

**NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2020**

---

<b>Contents</b>	<b>Page No.</b>
Independent Auditor's report	1-4
Consolidated Statement of Financial Position	5
Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Financial Statements	9-39

**Report on the Audit of the Consolidated Financial Statements**

To the **Shareholders of Najran Cement Company**  
(A Saudi Joint Stock Company)

**Opinion:**

We have audited the consolidated financial statements of **Najran Cement Company** (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit or loss and other 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 and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

**Basis for Opinion:**

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

**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 consolidated opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:

<b>Key audit matters</b>	<b>How the matter was addressed in our audit</b>
<b>Inventory valuation and attendance at inventory count:</b> As disclosed in note 10, carrying value of stock in trade amounts to Saudi Riyals 133.716 million includes quantities of clinker, bauxite, iron ore and limestone which are generally piled in open yards and measured through independent source for the quantities on hand. The volumes, so measured, forms the basis for determining value of closing stocks at production cost per ton derived from Group costing system.	Our procedures to assess the existence and valuation of inventory included the following: <ul style="list-style-type: none"> <li>• Attended physical inventory counts performed by the Company;</li> <li>• Evaluated the competence, capability and objectivity of the surveyor;</li> <li>• Review of inventory count report for external surveyor;</li> <li>• Assessed the completeness and sufficiency of disclosures relating to the inventories in the consolidated financial statements</li> </ul>

<p>Also in response to the spread of Covid 19 in Kingdom of Saudi Arabia, the Group implemented strict biosecurity and hygiene measures on its inventory locations by minimizing the staff, restricting movements and increasing the duration of the physical stock count..</p> <p>Due to significance of inventory balances and the related estimations involved, and since attendance at inventory counts is mandatory under International Standards on Auditing, the above is considered as a key audit matter.</p>	<ul style="list-style-type: none"> <li>• Making sure that all the inventory adjustments are recorded in the consolidated financial statements</li> <li>• Assessed the implications of Covid 19 on management's responses and controls for inventory counts subject to restrictions on the inventory site.</li> <li>• Assessed whether there was any indication of increased risk of fraud or error due to the restrictions. Making sure that audit staff has stayed till the count ends and has obtained all the signed count sheets from the relevant teams.</li> </ul>
<p><b>Revenue recognition:</b></p> <p>The Group has recognized revenue of Saudi Riyals 623.197 million during the year ended December 31, 2020. The revenue earned is recognized at point in time when control over goods is transferred to the customer generally on delivery of goods to the customers. Accordingly this requires management to establish the fact that control over goods is transferred at the time of dispatch in accordance with IFRS 15. The terms that define when control are transferred to the customer as well as high volume and value of transactions give rise to the risk that revenue is not recognized in the correct time and period.</p> <p>Accordingly due to the significant risk associated with revenue recognition in accordance with terms of IFRS 15 'Revenue from contracts with customers' it was considered as a key audit matter.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> <li>- Assessed Group's revenue recognition policy and its compliance in terms of IFRS 15;</li> <li>- Assessed the design and implementation of internal controls related to revenue recognition;</li> <li>- Performed sample tests of individual sales transactions and traced to sales invoices, sales orders and other related documents. Further, in respect of the samples tested we checked that the revenue has been recognized as per contractual terms;</li> <li>- Performed revenue analysis in order to establish any unusual trends;</li> <li>- Selected sample of transactions performed pre and post year end agreeing the period of revenue recognition validating the delivery notes , transporter invoice and customer acknowledgement on delivery.</li> </ul>
<p><b>New Financing and repayment of SUKUK:</b></p> <p>The Group has obtained new financing from Bank Al Jazira for Saudi Riyals 355 million in order to repay the same amount as final settlement of SUKUK during the year 2020.</p> <p>Due to significance of funds and the related documentation involved, the above is considered as a key audit matter.</p>	<p>Our procedures to validate the performance for same included the following:</p> <ul style="list-style-type: none"> <li>• Verifying the funds obtained and terms and conditions of loans from the bank statement and loan agreement;</li> <li>• Verification of final repayment for Sukuk from bank and validation of final clearance from Sukuk holders;</li> <li>• Reviewing the covenants involved in the loan agreement and confirming that the Group is not in violation of any of the covenants involved at the year end.</li> </ul>

**Other information**

Management is responsible for the other information. The other information comprises the information included in the Annual report of the Group but does not include the financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do 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, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we consider that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation for the consolidated financial statements in accordance with IFRSs, 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 financial statements. We are responsible for the direction, supervision and performance of the Group's 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 period 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.

#### **Report on Other Legal and Regulatory Requirements**

Article (135) of the Company Law requires the auditor to include in his report what he has found to be violations of the provisions of the Law or the provisions of the Company's Articles of Association. During our audit of the consolidated financial statements, we did not find the Company's violation of the provisions of the Companies Law or the provisions of the Company's Articles of Association.

**For Al-Kharashi Co.**

**Sulieiman A. Al-Kharashi**  
License No. (91)

Riyadh:

Rajab 16, 1442H

February 28, 2021G



**NAJHRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2020**  
**(Expressed in '000' Saudi Riyals)**

		December 31,	
	Notes	2020	2019 (reclassified)
<b><u>ASSETS</u></b>			
<b><u>NON- CURRENT ASSETS</u></b>			
Property, plant and equipment	7	2,019,611	2,085,065
Intangible assets	8	4,071	4,075
Total non current assets		2,023,682	2,089,140
<b><u>CURRENT ASSETS:</u></b>			
Store, spare parts and loose tools	9	112,659	112,657
Stock in trade	10	133,716	210,224
Trade receivables	11	30,356	33,469
Prepayments and other receivables	12	46,780	19,802
Cash and cash equivalents	13	171,569	22,152
Total current assets		495,080	398,304
<b>TOTAL ASSETS</b>		<b>2,518,762</b>	<b>2,487,444</b>
<b><u>EQUITY AND LIABILITIES:</u></b>			
<b><u>EQUITY:</u></b>			
Share capital	1	1,700,000	1,700,000
Statutory reserve		128,841	108,411
Retained earnings		227,080	175,128
<b>TOTAL EQUITY</b>		<b>2,055,921</b>	<b>1,983,539</b>
<b><u>LIABILITIES:</u></b>			
<b><u>NON-CURRENT LIABILITIES:</u></b>			
Provision for employees' terminal benefits	14	33,438	29,222
Non-current portion of lease liability	15	6,047	6,486
Long term financing	16	278,500	30,000
Total non current liabilities		317,985	65,708
<b><u>CURRENT LIABILITIES:</u></b>			
Provision for zakat	17	8,721	19,241
Current portion of lease liability	15	439	425
Current portion of long term financing	16	51,542	370,908
Advances from customers and related parties		6,467	4,232
Trade payables		45,025	26,045
Accrued and other payables	18	32,662	17,346
Total current liabilities		144,856	438,197
<b>TOTAL LIABILITIES</b>		<b>462,841</b>	<b>503,905</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,518,762</b>	<b>2,487,444</b>

The accompanying notes from 1 to 32 form an integral part of these Consolidated Financial Statements.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in '000' Saudi Riyals)**

	Notes	December 31,	
		2020	2019
			(reclassified)
Turnover - net	19	623,197	416,406
Cost of revenue	20	(373,279)	(297,192)
<b>Gross profit</b>		<b>249,918</b>	<b>119,214</b>
Selling and distribution expense	21	(13,068)	(7,663)
General and administrative expense	22	(28,215)	(26,233)
Operating profit for the year		208,635	85,318
Finance cost	23	(15,962)	(27,222)
Other income		1,294	1,566
Net profit for the year before zakat		193,967	59,662
Zakat income / (expense )	17	10,333	(6,147)
Net profit for the year after zakat		<b>204,300</b>	<b>53,515</b>
<b>Other Comprehensive Income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Re-measurements of employee's termination benefits	14	(1,058)	(604)
<b>Other Comprehensive Income</b>		<b>(1,058)</b>	<b>(604)</b>
Total Comprehensive Income For The Year		<b>203,242</b>	<b>52,911</b>
<b>Basic earnings per share (SAR)</b>			
Net profit for the year		<b>1.20</b>	<b>0.31</b>
Total comprehensive profit for the year		<b>1.20</b>	<b>0.31</b>
Weighted average number of ordinary shares (No: '000' )		<b>170,000</b>	<b>170,000</b>

The accompanying notes from 1 to 32 form an integral part of these Consolidated Financial Statements.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in '000' Saudi Riyals)**

	<u>Capital</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
As at January 01, 2019	1,700,000	103,059	130,569	1,933,628
Net profit for the year	-	-	53,515	53,515
Transferred to Statutory Reserve	-	5,352	(5,352)	-
Other comprehensive (loss) for the year	-	-	(604)	(604)
Directors' remuneration	-	-	(3,000)	(3,000)
Balance as at December 31, 2019	<u><b>1,700,000</b></u>	<u><b>108,411</b></u>	<u><b>175,128</b></u>	<u><b>1,983,539</b></u>
Net profit for the year	-	-	204,300	204,300
Transferred to Statutory Reserve	-	20,430	(20,430)	-
Dividends	-	-	(127,500)	(127,500)
Other comprehensive (loss) for the year	-	-	(1,058)	(1,058)
Directors' remuneration	-	-	(3,360)	(3,360)
Balance as at December 31, 2020	<u><b>1,700,000</b></u>	<u><b>128,841</b></u>	<u><b>227,080</b></u>	<u><b>2,055,921</b></u>

The accompanying notes from 1 to 32 form an integral part of these Consolidated Financial Statements.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in Saudi Riyals)**

	Notes	2020	2019 (reclassified)
<b>Cash flows from operating activities:</b>			
Profit before zakat		193,967	59,662
<b>Adjustments to reconcile net profit for the year to net cash generated from operational activities:</b>			
Depreciation	7	76,143	77,328
Amortization	8	48	50
Loss/(gain) on write off of property, plant and equipment		253	(14)
Provision for potential claims (net)		-	(1,404)
Provision for slow moving and shortage of inventory		1,500	-
Provision for bad debts (net)		293	(413)
Finance cost	23	15,962	27,222
Unwinding of discount on lease liabilities		207	-
Prior year settlement on zakat provision		6,203	-
Provision for employees' terminal benefits	14	3,473	3,285
<b>Operating cash flow before working capital changes</b>		<b>298,049</b>	<b>165,716</b>
<b>Changes in operating assets and liabilities:</b>			
Trade receivables		2,160	(2,660)
Store, spare parts and loose tools		(1,503)	3,060
Stock in trade		76,508	56,921
Prepayments and other receivables		(28,757)	(5,918)
Advances from customers		2,235	180
Trade payables		20,759	318
Accrued and other payables		15,429	2,196
<b>Cash generated from operations:</b>		<b>384,880</b>	<b>219,813</b>
Zakat paid	17	(6,391)	(7,392)
Finance charges paid		(15,412)	(26,341)
End of service benefits paid	14	(1,230)	(1,439)
<b>Net cash generated from operating activities</b>		<b>361,847</b>	<b>184,641</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	7	(9,484)	(21,161)
Purchase of intangible assets	8	(45)	(45)
Movements in spare parts held for capital use		(948)	(115)
Additions to capital work in progress		(510)	(2)
Proceeds from sale of property, plant and equipment		-	272
<b>Net cash (used in) investing activities</b>		<b>(10,987)</b>	<b>(21,051)</b>
<b>Cash flows from financing activities:</b>			
Funding received from short and long term loans		355,000	-
Repayment of long term debts		(425,500)	(150,000)
Repayment of lease liability		(632)	(412)
Dividends paid		(127,401)	-
Board of directors' remuneration paid		(2,910)	(3,050)
<b>Net cash (used in) financing activities</b>		<b>(201,443)</b>	<b>(153,462)</b>
<b>Net change in cash and cash equivalents</b>		<b>149,417</b>	<b>10,128</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>22,152</b>	<b>12,024</b>
<b>Cash and cash equivalents at the end of the year</b>	13	<b>171,569</b>	<b>22,152</b>

The accompanying notes from 1 to 32 form an integral part of these Consolidated Financial Statements.

**NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Expressed in '000' Saudi Riyals)**

---

**1. CORPORATE INFORMATION**

Najran Cement Company ("The Company") and its subsidiary (collectively referred to as the "Group") consist of the Company and its 100% owned subsidiary named "Wasl Al Janoub Road Transportation 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 which has been updated last year against no: 1001003286. The principal activities of the Company are manufacturing of ordinary Portland cement and cement resistant to salts.

The share capital of the Group is SAR 1,700,000,000 divided into 170 million shares of SAR 10 per share.

The Group's financial year follows Gregorian calendar that starts on January 1 and ends on December 31.

**2. STATEMENT OF COMPLIANCE**

These Consolidated Financial Statements have been prepared in accordance with the approved accounting standards as applicable in Kingdom of Saudi Arabia. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified by SOCPA and are effective since 1<sup>st</sup> January 2017 for all Saudi joint stock companies.

**3. FUNCTIONAL AND PRESENTATION CURRENCY**

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

**4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS, AMENDMENTS AND INTERPRETATIONS:**

**(a) Standards, amendments and interpretations effective as at January 1, 2020**

The Group has adopted below standards and amendments for their annual reporting period starting January 01, 2020

- Definition of a Business (Amendments to IFRS 3); and
  - COVID-19-Related Rent Concessions (Amendments to IFRS 16).
- Definition of a Business (Amendments to IFRS 3)

Amendments to IFRS 3 were mandatorily effective for reporting periods beginning on or after 1 January 2020.

There was no impact of the amendment for the Group.

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- (i) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (ii) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and

#### 4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued):

##### (a) Standards, amendments and interpretations effective as at January 1, 2020 (Continued)

(iii) There are no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

As the Group did not receive any rent related concession, accordingly there was no impact of the amendment for the Group.

##### Other standards

New standards that have been adopted in the annual financial statements for the year ended 31 December 2020, but have not had a significant effect on the Group are:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.

##### (b) Standards, amendments and interpretations issued but are not yet effective and have not been adopted by the company:

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2021:

- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7);

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The following amendments are effective for the period beginning 1 January 2023:

IFRS 17 Insurance Contracts (effective 1 January 2023) - In June 2020, the IASB issued amendments to IFRS 17, including a deferral of its effective date to 1 January 2023. Refer Note 6 Critical accounting estimates and judgements.

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

**NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Expressed in '000' Saudi Riyals)**

---

**4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS, AMENDMENTS AND INTERPRETATIONS  
(Continued):**

**(b) Standards, amendments and interpretations issued but are not yet effective and have not been adopted by the company (Continued):**

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

**(c) Annual improvements to IFRSs 2018 – 2020 Cycle**

These improvements are effective on or after 1 January 2021.

- IFRS 9, 'Financial Instruments' - Clarify the fees a company includes in performing the "10 per cent test" in order to assess whether to derecognise a financial liability.
- IFRS 16, 'Leases' - Remove the potential for confusion regarding lease incentives by amending an Illustrative Example 13 accompanying IFRS 16.
- IAS 41, 'Agriculture' – Align the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

**5. SIGNIFICANT ACCOUNTING POLICIES**

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

**5.1 Basis of preparation**

These consolidated financial statements have been prepared on a going concern basis under historical cost convention except for the Provision for employees' terminal benefits which are recorded at the present value of future obligations under Projected Unit Credit Method and lease liabilities which are discounted using appropriate discount rate.

**5.2 Basis for consolidation**

The consolidated financial statements comprise those of Najran cement company and of its subsidiary (the Group) as detailed in note 1. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses 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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and

## **5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

### **5.2 Basis for consolidation (Continued)**

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the Consolidated Statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Consolidated Statement of profit or loss and each component of other comprehensive income are attributed to the shareholders of the Group. Total comprehensive income of subsidiaries is attributed to the shareholders of the Group.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring its accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### **Changes in the Group's ownership interests in existing subsidiary**

Changes in the Group's ownership interests in subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified consolidated statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### **5.3 Going concern**

Analysis, such as liquid adequacy, sales and cash flow forecast are conducted to identify condition or events that give rise to uncertainties, either in isolation or in aggregate which could impact the overall business objectives. An action plan is established based on related events and conditions in order to mitigate occurrence of such events or their likely impact. Accordingly, In assessing the effective implementation of action plans, the feasibility of such plans is evaluated before advancing on towards on-going monitoring phase for such action plans. During the current year the Group has adequate financial resources to secure high growth prospects its near future.

## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### 5.4 Current versus non-current classification

The Group 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 Group classifies all other liabilities as non-current.

### 5.5 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 Group.

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 Group 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.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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.

## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### 5.5 Fair Value Measurement (continued)

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis using level 1 or level 2 indicators, the Group 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 Group 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.

Loans having fixed maturities are recorded at discounted values based on the effective interest rate method.

### 5.6 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. Group 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:

	Percentage
Buildings	2.5%
Plant machinery and Equipment	4% - 5%
Quarry machinery	15%
Vehicles	10 % - 25%
Furniture, fixtures and office equipment	10% - 12.5%
Computers	15%

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 reclassified 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.

### Impairment of property, plant and equipment

At each Financial Statements date, the Group 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 Group 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 consolidated statement of profit or loss and other comprehensive income.

**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**5.7 Intangible assets**

All costs paid to acquire the intangible assets are capitalized. It is stated at cost less accumulated amortization. The intangible assets of the Group are amortized over an estimated useful life using the straight-line method.

Intangible assets include software and licenses. Computer software licenses are capitalized based on the cost incurred to acquire and bring into use the specific software. Amortisation is charged to the statement of profit or loss on a straight line basis over an estimated useful life from the date the software is available for use. Cost associated with maintaining software programs are recognized as expense when incurred while development cost is capitalized on meeting certain criteria.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their respective economic useful lives, using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization methods, residual values and estimated economic useful lives are reviewed at least annually. The Group tests an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount either annually or whenever there is an indication that the intangible asset may be impaired. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Amortisation periods for license are determined primarily by reference to the unexpired license period, the conditions for license renewal and whether licenses are dependent on specific technologies. Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives from the commencement of related services.

**5.8 Inventories including capital spares**

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 Group 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.

**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**5.9 Trade receivable**

Trade receivables are carried at the transaction price related to a performance obligation less an allowance for doubtful debts. The Group assesses the allowance for doubtful debts using an expected credit losses (ECL) approach over the lifetime of the assets. The Group uses a provision matrix to measure the ECLs of trade receivables from customers while the government and quasi government customers are secured and are not included in ECLs.

Loss rates are calculated using a 'recovery rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off connected with the aging schedule of the outstanding receivables. Loss rates are based on actual credit loss experience over the past two years. For provisions against specific receivables, a customer-by-customer analysis of receivables is carried out at the end of each reporting period. Provisions are reversed only when the outstanding amounts are recovered from the customers and Group recognizes in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with this Standard. When a trade receivable is uncollectible, it is written off against the allowance for doubtful debts in the statement of profit or loss, based on the criteria defined in the Group's policy.

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

**5.10 Cash and Cash Equivalents**

Cash and cash equivalents in the statement of cash flows include cash in hand and, 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 Group.

**5.11 Offsetting**

A financial asset and financial liability is off-set and the net amount is reported in the balance sheet when a legally 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.

**5.12 Zakat and 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. The Group withholds taxes on certain transactions with non-resident parties as required under the Saudi Arabian Tax Laws. Withholding tax related to foreign payments on services are recorded as current liabilities.

**5.13 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.

## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### 5.14 Provisions and other liabilities

Provisions are recognized when the Group 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.

### 5.15 Defined benefits obligation- employees' benefits

Provision for employees' terminal benefits is calculated based on Group's internal policy. The Group's net obligation in respect of defined benefit plans is calculated consolidatedly for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods.

Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income, in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

The Group recognises the following changes in the defined benefits obligation under 'operating cost' and 'general and administrative expenses' in the profit and loss account:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Interest expense.

The calculation of defined benefits obligation is performed annually by a qualified actuary using the projected unit credit method.

### 5.16 IFRS 16 Leases and right of use assets

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group.
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The assets and liabilities from the lease are initially recognized and measured at the present value. Each lease payment is distributed between liabilities and financing cost. The cost of financing is charged to profit or loss over the lease term. The asset's right to use is amortized over the useful life of the asset or the term of the lease, whichever is shorter, on a straight-line basis.

**NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Expressed in '000' Saudi Riyals)**

---

**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**5.16 IFRS 16 Leases and right of use assets (continued)**

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Lease payments are discounted using the incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

**5.17 Statutory reserve**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of Association, the Group 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.

**5.18 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.

**5.19 Revenue Recognition**

Revenue is measured under IFRS 15 at the fair value of the consideration received or receivable when customer obtains control of goods at a point in time i.e on delivery and acknowledgement of goods. Revenue is recognized on the completion of performance obligation where 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.

No element of financing component is deemed present as the sales are made either on cash or on credit term consistent with market practice.

**5.20 Foreign currency Translations**

These Consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Group'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.

**5.21 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 labour, 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 CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Expressed in '000' Saudi Riyals)**

---

**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**5.22 Expenses**

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

**5.23 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.

**5.24 Dividends and appropriations**

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

**5.25 Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

**5.26 Settlement date accounting**

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**5.27 Financial instruments**

**Financial assets**

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

**(i) Fair value through profit or loss**

This category comprises in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value (see "Financial liabilities" section for out-of-the-money derivatives classified as liabilities). They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income in the finance income or expense line. As at the date of the statement of financial position, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### 5.27 Financial instruments (Continued)

#### Financial assets (Continued)

##### (ii) Amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables from related parties and third parties), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

##### (iii) Fair value through other comprehensive income

These represents investments in listed and unlisted entities. As at the date of consolidated statement of financial position the Group does not have any financial instruments designated as fair value through other comprehensive income.

#### Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

##### Fair value through profit or loss

This category comprises out-of-the-money derivatives where the time value does not offset the negative intrinsic value (see "Financial assets" for in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value). They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income. As at the date of statement of financial position, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

##### Other financial liabilities

Other financial liabilities include the following items:

Bank and related party borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

## 6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the accompanying IFRS 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 statement 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 consolidated financial statements are as follows:

### **Judgements**

Judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as below: –

- Revenue recognition: In recognizing revenue from the customers. Group makes judgement in respect of nature and timings of the satisfaction of performance obligations, including significant payment terms and related revenue recognition policies. This results in decision on whether revenue is to be recognized over time or at a point in time.

### **Estimates and assumptions**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Provisions for expected credit loss
- Provision for slow-moving inventory;
- Estimated useful lives and residual values of property, plant and equipment;
- Provisions and accruals;
- Defined benefit obligations – Employees' benefits;
- Going concern.
- Impact of Covid 19
- **Defined benefit scheme**  
In estimating the obligation under defined benefit scheme, the management makes key actuarial assumptions as described in note 4.
- **Provisions and Contingencies**  
Management makes regular assessments of its possible obligation to determine likelihood and magnitude of outflow of resources.
- **Useful lives of property, plant and equipment**  
Property, plant and equipment are depreciated over its estimated useful life, which is based on estimates for expected usage of the asset and expected physical wear and tear. Management has not considered any residual value as it is deemed immaterial.

**NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Expressed in '000' Saudi Riyals)**

---

**6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY (Continued)**

- **Impact of COVID 19**

The impact of Covid-19 on operations of the Group is disclosed in note 29. In evaluating the impact of the pandemic, Group has made significant judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on experience of Group's management after considering all relevant factors. Actual results may differ from these estimates.

- **Calculation of Expected Credit Loss Allowance**

When determining the loss allowance on receivables, the Group estimates expected credit loss. Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of loss arising on default. It is based on difference between the contractual cash flow due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Expressed in '000' Saudi Riyals)

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Land lease (Right of use asset)	Buildings	Plant, quarry, machinery and other equipment	Vehicles	Furniture and fixtures, and office equipment	Computers	Assets held for future use	Capital work in progress	Total
<b>Cost:</b>										
At January 1, 2020	2,563	7,302	1,163,204	1,863,683	39,330	13,169	4,462	35,620	1,630	3,130,963
Additions during the year	-	-	-	7,679	1,275	327	203	948	510	10,942
Write offs during the year	-	-	-	-	(841)	-	-	-	-	(841)
Transfers during the year	-	-	-	2,527	-	-	-	(698)	(1,829)	-
At December 31, 2020	2,563	7,302	1,163,204	1,873,889	39,764	13,496	4,665	35,870	311	3,141,064
<b>Accumulated Depreciation:</b>										
At January 1, 2020	-	512	330,983	684,323	18,238	8,966	2,876	-	-	1,045,898
Charge for the year	-	502	20,862	51,045	3,017	456	261	-	-	76,143
Write offs during the year	-	-	-	-	(588)	-	-	-	-	(588)
At December 31, 2020	-	1,014	351,845	735,368	20,667	9,422	3,137	-	-	1,121,453
<b>Net Book Value:</b>										
At December 31, 2020	2,563	6,288	811,359	1,138,521	19,097	4,074	1,528	35,870	311	2,019,611
At December 31, 2019	2,563	6,790	832,221	1,179,360	21,092	4,203	1,586	35,620	1,630	2,085,065

7.1 The allocation of depreciation expense between operating cost of revenue, selling and distribution expenses and general and administrative expenses is as follows:

	December 31'	
	2020	2019
Cost of revenue	72,988	75,634
Selling and distribution expenses	2,140	834
General and administrative expenses	1,015	860
	76,143	77,328

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**8. INTANGIBLE ASSETS**

	DECEMBER 31,	
	2020	2019
<b>Cost:</b>		
Opening balance at 01 January	8,721	8,676
Additions during the year	45	45
Closing balance at 31 December	<b>8,766</b>	<b>8,721</b>
<b>Accumulated amortization:</b>		
Opening balance at 01 January	4,646	4,596
Amortization for the year	48	50
Closing balance at 31 December	<b>4,694</b>	<b>4,646</b>
<b>Net book value</b>	<b>4,071</b>	<b>4,075</b>

Amortization expense is included in general and administration expenses.

**9. STORES, SPARE PARTS AND LOOSE TOOLS**

	DECEMBER 31,	
	2020	2019
Consumables spare parts - not for sale	117,982	116,657
<b>Less: provision for obsolescence</b>	<b>(5,323)</b>	<b>(4,000)</b>
<b>Net balance</b>	<b>112,659</b>	<b>112,657</b>

9.1 Movement in provision for obsolescence is as follows:

	DECEMBER 31,	
	2020	2019
Balance at the beginning of the year	4,000	4,000
Add: provided during the year	1,500	-
	5,500	4,000
Less: spares written down the year	177	-
<b>Balance at the end of the year</b>	<b>5,323</b>	<b>4,000</b>

Strategic spares held for future capital use amounting to SR 35,870 (2019: SR 35,620) are classified within property, plant and equipment.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**10. STOCK IN TRADE**

	DECEMBER 31,	
	2020	2019
Raw materials, fuel and packing materials	18,195	15,329
Fuel in transit	5,389	3,116
Goods in process	102,268	185,158
Finished goods	7,864	6,621
Total	<b>133,716</b>	<b>210,224</b>

**11. TRADE RECEIVABLES**

	DECEMBER 31,	
	2020	2019
Trade receivables - considered good	43,147	45,308
Less: provision for impairment	(11,650)	(11,357)
Less: area incentives accrual	(1,141)	(482)
Trade receivables - net	<b>30,356</b>	<b>33,469</b>

Movement in the provision for impairment is as follows:

	DECEMBER 31,	
	2020	2019
Balance at the beginning of the year	11,357	11,770
Add: provided during the year	715	7
	12,072	11,777
Less: written down / back during the year	422	420
Balance at the end of the year	<b>11,650</b>	<b>11,357</b>

NAJRAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Expressed in "000" Saudi Riyals)

**12. PREPAYMENTS AND OTHER RECEIVABLES**

	Note	DECEMBER 31,	
		2020	2019
Advances to suppliers		26,155	5,827
Prepaid expenses		8,655	9,758
Refundable custom duties - net		1,915	1,514
Other receivables	12.1	10,055	2,703
<b>Total</b>		<b>46,780</b>	<b>19,802</b>

12.1 Other receivables includes include spares under customs clearance amounting to SAR 1,209 (2019: SAR NIL ).

**13. CASH AND CASH EQUIVALENTS**

	Note	DECEMBER 31,	
		2020	2019
Cash in hand	13.1	258	357
Current accounts at banks		26,189	11,795
Short term murabaha deposit	13.2	145,122	10,000
<b>Total</b>		<b>171,569</b>	<b>22,152</b>

13.1 Cash at bank includes unclaimed dividends of SR 1,107 (2019: SR 1,008).

13.2 This represents investments placed with Al Rajhi Capital and Bank Al Jazira having average rate fo return ranging from 0.86% to 1.06%.

**14. PROVISION FOR EMPLOYEES' TERMINAL BENEFITS**

The Group operates an unfunded employees' terminal benefit ("ETB") plan for its employees as required by the Saudi Arabian Labour Law. The movement in provision for end-of-service benefits for the year ended 31 December is as follows:

	Note	DECEMBER 31,	
		2020	2019
Balance at beginning of the year		29,222	25,629
Current service cost		3,473	3,285
Interest cost		915	1,143
Amount recognised in profit or loss account		4,388	4,428
Re-measurement loss / (gain) recognized in other comprehensive Income	14.1	1,058	604
Benefits paid during the year		(1,230)	(1,439)
<b>Balance at the end of the year</b>		<b>33,438</b>	<b>29,222</b>

NAJRAAN CEMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Expressed in "000" Saudi Riyals)

**14. PROVISION FOR EMPLOYEES' TERMINAL BENEFITS (CONTINUED)**

14.1 Re-measurements gains recognized in other comprehensive income for the year ended 31 December 2020 are as follow:

	DECEMBER 31,	
	2020	2019
Impact of changes in financial assumptions	359	556
Impact of changes in demographic assumptions	-	-
Impact of experience adjustments	699	48
	<b>1,058</b>	<b>604</b>

14.2 Principal actuarial assumptions

Below are the principle actuarial assumptions:

**Key actuarial assumptions**

	DECEMBER 31,	
	2020	2019
Discount rate used	2.05%	3.05%
Future growth in salary		
Next two years	2.50%	3.00%
Long term salary increase rate	1.85%	2.85%
Turnover	Moderate	Moderate
<b>Demographic assumptions</b>		
Retirement Age	60	60

14.3 Sensitivity analysis:

Reasonably possible changes as to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	DECEMBER 31, 2020		DECEMBER 31, 2019	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% movement)	32,018	34,973	27,958	30,587
Future salary growth (0.5% movement)	34,584	32,363	30,370	28,146

14.4 Risks associated with defined benefit plans

**Longevity risks:**

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

**Salary increase risk:**

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual salary increases are higher than expectation and impacts the liability accordingly.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**15. LEASES**

	DECEMBER 31,	
	2020	2019
Current portion of lease obligations	439	425
Non-current portion of lease obligations	6,047	6,486
Balance at end of year	<u>6,486</u>	<u>6,911</u>

The lease liabilities are secured by the related underlying assets.

The analysis by maturity of future minimum lease payments at December 31, 2020 are as follows:

**As at December 31, 2020**

	< 1 year	1-5 year	>5 years	Total
Minimum lease payments	633	3,161	4,061	7,855
Less: Interest expense for future periods	194	760	415	1,369
<b>Net present values</b>	<u>439</u>	<u>2,401</u>	<u>3,646</u>	<u>6,486</u>

**As at December 31, 2019**

	< 1 year	1-5 year	>5 years	Total
Minimum lease payments	632	3,162	4,693	8,487
Less: Interest expense for future periods	207	832	537	1,576
<b>Net present values</b>	<u>425</u>	<u>2,330</u>	<u>4,156</u>	<u>6,911</u>

**16. LONG TERM FINANCING**

	Bank AlJazira Note 16.1 (a)	Banque Note 16.1 (b)	SUKUK Note 16.2	Total
Principal amount as of January 01, 2020 - audited	-	45,000	355,000	400,000
Add: draw downs during the period	355,000	-	-	355,000
	355,000	45,000	355,000	755,000
Less: early settlements / redemptions / repayments during the period	(25,500)	(45,000)	(355,000)	(425,500)
Net principal amount	329,500	-	-	329,500
Accrued mark up for the year	542	-	-	542
Total loan liability	330,042	-	-	330,042
Less: Transferred to current liabilities	(51,542)	-	-	(51,542)
Balance as of December 31, 2020 (long term portion)	<u>278,500</u>	<u>-</u>	<u>-</u>	<u>278,500</u>

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

---

**16. LONG TERM FINANCING (continued)**

**16.1 (a) Tawarroq**

The Company signed financing agreement for SR 355,000 to redeem in full the Sukuk due in June 2020. The loan is repayable in five years through ten semi annual instalments and bears a mark up rate of 1.40 % plus Sibor. The amount is secured by first charge for insurance proceeds on company plant and equipment and an promisory note to the amount of actual drawdown. The amount of the facility was drawn in full.

A multiple purpose cash facility of SR 50,000 is also under negotiation.

**16.1 (b) Tawarroq:**

Outstanding loan amount against Specific facility for waste heat recovery project representing instalments due in December 2020, March 2021 and June 2021 was presettled in June 2020.

In addition, a multiple purpose cash facility of SR 35,000 is also available but pending for renewal.

**16.2 Sukuk:**

The Company managed to redeem the outstanding amount of Sukuk for SR 355,000 in full. The statutory process of extinguishing rights of the Sukuk holders against the issue was taken care of by the Sukuk holders' agent and payment administrator.

All the above mentioned facilities are sharia compliant. The above mentioned loans contains certain covenants which are monitored on a monthly basis by management. A potential or future breach of covenants may lead to renegotiation and management proactively ensures appropriate actions taken. During the period ended 31 December 2020, there has been no breach for any of the covenants.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**17. PROVISION FOR ZAKAT**

**17.1 Zakat provision**

	2020	2019
Current period	7,721	6147
Prior periods	(18,054)	-
Deferred - current period	-	-
Total	<u>(10,333)</u>	<u>6,147</u>

**17.2 Movement in zakat liability**

	DECEMBER 31, 2020	2019
Opening balance	19,241	20,486
Provision booked during the year	(4,130)	6,147
Zakat paid during the year	(6,391)	(7,392)
	<u>8,721</u>	<u>19,241</u>

**17.3 Status of zakat return and assessment**

Zakat returns for all the years up to December 31, 2019 have been filed by the company, Zakat assessments have been finalized with General Authority for Zakat and Tax (GAZT) for the years 2006 to 2011 and 2014 to 2018. Final assesment for the years 2015 to 2017 have been adjusted and as a result, GAZT issued the amount of SAR 6,203, payment is received in Jan 2021. Accordingly company adjusted the Zakat provisions for the years from 2014 to 2018 with SAR 11,851.

**18. ACCRUED AND OTHER PAYABLES**

	DECEMBER 31, 2020	2019
Raw material royalties payable	15,848	10,924
Other payables	11,361	4,786
Dividends payable	1,107	1,008
Accrued expenses	4,346	628
	<u>32,662</u>	<u>17,346</u>

**NAJРАН CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**19. REVENUE**

	2020	2019
Sale of goods	623,197	416,406

**19.1 Disaggregation of revenue**

**A. By product**

	2020	2019
Cement	623,197	416,406

**B. By customer**

Government and quasi-government customers	-	-
Others	623,197	416,406

**C. By geographical markets**

Local	577,673	392,134
Export	45,524	24,272

**20. COST OF REVENUE**

	Note	2020	2019
			(reclassified)
Materials consumed		62,083	42,997
Salaries, wages and related benefits	20.1	57,446	50,415
Fuel and power		49,236	39,503
Repairs and maintenance		24,279	16,033
Operation and management expenses		16,428	12,096
Depreciation	7.1	72,988	75,634
Other manufacturing expenses		7,889	7,839
Physical stock count adjustments			(179)
Provision for slow moving stock		1,500	-
		291,849	244,338
Opening work in progress and finished goods		192,490	245,344
Closing work in progress and finished goods		(111,060)	(192,490)
<b>Cost of revenue</b>		<b>373,279</b>	<b>297,192</b>

**20.1** Salaries, wages and benefits include staff retirement benefits amounting to SR 3,566 (2019: SR 3,035).

**20.2** The cost of revenues includes indirect cost which relates to the non-operating part of the Group's production line(s) during the year, due to the slowdown in the market, amounting to SR 24,491 (2019: SR 33,570).

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**21. SELLING AND DISTRIBUTION EXPENSES**

	Note	2020	2019 (reclassified)
Salaries, wages and related benefits	21.1	6,872	5,246
Depreciation	7.1	2,140	834
Cement transportation		12	54
Impairment loss on trade receivables		715	7
Travel expenses		1,222	225
Export expenses		1,123	618
Others		984	679
		<b>13,068</b>	<b>7,663</b>

**21.1** Salaries, wages and benefits include staff retirement benefits amounting to SR 613 (2019: SR 522).

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

	Note	2020	2019 (reclassified)
Salaries, wages and related benefits	22.1	19,747	17,998
Maintenance expenses		1,435	1,323
Legal and professional services		1,142	1,060
Depreciation and amortization	7.1 & 8	1,063	910
Regulatory fees		763	833
Travel expenses		255	668
Donations		1,622	606
Information technology		204	150
Bank charges		53	79
Others		1,931	2,606
		<b>28,215</b>	<b>26,233</b>

**22.1** Salaries, wages and benefits include staff retirement benefits amounting to SR 918 (2019: SR 871).

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**23. FINANCE COST**

	2020	2019 (reclassified)
Mark up on loans	5,997	6,309
Mark up on Sukuk	6,264	19,757
Bank charges and commissions	3,701	1,156
	<u>15,962</u>	<u>27,222</u>

**24. CONTINGENT LIABILITIES**

As of December 31, 2020, the Group had commitments in the form of bills for collection amounting to SR 1,734 (2019: SR 1,439) and performance bonds amounting to NIL (2019: NIL).

**25. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties were carried out in the normal course of business on terms agreed between the parties. Following are the significant related party transactions during the year and the related balances:

**25.1 Advances From related parties**

Related party	Relation	DECEMBER 31,	
		2020	2019
AMAK Company	Affiliates	2	2
Yaal Alarabeya CO.		2	1
<b>Total</b>		<u>4</u>	<u>3</u>

**25.2 Related party Transactions**

	2020	2019
<b>Sales:</b>		
Yaal Alarabeya CO.	740	236
AMAK CO.	-	23
<b>Total</b>	<u>740</u>	<u>259</u>

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

	2020	2019
Salaries	3,614	3,636
Allowances	1,128	1,799
Annual and periodic remuneration	3,131	3,286
End of service benefits	280	22
<b>Total</b>	<u>8,153</u>	<u>8,743</u>

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**26. SEGMENTAL REPORTING**

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

**27. FINANCIAL RISK MANAGEMENT AND OBJECTIVES AND POLICIES**

The Group 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 Group is exposed to market risk (including profit rate risk, currency risk and other price risk), credit risk and liquidity risk. The Group's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as investments, trade and other receivables. The Group has various financial liabilities such as long-term financing, trade and other accounts payable including accrued liabilities.

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- a) Trade receivables
- b) Cash and cash equivalents
- c) Trade and other payables
- d) Long term financing

**Financial instruments by category**

	Amortized cost December 31,	
	2020	2019
<b>Financial assets</b>		
Trade receivables	30,356	33,469
Cash and cash equivalents	171,569	22,152
Total	201,925	55,621
	Amortized cost December 31,	
	2020	2019
<b>Financial liabilities</b>		
Long term financing	330,042	400,908
Trade payables	45,025	26,045
Accrued and other payables	32,662	17,346
Total	407,729	444,299

The Group is exposed through its operations to the following financial risks:

- Market risk
- Credit risk ; and
- Liquidity risk

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

---

**27.1 FINANCIAL RISK MANAGEMENT AND OBJECTIVES AND POLICIES (CONTINUED)**

**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: Interest rate risk, currency risk and other price risk.

**(a) Interest 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 Group mitigates its risk against exposure through focusing on maintaining bank balances. As of the statement of financial position date the Group is exposed to profit rate risk on its borrowings.

During 2020 and 2019, the Group's borrowings at variable rate were denominated in SAR. The Group analyses the interest rate exposure on a quarterly basis. A sensitivity analysis is performed by applying a simulation technique to the liabilities that represent major interest-bearing positions. Various scenarios are run taking into consideration refinancing, renewal of the existing positions, alternative financing and hedging.

**(b) 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 Group does not believe it is materially exposed to currency risk as the majority of the Group'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 other currencies, but these are not material.

**(c) Other price risk**

Other price risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate because of changes in market prices. The Group is not exposed to any other risks.

**Credit risk**

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.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**27.1 FINANCIAL RISK MANAGEMENT AND OBJECTIVES AND POLICIES (CONTINUED)**

**Credit risk (continued)**

The Group's maximum credit exposure are as follows:

	December 31,	
	2020	2019
Trade receivables	30,356	33,469
Prepayments and other receivables	46,780	19,802
Cash and cash equivalents	171,569	22,152
<b>Total</b>	<b>248,705</b>	<b>75,423</b>

In determining the recoverability of a trade receivable, the Group 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 December 31, 2020 is as follows:

	DECEMBER 31,	
	2020	2019
1-90 days	30,904	24,830
91-180 days	-	4,655
181-360 days	62	1,490
Over 360 days	531	2,976
<b>Total</b>	<b>31,497</b>	<b>33,951</b>

Age of impaired trade receivables as of December 31, 2020 is as follows:

	DECEMBER 31,	
	2020	2019
More than 360 days	11,650	11,357
<b>Total</b>	<b>11,650</b>	<b>11,357</b>

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**27. FINANCIAL RISK MANAGEMENT AND OBJECTIVES AND POLICIES (CONTINUED)**

**Liquidity risk**

Liquidity risk is the risk that the Group 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.

The calculation of net debt was as follows:

	December 31,	
	2020	2019
Cash and cash equivalents	171,569	22,152
Borrowings	330,042	400,908
Lease liabilities	6,486	6,911
Net debt	164,959	385,667

At the statement of financial position date, gearing ratio analysis by the management was as follows:

	December 31,	
	2020	2019
Equity	2,055,921	1,983,539
Liabilities	462,841	503,905
Total Capital Structure	2,518,762	2,487,444
Net debt to equity ratio	8%	19%
Gearing ratio	18.38%	20.26%
Current ratio	341.77%	90.90%

**Exposure to liquidity risk**

Maturity profile of the Group's financial liabilities is as below:

	Less than 3 months	3-12 months	1-5 years	Total
December 31, 2020'				
<b>Financial liabilities</b>				
Long term financing	-	51,542	278,500	330,042
Trade payables	-	45,025	-	45,025
Accrued and other payables	-	32,662	-	32,662
<b>Total</b>	-	129,229	278,500	407,729
December 31, 2019'				
<b>Financial liabilities</b>				
Long term financing	-	370,908	30,000	400,908
Trade payables	-	26,045	-	26,045
Accrued and other payables	-	17,346	-	17,346
<b>Total</b>	-	414,299	30,000	444,299

Management believes that the fair values of the Group's financial assets and liabilities measure at amortized cost are not materially different from their carrying values.

**NAJRAN CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

**28. PLANT CAPACITY AND PRODUCTION - Clinker**

		Available capacity		Actual production	
		2020	2019	2020	2019
		(Metric tonnes)		(Metric tonnes)	
Line 1	Based on 330 days	1,980	1,980	-	-
Line 2	Based on 330 days	990	990	50	458
Line 3	Based on 330 days	2,145	2,145	1,987	1,042
		<u>5,115</u>	<u>5,115</u>	<u>2,037</u>	<u>1,500</u>

**29. EFFECTS OF COVID 19**

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and declared as Public Health Emergency of International Concern on January 30, 2020 by World Health Organization. Covid-19 has spread across multiple geographic regions around the world, causing disruptions to businesses and economic activity. The spread of Covid-19 was reported in Saudi Arabia in March 2020, resulting in lockdown of major cities. Group has evaluated the Covid-19 related effects in respect of current and future operation. Based on the assessment performed, adjustments where necessary have been recognized in these financial statements. As the situation is fluid and rapidly evolving, accordingly the estimates, assumptions and judgments made by the Group in respect of the carrying amounts of assets and liabilities as presented in these financial statements represent their best estimate under the current circumstances.

**30. SUBSEQUENT EVENTS**

In the opinion of the management, there have been no other significant subsequent events since the year end that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.

**NAJРАН CEMENT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(Expressed in "000" Saudi Riyals)**

---

**31. COMPARATIVE INFORMATION**

Certain comparative information has been rearranged / reclassified in order to conform to the presentation adopted in the current year. Significant re-arrangements and re-classifications are as follows:

<b>December 31, 2019</b>			
From	To	Reason	Saudi Riyals '000'
<b>Consolidated statement of comprehensive income</b>			
Cost of revenue	Finance cost	Factual	1,143
General and administrative expense	Cost of revenue	Factual	381
Selling and distribution expense	General and administrative expense	Factual	93

<b>December 31, 2019</b>			
From	To	Reason	Saudi Riyals '000'
<b>Consolidated statement of financial position</b>			
Trade payables	Stock in trade	Factual	3,116

**32. BOARD OF DIRECTORS APPROVAL:**

These consolidated financial statements were approved by the Board of Directors of the Group on February 25, 2021.