YANBU CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF YANBU CEMENT COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Yanbu Cement Company - A Saudi Joint Stock Company - (" the Company" or "the Parent Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 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 that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in "the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in "the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement in the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF YANBU CEMENT COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
Existence and valuation of inventories As disclosed in note (16) to the accompanying consolidated financial statements, raw materials inventories amount to SR 34 million and comprise of purchased raw materials (limestone, sand, slag, gypsum, iron ore and bauxite) and work in progress amounts to SR 360 million (mainly clinker which are stored in purpose built shed and stockpiles). Since the weighing of these inventories is not practicable, management assesses the quantities on hand at the year-end by obtaining measurements of the stockpiles and converting these measurements to unit of volumes by using the angle of repose and the bulk density. In doing so, management appoints an independent surveyor to estimate the quantities by using certain scientific systematic measurements calculations, and applying the density conversion methods which are applied for similar stock in the cement industry. Due to the significance of the inventory balances and related estimations involved, this is considered a key audit matter. Refer to note (2.3) to the consolidated financial statements for the significant accounting policy, note (3) for the significant accounting estimates and note (16) which details the inventories.	We have performed the following procedures in respect of validating the existence and valuation of inventories: • Attended the physical inventory count performed by the Group and the independent surveyor. • Evaluated the competence, capabilities and objectivity of the surveyor. • Obtained and reviewed the inventory count report of the external surveyor's for the major stock items on a sample basis. • Assessed the management's measurements of stockpiles during the physical count and recalculated the conversion to the volumes. • Tested the valuation of yearend inventories, including testing judgements applied regarding obsolescence and net realizable value impairment. • Assessed the completeness and sufficiency of disclosures relating to the inventories in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF YANBU CEMENT COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
Provision of slow moving spares parts As disclosed in note (16) to the accompanying consolidated financial statements, the Group holds spare parts inventory for the machinery of its plant held longer than one reporting period. This might impact the valuation of spare parts and involves judgment in estimating spares parts inventory provision. Judgment is required to assess the appropriate level of provisioning for spare parts inventory items, which may be ultimately disposed or sold below cost as a result of obsoleteness or the retirement of related machinery. These judgments include management's expectations for future utilization, disposal or sale plans for the spare parts. Due to the significance of the spare parts provision and related estimations involved, this is considered a key audit matter. Refer to note (2.3) to the accompanying consolidated financial statements for the significant accounting policy, note (3) for the significant accounting estimates and note (16) which details, disclosures of movement in provision for slow moving spare parts.	We have performed the following procedures in respect of validating the appropriateness of provision recorded against spare parts: • Assessed the key assumptions used by the Group to determine the provision assessment. • We attended spares parts counts at the year-end to observe and understand the Group's procedures for identifying obsolete spare parts inventory and we observed such spares parts at the count • Performed the following procedures on a sample basis: ➢ tested ageing of spares parts ➢ tested accuracy of the ageing reports Furthermore, we recalculated the expected provision based on key assumptions to ensure the mathematical accuracy of the calculation.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF YANBU CEMENT COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2018 Annual Report
Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2018 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 Group's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies Law and the Parent 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 are responsible for overseeing the Group's financial reporting process.

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

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

- 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.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF YANBU CEMENT COMPANY (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

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

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

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

19 March 2019
12 Rajab 1440H

Jeddah
18/21/AIR

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2018

	Note	*2018* SR	*2017* SR
Revenue from contracts with customers	7	**767,133,519**	916,617,764
Cost of revenue		**(624,272,449)**	(559,144,702)
GROSS PROFIT		**142,861,070**	357,473,062
Selling and distribution expenses	8	**(10,925,719)**	(11,842,367)
General and administrative expenses	9	**(37,052,406)**	(32,027,514)
INCOME FROM MAIN OPERATIONS		**94,882,945**	313,603,181
Other income, net	11	**12,860,354**	21,545,205
Gain on derivative instruments at fair value through income statement	12	**3,099,088**	1,552,701
Finance costs		**(8,807,297)**	(6,255,422)
INCOME BEFORE ZAKAT		**102,035,090**	330,445,665
Zakat	13	**(8,815,031)**	(9,936,354)
NET INCOME FOR THE YEAR		**93,220,059**	320,509,311
Attributable to:			
Shareholders of the Parent Company		**91,184,733**	318,874,835
Non-controlling interests	6	**2,035,326**	1,634,476
		93,220,059	320,509,311
EARNINGS PER SHARE			
Basic and diluted earnings per share attributable to shareholders of the Parent Company	23	**0.58**	2.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Note	***2018*** ***SR***	*2017* *SR*
Net income for the year		**93,220,059**	320,509,311
Other comprehensive income/(loss)			
Items not to be reclassified to consolidated statement of income in subsequent periods:			
Re-measurement gain / (loss) on defined benefit liabilities	26	**1,117,962**	(874,979)
Total comprehensive income for the year		**94,338,021**	319,634,332
Attributable to:			
Shareholders of the Parent Company		**92,280,980**	318,032,888
Non-controlling interests		**2,057,041**	1,601,444
		94,338,021	319,634,332

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	*2018* SR	*2017* SR
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,883,581,009**	3,044,274,908
Intangible assets	15	**4,802,178**	6,402,904
TOTAL NON-CURRENT ASSETS		**2,888,383,187**	3,050,677,812
CURRENT ASSETS			
Inventories	16	**608,376,885**	622,454,951
Trade receivables	17	**164,830,376**	152,314,285
Prepayments, advances and other receivables	18	**21,288,837**	19,056,276
Cash and bank balances		**51,453,074**	97,900,131
TOTAL CURRENT ASSETS		**845,949,172**	891,725,643
TOTAL ASSETS		**3,734,332,359**	3,942,403,455
EQUITY AND LIABILITIES			
EQUITY			
Share capital	19	**1,575,000,000**	1,575,000,000
Statutory reserve	20	**787,500,000**	787,500,000
Retained earnings		**846,380,093**	1,029,724,113
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		**3,208,880,093**	3,392,224,113
Non-controlling interests	21	**32,057,218**	31,770,177
TOTAL EQUITY		**3,240,937,311**	3,423,994,290
NON-CURRENT LIABILITIES			
Term loans	24	**116,750,000**	168,638,889
Employee benefits' liabilities	26	**66,638,403**	65,236,690
TOTAL NON-CURRENT LIABILITIES		**183,388,403**	233,875,579
CURRENT LIABILITIES			
Trade payables		**31,338,481**	15,019,231
Financial derivatives	12	**1,690,815**	4,789,903
Current portion of term loans	24	**51,888,889**	86,713,306
Short term borrowings	25	**57,533,847**	-
Dividends payable		**76,764,203**	75,956,818
Accrued expenses and other current liabilities	27	**81,875,989**	91,042,473
Zakat payable	13	**8,914,421**	11,011,855
TOTAL CURRENT LIABILITIES		**310,006,645**	284,533,586
TOTAL LIABILITIES		**493,395,048**	518,409,165
TOTAL EQUITY AND LIABILITIES		**3,734,332,359**	3,942,403,455

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Attributable to equity holders of the parent					
	Share capital SR	*Statutory reserve SR*	*Retained earnings SR*	*Total SR*	*Non-controlling interests SR*	*Total equity SR*
As at 1 January 2017	1,575,000,000	787,500,000	1,144,816,225	3,507,316,225	31,368,733	3,538,684,958
Net income for the year	-	-	318,874,835	318,874,835	1,634,476	320,509,311
Other comprehensive loss for the year	-	-	(841,947)	(841,947)	(33,032)	(874,979)
Total comprehensive income for the year	-	-	318,032,888	318,032,888	1,601,444	319,634,332
Dividends (note 22)	-	-	(433,125,000)	(433,125,000)	-	(433,125,000)
Dividends to non-controlling interests	-	-	-	-	(1,200,000)	(1,200,000)
Balance at 31 December 2017	**1,575,000,000**	**787,500,000**	**1,029,724,113**	**3,392,224,113**	**31,770,177**	**3,423,994,290**
Net income for the year	-	-	91,184,733	91,184,733	2,035,326	93,220,059
Other comprehensive income for the year	-	-	1,096,247	1,096,247	21,715	1,117,962
Total comprehensive income for the year	-	-	92,280,980	92,280,980	2,057,041	94,338,021
Dividends (note 22)	-	-	(275,625,000)	(275,625,000)	-	(275,625,000)
Dividends to non-controlling interests	-	-	-	-	(1,770,000)	(1,770,000)
Balance at 31 December 2018	**1,575,000,000**	**787,500,000**	**846,380,093**	**3,208,880,093**	**32,057,218**	**3,240,937,311**

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Note	*2018* *SR*	*2017* *SR*
OPERATING ACTIVITIES			
Income before zakat		**102,035,090**	330,445,665
Adjustment to reconcile operating income to net cash flows:			
Depreciation of property, plant and equipment	14	**193,451,690**	226,516,778
Amortization of intangible assets	15	**1,600,726**	1,600,726
Finance costs		**8,807,297**	6,255,422
Gain on disposal of property, plant and equipment	14	**(10,771,905)**	-
Write off of construction work in progress	14	**544,000**	-
Gain on derivative instruments at fair value through income statement	12	**(3,099,088)**	(1,552,701)
Provision for employee benefits' liabilities	26	**9,182,918**	8,857,576
Reversal of provision against slow moving parts	16	**(1,320,406)**	(9,513,533)
Allowance for expected credit losses	17	**424,200**	-
		300,854,522	562,609,933
Working capital adjustments:			
Decrease/(increase) in inventories		**15,398,472**	(92,239,570)
(Increase)/decrease in trade receivables		**(12,940,291)**	12,031,066
(Increase)/decrease in prepayments, advances and other receivables		**(2,232,561)**	10,110,072
Increase in trade payables		**16,319,250**	6,573,710
Decrease in accrued expenses and other current liabilities		**(9,166,484)**	(15,827,326)
		308,232,908	483,257,885
Employee benefits' liabilities paid	26	**(6,663,243)**	(3,977,983)
Finance cost paid		**(8,631,714)**	(5,075,047)
Zakat paid	13	**(10,912,465)**	(13,542,268)
Net cash from operating activities		**282,025,486**	460,662,587
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	14	**(33,301,791)**	(81,959,530)
Proceeds from sales of property, plant and equipment		**10,771,905**	-
Net cash used in investing activities		**(22,529,886)**	(81,959,530)
FINANCING ACTIVITIES			
Proceeds from term loans		**-**	139,251,000
Repayment of term loans		**(86,888,889)**	(99,472,222)
Net movement of short term borrowings		**57,533,847**	-
Dividends paid to equity holders of the Parent	22	**(274,817,615)**	(430,400,959)
Dividends paid to non-controlling interests		**(1,770,000)**	(1,200,000)
Net cash used in financing activities		**(305,942,657)**	(391,822,181)
DECREASE IN CASH AND BANK BALANCES		**(46,447,057)**	(13,119,124)
Cash and bank balances at the beginning of the year		**97,900,131**	111,019,255
CASH AND BANK BALANCES AT THE END OF THE YEAR		**51,453,074**	97,900,131
MAJOR NON-CASH TRANSACTIONS:			
Re-measurement (gain)/ loss on employee benefits' liabilities	26	**(1,117,962)**	874,979
Transfer from property, plant and equipment to intangible assets	15	**-**	8,003,630

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

1 CORPORATE INFORMATION

Yanbu Cement Company ("the Company" or "the Parent Company") - a Saudi Joint Stock Company – established in accordance with Company's regulations in the Kingdom of Saudi Arabia by the Royal Decree No. M/10 dated on 4 Rabi' I 1397H (corresponding to 22 February 1977) and it is registered in Yanbu city under commercial registration No. 4700000233 dated on 21 Dhul-Qi'dah 1398H (corresponding to 24 October 1978). The Company's shares are listed in the Capital Market Authority (CMA) in the Kingdom of Saudi Arabia.

The Company's capital is SR 1,575 million which is divided into 157,500,000 shares of SR 10 per share as at 31 December 2018 and 2017.

The Company is mainly engaged in manufacturing, producing and trading in cement and its related products as per industrial license No. 2239 issued on 10 Sha'ban 1439H (corresponding to 26 April 2018) which ends on 10 Sha'ban 1442H (corresponding to 23 March 2021).

The registered address of the Company is Yanbu Cement building located at Al Baghdadiyah Al Gharbiyah District, P. O. Box 5530, Jeddah 21422, Kingdom of Saudi Arabia.

The consolidated financial statements consist of consolidated financial statements of the Parent Company and Yanbu Saudi Kuwaiti Paper Products ("Subsidiary") – A Limited Liability Company – owned to the Parent Company by 60% (collectively referred to as the "Group"). The subsidiary is engaged in producing paper sack bags as per industrial license No. 1210 issued on 22 Sha'ban 1425H (corresponding 7 October 2004) which ends on 26 Jumada I 1442H (corresponding 10 January 2021).

These consolidated financial statements for the Group for the year ended 31 December 2018, were approved by the Board of Directors on 19 March 2019 (corresponding to 12 Rajab 1440H).

2 SIGNIFICANT ACCOUNTING POLICES

2.1 BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

The consolidated financial statements have been prepared on a historical cost basis except for financial derivatives that have been measured at fair value and for employee benefits' liabilities, where actuarial present value calculations are used. The consolidated financial statements are presented in Saudi Riyals ("SR"), which is the financial currency of the Group.

2.2 BASIS OF CONSOLIDATION

Control is achieved when the Group is exposed, or has rights, to variable returns from its transactions with the investee and has the ability to affect those returns through exercising its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its transactions with the investee.
- The ability to use its power over the investee to affect its returns.

2 SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

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 a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has control over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- 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 to 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 of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Statement of income and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of income. Any investment retained is recognised at fair value.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

A) Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the consolidated statement of income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in consolidated statement of income.

B) 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 current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realised within twelve months after the date of the consolidated statement of financial position, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the consolidated statement of financial position.

All other assets are classified as non-current.

2 SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

B) Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the consolidated statement of financial position, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the consolidated statement of financial position.

The Group classifies all other liabilities as non-current.

C) Fair value measurement
Financial instruments
The Group measures financial instruments, such as derivatives at fair value at each financial position date.

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

- In the principal market for the assets or liabilities, or
- In the absence of a principal market, in the most advantageous market for the assets or liabilities

The principal or the most advantageous market must be accessible by the Group.

The fair value of assets or liabilities is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of non-financial assets takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

D) Revenue from contracts with customers
The Group is engaged in selling packed and bulk Cement. The sale is performed by sales invoices and / or specific contracts independently entered into with customers.

(a) Sale of goods
Sale of cement is the sole performance obligation, The Group has concluded that revenue from sale should be recognized at the point in time when control of asset is transferred to the customer, generally on delivery. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(b) Presentation and disclosure requirements
The group has separated the revenue from contracts with customers into categories that illustrates how the economic factors affect the nature, amount, timing and uncertainty of revenues and cash flows for each category, see note 7.

2 SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

E) Costs and expenses

Cost of revenue
Production costs and direct manufacturing expenses are classified as cost of revenue. This includes raw material, direct labor and other attributable overhead costs.

Selling and distribution expenses
These include any costs incurred to carry out or facilitate selling activities of the Group. These costs typically include salaries of the sales staff, distribution and other contingent related expenses.

General and administrative expenses
These pertain to operation expenses which are not directly related to the production of any goods or services. These also include allocations of general overheads which are not specifically attributed to cost of revenue or selling and distribution expenses.

Allocation of overheads between cost of revenue, selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis.

F) Finance income
Finance income is recognized on an accrual basis using the effective yield basis.

G) Zakat
Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and on accruals basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

H) Foreign currency transactions and balances
Transactions in foreign currencies are initially recorded at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of income.

I) Cash dividend to equity holders
The Group recognises a liability to make cash distribution to equity holders of the Parent Company when the distribution is authorised and the distribution is no longer at the discretion of the Group. Distribution authorization is assessed in line with the Companies Law in the Kingdom of Saudi Arabia, of which a distribution is authorised when approved by the shareholders. A corresponding amount is recognised directly in equity. Interim dividends, if any, are recorded when approved by the Board of Directors.

J) Property, plant and equipment
Capital work in progress is stated at cost, net of accumulated impairments losses, if any. Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a comprehensive inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated statement of income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	25 – 40 years	Quay	20 years
Vehicles and dump trucks	4 - 6.67 years	Furniture and other assets	4 - 6.67 years
Plant and equipment	25 – 40 years	Paper factory equipment	Units of productions

2 SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

J) Property, plant and equipment (continued)
An item of property, plant and equipment ("the asset") and any significant part initially recognised, is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

The residual values, useful lives and depreciation methods for property, plant and equipment are reviewed on annual basis at the end of each fiscal year and adjustments are made whenever necessary.

K) Leases
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of income on a straight-line basis over the lease term.

L) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale as part of the cost of the asset. All other costs are expensed in the period in which they are due. Borrowing costs consist of interest cost and other costs that an entity incurs in connection with the borrowing of funds.

M) Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets (excluding capitalized development costs) are not capitalized and expenditure is recognized in the consolidated statement income when it is incurred.

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

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

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income.

The estimated useful life of software is 5 years. The amortization method, useful life and residual value are reviewed at each reporting date and the changes are adjusted, if appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

N) Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), and fair value through income statement.

The classification of debt financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through income statement, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section (d) Revenue from contracts with customers.

In order for a debt financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through income statement

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- 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

Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in consolidated statement of income when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables.

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling And
- 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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

N) Financial instruments (continued)

i) Financial assets (continued)

Financial assets at fair value through OCI (debt instruments) (continued)
For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to statement of income.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to statement of income. Dividends are recognised as other income in the statement of income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through statement of income
Financial assets at fair value through income statement include financial assets held for trading, financial assets designated upon initial recognition at fair value through income statement, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through income statement, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through income statement on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through statement of income are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of income.

The Group uses derivatives financial instruments such as interest rate swap and currency swap to manage its interest rate and currency risks (see note 12).

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

N) Financial instruments (continued)

i) Financial assets (continued)

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through statement of income. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through income statement, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below: Financial liabilities at fair value through income statement include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through income statement.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

N) Financial instruments (continued)

ii) Financial liabilities (continued)

Subsequent measurement (continued)
Gains or losses on liabilities held for trading are recognised in the consolidated statement of income. Financial liabilities designated upon initial recognition at fair value through income statement are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of income.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

iii) 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 recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

O) Derivative financial instruments
The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

P) Inventories
Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

• Raw materials: purchase cost on a weighted average basis
• Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect of the purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Q) Impairment of non-financial assets
The Group assesses, at the date of preparing the financial statements, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or CGU's fair value less costs of disposal or its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate future cash inflows that are largely independent of those from other assets or Groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is written down to its recoverable amount. In determining value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account- if available or an appropriate valuation model is used.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Q) Impairment of non-financial assets (continued)
The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's Cash Generating Units ("CGUs") to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. To cover longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment of goods, are recognized in the consolidated statement of income in expense category consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at the date of preparing each consolidated statement of financial position to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

R) Cash and bank balances
Cash and cash balances in the consolidated statement of financial position comprise of cash at banks, and cash on hand.

S) Provisions
General
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

T) Employee benefits liabilities
This represents end-of-service ("employee benefits") under defined unfunded benefit plans. End-of-service benefits, as required by Saudi Arabia Labor Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of employee benefits ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs.

The discount rate used is the market yield on high quality corporate bonds at the reporting date that has maturity dates and the risk profile approximating the terms of the Group's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Group's present value of the obligation, with actuarial valuations to be carried out every third year and updated for the following two years for material changes, if any. The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognised. Currently there are no past service costs. The full amount of actuarial gains and losses are recognized in consolidated statement of comprehensive income in the year in which they arise.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The management conducted an exercise and concluded that there is no impact on transition to IFRS 15 on 1 January 2018.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. The management conducted an exercise and concluded that there is no impact on transition to IFRS 9 on 1 January 2018 except for the classification change explained below:

(a) Classification and measurement
Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Group. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. The following are the changes in the classification of the Group's financial assets:

• Trade receivables and Other non-current financial assets classified as Loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Debt instruments at amortised cost beginning 1 January 2018.

Other changes in classification and measurement are not applicable to the Group.

(b) Impairment
The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through income statement.

The Group has applied the standard's simplified approach for trade receivables and has calculated ECLs based on lifetime expected credit losses. The Group conducted an exercise and concluded that there is no impairment impact on transition to IFRS 9 on 1 January 2018. As, it is the Group's practice to deal with good customers who do not have any history of overdue payments, financial difficulties and obtain letter of guarantees (consist of bank guarantees from largest customers).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

IFRS 9 Financial Instruments (continued)

(c) Hedge accounting
At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of IFRS 9, the Group designated the change in fair value of the entire forward contracts in its cash flow hedge relationships. Upon adoption of the hedge accounting requirements of IFRS 9, the Group designates only the spot element of forward contracts as hedging instrument. The forward element is recognised in OCI and accumulated as a separate component of equity under Cost of hedging reserve.

Under IAS 39, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to statement of income. However, under IFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change only applies prospectively from the date of initial application of IFRS 9 and has no impact on the statement of financial position as at 1 January 2018.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through statement of income is an investment-by-investment choice
The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through statement of income. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters
Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

3 CRITICAL JUDGEMENTS, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosure of contingent liabilities at the date of preparing the financial statements. Uncertainty about these assumptions and estimates could result in making material adjustments to the carrying amount of asset or liabilities affected in future years.

3.1 Critical judgements

In the process of applying the Group's accounting policies, management has made the following judgement, which have the most significant effect on the amounts recognised in the financial statements:

Component parts of property, plant and equipment

The Group's assets, classified within property, plant and equipment, are depreciated on a straight-line basis over their economic useful lives. When determining the economic useful life of an asset, it is broken down into significant component parts such that each significant component part is depreciated separately. Judgement is required in ascertaining the significant components of a larger asset, and while defining the significance of a component, management considers quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to mother asset, its pattern of consumption, and its replacement cycle/maintenance schedule.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of preparing the consolidated financial statements, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the subsequent financial periods, are described below. The Group based its assumptions and estimates on parameters available at the date of preparing the consolidated financial statements. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

A) Provision for expected credit losses of trade receivables

By adopting IFRS 9, the Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing 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 analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17.

B) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

C) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal is based on available data from binding sales of long term transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the estimated budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is based on the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

3 CRITICAL JUDGEMENTS, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimates and assumptions (continued)

D) Provision for material extraction
The Parent Company exploits raw material in accordance with Mineral Resources Saudi Law (appendix 3). The Group sets our estimation and expectations relating to quantities of exploited raw material to pay fees against site exploitation based on such estimates.

E) Employee benefit liabilities
The cost of defined benefit liabilities regarding employee's end of service are determined using actuarial valuations. An actuarial valuation requires making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each annual reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the commission rates of corporate bonds in currencies consistent with the currencies of the post-employment defined liabilities with at least an 'AA' rating or above, as set by an internationally acknowledged rating agencies, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the respective countries. Those mortality tables are subject to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the respective countries and future salary increases.

F) Fair value measurement of financial instruments
When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the Discounted Cash Flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

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

H) Provision for slow moving parts
The Group holds spare parts inventory for the machinery of its plant held longer than one reporting period. This might impact the valuation of spare parts and involves judgment in estimating spares parts inventory provision. Judgment is required to assess the appropriate level of provisioning for spare parts inventory items, which may be ultimately disposed or sold below cost as a result of obsoleteness or the retirement of related machinery. These judgments include management's expectations for future utilization, disposal or sale plans for the spare parts.

I) Existence of inventories
Inventories comprise of purchased raw materials (limestone, sand, slag, gypsum, iron ore and bauxite) and work in progress (mainly clinker which are stored in purpose built shed and stockpiles). Since the weighing of these inventories is not practicable, management assesses the quantities on hand at the year-end by obtaining measurements of the stockpiles and converting these measurements to unit of volumes by using the angle of repose and the bulk density. In doing so, management appoints an independent surveyor to estimate the quantities by using certain scientific systematic measurements calculations, and applying the density conversion methods which are applied for similar stock in the cement industry.

4 SEGMENT INFORMATION

The Group is engaged in one operating segment engaged in manufacturing cement and operates completely within the Kingdom of Saudi Arabia. Accordingly, the financial information was not divided into different geographic or business segments. The financial information of the subsidiary is not significant to Group's consolidated financial statements for the purpose of segment information.

5 GROUP INFORMATION

The consolidated financial statements of the Group include the following subsidiary:

Company	**Country of incorporation**	**Ownership %**		**Main Activity**
		2018	*2017*	
Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company)	Kingdom of Saudi Arabia	**60%**	60%	Manufacture paper sack bags

The subsidiary is engaged in producing paper sack bags as per industrial license No. 1210 issued on 22 Sha'ban 1425H (corresponding 7 October 2004) which ends on 26 Jumada I 1442H (corresponding 10 January 2021).

6 MATERIAL SUBSIDIARY

The financial information of the subsidiary that have material non-controlling interest is provided below:

Company	***Country of incorporation***	***% Ownership***	
		2018	*2017*
Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company)	Kingdom of Saudi Arabia	**40%**	40%

The tables below represent the financial information of the subsidiary, Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company), which has significant non-controlling interests:

Accumulated Balance of non-controlling interests:	***2018*** ***SR***	*2017* *SR*
Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company)	**32,057,218**	31,770,177

Income attributable to non-controlling interests:	***For the year ended 31 December 2018*** ***SR***	*For the year ended 31 December 2017* *SR*
Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company)	**2,035,326**	1,634,476

6 MATERIAL SUBSIDIARY (continued)

The following is a summary of the financial information of the subsidiary "Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company)". This information is based on amounts before intercompany eliminations:

Summarised statement of comprehensive income for the year:

	2018	*2017*
	SR	*SR*
Revenue from contracts with customers	**101,497,392**	78,474,022
Cost of revenue	**(93,024,663)**	(71,725,743)
GROSS PROFIT	**8,472,729**	6,748,279
Selling and distribution expenses	**(162,603)**	(157,122)
General and administrative expenses	**(2,418,812)**	(1,617,398)
INCOME FROM MAIN OPERATION	**5,891,314**	4,973,759
Other income	**339,340**	248,787
INCOME BEFORE ZAKAT	**6,230,654**	5,222,546
Zakat	**(1,142,339)**	(1,136,354)
INCOME FOR THE YEAR	**5,088,315**	4,086,192
Other comprehensive gain/ (loss) not to be reclassified to the statement of income in subsequent periods	**54,288**	(82,580)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**5,142,603**	4,003,612
Income attributable to:		
Shareholders of the Parent Company	**3,052,989**	2,451,716
Non-controlling interests	**2,035,326**	1,634,476
	5,088,315	4,086,192
Other comprehensive income/ (loss) attributable to:		
Shareholders of the Parent Company	**32,573**	(49,548)
Non-controlling interests	**21,715**	(33,032)
	54,288	(82,580)

Summarised statement of financial position:

	2018	*2017*
	SR	*SR*
Non-current assets	**43,659,640**	45,887,802
Current assets	**61,119,618**	43,514,484
Non-current liabilities	**(1,951,846)**	(1,871,721)
Current liabilities	**(22,684,362)**	(8,105,118)
Total equity	**80,143,050**	79,425,447
Attributable to:		
Equity holders of parent	**48,085,832**	47,655,270
Non-controlling interest	**32,057,218**	31,770,177

6 MATERIAL SUBSIDIARY (continued)

Summarised cash flow information for the year:

	2018 *SR*	*2017* *SR*
Operating activities	**(6,451,718)**	(3,278,971)
Investing activities	**(312,992)**	(195,574)
Financing activities	**32,635**	(3,000,000)
NET DECREASE IN CASH AND BANK BALANCES	**(6,732,075)**	(6,474,545)

7 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group's revenue from contracts with customers is described below:

	2018 *SR*	*2017* *SR*
Bulk cement	**314,589,463**	420,204,460
Packed cement	**266,882,372**	448,978,692
Cement bags	**81,489,391**	47,434,612
Raw cement (clinker)	**104,172,293**	-
Total revenue from contracts with customers	**767,133,519**	916,617,764
Total revenue from contracts with customers inside the Kingdom of Saudi Arabia	**654,266,862**	913,726.204
Total revenue from contracts with customers outside the Kingdom of Saudi Arabia	**112,866,657**	2.891,560

8 SELLING AND DISTRIBUTION EXPENSES

	2018 *SR*	*2017* *SR*
Salaries and employees' related costs (note 10 (a))	**6,664,558**	5,784,438
Donations and social responsibility	**1,875,259**	3,089,877
Depreciation (note 14)	**954,987**	1,042,663
Employee benefits' liabilities cost (note 10 (b))	**472,144**	471,646
Secondment expenses	**160,951**	221,730
Repair and maintenance	**125,786**	113,404
Advertising expenses	**26,948**	186,878
Others	**645,086**	931,731
	10,925,719	11,842,367

9 GENERAL AND ADMINSTRATIVE EXPENSES

	2018 *SR*	*2017* *SR*
Salaries and employees' related costs (note 10 (a))	**18,352,025**	17,181,482
Remuneration of board of directors	**4,455,471**	4,625.000
Consulting and professional fees	**3,417,829**	2,311,279
Amortization (note 15)	**1,600,726**	1,600,726
Employee benefits' liabilities cost (note 10 (b))	**1,349,682**	1,316,694
Repair and maintenance	**1,278,516**	666,273
Subscriptions fees	**1,062,991**	1.321,102
Communications and telephone	**448,700**	303,677
Advertising expenses	**302,325**	108,599
Depreciation (note 14)	**137,614**	99,700
Others	**4,646,527**	2,492,982
	37,052,406	32,027,514

10 SALARIES AND EMPLOYEES' RELATED COSTS AND EMPLOYEE BENEFITS' LIABILITIES

a) Salaries and employees' related costs for the year were allocated as follows:

	2018 *SR*	*2017* *SR*
Cost of revenue	**96,607,564**	102,639,725
Selling and distribution expenses (note 8)	**6,664,558**	5,784,438
General and administrative expenses (note 9)	**18,352,025**	17,181,482
	121,624,147	125,605,645

b) The employee benefits' liabilities charge for the year were allocated as follows:

	2018 *SR*	*2017* *SR*
Cost of revenue	**7,361,092**	7,069,236
Selling and distribution expenses (note 8)	**472,144**	471,646
General and administrative expenses (note 9)	**1,349,682**	1,316,694
	9,182,918	8,857,576

11 OTHER INCOME, NET

	2018 *SR*	*2017* *SR*
Gain on disposal of property, plant and equipment, net (see note (a) below)	**10,227,905**	-
Stock count differences (see note (b) below)	-	13,865,830
Suppliers and customers settlements	-	5,153,110
Scrap sales	**339,340**	500,000
Insurance companies' compensation	**35,051**	722,153
Other	**2,258,058**	1,304,112
	12,860,354	21,545,205

a) During the year, the Group sold the property, plant and equipment for the first, second and third production lines which resulted in a gain amounting to SR 10,771,905. Further, the Group has written off construction work in progress project and resulted in a loss amounting to SR 544,000 (note 14).

b) During the year ended 31 December 2017, stock count differences represent the excess of inventories amounts counted compared to the books which resulted from the prior years' operations. This stock count resulted in a count differences amounting to SR 10.8 million in raw materials inventories and fuel and packaging materials amounting to SR 3 million. The Group management used a geologist specialist for the purpose of estimating raw materials inventories quantities during the stock count process.

12 FINANCIAL DERIVATIVES

The Parent Company has engaged in an interest rate swap contract with one of the local commercial banks to manage interest rates fluctuations, as at 31 December 2018, the fair value of the contract was amounting to SR 1,690,815 (31 December 2017: SR 4,524,116). Accordingly, the Parent Company recognized valuation gains during the year ended 31 December 2018 amounting to SR 2,833,301 (2017: SR 1,818,488 (valuation gains)).

The Parent Company had engaged in a currencies rate swap contract with one of the local commercial banks to manage the currencies prices fluctuations, as at 31 December 2017 the fair value of the contract was SR 265,787. During the year, this contract has been matured. Accordingly, the Parent Company recognized evaluation gains during the year ended 31 December 2018 amounting to SR 265,787 (31 December 2017: 265,787 (valuation losses)).

13 ZAKAT

a) Provision charged for the year:

The Parent Company and its subsidiary provide separate financial statements of zakat on a non-consolidated basis using the equity method. The principal elements of the zakat base for each Company form the Company's shareholders' equity, provisions as at the beginning of the year, adjusted net income, minus the net book value of property, plant and equipment and investments and other different items. If the zakat base is negative, the Company does not have zakat payable for the year.

	2018 *SR*	*2017* *SR*
Zakat charged for the year	**8,815,031**	9,936,354

b) The movement in zakat payable as follows:

	2018 *SR*	*2017* *SR*
Balance at beginning of the year	**11,011,855**	14,617,769
Provided during the year	**8,815,031**	9,936,354
Paid during the year	**(10,912,465)**	(13,542,268)
Balance at the end of the year	**8,914,421**	11,011,855

c) Zakat status

Parent Company:

Zakat assessment has been finalized with the General Authority for Zakat and Tax ("GAZT") up to the year ended 31 December 2011. The Parent Company has received an assessment for the year 2012 and 2013 with an additional zakat liability and withholding tax liability amounting to SR 506 thousand and SR 257 thousand respectively. The Parent Company appealed against this assessment and the Parent Company's appeal was accepted and resulted in credit favorable to the Parent Company regarding zakat and withholding tax amounting to SR 386 thousand and SR 377 thousand respectively which has been adjusted with zakat charge for the year. The Parent Company has submitted Zakat declarations for the years 2014 to 2017.

Subsidiary:

The subsidiary has submitted its zakat returns with the GAZT for the years up to 31 December 2017 and paid the zakat liabilities for those years due as per return. Zakat assessment for the years up to 31 December 2016 have been finalized. The subsidiary has received an assessment for the year 2017 with an additional zakat liability amounting to SR 207,080 and has filled an objection against that assessment.

14 PROPERTY, PLANT AND EQUIPMENT

	Land SR	*Factory buildings on leasehold land SR*	*Production buildings of Paper factory buildings on leasehold land SR*	*Buildings and other constructions SR*	*Quay SR*	*Machinery and equipment SR*	*Paper factory machinery and equipment SR*	*Vehicles SR*	*Furniture and other assets SR*	*Construction work in progress SR*	*Total SR*
Cost:											
1 January 2017	4,805,116	518,315,123	23,682,301	557,019,609	16,360,228	4,900,382,066	45,026,388	31,331,927	25,645,701	266,600,705	6,389,169,164
Additions	-	-	-	119,264	-	21,685,370	-	-	4,053,180	56,101,716	81,959,530
Transfers	-	-	-	56,771,061	-	250,920,282	-	-	198,845	(307,890,188)	-
Transfer to intangible assets (note 15)	-	-	-	-	-	-	-	-	-	(8,003,630)	(8,003,630)
As at 31 December 2017	4,805,116	518,315,123	23,682,301	613,909,934	16,360,228	5,172,987,718	45,026,388	31,331,927	29,897,726	6,808,603	6,463,125,064
Additions	-	-	-	2,004,324	-	15,378,566	-	305,235	3,275,109	12,338,557	33,301,791
Disposals	-	(160,241,235)	-	-	-	(444,715,640)	-	(1,183,210)	(69,998)	-	(606,210,083)
Write off	-	-	-	-	-	-	-	-	-	(544,000)	(544,000)
Transfers	-	-	-	99,540	-	3,461,250	-	-	23,150	(3,583,940)	-
As at 31 December 2018	**4,805,116**	**358,073,888**	**23,682,301**	**616,013,798**	**16,360,228**	**4,747,111,894**	**45,026,388**	**30,453,952**	**33,125,987**	**15,019,220**	5,889,672,772

14 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land *SR*	*Factory buildings on leasehold land* *SR*	*Production buildings of Paper factory buildings on leasehold land* *SR*	*Buildings and other constructions* *SR*	*Quay* *SR*	*Machinery and equipment* *SR*	*Paper factory machinery and equipment* *SR*	*Vehicles* *SR*	*Furniture and other assets* *SR*	*Construction work in progress* *SR*	***Total*** ***SR***
Depreciation:											
1 January 2017	-	381,754,389	7,924,693	225,234,679	16,360,228	2,503,523,877	13,264,341	27,735,993	16,535,178	-	3,192,333,378
Depreciation	-	9,049,139	817,585	13,287,247	-	196,139,227	1,502,034	1,171,714	4,549,832	-	226,516,778
As at 31 December 2017	-	390,803,528	8,742,278	238,521,926	16,360,228	2,699,663,104	14,766,375	28,907,707	21,085,010	-	3,418,850,156
Depreciation	-	7,861,867	817,585	16,040,587	-	161,069,480	1,502,033	1,716,543	4,443,595	-	193,451,690
Relating to disposals	-	(160,241,235)	-	-	-	(444,715,640)	-	(1,183,210)	(69,998)	-	(606,210,083)
As at 31 December 2018	**-**	**238,424,160**	**9,559,863**	**254,562,513**	**16,360,228**	**2,416,016,944**	**16,268,408**	**29,441,040**	**25,458,607**	**-**	**3,006,091,763**
Net book amounts											
31 December 2018	**4,805,116**	**119,649,728**	**14,122,438**	**361,451,285**	**-**	**2,331,094,950**	**28,757,980**	**1,012,912**	**7,667,380**	**15,019,220**	**2,883,581,009**
31 December 2017	4,805,116	127,511,595	14,940,023	360,489,322	-	2,488,223,300	30,260,013	2,424,220	8,812,716	6,808,603	3,044,274,908

14 PROPERTY, PLANT AND EQUIPMENT (continued)

a) Depreciation for the year was allocated as follows:

	2018 *SR*	*2017* *SR*
Cost of revenue	**192,359,089**	225,374,415
Selling and Distribution expenses (note 8)	**954,987**	1,042.663
General and Administrative expenses (note 9)	**137,614**	99,700
	193,451,690	226,516,778

b) The plants are situated on land leased from the Deputy Ministry For Mineral Resources, of Ras Baridi in Yanbu, for 30 Hijra years commencing 4 Rabi' I 1398H (corresponding to 12 February 1978). The lease has been renewed for a similar period for 30 years on 3 Rabi' I 1428H (corresponding to 22 March 2007). The lease is renewable for further similar periods at the option of the parties.

c) During the year, the property, plant and equipment related to the first, second and third production lines have been sold and resulting in a gain amounting to SR 10,771,905 recognized under other income (note 11).

d) Construction work in progress represents different technical and engineering improvements to increase the line capacity and efficiency.

e) During the year, the Group reviewed the estimated useful lives of property, plant and equipment of the Parent Company's fourth production line and decided to change their estimated useful life as per below table. This was based on internal assessment of operational team, assessment of expert, hired by the Group, and the information available to the Group. Had there been no change in useful life during the year, depreciation charge for the year would have been higher by SR 48.9 million. Category wise impact of depreciation charge as follows:

	The remaining from the estimated useful life during the twelve months year ended 31 December		***Annual decrease in depreciation expense resulted from the change in useful life, SR ('000)***
Assets	***2018***	*2017*	
Electrical station	**14**	6.8	6,915
Buildings	**14**	6.16	1,180
Equipment	**14**	6.16	40,785
Total annual decrease in depreciation expense resulted from the change in useful life			**48,880**

15 INTANGIBLE ASSETS

	Software 2018 SR	*Software 2017 SR*
Cost:		
At 1 January	8,003,630	-
Transferred from Property, Plant, and Equipment (note 14)	-	8,003,630
Balance at 31 December	**8,003,630**	8,003,630
Amortization:		
At 1 January	1,600,726	-
Amortization during the year	1,600,726	1,600,726
Balance at 31 December	**3,201,452**	1,600,726
Net Book Value:		
31 December	**4,802,178**	6,402,904

16 INVENTORIES

Inventories as at 31 December 2018 and 31 December 2017 comprised of the following:

	2018 *SR*	*2017* *SR*
Spare parts, net (note below)	**201,831,518**	225,122,840
Work in process	**360,058,259**	349,846,962
Raw materials	**33,923,145**	29,440,091
Fuel	**7,567,949**	8,571,930
Packaging materials	**1,773,123**	6,722,253
Other materials	**3,222,891**	2,750,875
	608,376,885	622,454,951

As at 31 December 2018, the Group maintains provision against slow moving parts amounting to SR 100.2 million (2017: SR 101.5 million). During the year, the Group has reversed the provision amounting to SR 1.3 million (2017: SR 9.5 million).

17 TRADE RECEIVABLES

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

	Total *SR*	*Neither past due nor impaired* *SR*	*< 60 days* *SR*	*60 to 90 days* *SR*	*> 90 days* *SR*
31 December 2018	**164,830,376**	**40,174,815**	**30,858,292**	**24,772,587**	**69,024,682**
31 December 2017	152,314,285	42,432,865	26,104,926	24,095,850	59,680,644

Trade receivables as at 31 December 2018 netted with allowance for ECL amounting to SR 424,200 (31 December 2017: SR Nil) which has been recorded considering customer specific credit risk.

For trade receivable and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. As, it is the Group's practice to deal with good customers who do not have any history of overdue payments, financial difficulties and obtain letter of guarantees (consist of bank guarantees from largest customers). Further as the Group has not experienced any default history or significant increase in credit risk during the year, no ECL is recorded except SR 424,200 explained above. (31 December 2017: Nil).

18 PREPAYMENTS, ADVANCES AND OTHER RECEIVABLES

	2018 *SR*	*2017* *SR*
Advances to suppliers	**8,683,517**	5,887,921
Employees advances	**5,421,618**	5,621,955
Prepaid expenses	**7,120,915**	7,546,400
Others	**62,787**	-
	21,288,837	19,056,276

19 SHARE CAPITAL

The Parent Company's authorized and paid up capital is divided into 157,500,000 shares as at 31 December 2018 (2017: 157,500,000 shares) stated at SR 10 per share.

20 STATUTORY RESERVE

In accordance with the Parent Company's By-laws, the Parent Company is required to transfer at least 10% of net income to the statutory reserve. The Parent Company may cease such transfers when the statuary reserve equals 30% of the capital. This having been achieved in previous years, and the Parent Company resolved to discontinue such transfers. This reserve is not available for distribution.

21 NON-CONTROLLING INTERESTS

Non-controlling interests represent the portion of the Group's income or loss and the net assets not held by the Group that have been presented as a separate item in the consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity in the consolidated statement of financial position separately from the parent company's equity. Non-controlling interests as at 31 December 2018 and 2017 represent 40 % of the share capital of Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company).

22 DIVIDENDS DISTRIBUTION

a) Dividends for the year ended 31 December 2018:

- The Ordinary General Assembly, held on 29 Rajab 1439H (corresponding to 15 April 2018), has approved the Board of Directors recommended on 26 Jumada II 1439H (corresponding to 14 March 2018) the distribution of cash dividend for the second half of 2017 amounting to SR 196.9 million which represents SR 1.25 per share equals to 12.5% of the shares nominal value.
- The Board of Directors recommended on 9 Dhul-Qi'dah 1439H (corresponding to 22 July 2018) the distribution of cash dividend for the first half of 2018 amounting to SR 78.7 million which represents SR 0.5 per share equals to 5% of the shares nominal value.

b) Dividends for the year ended 31 December 2017:

- The Extraordinary General Assembly, held on 4 Shaban 1438H (corresponding to 30 April 2017), has approved the Board of Directors recommendation to distribute SR 315 million as a cash dividends for the second half of 2016 which represents SR 2 per share and equals to 20% of the shares nominal value.
- The Board of Directors recommended on 27 Ramadan 1438H (corresponding to 22 June 2017) distribution of cash dividend amounting to SR 118.1 million as cash dividends for the first half of 2017 which represents SR 0.75 per share and equals to 7.5% of the shares nominal value.

23 EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the income for the year attributable to equity holders in the Parent Company by the weighted average number of ordinary shares which are 157.5 million shares.

The table below reflects the details of the net income for the year and the number of shares used in calculating basic and diluted earnings per share:

	2018 *SR*	*2017* *SR*
Income for the year attributable to ordinary equity holders of the Parent Company (SR' 000)	**91,184**	318,875
Weighted average number of outstanding ordinary shares (000' shares)	**157,500**	157,500
Basic and diluted earnings per share attributable to shares holders of the Parent Company (Saudi Riyals)	**0.58**	2.02

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

24 TERM LOANS

The outstanding term loans as at the consolidated statement of financial position are as follows:

	Average Interest Rate Applied	Loan type	*31 December 2018 SR*	*31 December 2017 SR*
Saudi Industrial Development Fund loan (A)	7.5%	Murabaha	-	34,824,417
National Commercial Bank loan (B)	SIBOR+0.75%	Murabaha	**168,638,889**	220,527,778
			168,638,889	255,352,195
Current portion			**(51,888,889)**	(86,713,306)
Non-current portion			**116,750,000**	168,638,889

24 TERM LOANS (continued)

A) Saudi Industrial Development Fund Loan:
During 2010, the Parent Company obtained a loan from Saudi Industrial Development Fund ("SIDF") to finance the construction of the fifth production line amounting to SR 300 million deducting from it SR 22.5 million as finance costs, the loan will be settled over 6 years in semiannual installments starting from 28 December 2012. The loan has been fully settled during May 2018. The loan is guaranteed by mortgaging all property, plant and equipment of the fifth production Line to SIDF, and during the year ended 31 December 2018, the Group has received the clearance letter from the Fund.

The balance of SIDF loan is as follows:

	2018 SR	*2017 SR*
Total loan	-	34,824,417
Less: current portion	-	(34,824,417)
Non-current portion	-	-

B) National Commercial Bank loan
During 2015, the Parent Company has entered into new bank facilities contracts amounting to SR 250 million with the National Commercial Bank ("NCB") to finance the construction of power generating plant from waste thermal energy project. The loan balance has been fully utilized as at 31 December 2017 and 30 September 2018. The loan will be settled on monthly installments amounting to SR 4.32 million each which ends in April 2022. The loan is subject to interest costs as per prevailing Saudi rates (SIBOR) plus fixed commission rate. The power generating plant from waste thermal energy project was mortgaged completely as a guarantee to NCB.

The balance of NCB loan is as follows:

	2018 SR	*2017 SR*
Total loan	**168,638,889**	220,527,778
Less: current portion	**(51,888,889)**	(51,888,889)
Non-current portion	**116,750,000**	168,638,889

C) Below is the summary of the undiscounted loans repayment schedule:

	2018 SR	*2017 SR*
2018	-	94,022,961
2019	**57,155,942**	57,155,942
2020	**55,298,923**	55,298,923
2021	**53,420,818**	53,420,818
2022	**13,054,190**	13,054,190
	178,929,873	272,952,834

25 SHORT TERM BORROWINGS

The Group obtained short term bank facilities from a local bank, commission and margin profits in accordance with the prevailing commercial rates. These facilities are unsecured. These short term bank facilities will be repaid within one year from the consolidated statement of financial position date.

26 EMPLOYEE BENEFITS' LIABILITIES

	2018 *SR*	*2017* *SR*
Balance at the beginning of the year	**65,236,690**	59,482,118
Current service cost	**7,031,686**	6,673,886
Interest cost on defined benefits obligation	**2,151,232**	2,183,690
Re-measurement of employee benefits' obligation	**(1,117,962)**	874,979
Paid during the year	**(6,663,243)**	(3,977,983)
Balance at the end of the year	**66,638,403**	65,236,690

The following is the breakup of the re-measurement (gain) / loss on defined benefit liabilities:

	2018 *SR*	*2017* *SR*
Demographic assumptions	**(1,953,038)**	319,942
Financial assumptions	**(3,335)**	23,228
Experience adjustment	**838,411**	531,809
	(1,117,962)	874,979

Employee benefits' liabilities expense:

	2018 *SR*	*2017* *SR*
Current service cost	**7,031,686**	6,673,886
Interest cost on defined benefits obligation	**2,151,232**	2,183,690
Employee benefits' liabilities expense	**9,182,918**	8,857,576

Allocation of employee benefits' liabilities cost is given in note 10.

The principle actuarial assumptions used in the calculation of the employee benefits' liabilities are as follows:

	2018 *SR*	*2017* *SR*
Discount rate	**4.7%**	3.2%
Salary increase rate	**2.0%**	2.0%
Mortality rate	**WHO SA16 -75%**	WHO SA15 -75%
Turnover rate	**Light**	Moderate

The effect of the change of one of the actuarial assumptions that has a reasonable change in the rate in the defined benefit obligation, with all other variable assumptions constant is presented as follows:

	2018 SR	*2017* SR
Discount rate +0.5%	**(3,546,838)**	(3,801,036)
Discount rate - 0.5%	**3,876,777**	3,470,282
Long term salary increases +0.5%	**2,806,026**	2,504,302
Long term salary increases -0.5%	**(2,613,499)**	(2,332,644)

The Group expects to pay employee benefits in next year amounting to SR 4 million (2017: SR 3 million).

27 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2018 SR	*2017* SR
Accrued expenses against limestone extraction fees	**30,016,786**	37,267,566
Service payable accounts	**19,534,476**	29,661,629
Advances from customers	**15,499,354**	3,518,641
Other accrued expenses	**14,056,216**	14,390,139
Customs payables	**509,526**	5,234,650
VAT payable	**1,496,497**	-
Other payables	**763,134**	969,848
	81,875,989	91,042,473

28 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, Board of Directors, the Group's key management personnel and enterprises managed or significantly influenced by those parties. The following are the details of major related parties' transactions during the year ended 31 December 2018:

- Allowances and compensation of the Board of Directors and senior executives

The Group's senior management includes key management personnel and executives. Board of directors, having authorities and responsibilities for planning, directing and controlling the activities of the Group.

Board of Directors and committees' compensation charged during the year amounting to SR 4.5 million (2017: SR 4.6 million) (see note 9).

Key management personnel compensation comprised the following:

	2018 *SR*	*2017* *SR*
Short term employee benefits	**5,533,000**	6,243,526
Post-employment benefits	**431,641**	431,872
	5,964,641	6,675,398

29 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. The Group studies the expected effect of the amendments on its consolidated financial statements.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

29 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases (continued)

Transition to IFRS 16

The Group plans to adopt IFRS 16 with modified retrospective approach and will not restate previous periods while adjusting the difference between right of use assets and lease liability in the beginning balance of 2019 retained earnings as allowed by IFRS 16. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17.

The Group is in process of carrying impact assessment and will make more detailed assessments of the effect in the future to determine the impact of IFRS 16. Currently the impact is not known.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in consolidated statement of income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in OCI.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have any such long-term interests, the amendments will not have an impact on its consolidated financial statements.

29 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments have no impact on the Group.

IFRS 11 Joint Arrangements - A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

IAS 23 Borrowing Costs - The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

30 CONTINGENCIES AND CAPITAL COMMITMENTS

As at 31 December 2018, the capital commitments related to projects under construction is amounting to SR 17.7 million (31 December 2017: SR Nil).

As at 31 December 2018, the contingencies against bank letter of guarantees issued on behalf of the Group is amounting to SR 26.7 million (31 December 2017: SR 25.5 million).

As at 31 December 2018, the Group has bank letter of credits issued amounting to SR 1.7 million (31 December 2017: SR Nil) issued from bank in the Kingdom of Saudi Arabia.

Operating lease commitments

Group as a lessee

The plants are situated on land leased from the Deputy Ministry For Mineral Resources, of Ras Baridi in Yanbu, for 30 Hijra years commencing 4 Rabi' I 1398H (corresponding to 12 February 1978). The lease has been renewed for a similar period for 30 years on 3 Rabi' I 1428H (corresponding to 22 March 2007). The lease is renewable for further similar periods at the option of the parties. Future minimum rentals payable under non-cancellable operating leases as at 31 December 2018 and 2017 are as follows:

	2018 *SR*	*2017* *SR*
Within one year	**650,000**	650,000
after one year but not more than five years	**3,250,000**	3,250,000
More than five years	**6,650,000**	7,300,000
	10,550,000	11,200,000

31 RISK MANAGEMENT OBJECTIVES AND POLICIES

Risks are part of the Group's operations and are managed through a continuous mechanism including the identification and then assessment of risks with follow up in line with other approved restrictions and controls. Risk management is important for the Group's ability to achieve gains. Every employee in the Group is responsible for risk management related to his roles and responsibilities. The Group is exposed to market risk, commission rate risk, currencies risk, credit risk and liquidity risk.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include term loans and derivative financial instruments.

Interest rate risk
Interest rate risk is the risk that the fair value or 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 relates primarily to the Group's term loans obligations and short term borrowings with floating interest rates. The Group manages the commission risks mainly by entering into interest rate swap agreements with one of the local commercial banks (note 12).

Currency risk
Currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities. Last year, the Group managed the currency risks by entering into currency swap agreements with one of the local commercial banks (note 12). The Group is not exposed to any significant currency risk as the Group did not have any significant balances as at 31 December 2018 denominated other than Saudi Riyal and US Dollars.

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables
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 quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of guarantees or other forms of credit insurance obtained from reputable banks. The five largest customers account for 69% of outstanding trade receivables as at 31 December 2018 (31 December 2017: 78%). The Group is exposed to credit risk due to sales and trade receivables balances with 5 customers. Sales to such customers represent 92% of the total sales of the Group for the period ended 31 December 2018 (31 December 2017: 86%).

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 17. The Group does not hold collateral as security. The letters of guarantees and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment. As the Group has not experienced any default history or significant increase in credit risk during the year, no ECL is recorded except SR 424,200 explained in note 17.

Financial instruments and bank balances
Credit risk from balances with banks and financial institutions is managed by the Group in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

31 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk
The Group monitors its risk of a shortage of funds using a liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. Approximately 77% of the Group's debt will mature in less than one year at 31 December 2018 (2017: 73%) based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual payments:

31 December 2018	***< 3 months*** **SR**	***3- 12 months*** **SR**	***1 to 5 years*** **SR**	***> 5 years*** **SR**	***Total*** **SR**
Term loans	-	-	**116,750,000**		**116,750,000**
Trade payables	-	**31,338,481**	-	-	**31,338,481**
Financial derivatives	-	**1,690,815**	-	-	**1,690,815**
Current portion of term loans	**12,972,222**	**38,916,667**	-	-	**51,888,889**
Short term borrowings	-	**57,533,847**	-	-	**57,533,847**
Dividends payable	-	**76,764,203**	-	-	**76,764,203**
Accrued expenses and other current liabilities	-	**81,875,989**	-	-	**81,875,989**
	12,972,222	**288,120,002**	**116,750,000**	-	**417,842,224**

31 December 2017	*< 3 months* SR	*3- 12 months* SR	*1 to 5 years* SR	*> 5 years* SR	*Total* SR
Term loans	-	-	168,638,889	-	168,638,889
Trade payables	-	15,019,231	-	-	15,019,231
Financial derivatives	-	4,789,903	-	-	4,789,903
Current portion of term loans	12,972,222	73,741,084	-	-	86,713,306
Dividends payable	-	75,956,818	-	-	75,956,818
Accrued expenses and other current liabilities	-	91,042,473	-	-	91,042,473
	12,972,222	260,549,509	168,638,889	-	442,160,620

Capital management
For the purpose of the Group's capital management, the Group's capital includes issued share capital and all other equity reserves attributable to the equity holders of the Parent Company. The primary objective of the Group's capital management is to maximize the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital and net debt.

The Group's overall strategy remains unchanged from the previous year. The Group's capital structure consists of net debt (term loans, trade payables and accrued expenses and other current liabilities for cash and cash equivalents), equity (consisting of share capital, statutory reserve and retained earnings).

31 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

	2018 ***SR***	*2017* *SR*
Term loans and short term borrowings	**226,172,736**	255,352,195
Financial derivatives	**1,690,815**	4,789,903
Trade payables	**31,338,481**	15,019,231
Accrued expenses and other current liabilities	**81,875,989**	91,042,473
Less: cash and cash equivalents	**(51,453,074)**	(97,900,131)
Net debt	**289,624,947**	268,303,671
Total equity	**3,241,610,003**	3,423,994,290
Net debt to equity ratio	**8.93%**	7.84%

32 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities:

	1 January 2018 SR	*Cash flows SR*	*Others SR*	***31 December 2018 SR***
Current portion of term loans	86,713,306	(86,888,889)	52,064,472	**51,888,889**
Term loans	168,638,889	-	(51,888,889)	**116,750,000**
Short term borrowings	-	57,533,847	-	**57,533,847**
Dividends payable	75,956,818	(274,817,615)	275,625,000	**76,764,203**
Total liabilities from financing activities	331,309,013	(304,172,657)	275,800,583	**302,936,939**

	1 January 2017 SR	*Cash flows SR*	*Others SR*	***31 December 2017 SR***
Current portion of term loans	93,314,042	(99,472,222)	92,871,486	**86,713,306**
Term loans	120,999,000	139,251,000	(91,611,111)	**168,638,889**
Short term borrowings	-	-	-	**-**
Dividends payable	73,232,777	(430,400,959)	433,125,000	**75,956,818**
Total liabilities from financing activities	287,545,819	(390,622,181)	434,385,375	**331,309,013**

The 'Others' column includes the effect of reclassification of non-current portion of term loans to current portion of term loans and dividend declared and accrued during the year that were not yet paid at the year-end. The Group classifies finance cost paid as cash flows from operating activities.

33 FAIR VALUE MEASUREMENT

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

33 FAIR VALUE MEASUREMENT (continued)

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

			Fair value measurement using		
	Date of valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Liabilities measured at fair value		**SR**	**SR**	**SR**	**SR**
Financial derivatives	31 December 2018	**1,690,815**	**-**	**1,690,815**	**-**

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities measured at fair value		SR	SR	SR	SR
Financial derivatives	31 December 2017	4,789,903	-	4,789,903	-

The Group enters into derivative financial instrument principally with financial institutions having investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs is interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations.

As at 31 December 2018 and 31 December 2017, the fair values of the Group's financial instruments are estimated to approximate their carrying values and are classified under level 2 of the fair value hierarchy. Fair value of trade receivables as at 31 December 2018 and 31 December 2017 is carrying amount because of short term nature of the balance.

Fair values of the Group's borrowings are determined by using DCF method using discount rate that reflects the borrowing rate as at the end of the reporting period. As at 31 December 2018 and 31 December 2017, the carrying amounts of borrowings were not materially different from their calculated fair values.

During the year ended 31 December 2018 and 2017, there were no movements between the levels.