

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED) AND INDEPENDENT AUDITOR'S**  
**LIMITED REVIEW REPORT FOR THE SIX MONTHS**  
**PERIOD ENDED JUNE 30, 2017**

**NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
INTERIM CONDENSED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S  
LIMITED REVIEW REPORT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

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# AlKharashi & Co.

Certified Accountants And Auditors

## Independent Auditor's Report On Review Of Interim Financial Statements

August 6, 2017

To: **The Shareholders of Najran Cement Company**  
A Saudi Joint Stock Company

### **Scope:**

We have reviewed the accompanying condensed interim financial statements of **Najran Cement Company - A Saudi Joint Stock Company** ("the Company") comprising the statement of financial position as at June 30, 2017 and the related statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the Six months period ended June 30, 2017 and the attached notes (1) through (23) which form an integral part of the financial statements.

### **Management's responsibility for the condensed interim financial statements:**

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with the International Accounting Standard 34; Interim Financial Reporting endorsed in the Kingdom of Saudi Arabia, our responsibility is to express a conclusion on their condensed interim financial statements based on our review.

### **Auditors' responsibility:**

We conducted our review in accordance with the International Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by Independent Auditor of the Entity" that are endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion:**

Based on our limited review nothing has come to our attention that causes us to believe that the accompanying 30 June 2017 condensed interim financial statements are not prepared, in all materials aspects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

**Al-Kharashi & Co.**

  
**Suleiman A. Al Kharashi**  
C.A. License No. 91



NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
CONDENSED STATEMENT OF FINANCIAL POSITION  
AS AT JUNE 30, 2017 (Un-audited)  
(Expressed in "000" Saudi Riyals)

		JUNE 30, 2017 (Un-audited)	DECEMBER 31, 2016 (Audited) (IFRS restated)	As at January 01, 2016 (IFRS restated)
	NOTES			
<b><u>ASSETS</u></b>				
<b><u>NON- CURRENT ASSETS</u></b>				
Property, plant and equipment	6	2,280,834	2,321,748	2,430,434
		<u>2,280,834</u>	<u>2,321,748</u>	<u>2,430,434</u>
<b><u>CURRENT ASSETS:</u></b>				
Inventories	7	422,991	423,737	361,902
Trade receivables	8	50,680	54,746	94,966
Prepayments and other receivables	9	21,571	18,707	21,890
Cash and bank balances	10	30,220	48,812	162,061
		<u>525,462</u>	<u>546,002</u>	<u>640,819</u>
TOTAL ASSETS		<u><b>2,806,296</b></u>	<u><b>2,867,750</b></u>	<u><b>3,071,253</b></u>
<b><u>EQUITY AND LIABILITIES:</u></b>				
<b><u>EQUITY:</u></b>				
Share capital	1	1,700,000	1,700,000	1,700,000
Statutory reserve		103,758	103,059	90,588
Retained earnings		<u>263,758</u>	<u>257,464</u>	<u>333,193</u>
TOTAL EQUITY		<u>2,067,516</u>	<u>2,060,523</u>	<u>2,123,781</u>
<b><u>LIABILITIES:</u></b>				
<b><u>NON-CURRENT LIABILITIES:</u></b>				
Loans and borrowings	11	550,000	600,000	700,000
Provision for employees' terminal benefits	12	<u>19,278</u>	<u>17,415</u>	<u>14,808</u>
		<u>569,278</u>	<u>617,415</u>	<u>714,808</u>
<b><u>CURRENT LIABILITIES:</u></b>				
Provision for zakat	13	29,993	24,993	22,154
Current portion of long term loans	11	100,000	100,000	100,000
Trade and other payables	14	<u>39,509</u>	<u>64,819</u>	<u>110,510</u>
		<u>169,502</u>	<u>189,812</u>	<u>232,664</u>
TOTAL LIABILITIES		<u>738,780</u>	<u>807,227</u>	<u>947,472</u>
TOTAL EQUITY AND LIABILITIES		<u><b>2,806,296</b></u>	<u><b>2,867,750</b></u>	<u><b>3,071,253</b></u>

The accompanying notes from 1 to 23 form an integral part of these Condensed Interim Financial Statements.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS**  
**AND OTHER COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017**  
**(Expressed in "000" Saudi Riyals)**

		Three months ended		Six months ended	
	NOTES	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
		Un-audited	Un-audited - (IFRS restated)	Unaudited	Un-audited - (IFRS restated)
Revenue - net of trade incentives	15	78,004	162,238	189,391	386,672
Cost of revenue	16	(64,693)	(104,164)	(148,515)	(243,611)
Gross profit		13,311	58,074	40,876	143,061
Selling and distribution expense		(1,528)	(3,034)	(3,754)	(7,550)
General and administrative expense		(7,890)	(10,103)	(15,817)	(18,288)
Operating profit		3,893	44,937	21,305	117,223
Finance cost		(5,958)	(6,870)	(12,070)	(13,595)
Other income		341	300	2,758	577
Net (loss) / profit for the period before zakat		(1,724)	38,367	11,993	104,205
Zakat expense		(2,500)	(4,500)	(5,000)	(9,000)
Net (Loss) / profit for the period after zakat		<b>(4,224)</b>	<b>33,867</b>	<b>6,993</b>	<b>95,205</b>
OTHER COMPREHENSIVE INCOME					
Other comprehensive income for the period		-	-	-	-
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD		<b>(4,224)</b>	<b>33,867</b>	<b>6,993</b>	<b>95,205</b>
<b>Earnings per share (SAR), based on (loss) /profit for the period:</b>					
- Basic		(0.02)	0.20	0.04	0.56
- Diluted		(0.02)	0.20	0.04	0.56

The accompanying notes from 1 to 23 form an integral part of these Condensed Interim Financial Statements.

NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017 (Unaudited)  
(Expressed in "000" Saudi Riyals)

	CAPITAL	STATUTORY RESERVE	RETAINED EARNINGS	TOTAL
Balance at January 01, 2016 (SOCPA)	1,700,000	90,588	337,772	2,128,360
IFRS convergence adjustment	-	-	(4,579)	(4,579)
As at January 01, 2016 - As per IFRS	1,700,000	90,588	333,193	2,123,781
Net profit for the year	-	-	124,710	124,710
Transfer to statutory reserve	-	12,471	(12,471)	-
Dividends	-	-	(187,000)	(187,000)
Directors' remuneration paid	-	-	(2,000)	(2,000)
IFRS convergence adjustment	-	-	1,032	1,032
Balance as at December 31, 2016 (IFRS)	<b>1,700,000</b>	<b>103,059</b>	<b>257,464</b>	<b>2,060,523</b>
Net profit for the period	-	-	6,993	6,993
Transfer to statutory reserve	-	699	(699)	-
Balance as at June 30, 2017 (IFRS)	<b>1,700,000</b>	<b>103,758</b>	<b>263,758</b>	<b>2,067,516</b>

The accompanying notes from 1 to 23 form an integral part of these Condensed Interim Financial Statements.

**NAJLAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017**  
**(Expressed in "000" Saudi Riyals)**

	Six months ended	
	June 30, 2017	June 30, 2016
	(Unaudited)	(Unaudited)
<b>Cash flows from operating activities:</b>		
Profit before zakat	11,993	104,205
<b>Adjustments to reconcile net income for the year to net cash generated from operational activities:</b>		
Depreciation	54,894	57,981
(Gain) / loss on sale of property, plant and equipment	(13)	14
Provision for slow moving and shortage of inventory	-	4,000
Refundable custom fees	-	928
Finance cost	12,070	14,174
Provision for employees' terminal benefits	2,549	2,632
<b>Working Capital Changes</b>		
Trade receivables	5,353	21,682
Inventories	746	(23,330)
Prepayments and other receivables	(2,865)	(6,696)
Trade and other payables	(26,705)	(30,593)
<b>Cash generated from operations:</b>	<u>58,022</u>	<u>144,997</u>
Proceeds from investments and other income	2,435	807
Finance cost paid	(12,106)	(16,510)
End of service benefits paid	(686)	(989)
Net cash generated from operating activities	<u>47,665</u>	<u>128,305</u>
<b>Cash flow from investing activities:</b>		
Purchase of property, plant and equipment	(12,872)	(5,690)
Movements in spare parts held for capital use (strategic)	697	(244)
Proceeds from sale of property, plant and equipment	55	212
Payments against projects	(1,848)	-
Net cash used in investing activities	<u>(13,968)</u>	<u>(5,722)</u>
<b>Cash flow from financing activities:</b>		
Repayment of long term debts	(50,000)	(50,000)
Dividends paid	(289)	(186,692)
Board of directors' remuneration paid	(2,000)	(2,000)
Net cash used in financing activities	<u>(52,289)</u>	<u>(238,692)</u>
Decrease in cash and cash equivalents	(18,592)	(116,109)
Cash and cash equivalent at the beginning of the period	48,812	162,061
Cash and cash equivalent at the end of the period	<u><u>30,220</u></u>	<u><u>45,952</u></u>

The accompanying notes from 1 to 23 form an integral part of these Condensed Interim Financial Statements.

**NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017  
(Expressed in '000 Saudi Riyals)**

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**1. CORPORATE INFORMATION:**

Najran Cement Company ("the Company") is a Saudi Joint Stock Company which was registered on Ramadan 5, 1426 (corresponding to October 9, 2005) under Commercial Registration number 5950010479. On Shaaban 10, 1437 (corresponding to May 17, 2016), the Company was granted an Industrial License, number 2446. The principal activities of the Company are manufacturing of ordinary Portland cement and cement resistant to salts.

The share capital of the Company is SR 1,700,000,000 divided into 170 million shares of SR ten per share.

The Company's financial year starts on January 1 each Georgian year and ends on December 31 of the same year.

**2. STATEMENT OF COMPLIANCE**

These Condensed Interim Financial Statements ("Financial Statements") have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA"). These are the Company's first International Financial Reporting Standard (IFRS Standard) Condensed Interim Financial Statements for part of the period covered by the first IFRS annual Financial Statements and IFRS 1 First-time Adoption of International Financial Reporting Standards, as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, has been applied. These Financial Statements do not include all of information required for full set of annual Financial Statements prepared under IFRS.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company for the comparative periods presented is provided in note number (5). This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previously issued accounting standards by SOCPA in Kingdom of Saudi Arabia to the amounts reported for those periods and at the date of transition to IFRS (i.e. 01 January 2016).

**3. FUNCTIONAL AND PRESENTATION CURRENCY**

These Financial Statements are presented in Saudi Riyal ("SAR"), which is the Company's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.



#### **4. SIGNIFICANT ACCOUNTING POLICIES**

##### **4.1 Basis of preparation**

These financial statements have been prepared on a going concern basis under historical cost convention. These financial statements are presented in Saudi Riyals, which is the Company's presentation as well as functional currency. All amounts have been rounded to the nearest thousand (SR '000), unless otherwise indicated.

##### **4.2 Use of estimation and judgments**

The preparation of the accompanying financial statements, in conformity with IFRS as endorsed in Kingdom of Saudi Arabia and other standards pronouncements issued by SOCPA, requires the use of judgements, estimates and assumptions. Such estimates and assumptions may affect the balances reported for certain assets and liabilities as well disclosure of certain contingent assets and liabilities as at the date of the condensed statements of financial position date. Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of revision and future years if the revision affects both current and future years.

The significant areas of estimation uncertainty and critical adjustments in applying accounting policies that have most significant effect on the amounts recognized in the accompanying financial statements are as follows:

- Provisions for doubtful debts and slow moving inventory;
- Estimated useful lives and residual values of property, plant and equipment;
- Provisions and accruals.

##### **4.3 Standards, interpretations and amendments to published/approved accounting standards**

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting years beginning on or after 1 January 2018 with earlier application permitted. However, the Company has not early adopted the following new or amended standards in preparation of these financial statements.

- **IFRS 9** – 'Financial instruments' is effective for periods commencing on or after 1 January 2018 is a replacement for IAS 39 'Financial Instruments: Recognition and Measurement' and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected credit loss basis rather than the current incurred loss basis. Phase 3 relates to less stringent requirements for general hedge accounting.
- **IFRS 15** - 'Revenue from Contracts with Customers' is effective for periods commencing 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. IFRS 15 may have an impact on recognition and related disclosures.

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**4.3 Standards, interpretations and amendments to published/approved accounting standards (continued):**

- **IFRS 16 –‘Leases’** (effective for annual years beginning on or after 1 January 2019). IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including 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 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

**Determining whether an arrangement contains a lease**

On transition to IFRS 16, the Company can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

**Transition**

As a lessee, the Company can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

As a lessor, the Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017**  
**(Expressed in '000 Saudi Riyals)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued):**

The principal accounting policies applied in the preparation of these financial statements are set out below.

**4.4 Current versus non-current classification**

The company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The company classifies all other liabilities as non-current.

**4.5 Fair Value Measurement**

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 asset or transfer the liability takes place either:

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

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

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

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

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued):**

##### **4.5 Fair Value Measurement (Continued)**

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is 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 — Methodologies 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 financial statements at fair value on a recurring basis using level 1 or level 2 indicators, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

##### **4.6 Property, plant and equipment**

Property, plant and equipment, except land which is not depreciated, are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Expenditure on repairs and maintenance is expensed, while expenditure for improvement is capitalized. Depreciation is provided over the estimated useful life lives of the applicable assets using the declining balance method and appropriate residual values. Company reviews the appropriateness of the rate of depreciation / amortization, useful life and residual values used for recording the depreciation on annual basis.

The estimated annual rates of depreciation of the principal assets are as follows:

	<u>Percentage</u>
Buildings	4%
General plant, machinery and equipment	5%
Quarry machinery and equipment	15%
Vehicles	25%
Furniture, fixtures and office equipment	10% - 12.5%
Computers and related software	15%
Strategic spare parts	5%

Capital work in progress includes all costs (including advance payments) which have not been reclassified as one of the asset classes noted above. Capital work in progress is re-classified as property, plant and equipment when the relevant performance tests have been satisfactorily completed. No depreciation is provided for in respect of capital work in progress.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued):**

##### **4.6 Property, plant and equipment (Continued):**

###### **Impairment of property, plant and equipment**

At each Financial Statements date, the Company reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount, and the impairment loss is recognized as an expense immediately in statement of profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of profit or loss and other comprehensive income.

##### **4.7 Inventories**

Inventories are measured at the lower of cost or net realizable value. Cost is measured using weighted average method. Spare parts and other consumables are charged to expenses on purchase. Significant spare parts having useful life of more than one year shall be capitalized as part of the property, plant & equipment to which they belong. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

The Company regularly reviews the net realizable value of inventories to assess any diminution in the carrying values. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

##### **4.8 Accounts receivable**

Accounts receivables are stated at original invoice amount less provision for doubtful debts, if any. Provision for doubtful debts / receivables is based on the management's assessment of customers' outstanding balances and creditworthiness. Bad debts are written-off when identified.

The company has a policy of requiring certain customers to pay in advance of receipt of goods. Where advances from customers have been received but goods are not delivered at the reporting period, it is classified as advances from customers and included in current liability.

Where the company is entitled to any third-party claim, such as clinker subsidies or custom duties refundable, the agreed amount is included in other receivables and other income, net of any provisions.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **4.9 Cash and Cash Equivalents**

Cash and cash equivalents in the statement of cash flows include cash in hand and in transit, balances with banks on current, deposit and saving accounts, and short-term highly liquid investments subject to insignificant risk of changes in values, which fall due in no more than three months and no restriction exists on their monetization on account of the Company.

##### **4.10 Offsetting**

A financial asset and financial liability is off-set and the net amount is reported in the balance sheet when a legal enforceable right to set-off the transactions is available and also there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

##### **4.11 Zakat and Foreign Income Tax**

Zakat provision is provided for in accordance with General Authority of Zakat and Income Tax (GAZT) regulations. Submission and disclosure of provisions in the financial statements shall be according to the Zakat and tax rules.

##### **4.12 Provision for employees' end of service benefits**

End of Service indemnities are calculated according to the Saudi Labor Law. Further,

- Undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amounts already paid are recognized for short term benefits.
- Expected cost of accumulating paid absences are measured as the additional amount that the Company expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.
- Long-term benefits are measured at the net liability / (asset) with adjustments determined using actuarial methods. The actuarial valuation is obtained at the end of every reporting period by engaging actuarial specialists.

##### **4.13 Trade and accounts payables**

Accounts Payable are measured at their fair value, net of trade discounts. Exchange gains and losses arising in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **4.14 Provisions and other liabilities**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect current best estimate.

##### **4.15 Statutory reserve**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the issued share capital. This reserve is not available for dividend distribution, however, is available for issuance of bonus shares upon obtaining appropriate approvals.

##### **4.16 Contingent assets and liabilities**

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of obligations cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

##### **4.17 Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable and is shown net of sales returns and discounts. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured net of returns and trade discounts.

##### **4.18 Foreign currency Translations**

These financial statements are presented in Saudi Arabian Riyals (SAR), which is the Company's functional currency. Transactions in foreign currencies are recorded using the exchange rates prevailing at the time of transaction. Foreign exchange gains or losses resulting from settlement of the transaction and translation at the period end are recorded according to exchange rates prevailing on that date and are recognized in the profit or loss account.

##### **4.19 Cost of revenue**

The cost of revenue is calculated on the basis of the cost of production of sold units charged with all actual direct costs, which shall include the cost of materials, production supplies, cost of labor, and amortizations of direct fixed assets, in addition to their share of indirect expenses.

**NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4.20 Expenses**

Selling and distribution expenses comprise costs incurred in the distribution and sale of the Company's products, including employee costs and transportation costs (including area discounts). All other operating expenses are classified as general and administrative expenses.

**4.21 Earnings per share**

Earnings per share are calculated by dividing the net profit (loss) for the year by the weighted average number of shares outstanding at year end.

**4.22 Dividends and appropriations**

Dividend and appropriation to reserves are recognized in the financial statements in the period in which approved by the Company's Board of directors.



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5. RECONCILIATION OF EQUITY AS AT 1 JANUARY 2016 (DATE OF TRANSITION TO IFRS):

	As at 1 January, 2016 (SOCPA)	Effect of transition to IFRS	Reclassification	As at 1 January, 2016 (IFRS)
<b><u>ASSETS</u></b>				
Non-current assets				
Property, plant and equipment	2,430,434	-	-	2,430,434
Intangible assets	4,579	(4,579)	-	-
Total non-current assets	2,435,013	(4,579)	-	2,430,434
Current assets				
Inventories	361,902	-	-	361,902
Trade receivables	92,406	-	2,560	94,966
Prepayments and other receivables	21,890	-	-	21,890
Cash and bank balances	162,061	-	-	162,061
Total current assets	638,259	-	2,560	640,819
Total assets	3,073,272	(4,579)	2,560	3,071,253
<b><u>EQUITY AND LIABILITIES</u></b>				
<b><u>EQUITY</u></b>				
Share capital	1,700,000	-	-	1,700,000
Statutory reserve	90,588	-	-	90,588
Retained earnings	337,772	(4,579)	-	333,193
Total equity	2,128,360	(4,579)	-	2,123,781
<b><u>NON-CURRENT LIABILITIES:</u></b>				
Loans and borrowings	700,000	-	-	700,000
Provision for employees' terminal benefits	14,808	-	-	14,808
Total non-current liabilities	714,808	-	-	714,808
<b><u>CURRENT LIABILITIES:</u></b>				
Provision for zakat	22,154	-	-	22,154
Current portion of long term loans	100,000	-	-	100,000
Trade and other payables	107,950	-	2,560	110,510
Total current liabilities	230,104	-	2,560	232,664
TOTAL LIABILITIES	944,912	-	2,560	947,472
TOTAL EQUITY AND LIABILITIES	3,073,272	(4,579)	2,560	3,071,253

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**5. RECONCILIATION OF EQUITY AS AT 30 JUNE 2016 (CONTINUED):**

	As at 30 JUNE, 2016	Effect of transition to	Reclassification	As at 30 JUNE, 2016
	(SOCPA)	IFRS		(IFRS)
<b>ASSETS</b>				
Non-current assets				
Property, plant and equipment	2,378,159	-	-	2,378,159
Intangible assets	4,064	(4,064)	-	-
Total non-current assets	2,382,223	(4,064)	-	2,378,159
Current assets				
Inventories	381,234	-	-	381,234
Trade receivables	70,724	-	2,194	72,918
Prepayments and other receivables	27,659	-	-	27,659
Cash and bank balances	45,952	-	-	45,952
Total current assets	525,569	-	2,194	527,763
Total assets	2,907,792	(4,064)	2,194	2,905,922
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Share capital	1,700,000	-	-	1,700,000
Statutory reserve	100,057	-	-	100,057
Retained earnings	235,993	(4,064)	-	231,929
Total equity	2,036,050	(4,064)	-	2,031,986
<b>NON-CURRENT LIABILITIES:</b>				
Loans and borrowings	650,000	-	-	650,000
Provision for employees' terminal benefits	16,452	-	-	16,452
Total non-current liabilities	666,452	-	-	666,452
<b>CURRENT LIABILITIES:</b>				
Provision for zakat	31,154	-	-	31,154
Current portion of long term loans	100,000	-	-	100,000
Trade and other payables	74,136	-	2,194	76,330
Total current liabilities	205,290	-	2,194	207,484
TOTAL LIABILITIES	871,742	-	2,194	873,936
TOTAL EQUITY AND LIABILITIES	2,907,792	(4,064)	2,194	2,905,922

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**5. RECONCILIATION OF STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE**  
**INCOME FOR SIX MONTHS PERIOD ENDED 30 JUNE 2016 (CONTINUED):**

	As at 30 JUNE, 2016	Effect of transition to	As at 30 JUNE, 2016
	(SOCPA)	IFRS	(IFRS)
Revenue	429,821	-	429,821
Cost of revenue	(243,611)	-	(243,611)
Gross profit	186,210	-	186,210
Selling and distribution expense	(50,699)	-	(50,699)
General and administrative expense	(18,288)	-	(18,288)
Operating profit	117,223	-	117,223
Other income	577	-	577
Finance cost	(14,110)	515	(13,595)
Net profit for the period before zakat	103,690	515	104,205
Zakat expense	(9,000)	-	(9,000)
Net profit for the period after zakat	94,690	515	95,205
Other comprehensive income	-	-	-
Total comprehensive income	94,690	515	95,205

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6. PROPERTY, PLANT AND EQUIPMENT:

	Land	Buildings	Plant, quarry, machinery and other equipment	Vehicles	Furniture and fixtures, and office equipment	Computers	Assets held for future use (strategic)	Capital work in progress	Total
<b><u>COST:</u></b>									
At January 1, 2017	2,563	1,162,563	1,839,931	22,497	13,101	11,634	40,939	1,082	3,094,310
Additions during the period	-	-	12,604	172	-	96	1,260	1,847	15,979
Disposals during the period	-	-	-	(442)	-	(10)	(1,957)	-	(2,409)
At June 30, 2017 (Un-audited)	2,563	1,162,563	1,852,535	22,227	13,101	11,720	40,242	2,929	3,107,880
<b><u>ACCUMULATED DEPRECIATION:</u></b>									
At January 1, 2017	-	244,254	498,177	15,898	7,438	6,027	768	-	772,562
Charge for the period	-	18,215	35,133	833	294	419	-	-	54,894
Disposals during the period	-	-	-	(408)	-	(2)	-	-	(410)
At June 30, 2017 (Un-audited)	-	262,469	533,310	16,323	7,732	6,444	768	-	827,046
<b><u>NET BOOK VALUE:</u></b>									
At June 30, 2017 (Un-Audited)	<u>2,563</u>	<u>900,094</u>	<u>1,319,225</u>	<u>5,904</u>	<u>5,369</u>	<u>5,276</u>	<u>39,474</u>	<u>2,929</u>	<u>2,280,834</u>
At December 31, 2016 (Audited)	<u>2,563</u>	<u>918,309</u>	<u>1,341,754</u>	<u>6,599</u>	<u>5,663</u>	<u>5,607</u>	<u>40,171</u>	<u>1,082</u>	<u>2,321,748</u>

The company's property, plant and equipment, except the headquarters building at Najran are constructed on two separate leased based lands at Sultana and Aakfah areas in Najran region for periods of 30 and 25 years respectively and are renewable at the option of the Company.

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7. INVENTORIES:

	JUNE 30, 2017 (Un-Audited)	DECEMBER 31, 2016 (Audited)
Raw materials, fuel and packing materials	24,985	31,597
Goods in process	268,701	266,280
Finished goods	10,979	8,923
Stock in trade	304,665	306,800
Consumables spare parts	122,326	120,937
Less: provision for slow moving items and clinker stock handling	(4,000)	(4,000)
Net inventories	<b>422,991</b>	<b>423,737</b>

Movement in provision for slow moving spares and clinker stock handling is as follows:

	JUNE 30, 2017 (Un-Audited)	DECEMBER 31, 2016 (Audited)
Balance at the beginning of the period / year	4,000	2,000
Add: provided during the period / year	-	2,000
Balance at the end of the period / year	<b>4,000</b>	<b>4,000</b>

Strategic spares held for future capital use amounting to SR 39,474 (2016: SR 40,171) are classified within property, plant and equipment.

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**8. TRADE RECEIVABLES:**

	<u>JUNE 30,</u> <u>2017</u> <u>(Un-Audited)</u>	<u>DECEMBER 31,</u> <u>2016</u> <u>(Audited)</u>
Trade account receivables	52,845	58,198
Less: provision for doubtful debts	(2,156)	(2,156)
Less: area incentives accrual	(9)	(1,296)
	<u><b>50,680</b></u>	<u><b>54,746</b></u>

Movement in the provision for doubtful debts is as follows:

	<u>JUNE 30,</u> <u>2017</u> <u>(Un-Audited)</u>	<u>DECEMBER 31,</u> <u>2016</u> <u>(Audited)</u>
Balance at the beginning of the period / year	2,156	1,370
Add: provided during the period / year	-	883
Less: Write off during the period / year	-	(97)
Balance at the end of the period / year	<u><b>2,156</b></u>	<u><b>2,156</b></u>

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**9. PREPAYMENTS AND OTHER RECEIVABLES:**

	<u>JUNE 30,</u> <u>2017</u> <u>(Un-Audited)</u>	<u>DECEMBER 31,</u> <u>2016</u> <u>(Audited)</u>
Advances to suppliers	8,123	9,447
Prepaid expenses	4,335	3,965
Refundable custom duties - net	2,778	2,721
Others	6,335	2,574
	<b><u>21,571</u></b>	<b><u>18,707</u></b>

**10. CASH AND BANK BALANCES:**

	<u>JUNE 30,</u> <u>2017</u> <u>(Un-Audited)</u>	<u>DECEMBER 31,</u> <u>2016</u> <u>(Audited)</u>
Cash at banks	30,220	48,812
	<b><u>30,220</u></b>	<b><u>48,812</u></b>

Cash at bank includes unclaimed dividends of SR1,061 (2016: 1,350).

**11. LOANS AND BORROWINGS:**

	<u>JUNE 30,</u> <u>2017</u> <u>(Un-Audited)</u>	<u>DECEMBER 31,</u> <u>2016</u> <u>(Audited)</u>
Balance at January 1	700,000	800,000
Less: repaid during the period / year	(50,000)	(100,000)
Balance at the period / year end	<b><u>650,000</u></b>	<b><u>700,000</u></b>

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**11. LOANS AND BORROWINGS (CONTINUED):**

	JUNE 30, 2017 (Un-Audited)	DECEMBER 31, 2016 (Audited)
<b>Shown as:</b>		
Current portion of long term financing	100,000	100,000
Long-term portion	550,000	600,000
	<b>650,000</b>	<b>700,000</b>
<b>Amounts repayable:</b>		
Within one year	100,000	100,000
Within one to two years	150,000	200,000
Within two to five years	400,000	400,000
<b>Total</b>	<b>650,000</b>	<b>700,000</b>

**Commercial Banks Facilities (Tawarraq):**

The Company has signed bank facility agreements with commercial banks (some of which replace old facility agreements) as follows:

- \* The specific facility against the third production line for SR 500,000 has a profit rate of SIBOR plus 1.75% to be serviced on a quarterly basis, repayable in twenty quarterly instalments which will end on June 30, 2018. The amount outstanding as at June 30, 2017 was SR100,000 (2016: SR 200,000)
- \* The specific facility to finance the waste heat recovery project for SR 150,000 at a profit rate of SIBOR plus 1.75% to be repaid on equal quarterly basis instalments amounts to 25,000 starting on September 30, 2018 and ending on 2019.

The Company has other facilities for a total amount of SR 150 million that are available but not utilized by the Company.

- \* The facilities are secured by , inter alia, four order notes amounting to SR 540,550 and assignment of the insurance policy for the third production line.
- \* All of the above agreements contain conditions to maintain certain financial ratios and relating to the payment of dividends.

**Sukuk:**

In June 2015, the Company privately placed an unrated but registered Sukuk of SR 400,000 for five years maturing in June 2020, with a profit rate of 1.4% plus three month SIBOR, payable quarterly. The proceeds were applied towards part settlement of the existing indebtedness of the Company.



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**12. PROVISION FOR EMPLOYEES' TERMINAL BENEFITS:**

	<u>JUNE 30,</u> <u>2017</u> <u>(Un-Audited)</u>	<u>DECEMBER 31,</u> <u>2016</u> <u>(Audited)</u>
Opening balance	17,415	14,808
Provision booked during the period / year	2,549	4,184
Payment made during the period / year	(686)	(1,577)
Closing balance	<b>19,278</b>	<b>17,415</b>

**13. PROVISION FOR ZAKAT:**

	<u>JUNE 30,</u> <u>2017</u> <u>(Un-Audited)</u>	<u>DECEMBER 31,</u> <u>2016</u> <u>(Audited)</u>
Opening balance	24,993	22,154
Provision booked during the period / year	5,000	8,505
Payment made during the period / year	-	(5,666)
	<b>29,993</b>	<b>24,993</b>

**14. TRADE AND OTHER PAYABLES:**

	<u>JUNE 30,</u> <u>2017</u> <u>(Un-Audited)</u>	<u>DECEMBER 31,</u> <u>2016</u> <u>(Audited)</u>
Due to contractors	-	3,385
Accrued expenses	2,103	3,477
Raw material royalties payable	5,636	16,518
Dividends payable	1,061	1,350
Advances from customers	5,910	8,947
Others	268	1,382
	14,978	35,059
Trade creditors	24,531	29,760
Total	<b>39,509</b>	<b>64,819</b>

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**15. REVENUE:**

	JUNE 30,	
	2017	2016
	(Un-Audited)	
Gross revenue	235,606	429,821
Less: area incentives	(46,215)	(43,149)
Net revenue	<u>189,391</u>	<u>386,672</u>

**16. COST OF REVENUE:**

	JUNE 30,	
	2017	2016
	(Un-Audited)	
Raw material consumed	19,180	65,460
Salaries and related benefits	28,652	33,748
Operation and management expenses	4,452	23,200
Fuels	25,152	44,800
Repairs and maintenance	16,964	25,580
Insurance	2,263	4,475
Depreciation	53,756	56,819
Other expenses	3,834	4,863
Provisions against slow moving and others	-	5,928
	154,253	264,873
Changes in inventories levels	(5,738)	(21,262)
Total	<u>148,515</u>	<u>243,611</u>

The cost of revenues includes indirect cost which relates to the non-operating part of the Company's production line(s) during the period due to the non-availability of fuel amounting to SR 27,616 (2016: SR 15,530). Earlier the company was taking into account certain provisions against slow moving spares and clinker stocks handling losses which it believes have been sufficiently provided or taken care of.

**17. CONTINGENT LIABILITIES:**

As of June 30, 2017, the Company had commitments in the form of letters of credit and bills for collection amounting to SR 40 (2016: SR 454), letters of guarantee amounting to SR nil (2016: SR 47) and performance bonds amounting to SR nil (2016: SR 2,304).

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**18. RELATED PARTY TRANSACTIONS AND BALANCES**

Remuneration of chief executive, directors and key executives is as follows:

	JUNE 30,	
	2017	2016
	(Un-Audited)	
Salaries	1,781	1,985
Allowances	534	597
Annual and periodic remuneration	2,000	2,348
End of service benefits	142	126
Total	<u>4,457</u>	<u>5,056</u>

**19. SEGMENTAL REPORTING**

The Company operates in one trading segment and all sales are within the Kingdom of Saudi Arabia. Further, significant amount of liabilities of the company is payable in Saudi Arabia.

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**20. FINANCIAL RISK MANAGEMENT AND OBJECTIVES AND POLICIES:**

The Company finances its operations through equity and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk. Taken as a whole, the Company is exposed to market risk (including profit rate risk, currency risk and other price risk), credit risk and liquidity risk. The Company's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as investments, trade and other receivables. The Company has various financial liabilities such as long-term financing, trade and other accounts payable.

**Market risk:**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: profit rate risk, currency risk and other price risk.

**Profit rate risk**

Profit rate risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate because of changes in market profit rates. The Company mitigates its risk against exposure through focusing on maintaining bank balances. As of the balance sheet date the Company is not materially exposed to profit rate risk.

**Currency risk**

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies. The Company does not believe it is materially exposed to currency risk as the majority of the Company's transactions and the balances are denominated in Saudi Riyals or in US Dollars. US dollar rate is fixed with the Saudi Riyal. Certain transactions are in Euros, but these are not material.

**Credit risk:**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The Company's credit risk is primarily attributable to its liquid funds and receivables. Cash balances are deposited with major banks with good credit standings. Whilst a small number of customers account for a significant portion of both revenues and accounts receivable balances. These customers have provided appropriate guarantees ensuring that their debts will be recoverable. All major customers are high profile customers with the Kingdom of Saudi Arabia and there is no reason to suggest that there will be a loss of revenue from these sources.

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**20. FINANCIAL RISK MANAGEMENT AND OBJECTIVES AND POLICIES (CONTINUED):**

In determining the recoverability of a trade receivable, the company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Age of trade receivables that are past due but not impaired as of June 30, 2017 is as follows:

	<u>JUNE 30,</u> <u>2017</u> <u>(Un-Audited)</u>	<u>DECEMBER 31,</u> <u>2016</u> <u>(Audited)</u>
1-90 days	27,417	36,902
91-180 days	7,666	16,720
181-270 days	-	-
271-360 days	14,895	1,150
Total	<u><b>49,978</b></u>	<u><b>54,772</b></u>

Age of impaired trade receivables as of June 30, 2017 is as follows:

	<u>30 JUNE</u> <u>2017</u> <u>(Un-Audited)</u>	<u>31 DECEMBER</u> <u>2016</u> <u>(Audited)</u>
1-2 years	621	-
More than 2 years	-	-
More than 3 years	2,237	2,130
Total	<u><b>2,858</b></u>	<u><b>2,130</b></u>

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**20. FINANCIAL RISK MANAGEMENT AND OBJECTIVES AND POLICIES (CONTINUED):**

**Liquidity risk:**

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management monitors the maturity profile of its financial assets and liabilities to ensure that adequate liquidity is maintained.

**Exposure to liquidity risk:**

Maturity profile of the company's financial liabilities based on contractual payments:

	On Demand	Less than 3 months	3-12 months	1-5 years	Total
January 01, 2017'	-	-	100,000	600,000	700,000
June 30, 2017'	-	-	100,000	550,000	650,000

**21. IMPACT OF FIRST TIME ADOPTION ON RETAINED EARNINGS:**

	June 30,2016 (Un-Audited)
Retained earnings as per SOCPA as on June 30, 2016	235,993
Impacts of adjusting entries from Opening Balance Sheet - IFRS adjustments	
De-recognition of Intangible Asset	(4,579)
Add: IFRS adjustment	
Reversal of Amortization	515
Retained Earnings as per IFRS as on June 30, 2016	<b>231,929</b>

The company had certain intangibles previously capitalized under SOCPA financial statements. Under IAS 38 Intangible Assets, any expense that does not qualify for the criteria defined in the standard as intangible asset is not capitalized rather it is charged to Profit or loss. Expenses recognized as amortization of intangible assets in SOCPA has been reversed in profit or loss account prepared in accordance with IFRS.

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**22. SUBSEQUENT EVENTS:**

In the opinion of the management, there have been no significant subsequent events since the period end that would have a material impact on the financial position of the Company as reflected in these Financial Statements.

**23. BOARD OF DIRECTORS APPROVAL:**

These financial statements were approved by the Board of Directors of the Company on August 6, 2017.