

**YANBU CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT**

**31 DECEMBER 2019**

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# Yanbu Cement Company (A Saudi Joint Stock Company)

## CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2019

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**Ernst & Young & Co. (Certified Public Accountants)**  
**General Partnership**  
King's Road Tower - 13<sup>th</sup> floor  
King Abdul Aziz Road (Malek Road)  
P.O. Box 1994  
Jeddah 21441  
Kingdom of Saudi Arabia  
Head Office - Riyadh

Registration No. 45/11/323  
C.R. No. 4030276644  
Tel: +966 12 221 8400  
Fax: +966 12 221 8575  
jeddah@sa.ey.com  
www.ey.com/mena

## **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 2019, 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements 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 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.

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

**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
<p><b>Existence and valuation of inventories</b></p> <p>As disclosed in note (16) to the accompanying consolidated financial statements, raw materials inventories amount to SR 15 million (mainly limestone, sand, slag, gypsum, iron ore and bauxite) and work in progress amounts to SR 342 million (mainly clinker which are stored in purpose built shed and stockpiles) as at 31 December 2019. 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.</p> <p>Due to the significance of the inventory balances and related estimations involved in the determination of the quantities, this is considered a key audit matter.</p> <p>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.</p>	<p>We have performed the following procedures in respect of validating the existence and valuation of inventories:</p> <ul style="list-style-type: none"> <li>• Attended the physical inventory count performed by the Group and the independent surveyor.</li> <li>• Evaluated the competence, capabilities and objectivity of the surveyor.</li> <li>• Obtained and reviewed the inventory count report of the external surveyor's for the major stock items on a sample basis.</li> <li>• Assessed the management's measurements of stockpiles during the physical count and recalculated the conversion to the volumes.</li> <li>• Tested the valuation of yearend inventories on a sample basis, including testing judgements applied regarding obsolescence and net realizable value impairment.</li> <li>• Assessed the completeness and sufficiency of disclosures relating to the inventories in the consolidated financial statements.</li> </ul>

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

**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
<p><b>Provision of slow-moving spares parts</b></p> <p>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.</p> <p>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 obsolescence or the retirement of related machinery. These judgments include management's expectations for future utilization, disposal or sale plans for the spare parts.</p> <p>Due to the significance of the spare parts provision and related estimations involved, this is considered a key audit matter.</p> <p>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.</p>	<p>We have performed the following procedures in respect of validating the appropriateness of provision recorded against spare parts:</p> <ul style="list-style-type: none"> <li>• Assessed the appropriateness of key assumptions used by the Group to determine the provision assessment.</li> <li>• 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</li> <li>• Performed the following procedures on a sample basis: <ul style="list-style-type: none"> <li>➢ tested ageing of spares parts</li> <li>➢ tested accuracy of the ageing reports</li> </ul> </li> </ul> <p>Furthermore, we recalculated the expected provision based on key assumptions to ensure the mathematical accuracy of the calculation.</p>



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

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

#### **Other information included in the Group's 2019 Annual Report**

Other information consists of the information included in the Group's 2019 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 2019 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.

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

**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

5 March 2020  
10 Rajab 1441H

Jeddah  
19/30/AIR



Yanbu Cement Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Note	2019 SR	2018 SR
Revenue from contracts with customers	7	975,736,355	767,133,519
Cost of revenue		(640,935,805)	(624,272,449)
<b>GROSS PROFIT</b>		<b>334,800,550</b>	<b>142,861,070</b>
Selling and distribution expenses	8	(11,098,625)	(10,925,719)
General and administrative expenses	9	(42,615,949)	(37,052,406)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>281,085,976</b>	<b>94,882,945</b>
Other income, net	11	2,776,865	12,860,354
(Loss)/gain on derivative instruments at fair value through income statement	12	(372,840)	3,099,088
Finance costs		(8,023,864)	(8,807,297)
Finance income	19	1,308,573	-
<b>INCOME BEFORE ZAKAT</b>		<b>276,774,710</b>	<b>102,035,090</b>
Zakat	13	(19,098,803)	(8,815,031)
<b>NET INCOME FOR THE YEAR</b>		<b>257,675,907</b>	<b>93,220,059</b>
<i>Attributable to:</i>			
Shareholders of the Parent Company		257,822,975	91,184,733
Non-controlling interests	6	(147,068)	2,035,326
		<b>257,675,907</b>	<b>93,220,059</b>
<b>EARNINGS PER SHARE</b>			
Basic and diluted earnings per share attributable to shareholders of the Parent Company	24	<b>1.64</b>	<b>0.58</b>

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



Yanbu Cement Company (A Saudi Joint Stock Company)  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2019

	<i>Note</i>	<b>2019</b> <b>SR</b>	<b>2018</b> <b>SR</b>
<b>Net income for the year</b>		<b>257,675,907</b>	<b>93,220,059</b>
<b>Other comprehensive income</b>			
<i>Items not to be reclassified to consolidated statement of income in subsequent periods:</i>			
Re-measurement gain on defined benefit liabilities	27	<b>2,222,372</b>	1,117,962
<b>Total comprehensive income for the year</b>		<b>259,898,279</b>	<b>94,338,021</b>
<i>Attributable to:</i>			
Shareholders of the Parent Company		<b>260,004,999</b>	92,280,980
Non-controlling interests		<b>(106,720)</b>	2,057,041
		<b>259,898,279</b>	<b>94,338,021</b>

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

Yanbu Cement Company (A Saudi Joint Stock Company)  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2019

ASSETS	Note	2019 SR	2018 SR
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	2,759,042,370	2,883,581,009
Intangible assets	15	3,201,452	4,802,178
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,762,243,822</b>	<b>2,888,383,187</b>
<b>CURRENT ASSETS</b>			
Inventories	16	563,957,102	608,376,885
Trade receivables	17	169,760,791	164,830,376
Prepayments, advances and other receivables	18	17,813,553	21,288,837
Cash and bank balances	19	176,751,996	51,453,074
<b>TOTAL CURRENT ASSETS</b>		<b>928,283,442</b>	<b>845,949,172</b>
<b>TOTAL ASSETS</b>		<b>3,690,527,264</b>	<b>3,734,332,359</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	20	1,575,000,000	1,575,000,000
Statutory reserve	21	787,500,000	787,500,000
Retained earnings		909,510,092	846,380,093
<b>TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT</b>		<b>3,272,010,092</b>	<b>3,208,880,093</b>
Non-controlling interests	22	29,950,498	32,057,218
<b>TOTAL EQUITY</b>		<b>3,301,960,590</b>	<b>3,240,937,311</b>
<b>NON-CURRENT LIABILITIES</b>			
Term loans	25	64,861,111	116,750,000
Employee benefits' liabilities	27	64,556,905	66,638,403
Other non-current liability		6,477,160	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>135,895,176</b>	<b>183,388,403</b>
<b>CURRENT LIABILITIES</b>			
Trade payables		32,287,067	31,338,481
Financial derivatives	12	2,063,655	1,690,815
Current portion of term loans	25	51,888,889	51,888,889
Short term borrowings	26	-	57,533,847
Dividends payable		77,304,031	76,764,203
Accrued expenses and other current liabilities	28	73,037,425	81,875,989
Zakat payable	13	16,090,431	8,914,421
<b>TOTAL CURRENT LIABILITIES</b>		<b>252,671,498</b>	<b>310,006,645</b>
<b>TOTAL LIABILITIES</b>		<b>388,566,674</b>	<b>493,395,048</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,690,527,264</b>	<b>3,734,332,359</b>

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

Yanbu Cement Company (A Saudi Joint Stock Company)  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2019

	<i>Attributable to equity holders of the parent</i>				<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Total</i>		
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
As at 1 January 2018	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
<i>Total comprehensive income for the year</i>	-	-	92,280,980	92,280,980	2,057,041	94,338,021
Dividends (note 23)	-	-	(275,625,000)	(275,625,000)	-	(275,625,000)
Dividends to non-controlling interests	-	-	-	-	(1,770,000)	(1,770,000)
<b>Balance at 31 December 2018</b>	<b>1,575,000,000</b>	<b>787,500,000</b>	<b>846,380,093</b>	<b>3,208,880,093</b>	<b>32,057,218</b>	<b>3,240,937,311</b>
Net income for the year	-	-	257,822,975	257,822,975	(147,068)	257,675,907
Other comprehensive income for the year	-	-	2,182,024	2,182,024	40,348	2,222,372
<i>Total comprehensive income for the year</i>	-	-	260,004,999	260,004,999	(106,720)	259,898,279
Dividends (note 23)	-	-	(196,875,000)	(196,875,000)	-	(196,875,000)
Dividends to non-controlling interests	-	-	-	-	(2,000,000)	(2,000,000)
<b>Balance at 31 December 2019</b>	<b>1,575,000,000</b>	<b>787,500,000</b>	<b>909,510,092</b>	<b>3,272,010,092</b>	<b>29,950,498</b>	<b>3,301,960,590</b>

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

Yanbu Cement Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 SR	2018 SR
<b>OPERATING ACTIVITIES</b>			
Income before zakat		276,774,710	102,035,090
<i>Adjustment to reconcile operating income to net cash flows:</i>			
Depreciation of property, plant and equipment	14	192,888,466	193,451,690
Amortization of intangible assets	15	1,600,726	1,600,726
Finance costs		8,023,864	8,807,297
Gain on disposal of property, plant and equipment	11	(482,845)	(10,771,905)
Write-off of construction work in progress	14	-	544,000
Loss/(gain) on derivative instruments at fair value through income statement	12	372,840	(3,099,088)
Provision for employee benefits' liabilities	27	9,903,270	9,182,918
Charge / (Reversal) of provision against slow moving parts	16	2,189,439	(1,320,406)
Allowance for expected credit losses	17	2,434,426	424,200
		<u>493,704,896</u>	<u>300,854,522</u>
<i>Working capital adjustments:</i>			
Decrease in inventories		42,230,344	15,398,472
Increase in trade receivables		(7,364,841)	(12,940,291)
Decrease/ (increase) in prepayments, advances and other receivables		3,475,284	(2,232,561)
Increase in trade payables		948,586	16,319,250
Decrease in accrued expenses and other current liabilities		(9,847,091)	(9,166,484)
		<u>523,147,178</u>	<u>308,232,908</u>
Employee benefits' liabilities paid	27	(9,762,396)	(6,663,243)
Finance cost paid		(7,691,830)	(8,631,714)
Zakat paid	13	(11,922,793)	(10,912,465)
		<u>493,770,159</u>	<u>282,025,486</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	14	(61,213,330)	(33,301,791)
Proceeds from sales of property, plant and equipment		500,001	10,771,905
		<u>(60,713,329)</u>	<u>(22,529,886)</u>
<b>FINANCING ACTIVITIES</b>			
Repayment of term loans		(51,888,889)	(86,888,889)
Net movement of short-term borrowings		(57,533,847)	57,533,847
Dividends paid to equity holders of the Parent	23	(196,335,172)	(274,817,615)
Dividends paid to non-controlling interests		(2,000,000)	(1,770,000)
		<u>(307,757,908)</u>	<u>(305,942,657)</u>
<b>INCREASE/DECREASE IN CASH AND BANK BALANCES</b>			
		<u>125,298,922</u>	<u>(46,447,057)</u>
Cash and bank balances at the beginning of the year	19	51,453,074	97,900,131
<b>CASH AND BANK BALANCES AT THE END OF THE YEAR</b>			
	19	<u>176,751,996</u>	<u>51,453,074</u>
<b>MAJOR NON-CASH TRANSACTIONS:</b>			
Re-measurement gain on employee benefits' liabilities	27	2,222,372	1,117,962
Right-of-use asset and lease liabilities	2.4	7,153,653	-

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

# Yanbu Cement Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 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. 470000233 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 2019 and 2018.

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 Company has branches in Jeddah and Madina with commercial registration numbers 4030021367 and 4650020461 respectively.

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 2019, were approved by the Board of Directors on 4 March 2020 (corresponding to 9 Rajab 1441H).

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2019 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.

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 BASIS OF CONSOLIDATION (continued)

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 POLICIES

#### 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.

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.

At 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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, bulk cement and cement bags. 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.

**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.

At 31 December 2019

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E) Costs and expenses (continued)**

**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

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.



At 31 December 2019

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K) Leases**

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

***Group as a lessee***

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

***i. Right-of-use assets – Leasehold land***

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives. Currently, right-of-use assets are depreciated using an average range rate from 6% to 11%. Right-of-use assets are subject to impairment.

***ii. Lease liabilities***

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

***iii. Short-term leases and leases of low-value assets***

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense 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.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**M) Intangible assets (continued)**

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.

**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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through income statement, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**N) Financial instruments (continued)**

*i) Financial assets (continued)*

**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)**

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)**

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 income statement**

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

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the consolidated statement of income when the right of payment has been established.

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).

At 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N) Financial instruments (continued)

i) Financial assets (continued)

**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.

**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.

The Group considers a financial asset in default when contractual payments are 360 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.

At 31 December 2019

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**N) Financial instruments (continued)**

**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.

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 amortization 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.

At 31 December 2019

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 assessing 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.

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**

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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.

2.4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, 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 16 Leases**

IFRS 16 supersedes 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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The effect of adoption IFRS 16 as at 1 January 2019 increase is as follows:

	<b>SR</b>
<b>Assets</b>	
Property, plant and equipment	7,153,653
<b>Liabilities</b>	
Other non-current liability	6,835,688
Accrued expenses and other current liabilities	317,965
<b>Total liabilities</b>	<u>7,153,653</u>

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

**IFRS 16 Leases (continued)**

The Group has lease contracts for various leased properties. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in consolidated statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under "Prepayments, advances and other receivables" and accrued expenses and other current liabilities", respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

**Leases previously accounted for as operating leases**

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right-of-use assets of SR 7,153,653 were recognised and presented within property, plant and equipment in the statement of financial position (see note 14).
- Lease liability of SR 7,153,653 were recognized and classified into current and non-current portions in "accrued expenses and other current liabilities" and other non-current liability, respectively.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<i>SR</i>
<b>Operating leases as of 31 December 2018</b>	<b>10,130,000</b>
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
<b>Discounted operating lease commitments at 1 January 2019</b>	<b>7,153,653</b>
<b>Lease liabilities as at 1 January 2019</b>	<b>7,153,653</b>

**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 an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.



At 31 December 2019

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)**

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

***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 Venture.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

***Annual Improvements 2015-2017 Cycle***

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

***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 had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

***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.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)**

*Annual Improvements 2015-2017 Cycle (continued)*

*IAS 23 Borrowing Costs (continued)*

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.

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

**2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

*Amendments to IFRS 3: Definition of a business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

*Amendments to IAS 1 and IAS 8: Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied prospectively. Early application is permitted and must be disclosed. The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

*Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform*

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Group.

### 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 judgements, which have the most significant effect on the amounts recognised in the financial statements:

##### A) 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.

##### B) Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset)

#### 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.

At 31 December 2019

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

**3.2 ESTIMATES AND ASSUMPTIONS (continued)**

**C) Useful life of intangible assets**

The Group's management determines the estimated useful lives of its intangible assets for calculating amortisation. This estimate is determined after considering the expected benefit obtained from the usage of the intangible assets. Management reviews the carrying value and useful lives annually and future amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**D) 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.

**E) 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.

**F) 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.

**G) 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.

**H) 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.

**I) 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 obsolescence or the retirement of related machinery. These judgments include management's expectations for future utilization, disposal or sale plans for the spare parts.

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

**3.2 ESTIMATES AND ASSUMPTIONS (continued)**

**J) 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.

**K) Leases - Estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

**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
		2019	2018	
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	
		2019	2018
Yanbu Saudi Kuwaiti for Paper Products Company ( A Limited Liability Company)	Kingdom of Saudi Arabia	40%	40%

Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

6. MATERIAL SUBSIDIARY (continued)

The tables below represent the financial information of the subsidiary, Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company):

	<i>31 December</i> <i>2019</i> <i>SR</i>	<i>31 December</i> <i>2018</i> <i>SR</i>
<b>Accumulated Balance of non-controlling interests:</b>		
Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company)	<u>29,950,498</u>	<u>32,057,218</u>
	<i>For the year ended</i> <i>31 December</i> <i>2019</i> <i>SR</i>	<i>For the year ended</i> <i>31 December</i> <i>2018</i> <i>SR</i>
<b>(Loss)/income attributable to non-controlling interests for the year:</b>		
Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company)	<u>(147,068)</u>	<u>2,035,326</u>

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:

Summarized statement of comprehensive income for the year:

	<i>2019</i> <i>SR</i>	<i>2018</i> <i>SR</i>
Revenue from contracts with customers	78,683,234	101,497,392
Cost of revenue	<u>(77,313,246)</u>	<u>(93,024,663)</u>
<b>GROSS PROFIT</b>	<b>1,369,988</b>	<b>8,472,729</b>
Selling and distribution expenses	(78,800)	(162,603)
General and administrative expenses	<u>(1,128,103)</u>	<u>(2,418,812)</u>
<b>INCOME FROM MAIN OPERATION</b>	<b>163,085</b>	<b>5,891,314</b>
Other income	<u>357,919</u>	<u>339,340</u>
<b>INCOME BEFORE ZAKAT</b>	<b>521,004</b>	<b>6,230,654</b>
Zakat	<u>(888,674)</u>	<u>(1,142,339)</u>
<b>(LOSS)/INCOME FOR THE YEAR</b>	<b>(367,670)</b>	<b>5,088,315</b>
Other comprehensive income not to be reclassified to the statement of income in subsequent periods	<u>100,869</u>	<u>54,288</u>
<b>TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR</b>	<b>(266,801)</b>	<b>5,142,603</b>
<i>(Loss)/income attributable to:</i>		
Shareholders of the Parent Company	<u>(220,602)</u>	<u>3,052,989</u>
Non-controlling interests	<u>(147,068)</u>	<u>2,035,326</u>
	<u>(367,670)</u>	<u>5,088,315</u>

Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

6. MATERIAL SUBSIDIARY (continued)

Summarized statement of comprehensive income for the year (continued)

	2019 SR	2018 SR
<i>Other comprehensive income attributable to:</i>		
Shareholders of the Parent Company	60,521	32,573
Non-controlling interests	40,348	21,715
	<u>100,869</u>	<u>54,288</u>

Summarized statement of financial position:

	2019 SR	2018 SR
Non-current assets		
Current assets	41,518,171	43,659,640
Non-current liabilities	44,785,905	61,119,618
Current liabilities	(2,035,566)	(1,951,846)
	<u>(9,392,261)</u>	<u>(22,684,362)</u>
Total equity	<u>74,876,249</u>	<u>80,143,050</u>
<i>Attributable to:</i>		
Equity holders of parent	44,925,751	48,085,832
Non-controlling interest	29,950,498	32,057,218

Summarized cash flow information for the year:

	2019 SR	2018 SR
Operating activities		
Investing activities	20,672,071	(6,451,718)
Financing activities	(106,464)	(312,992)
	<u>(3,802,635)</u>	<u>32,635</u>
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES	<u>16,762,972</u>	<u>(6,732,075)</u>

7. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	2019 SR	2018 SR
Bulk cement		
Packed cement	454,213,549	314,589,463
Cement bags	259,464,032	266,882,372
Raw cement (clinker)	60,677,038	81,489,391
	<u>201,381,736</u>	<u>104,172,293</u>
Total revenue from contracts with customers	<u>975,736,355</u>	<u>767,133,519</u>
Total revenue from contracts with customers inside the Kingdom of Saudi Arabia	<u>742,728,096</u>	<u>654,266,862</u>
Total revenue from contracts with customers outside the Kingdom of Saudi Arabia	<u>233,008,259</u>	<u>112,866,657</u>

Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

8. SELLING AND DISTRIBUTION EXPENSES

	2019	2018
	SR	SR
Salaries and employees' related costs (note 10 (a))	6,529,856	6,664,558
Donations and social responsibility	2,064,272	1,875,259
Depreciation (note 14)	1,167,175	954,987
Employee benefits' liabilities cost (note 10 (b))	529,828	472,144
Secondment expenses	130,184	160,951
Repair and maintenance	3,842	125,786
Advertising expenses	79,774	26,948
Others	593,694	645,086
	<u>11,098,625</u>	<u>10,925,719</u>

9. GENERAL AND ADMINSTRATIVE EXPENSES

	2019	2018
	SR	SR
Salaries and employees' related costs (note 10 (a))	18,572,516	18,352,025
Remuneration of board of directors	3,834,000	4,455,471
Consulting and professional fees	3,482,049	3,417,829
Amortization (note 15)	1,600,726	1,600,726
Employee benefits' liabilities cost (note 10 (b))	2,693,704	1,349,682
Repair and maintenance	1,379,964	1,278,516
Subscriptions fees	924,262	1,062,991
Communications and telephone	432,245	448,700
Advertising expenses	-	302,325
Allowance for expected credit loss	2,434,426	-
Depreciation (note 14)	185,913	137,614
Others	7,076,144	4,646,527
	<u>42,615,949</u>	<u>37,052,406</u>

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

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

	2019	2018
	SR	SR
Cost of revenue	90,147,403	96,607,564
Selling and distribution expenses (note 8)	6,529,856	6,664,558
General and administrative expenses (note 9)	18,572,516	18,352,025
	<u>115,249,775</u>	<u>121,624,147</u>

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

	2019	2018
	SR	SR
Cost of revenue	6,679,738	7,361,092
Selling and distribution expenses (note 8)	529,828	472,144
General and administrative expenses (note 9)	2,693,704	1,349,682
	<u>9,903,270</u>	<u>9,182,918</u>



Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

11. OTHER INCOME, NET

	2019 SR	2018 SR
Gain on disposal of property, plant and equipment, net (see note (a) below)	482,845	10,227,905
Scrap sales	357,919	339,340
Insurance companies' compensation	-	35,051
Foreign exchange differences	68,266	-
Other	1,867,835	2,258,058
	<u>2,776,865</u>	<u>12,860,354</u>

a) During the year ended 2018, 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 had written off construction work in progress project and resulted in a loss amounting to SR 544,000 (note 14).

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 2019, the fair value of the contract was amounting to SR 2,063,655 (31 December 2018: SR 1,690,815). Accordingly, the Parent Company recognized valuation loss during the year ended 31 December 2019 amounting to SR 372,840 (2018: SR 2,833,301 (valuation gains)). The notional amount of interest rate swap contract as at 31 December 2019 amounting to SR 116,750,000 (31 December 2018: SR 168,638,889).

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 2018, this contract had been matured. Accordingly, the Parent Company recognized evaluation gains during the year ended 31 December 2018 amounting to SR 265,787.

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

	2019 SR	2018 SR
Zakat charged for the year	19,098,803	8,815,031

b) The movement in zakat payable as follows:

	2019 SR	2018 SR
Balance at beginning of the year	8,914,421	11,011,855
Zakat charge:		
Current year	15,888,674	9,464,712
Adjustment relating to prior years	3,210,129	(649,681)
Provided during the year	19,098,803	8,815,031
Paid during the year	(11,922,793)	(10,912,465)
Balance at the end of the year	<u>16,090,431</u>	<u>8,914,421</u>

At 31 December 2019

13. ZAKAT (continued)

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 years 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. The Parent Company has submitted zakat declarations for the years 2014 to 2018.

*Subsidiary:*

The subsidiary has submitted its zakat returns with General Authority for Zakat and Tax ("GAZT") for the years up to 31 December 2018 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 Company 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.

Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

Cost:	Land SR	Right-of- use asset (leasehold lands) 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
1 January 2018	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)	(544,000)
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
Additions	-	7,153,653	-	-	616,380	-	9,854,348	-	408,064	740,408	49,594,130	68,366,983
Disposals	-	-	-	-	-	-	(7,803,363)	-	(140,850)	(19,100)	-	(7,963,313)
Transfers	-	-	-	-	2,152,166	-	617,879	-	-	-	(2,770,045)	-
As at 31 December 2019	4,805,116	7,153,653	358,073,888	23,682,301	618,782,344	16,360,228	4,749,780,758	45,026,388	30,721,166	33,847,295	61,843,305	5,950,076,442

Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Right-of-use asset (leasehold lands)	Factory buildings on leasehold land	Production buildings of Paper factory buildings on leasehold land	Buildings and other constructions	Quay	Machinery and equipment	Paper factory machinery and equipment	Vehicles	Furniture and other assets	Construction work in progress	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR
<b>Depreciation:</b>												
1 January 2018	-	-	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	-	-	(160,241,255)	-	-	-	(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
Depreciation	-	455,726	7,861,867	756,773	16,326,913	-	161,875,541	1,368,532	774,415	3,468,699	-	192,888,466
Relating to disposals	-	-	-	-	-	-	(7,803,363)	-	(123,694)	(19,100)	-	(7,946,157)
As at 31 December 2019	-	455,726	246,286,027	10,316,636	270,889,426	16,360,228	2,570,089,122	17,636,940	30,091,761	28,908,206	-	3,191,034,072
<b>Net book amounts</b>												
31 December 2019	4,805,116	6,697,927	111,787,861	13,365,665	347,892,918	-	2,179,691,636	27,389,448	629,405	4,939,089	61,843,305	2,759,042,370
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

Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT (continued)

a) Depreciation for the year was allocated as follows:

	2019 SR	2018 SR
Cost of revenue		
Selling and Distribution expenses (note 8)	191,535,378	192,359,089
General and Administrative expenses (note 9)	1,167,175	954,987
	185,913	137,614
	<u>192,888,466</u>	<u>193,451,690</u>

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 subject to the agreement of both parties.

c) During the year ended 2018, 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 ended 2018, 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 2018, depreciation charge for the year ended 31 December 2018 would have been higher by SR 48.9 million. Category wise impact of depreciation charge as follows:

Assets	<i>The remaining from the estimated useful life during the twelve months year ended 31 December</i>		<i>Annual decrease in depreciation expense resulted from the change in useful life, SR ('000)</i>
	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			<u>48,880</u>

15. INTANGIBLE ASSETS

	<i>Software 2019</i>	<i>Software 2018</i>
<b>Cost:</b>		
At 1 January	SR 8,003,629	SR 8,003,630
<b>Balance at 31 December</b>	<u>8,003,629</u>	<u>8,003,630</u>
<b>Amortization:</b>		
At 1 January		1,600,726
Amortization during the year	3,201,451	1,600,726
<b>Balance at 31 December</b>	<u>4,802,177</u>	<u>3,201,452</u>
<b>Net Book Value: 31 December</b>	<u>3,201,452</u>	<u>4,802,178</u>

Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

16. INVENTORIES

Inventories as at 31 December 2019 and 31 December 2018 comprised of the following:

	2019	2018
	SR	SR
Spare parts, net (note below)	186,172,853	201,831,518
Work in process	341,830,436	360,058,259
Raw materials	15,422,007	33,923,145
Fuel	18,561,439	7,567,949
Packaging materials	1,151,088	1,773,123
Other materials	819,279	3,222,891
	<u>563,957,102</u>	<u>608,376,885</u>

As at 31 December 2019, the Group maintains provision against slow moving parts amounting to SR 102.4 million (2018: SR 100.2 million). During the year, the Group has charged the provision amounting to SR 2.2 million while during last year, the Group has reversed the provision amounting to SR 1.3 million.

17. TRADE RECEIVABLES

	2019	2018
	SR	SR
Gross Trade receivables	172,619,217	165,254,576
Allowance for expected credit losses (a)	<u>(2,858,426)</u>	<u>(424,200)</u>
	<u>169,760,791</u>	<u>164,830,376</u>

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

a) The movement in the allowance for expected credit losses of trade receivables is as follows:

	2019	2018
	SR	SR
At the beginning of the year	424,200	-
Provision for expected credit losses	2,858,426	424,200
Reversal of provision for the year	<u>(424,200)</u>	<u>-</u>
At the end of the year	<u>2,858,426</u>	<u>424,200</u>

The information about the credit exposures are disclosed in note 32.

18. PREPAYMENTS, ADVANCES AND OTHER RECEIVABLES

	2019	2018
	SR	SR
Advances to suppliers	4,099,693	8,683,517
Employees advances	6,651,695	5,421,618
Prepaid expenses	7,012,020	7,120,915
Others	50,145	62,787
	<u>17,813,553</u>	<u>21,288,837</u>

# Yanbu Cement Company (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 19. CASH AND BANK BALANCES

	2019 SR	2018 SR
Cash in hand	53,629	142,506
Bank balances (see note below)	176,698,367	51,310,568
	<u>176,751,996</u>	<u>51,453,074</u>

At 31 December 2019, bank balances include Islamic call accounts of SR 119 million (2018: Nil). During the year, the Group has earned SR 1.3 million on these accounts at the commission rate of 1.5% per annum.

### 20. SHARE CAPITAL

The Parent Company's authorized and paid up capital is divided into 157,500,000 shares as at 31 December 2019 (2018: 157,500,000 shares) stated at SR 10 per share.

### 21. 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 statutory reserve equals 30% of the capital. This having been achieved in prior years, and the Parent Company resolved to discontinue such transfers. This reserve is not available for distribution.

### 22. 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 2019 and 2018 represent 40 % of the share capital of Yanbu Saudi Kuwaiti for Paper Products Company (A Limited Liability Company).

### 23. DIVIDENDS DISTRIBUTION

a) Dividends for the year ended 31 December 2019:

- On 6 August 2019 (corresponding to 5 Dhul-Hijjah 1440H), the Board of Directors of the Parent Company announced the distribution of cash dividend amounting to SR 118.13 million (SR 0.75 per share) for the first half of the year 2019 which represents 7.5% of the nominal value of the shares.
- On 19 March 2019 (corresponding to 12 Rajab 1440H), the Board of Directors of the Parent Company, recommended to the General Assembly a distribution of cash dividend amounting to SR 78.75 million (SR 0.5 per share) for the second half of the year 2018 which represents 5% of the nominal value of the shares. The General Assembly meeting held on 10 June 2019 (corresponding to 7 Shawwal 1440H) approved the above board of directors' dividends recommendation.

b) Dividends for the year ended 31 December 2018:

- On 22 July 2018 (corresponding to 9 Dhul-Qi'dah 1439H), the Board of Directors of the Parent Company announced the distribution of cash dividend amounting to SR 78.75 million (SR 0.5 per share) for the first half of the year 2018 which represents 5% of the nominal value of the shares.
- On 14 March 2018 (corresponding to 26 Jumada II 1439H), the Board of Directors of the Parent Company, recommended to the General Assembly a distribution of cash dividend amounting to SR 196.88 million (SR 1.25 per share) for the second half of the year 2017 which represents 12.5% of the nominal value of the shares. The General Assembly meeting held on 15 April 2018 (corresponding to 29 Rajab 1439H) has approved the above board of directors' dividends recommendation.

**Yanbu Cement Company (A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

At 31 December 2019

**24. 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:

	2019	2018
	SR	SR
Income for the year attributable to ordinary equity holders of the Parent Company (SR' 000)	257,823	91,185
Weighted average number of outstanding ordinary shares (000' shares)	<u>157,500</u>	<u>157,500</u>
Basic and diluted earnings per share attributable to shares holders of the Parent Company (Saudi Riyals)	<u>1.64</u>	<u>0.58</u>

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

**25. TERM LOANS**

*National Commercial Bank loan*

During 2015, the Parent Company entered into 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 in prior years. The loan is repayable in monthly installments of SR 4.32 million each with last installment due 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 outstanding term loans as at the consolidated statement of financial position are as follows:

	Interest Rate	Loan type	2019 SR	2018 SR
National Commercial Bank loan	SIBOR+0.75%	Murabaha	116,750,000	168,638,889
Current portion			<u>(51,888,889)</u>	<u>(51,888,889)</u>
Non-current portion			<u>64,861,111</u>	<u>116,750,000</u>

Below is the summary of the undiscounted loans repayment schedule:

	2019 SR	2018 SR
2019		
2020	-	57,155,942
2021	55,298,923	55,298,923
2022	53,420,818	53,420,818
	13,054,190	13,054,190
	<u>121,773,931</u>	<u>178,929,873</u>



Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

26. 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 during the year end 2018. These facilities were unsecured. These short term bank borrowings have been fully repaid during the year.

27. EMPLOYEE BENEFITS' LIABILITIES

	2019 SR	2018 SR
Balance at the beginning of the year	66,638,403	65,236,690
Current service cost	6,700,841	7,031,686
Interest cost on defined benefits obligation	3,202,429	2,151,232
Re-measurement of employee benefits' obligation	(2,222,372)	(1,117,962)
Paid during the year	(9,762,396)	(6,663,243)
Balance at the end of the year	<u>64,556,905</u>	<u>66,638,403</u>

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

	2019 SR	2018 SR
Demographic assumptions	(1,812,781)	(1,953,038)
Financial assumptions	1,122,507	(3,335)
Experience adjustment	(1,532,098)	838,411
	<u>(2,222,372)</u>	<u>(1,117,962)</u>

*Employee benefits' liabilities expense:*

	2019 SR	2018 SR
Current service cost	6,700,841	7,031,686
Interest cost on defined benefits obligation	3,202,429	2,151,232
<b>Employee benefits' liabilities expense</b>	<u>9,903,270</u>	<u>9,182,918</u>

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:

	2019	2018
Discount rate	3.50%	4.7%
Salary increase rate	2.50%	2.0%
Mortality rate	AM 80	WHO SA16 -75%

**Yanbu Cement Company (A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

At 31 December 2019

**27. EMPLOYEE BENEFITS' LIABILITIES (continued)**

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:

	2019 SR	2018 SR
Discount rate +0.5%	(3,287,729)	(3,546,838)
Discount rate - 0.5%	3,903,509	3,876,777
Long term salary increases +0.5%	4,048,994	2,806,026
Long term salary increases -0.5%	(3,467,451)	(2,613,499)

The Group expects to pay employee benefits in next year amounting to SR 4.35 million (2018: SR 4 million).

**28. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	2019 SR	2018 SR
Accrued expenses against limestone extraction fees	25,108,622	30,016,786
Service payable accounts	10,288,290	19,534,476
Advances from customers	17,397,292	15,499,354
Other accrued expenses	16,141,857	14,056,216
Customs payables	-	509,526
VAT payable	766,495	1,496,497
Other payables	3,334,869	763,134
	<u>73,037,425</u>	<u>81,875,989</u>

**29. 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 2019:

- 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 3.8 million (2018: SR 4.5 million) (see note 9).

- Key management personnel compensation comprised the following:

	2019 SR	2018 SR
Short term employee benefits	5,025,933	5,533,000
Post-employment benefits	415,718	431,641
	<u>5,441,651</u>	<u>5,964,641</u>

**30. CONTINGENCIES AND CAPITAL COMMITMENTS**

As at 31 December 2019, the capital commitments related to projects under construction is amounting to SR 49.4 million (31 December 2018: SR 17.7 million).

As at 31 December 2019, the contingencies against bank letters of guarantees issued on behalf of the Group is amounting to SR 8.1 million (31 December 2018: SR 26.7 million).

At 31 December 2019

**30. CONTINGENCIES AND CAPITAL COMMITMENTS (continued)**

As at 31 December 2019, the Group has bank letters of credit issued amounting to SR 3.7 million (31 December 2018: SR 1.7 million) issued from bank in the Kingdom of Saudi Arabia.

**31. LEASES**

**Group as a lessee**

The Group has lease contracts for various leased properties. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain lease contracts for leased properties with lease terms of 12 months or less and with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Below are the carrying amounts of right-of-use assets and leased liabilities recognised and the movements during the year.

	<b>Consolidated statement of financial position</b>	
	<i>Right-of-use asset (Leasehold lands) SR</i>	<i>Lease liabilities SR</i>
<b>As at 1 January 2019 (note 14)</b>		
Depreciation expense (note 14 and (a) below)	7,153,653	7,153,653
Interest expense (note (a) below)	(455,726)	-
Payments made	-	332,034
	-	(650,000)
<b>As at 31 December 2019</b>	<u><u>6,697,927</u></u>	<u><u>6,835,687</u></u>

- a) The Group recognised depreciation expense relating to right-of-use asset and interest expense relating to lease liabilities for the year ended 31 December 2019 under cost of revenue and finance cost, respectively.
- b) As at 31 December 2019, right-of-use asset is recorded as part of property, plant and equipment (note 14) amounting to SR 6,835,687 while lease liability has been classified under "other non-current liability" amounting to SR 6,477,160 and current lease liability under "accrued expenses and other current liabilities" amounting to SR 358,527.
- c) The Group had total cash outflows for leases of SR 650,000 in 2019 (2018: SR 650,000).

**32. 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).

At 31 December 2019

**32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**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. The Group is not exposed to any significant currency risk as the Group did not have any significant balances as at 31 December 2019 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 86% of outstanding trade receivables as at 31 December 2019 (31 December 2018: 73%). Sales to such customers represent 29% of the total sales of the Group for the year ended 31 December 2019 (31 December 2018: 36%).

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 32. 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. At 31 December 2019, 84% (2018: 69%) of the Groups trade receivables are covered by letters of credit and other forms of credit insurance.

The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Set out below is the information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix:

31 December 2019	Trade receivables						Total SR
	Days past due						
	Current SR	< 90 days SR	91-180 days SR	181-270 days SR	271-360 days SR	>360 days SR	
Expected credit loss rate	0.09%	0.10%	-	-	-	83.23%	1.66%
Estimated total gross carrying amounts at default	90,429,145	76,725,912	148,511	797,721	1,273,875	3,244,053	172,619,217
Expected credit loss	81,751	76,604	-	-	-	2,700,071	2,858,426

Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31 December 2018

	Trade receivables						Total SR
	Current SR	Days past due					
		< 90 days SR	91-180 days SR	181-270 days SR	271-360 days SR	>360 Days SR	
Expected credit loss rate	-	-	-	-	-	5.81%	0.26%
Estimated total gross carrying amounts at default	71,328,831	53,012,498	23,298,087	3,996,758	6,316,878	7,301,524	165,254,576
Expected credit loss	-	-	-	-	-	424,200	424,200

**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 minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

**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 80% of the Group's debt will mature in less than one year at 31 December 2019 (2018: 77%) 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 undiscounted payments:

	< 3 months SR	3- 12 months SR	1 to 5 years SR	> 5 years SR	Total SR
31 December 2019					
Term loans	-	-	66,475,008	-	66,475,008
Other non-current liability	-	-	2,600,000	6,650,000	9,250,000
Trade payables	-	32,287,067	-	-	32,287,067
Financial derivatives	-	2,063,655	-	-	2,063,655
Current portion of term loans	13,995,369	41,303,554	-	-	55,298,923
Dividends payable	-	77,304,031	-	-	77,304,031
Accrued expenses and other current liabilities	-	73,037,425	-	-	73,037,425
	13,995,369	225,995,732	69,075,008	6,650,000	315,716,109

Yanbu Cement Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31 December 2018	< 3 months SR	3- 12 months SR	1 to 5 years SR	> 5 years SR	Total SR
Term loans	-	-	121,773,931	-	121,773,931
Trade payables	-	31,338,481	-	-	31,338,481
Financial derivatives	-	1,690,815	-	-	1,690,815
Current portion of term loans	14,444,952	42,710,990	-	-	57,155,942
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
	<u>14,444,952</u>	<u>291,914,325</u>	<u>121,773,931</u>	<u>-</u>	<u>428,133,208</u>

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 bank balances), equity (consisting of share capital, statutory reserve and retained earnings).

	2019 SR	2018 SR
Term loans and short-term borrowings	116,750,000	226,172,736
Other non-current liability	6,477,160	-
Financial derivatives	2,063,655	1,690,815
Trade payables	32,287,067	31,338,481
Accrued expenses and other current liabilities	73,037,425	81,875,989
Less: Cash and bank balances	(176,751,996)	(51,453,074)
Net debt	<u>53,863,311</u>	<u>289,624,947</u>
Total equity	<u>3,301,960,590</u>	<u>3,240,937,311</u>
Net debt to equity ratio	<u>1.63%</u>	<u>8.94%</u>

33. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities:

	1 January 2019 SR	Cash flows SR	Others SR	31 December 2019 SR
Current portion of term loans	51,888,889	(51,888,889)	51,888,889	51,888,889
Term loans	116,750,000	-	(51,888,889)	64,861,111
Short term borrowings	57,533,847	(57,533,847)	-	-
Dividends payable	76,764,203	(196,335,172)	196,875,000	77,304,031
Total liabilities from financing activities	<u>302,936,939</u>	<u>(305,757,908)</u>	<u>196,875,000</u>	<u>194,054,031</u>

At 31 December 2019

33. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

	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	<u>331,309,013</u>	<u>(304,172,657)</u>	<u>275,800,583</u>	<u>302,936,939</u>

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.

34. 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.

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:

	Date of valuation	Total SR	Fair value measurement using		
			Quoted prices in active markets (Level 1) SR	Significant observable inputs (Level 2) SR	Significant unobservable inputs (Level 3) SR
<i>Liabilities measured at fair value</i>					
Financial derivatives	31 December 2019	2,063,655	-	2,063,655	-

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

At 31 December 2019

**34. FAIR VALUE MEASUREMENT (continued)**

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 2019 and 31 December 2018, 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 2019 and 31 December 2018 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 2019 and 31 December 2018, the carrying amounts of borrowings were not materially different from their calculated fair values.

During the year ended 31 December 2019 and 2018, there were no movements between the levels.