<b>39,887,687</b>	36,504,810	36,504,810
	<b>1,011,313,814</b>	<b>48,649,310</b>	877,006,763	58,021,456

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****36- FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)****Credit risk (continued)**

For trade receivables, the Group applies the simplified approach of IFRS 9 to measure expected credit losses, which are used specifically for the 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.

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 Alternatives.

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

	Less than one year	After one year but not more than 5 years	More than 5 years	Carrying amount
<b>31 December 2021</b>				
Short-term Islamic finance facilities	1,324,175,000	-	-	1,324,175,000
Trade payables	221,031,943	-	-	221,031,943
Lease liabilities	1,910,005	9,052,975	-	10,962,980
Accruals and other payables	140,816,581	-	-	140,816,581
	<u>1,687,933,529</u>	<u>9,052,975</u>	-	<u>1,696,986,504</u>

	Less than one year	After one year but not more than 5 years	More than 5 years	Carrying amount
<b>31 December 2020</b>				
Short-term Islamic finance facilities	858,675,000	-	-	858,675,000
Trade payables	127,607,217	-	-	127,607,217
Lease liabilities	10,431,847	2,054,143	-	12,485,990
Accruals and other payables	107,882,441	-	-	107,882,441
	<u>1,104,596,505</u>	<u>2,054,143</u>	-	<u>1,106,650,648</u>

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****36- FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)****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 risk**

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:

	<b>Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2021 USD sensitivity in SR thousands</b>	<b>Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2021 EUR sensitivity in SR thousands</b>
<b>Increase by 5%</b>	<b>(13,645,717)</b>	<b>(126,090)</b>
<b>Decrease by 5%</b>	<b>13,645,717</b>	<b>126,090</b>
	<b>Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2020 USD sensitivity in SR thousands</b>	<b>Income /(loss) through statement of profit or loss and other comprehensive income for the year ended 31 December 2020 EUR sensitivity in SR thousands</b>
<b>Increase by 5%</b>	<b>138,009</b>	<b>(97,734)</b>
<b>Decrease by 5%</b>	<b>(138,009)</b>	<b>97,734</b>

**RIYADH CABLES GROUP COMPANY**

**(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021**

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

**36- FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)**

**Currency risk (continued)**

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

	2021				2020			
	Trade receivables	Trade payables	Cash and cash equivalents	Credit facilities Short-term	Trade receivables	Trade payables	Cash and cash equivalents	Credit facilities Short-term
USD	81,451,659	160,716,057	11,475,056.00	205,125,000	71,426,180	69,885,254	22,719,245	21,500,000
EUR	-	3,701,855	1,180,048	-	97,543	2,367,279	315,057	-
CHF	-	62,887	136,516	-	-	636	47,160	-
Pound	-	11,269	245,438	-	-	5,912	394,448	-
BHD	17,117,576	-	319,562	-	16,271,423	15,943	210,635	-
KWD	36,553,112	818,343	3,645,297	-	30,242,292	1,649,062	4,188,911	-
OMR	-	-	287,777	-	769,634	-	120,665	-
QAR	-	-	129,127	-	-	-	171,484	-
AED	337,084,026	3,568,092	8,847,137	-	120,829,822	534,219	3,950,269	-
Iraqi Dinar	736,129	-	-	-	15,025,881	-	-	-
Egyptian Pound	4,547,337	1,630,544	3,955,839	-	-	-	2,884,723	-

**Interest rate risk**

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 loans with floating interest rates.

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's exposure 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	
	2021	2020
Variable interest rate loans	<b>1,324,175,000</b>	<b>858,675,000</b>

**Interest rate sensitivity**

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

	Statement of profit or loss	
	Increase by 100 points	Decrease by 100 points
<b>31 December 2021</b>		
Variable interest rate loans	<b>132,417,500</b>	<b>(132,417,500)</b>
Change in cash flows	<b>132,417,500</b>	<b>(132,417,500)</b>

	Statement of profit or loss	
	Increase by 100 points	Decrease by 100 points
<b>31 December 2020</b>		
Variable interest rate loans	<b>85,867,500</b>	<b>(85,867,500)</b>
Change in cash flows	<b>85,867,500</b>	<b>(85,867,500)</b>

## **RIYADH CABLES GROUP COMPANY**

**(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021**

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

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### **36- FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)**

#### **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.

#### **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.

#### **Fair value of financial instruments**

The Group is exposed to risks as a result of using financial instruments. The following explains the Group's objectives, policies and operations to manage these risks and methods used to measure them in addition to quantitative information related to these risks in the accompanying financial statements.

There were no significant changes that may expose the Group to financial instrument risks through its objectives, policies and operations to manage these risks and methods used that are different from what have been used in prior years unless otherwise indicated.

- The Group's management considers the fair value for Trade receivables, Islamic finance facilities, balances of related parties, Trade Payables, accruals and other payable approximate to their carrying value because of the short terms of financial instruments.
- The Group's management estimated the fair value for Islamic financing facilities, which are classified in level 3, to be approximate to their carrying value.

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****36- FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)****Fair value measurement (continued)****-Transfer out of Level 3**

The Group holds an investment in equity shares of Natural Gas Distribution Company with a fair value of SR 46,153,233 at 31 December 2021 (2020: 3,833,325). The fair value of this investment was categorized as Level 3 at 31 December 2020 (the carrying amount was a reasonable approximate of fair value). This was because the shares were not listed on an exchange and there were no recent observable trading transactions on the shares in the stock exchange.

During 2021, Natural Gas Distribution Company listed its equity shares on an exchange, and they are currently actively traded in that market. Because the equity shares now have a published price quotation in an active market, the fair value measurement was transferred from Level 3 to Level 1 of the fair value hierarchy at 31 December 2021.

Financial instruments are exposed to change in value risk as a result of changes in commission rates of the financial assets and liabilities with variable commission. Actual commission rate and period of re-pricing or maturity of financial assets and liabilities were mentioned in the related notes.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximate of fair value.

	Carrying amount designated at <u>fair</u> <u>value</u>	Fair value		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>2021</b>				
Investments at FVOCI	49,924,524	49,453,700	-	470,824
<b>2020</b>				
Investments at FVOCI	4,304,149	-	-	4,304,149

**37- 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.

**RIYADH CABLES GROUP COMPANY****(A Saudi closed joint stock company)**

Notes to the consolidated financial statements

**For the year ended 31 December 2021****(All amounts are expressed in Saudi Riyals unless otherwise stated)****37- CAPITAL MANAGEMENT (CONTINUED)****Risk management (continued)**

The Group's debt to adjusted capital ratio at the end of the reporting year was as follows:

	<b>2021</b>	2020
Total liabilities	<b>1,916,600,086</b>	1,342,804,406
Less: cash and cash equivalents	<b>(50,356,201)</b>	(64,252,757)
Adjusted net debt	<b>1,866,243,885</b>	1,278,551,649
Total equity	<b>2,036,066,784</b>	1,959,325,547
Adjusted equity and net debt	<b>3,902,310,669</b>	3,237,877,196
Adjusted debt ratio to adjusted equity ratio	<b>48%</b>	39%

**38- CONTINGENCIES AND COMMITMENTS***Capital commitments*

At 31 December 2021, the Group has commitments of SR 30 million (31 December 2020: SR 24 million) relating to capital expenditures for the expansion works of the group's factories.

*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 negative impact on the consolidated financial statements of the Group.

*Contingent liabilities*

The contingent liabilities amounted to SR 512.4 million (31 December 2020: SR 457 million) against bank facilities in the form of letters of credit and letters of guarantee obtained by the Group from several local banks against a commission for granting facilities without any bank cover.

**39- SUBSEQUENT EVENTS**

Subsequent to December 31, 2021, on April 28, 2022, the general assembly of shareholders decided to distribute profits amounting to 216 million Saudi riyals from the distributable retained earnings for the year ended December 31, 2021 at the rate of (1.44 riyals per share). These Dividends to be paid during the year ending December 31, 2022, otherwise no other matters have occurred to date that may materially affect the financial statements and disclosures related to them for the year ended December 31, 2021.

**40- APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements have been approved by the Board of Directors on 13 Ramadan 1443 H (corresponding to 14 April 2022).