

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
WITH INDEPENDENT AUDITOR'S REPORT

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
WITH INDEPENDENT AUDITOR'S REPORT

Index	Page
1. Independent auditor's report	1-6
2. Consolidated statement of financial position	7
3. Consolidated statement of profit or loss and other comprehensive income	8
4. Consolidated statement of changes in equity	9
5. Consolidated statement of cash flows	10
6. Notes to the consolidated financial statements	11 - 51



INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF EASTERN PROVINCE CEMENT COMPANY
A SAUDI JOINT STOCK COMPANY**

DAMMAM, KINGDOM OF SAUDI ARABIA

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(1/6)

OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Eastern Province Cement Company, A Saudi Joint Stock Company (the "Company"), and its subsidiary (collectively referred to as the "Group") as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

We have audited the consolidated financial statements of the Group, which comprise of the following:

- The consolidated statement of financial position as at December 31, 2023;
- The consolidated statements of profit or loss and other comprehensive income for the year then ended;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated statement of cash flows for the year then ended, and;
- The notes to the consolidated financial statements, comprising material accounting policies and other explanatory information.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the consolidated financial statements" section of our report. We are independent from the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

RIYADH

Tel. +966 11 206 5333 | P.O Box 69658
Fax +966 11 206 5444 | Riyadh 11557

JEDDAH

Tel. +966 12 652 5333 | P.O Box 15651
Fax +966 12 652 2894 | Jeddah 21454

AL KHOBAR

Tel. +966 13 893 3378 | P.O Box 4636
Fax +966 13 893 3349 | Al Khobar 31952

**PKF**Ibrahim Ahmed Al-Bassam
& Co. Certified Public Accountants**INDEPENDENT AUDITOR'S REPORT (Continued)****TO THE SHAREHOLDERS OF EASTERN PROVINCE CEMENT COMPANY
A SAUDI JOINT STOCK COMPANY****DAMMAM, KINGDOM OF SAUDI ARABIA****REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (2/6)****KEY AUDIT MATTERS (Continued)**

Key Audit Matters	How our audit addressed the key audit matter
Existence and valuation of work in progress inventory	
<p>The Group's inventory includes of work in progress amounting to SR 382 million (mainly consisting of clinkers stored in the form of piles in yards built for this purpose) as at 31 December 2023.</p> <p>The determination of the quantity of work in progress inventory, require management estimates for the quantities available at the end of the year for measuring inventory piles and converting the measurements into unit volumes using the angle of repose and quantitative density. Management used its experts to estimate the quantities, who used some practical methodological measurement calculations and apply density conversion methods used for similar types of inventory in the cement industry.</p> <p>Given the significance of such balances included in the inventories and related estimates used in determining the quantities, the existence and valuation of inventory was considered as a key audit matter.</p> <p>The accounting policy for inventories is outlined in note (2).</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> ➤ Attending the physical count conducted by the Group and its experts. ➤ Evaluating the efficiency, qualifications, and objectivity of the experts. ➤ Obtaining the work in progress inventory count report submitted by the experts regarding the main inventory items and checking them on sample basis. ➤ Assessing the reasonableness of inventory piles measurements carried out by management and experts during the physical count and recalculating the conversion of piles into quantities. ➤ On a sample basis, testing the work in progress inventory valuation at the end of the year, and assessing judgments and estimates used in estimating the damages and the impairment by management. ➤ Assessing the completeness and adequacy of the disclosures related to inventory for the year ended December 31, 2023.
Revenue Recognition	
<p>During the year ended December 31, 2023, the Group recognized total net revenue of SR 985 million.</p> <p>The Group recognize the revenue mainly when the control of goods is transferred and accepted by the customer in accordance with IFRS 15.</p> <p>Revenue recognition has been identified as a key audit matter given the significant volume of sales transactions involved and the factors associated with the revenue recognition and the risk that management may override controls in order to misstate revenue transactions, either by recognizing sales on unapproved products or inappropriate assessments of returns and rejections.</p> <p>The accounting policy for revenue is outlined in note (2).</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> ➤ Evaluating the design and implementation, and testing the operating effectiveness of relevant key controls over the revenue cycle; ➤ Assessing the appropriateness of revenue recognition accounting policies of the Group; ➤ Inspecting sales transactions taking place at either side of year-end to assess whether revenue was recognized in the correct period; ➤ Performing substantive test of details and analytical procedures. ➤ Assessing the completeness and sufficiency of disclosures relating to revenue in the consolidated financial statements.

RIYADHTel. +966 11 206 5333 | P.O Box 69658
Fax +966 11 206 5444 | Riyadh 11557**JEDDAH**Tel. +966 12 652 5333 | P.O Box 15651
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INDEPENDENT AUDITOR'S REPORT (Continued)

**TO THE SHAREHOLDERS OF EASTERN PROVINCE CEMENT COMPANY
A SAUDI JOINT STOCK COMPANY**

DAMMAM, KINGDOM OF SAUDI ARABIA

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (3/6)

KEY AUDIT MATTERS (Continued)

Key Audit Matters	How our audit addressed the key audit matter
impairment of Investments in an associate	
<p>The value of investment in an associate for the year ending December 31, 2023 amounted to SR 169 million after deducting the impairment in investment amounting to SR 99 million.</p> <p>Investments in an associate were booked in accordance with the requirements of International Financial Reporting Standards.</p> <p>The evaluation of the investment in an associate was considered a key audit matter due to the presence of impairment indicator in investment, Therefore the management appointed an expert to study the extent of the impairment in the value of the investment. This study included basic significant assumptions and estimates to study the impairment of the aforementioned investments.</p> <p>The accounting policy for Investments in an associate explained in Note No. (2).</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> ✦ Evaluate the design, implementation of key control procedures relevant to the process of recognizing investments in an associate. ✦ Evaluating the efficiency, qualifications, and objectivity of the experts which hired to conduct the evaluation. ✦ Evaluating the procedures followed by management to estimate the fair value of the investee company. ✦ Ensuring the validity and accuracy of the input data used in the evaluation by the management expert. ✦ Using our experts to evaluate the basic assumptions used, in addition to the reasonableness of the key assumptions used by the management experts' regarding to the estimated future cash flows, growth and discount rates . ✦ Evaluating the completeness and adequacy of disclosures related to investments in an associate in the consolidated financial statements.

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 consolidated financial statements and auditor's report thereon, which is expected to be made available to us after the date of our auditor's report.

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 for the Group, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to report that fact.

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Fax +966 12 652 2894 | Jeddah 21454

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PKF

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INDEPENDENT AUDITOR'S REPORT (Continued)

**TO THE SHAREHOLDERS OF EASTERN PROVINCE CEMENT COMPANY
A SAUDI JOINT STOCK COMPANY**

DAMMAM, KINGDOM OF SAUDI ARABIA

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (4/6)

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's By Laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Groups ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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INDEPENDENT AUDITOR'S REPORT (Continued)

TO THE SHAREHOLDERS OF EASTERN PROVINCE CEMENT COMPANY
A SAUDI JOINT STOCK COMPANY

DAMMAM, KINGDOM OF SAUDI ARABIA

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (5/6) AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

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INDEPENDENT AUDITOR'S REPORT (Continued)

TO THE SHAREHOLDERS OF EASTERN PROVINCE CEMENT COMPANY
A SAUDI JOINT STOCK COMPANY

DAMMAM, KINGDOM OF SAUDI ARABIA

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (6/6)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

For Al-Bassam & Co.



Ibrahim A. Al Bassam
Certified Public Accountant
License No. 337
Al Khobar: Ramadan 6, 1445H
Corresponding to: March 16, 2024

RIYADH

Tel. +966 11 206 5333 | P.O Box 69658
Fax +966 11 206 5444 | Riyadh 11557

JEDDAH

Tel. +966 12 652 5333 | P.O Box 15651
Fax +966 12 652 2894 | Jeddah 21454

AL KHOBAR

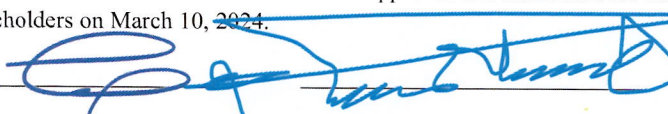
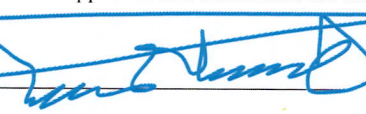

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EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023

	Note	December 31, 2023 SR	December 31, 2022 SR
ASSETS			
Non-current assets			
Property, plant and equipment	3	733,056	762,090
Intangible assets	4	1,133	1,013
Investment properties	5	88,184	89,816
Right-of-use asset	6.1	6,581	7,148
Investments at fair value through OCI	7	613,107	642,020
Investment in an associate	8	168,618	200,434
Prepayments and other assets - non current	9	14,731	11,284
		<u>1,625,410</u>	<u>1,713,805</u>
Current assets			
Inventories, net	10	620,098	570,698
Trade and retention receivables, net	11	321,227	298,427
Prepayments and other assets - current, net	9	67,994	47,593
Murabaha deposits	12	125,000	130,000
Cash and cash equivalents	13	86,802	90,827
		<u>1,221,121</u>	<u>1,137,545</u>
TOTAL ASSETS		<u>2,846,531</u>	<u>2,851,350</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	14	860,000	860,000
Statutory reserve	15	430,000	430,000
Voluntary reserve	16	404,639	404,639
Retained earnings		535,307	475,280
Reserve of valuation of investments carried at FVOCI	7	175,785	204,698
Actuarial reserves		<u>(15,722)</u>	<u>(14,894)</u>
		<u>2,390,009</u>	<u>2,359,723</u>
LIABILITIES			
Non-current liabilities			
Employees' end of service benefits	17	95,896	89,778
Other provisions	18	35,977	35,169
Lease liabilities – non-current	6.2	4,735	5,410
		<u>136,608</u>	<u>130,357</u>
Current liabilities			
Accounts payable and other liabilities	19	223,708	265,542
Due to related parties	20	1,050	5,207
Dividends payables	21	61,027	60,789
Lease liabilities – current	6.2	1,975	1,808
Zakat provision	22	32,154	27,924
		<u>319,914</u>	<u>361,270</u>
Total liabilities		<u>456,522</u>	<u>491,627</u>
TOTAL EQUITY AND LIABILITIES		<u>2,846,531</u>	<u>2,851,350</u>
CONTINGENCIES AND COMMITMENTS	23	-	-

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on March 10, 2024.

Finance Manager **Chief Executive Officer** **Chairman**

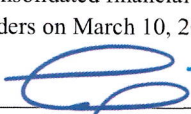
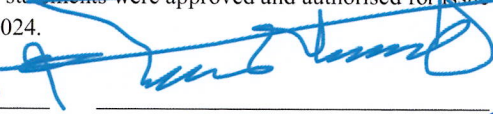

The accompanying notes form an integral part of these consolidated financial statements.

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023

	Note	December 31, 2023	December 31, 2022
		SR	SR
Revenue, net	24	984,576	784,197
Cost of revenue	25	(675,699)	(536,488)
Gross profit		308,877	247,709
General and administrative expenses	26	(59,447)	(57,009)
Selling and marketing expenses	27	(9,006)	(9,933)
Operating profit		240,424	180,767
Dividend and murabaha income	28	18,851	10,205
Impairment of investment in associate	8	(18,340)	(13,640)
Share of (loss) / profit in an associate	8	(13,476)	650
Other income	29	20,074	10,029
Other expenses	30	(13,856)	(12,649)
Finance charges	31	(4,907)	(5,229)
(loss) / gain on exchange of foreign currency		(332)	1,239
Loss on disposal of property, plant and equipment		(2,202)	(1,686)
Profit before zakat		226,236	169,686
Zakat expenses	22	(28,609)	(26,386)
Net income for the year		197,627	143,300
Other Comprehensive income:			
<i>Items that will not be reclassified to statement of profit or loss</i>			
Employees' end of service and employee loans re-measurement loss on investments carried at fair value through OCI	7	(828)	(116)
		(28,913)	(5,122)
Other comprehensive loss for the year		(29,741)	(5,238)
Total comprehensive income		167,886	138,062
Earnings per share – Basic and diluted			
Earnings per share of profit for the year	33	2.30	1.67

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on March 10, 2024.

Finance Manager
Chief Executive Officer
Chairman

The accompanying notes form an integral part of these consolidated financial statements.

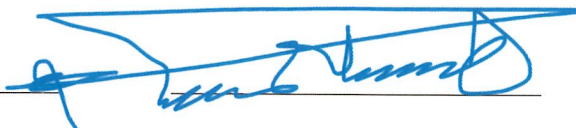
EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)


CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023

	Note	Share capital	Statutory reserve	Voluntary reserve	Retained earnings	Reserve of valuation of equity instruments carried at FVOCI	Actuarial reserves	Total equity
		SR	SR	SR	SR	SR	SR	SR
Balance at January 1, 2022		860,000	430,000	404,639	479,457	242,943	(14,778)	2,402,261
Net income for the year		-	-	-	143,300	-	-	143,300
Other comprehensive loss		-	-	-	-	(5,122)	(116)	(5,238)
Total comprehensive income		-	-	-	143,300	(5,122)	(116)	138,062
Realized gain transferred to retained earnings	7-E	-	-	-	33,123	(33,123)	-	-
Dividends	35	-	-	-	(180,600)	-	-	(180,600)
Balance at December 31, 2022		<u>860,000</u>	<u>430,000</u>	<u>404,639</u>	<u>475,280</u>	<u>204,698</u>	<u>(14,894)</u>	<u>2,359,723</u>
Balance at January 1, 2023		860,000	430,000	404,639	475,280	204,698	(14,894)	2,359,723
Net income for the year		-	-	-	197,627	-	-	197,627
Other comprehensive loss		-	-	-	-	(28,913)	(828)	(29,741)
Total comprehensive income		-	-	-	197,627	(28,913)	(828)	167,886
Dividends	35	-	-	-	(137,600)	-	-	(137,600)
Balance at December 31, 2023		<u>860,000</u>	<u>430,000</u>	<u>404,639</u>	<u>535,307</u>	<u>175,785</u>	<u>(15,722)</u>	<u>2,390,009</u>

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on March 10, 2024.


Finance Manager


Chief Executive Officer


Chairman

The accompanying notes form an integral part of these consolidated financial statements.

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	December 31, 2023	December 31, 2022
	SR	SR
Cash flows from operating activities:		
Profit before zakat	226,236	169,686
Adjustments for:		
Depreciation of property, plant and equipment and intangible assets amortization	99,740	101,045
Loss on disposal of property, plant and equipment	2,202	1,686
Dividend and murabaha income	(18,851)	(10,205)
Depreciation of investment properties	1,632	1,632
Depreciation of Right-of-use asset	1,963	1,381
Provision for slow moving spare parts inventory	3,600	4,300
Finance charges	4,907	5,229
Provided / (reversal) of allowance for impairment of trade and retention receivables	4,590	(15,671)
Impairment of investment in associate	18,340	13,640
Share of loss / (profit) in an associate	13,476	(650)
Employees' end of service benefits	7,096	6,393
	364,931	278,466
Movement in working capital		
Trade, retention receivable, prepayments and other assets	(50,802)	(79,112)
Inventories	(79,664)	(139,460)
Trade and other liabilities	(41,834)	103,153
Due to related parties	(4,157)	2,906
Employees' end of service benefits paid	(5,241)	(5,208)
Finance charges paid	(218)	(527)
Zakat paid	(24,379)	(30,443)
Net cash generated from operating activities	158,636	129,775
Cash flows from investing activities:		
Additions to property, plant and equipment and intangible assets	(46,379)	(82,635)
Proceeds from disposal of property, plant and equipment	15	842
Proceeds from dividend income and interest on deposits	18,235	9,314
Acquisition of investments at fair value through OCI	-	(100,000)
Proceeds from selling of investments at fair value through OCI	-	42,589
Liquidation / (acquisition) of murabaha deposit	5,000	(130,000)
Net cash used in investing activities	(23,129)	(259,890)
Cash flows from financing activities:		
Dividends paid	(137,362)	(179,827)
Repayment of lease liabilities	(2,170)	(1,510)
Net cash used in financing activities	(139,532)	(181,337)
Net change in cash and cash equivalents	(4,025)	(311,452)
Cash and cash equivalent at the beginning of the year	90,827	402,279
Cash and cash equivalents at the end of the year	86,802	90,827
Non-cash transactions		
Additions to Right-of-use asset against lease liabilities	1,396	3,011
Capitalized spare parts	26,664	24,646
Additions to property, plant and equipment and intangible through capital work-in-progress	57,187	80,855
Employees' end of service and employee loans re-measurement	(828)	(116)
loss on equity instruments carried at FVOCI	(28,913)	(5,122)
Utilization of provision for slow moving spare parts	-	5,835
Realized gain of investments at fair value through OCI	-	33,123

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on March 10, 2024.


Finance Manager


Chief Executive Officer


Chairman

The accompanying notes form an integral part of these consolidated financial statements.

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Eastern Province Cement Company ("the Company") or ("the Holding Company") is a Saudi Joint Stock Company established in accordance with the royal decree No. M/11 dated Rabi` Alawwal 14, 1402 (Corresponding to January 9, 1982), and the resolution of His Royal Highness the Minister of Commerce No. 939 dated Rabi Al Thani 3, 1403 (Corresponding to January 17, 1983), and registered in Dammam under the Commercial Registration No. 2050013400 dated Jumada Alawwal 22, 1403 (Corresponding to March 7, 1983).

The Holding Company's registered office is located in Dammam, Kingdom of Saudi Arabia.

The Holding Company main activities are quarry operation, mining gypsum and anhydrite wholesaling of cement and plaster.

The Holding Company obtained by the Royal Decree No. M/6 dated 17 Rabi` Al Thani 1405 (Corresponding to January 9, 1985) the mining franchise for exploitation of limestone and clay in Al Khorasania area for a renewable period of thirty years. The Holding Company has completed the legal procedures to renew the franchise license. The Ministerial Decree No. 5334/G dated Rajab 12, 1438 had been issued to renew the Holding Company's rights in utilizing the limestone and clay for its factory located in Al-Tawy site near Al-khurasania in Al-Jubail province for thirty Hijri years starting from Rabi Alawwal 18, 1436.

The Holding Company also obtained by the Ministerial Decree No. 14/Q dated Safar 24, 1433 (Corresponding to January 18, 2012) the mining franchise for the exploitation of limestone and clay in Al Najabia valley at Al Ahsa Province in the Eastern region valid till December 31, 2035.

The consolidated financial statements of the Group as at December 31, 2023 include the financial statements of the Holding Company and its following branches:

<u>Branch Commercial Registration No.</u>	<u>Date</u>	<u>Place of Issue</u>	<u>Commercial Name of the Branch</u>
A- 2055022383	Jumada Al-Thani 16, 1435	Jubail	Eastern Province Cement Plant.
B- 4042100240	Dhu`l-Hijjah 2, 1439	Asfan	Eastern Province Cement Plant.
A- The main activities of the branch are in the operation of quarries, mining of gypsum and anhydrite, wholesale of cement and Gypsum. The Holding Company has a sub-commercial registration in Jubail City for the Eastern Cement Factory No. 2055022383 dated Jumada Al-Thani 16, 1435 (Corresponding to April 16, 2014), which deals in the production of ordinary cement (Portland cement), salt-resistant cement, and clinker cement under the National Industrial License No. 1300.			
B- The main activities of the branch are construction of precast buildings, concrete and steel buildings, light and heavy prefabricated buildings, infrastructure works, and import of all building materials and precast concrete (Precast).			

Details of Holding Company's subsidiary:

The Board of Directors of the Eastern Province Cement Company decided in its meeting held on December 11, 2018, to start the procedures for converting Prainsa Saudi Arabia For Precast Concrete branch under the commercial registration No. 2051035184 into a limited liability company, and the legal formalities for change in legal structure of branch had been completed during Q2, 2023 with the same commercial registration number. Accordingly, these consolidated financial statements have been prepared for the first time on consolidation basis. (In 2022, it was consolidated as a branch of the Eastern Province Cement Company).

The Holding Company's subsidiary is a limited liability company incorporated in the Kingdom of Saudi Arabia.

<u>Name of subsidiary</u>	<u>Commercial Registration Dated</u>	<u>Business activity</u>	<u>Effective ownership December 31, 2023</u>
Prainsa Saudi Arabia For Precast Concrete Company	Dhu al-Qadah 17, 1444H (June 6, 2023)	Production of precast concrete items under the industrial license No. 3031328, dated Rabi` Awwal 3, 1437.	100 %

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

The consolidated financial information has been prepared under the historical cost convention, unless it is allowed by the IFRS to be measured at other valuation method as illustrated in significant accounting policies note.

2.2 Preparation of the consolidated financial statements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in the consolidated financial statements. The estimates that are significant to the consolidated financial statements are disclosed in note 2.5.25.

2.3 New and amended IFRS standards issued and effective in the year 2023

The following amendments to standards relevant to the Group are effective for the annual periods beginning on or after January 1, 2023 (unless otherwise stated). The Group adopted these standards and / or amendments, however, there is no significant impact of these on the consolidated financial statements:

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS (Amendments IFRS 4)	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	January 1, 2023	The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.
IFRS 17	Insurance Contracts and its amendments	January 1, 2023	This is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation, and disclosure. Once effective, IFRS 17 (along with its subsequent amendments) will replace IFRS 4 Insurance Contracts (IFRS 4) which was issued in 2005.
IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	January 1, 2023	This amendment deals with assisting entities to decide which accounting policies to disclose in their financial statements.
IAS 8	Amendment to the definition of accounting estimate	January 1, 2023	These amendments regarding the definition of accounting estimates help entities to distinguish between accounting policies and accounting estimates.
IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023	These amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences
IAS 12	International tax reform (pillar two model rules)	January 1, 2023	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organization for Economic Co-operation and Development’s (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

2. BASIS OF PREPARATION (Continued)

2.4 New and amended IFRS Standards issued but not yet effective

The Group has not applied the following new and revised IFRS Standards and amendments to IFRS that have been issued but are not yet effective:

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 1	Classification of liabilities as current or non-current	January 1, 2024	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of liability would not impact its classification.
IFRS 16	Leases on sale and leaseback	January 1, 2024	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
IAS 7 and IFRS 7	Supplier finance arrangements	January 1, 2024	These amendments require to add disclosure requirements to enhance transparency of supplier finance arrangements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.
IAS 21	Lack of Exchangeability	January 1, 2025	The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

2.5 Material accounting policies

The Material accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.1 Basis of Consolidation

The consolidated financial statements comprise the financial statements of Eastern Province 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 Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders,
- Potential voting rights held by the Holding Company, other vote holders or other parties,
- Rights arising from other contractual arrangements, and
- Any additional facts and circumstances that indicate that the holding Company 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 Holding Company obtains control over the subsidiary and ceases when the Holding Company 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 Holding Company gains control until the date when the Holding Company 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 subsidiary 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.

2.5.1 (A) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries 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 subsidiaries. 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 other comprehensive income 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 and other comprehensive income 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, to be the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)
2.5 Material accounting policies (Continued)
2.5.1 Basis of Consolidation (Continued)
2.5.1 (B) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition costs incurred are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the consolidated statement of profit or loss and other comprehensive income.

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Goodwill is tested annually for impairment and is carried at cost net of accumulated impairment losses. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Negative goodwill represents the excess of the fair value of the net assets acquired and the cost of investments in a business combination. Negative goodwill is recognized in the consolidated statement of profit or loss and other comprehensive income.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed-off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed-off in this circumstance is measured based on the relative values of the operation disposed-off and the portion of the cash-generating unit retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of profit or loss and other comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.2 Financial instruments

2.5.2 (A) Classification of financial assets and financial liabilities

Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The Group classifies its financial assets generally based on the business model in which a financial asset is managed and its contractual cash flows.

(i) Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The Group initially measures its trade receivables at the transaction price given that it does not include any financing component.

Business model assessment

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.2 Financial instruments (Continued)

2.5.2 (A) Classification of financial assets and financial liabilities (Continued)

(ii) Financial assets at fair value through OCI (FVOCI)

Debt Instruments

A debt instrument is measured at FVOCI only if it meets both of the following conditions and it is not designated as at FVTPL

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principle and the interest on the principle amount outstanding.

Equity instruments

On the initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis.

(iii) Financial assets at fair value through profit or loss (FVTPL)

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial assets that are held for trading, if any, and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss (FVTPL) because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR).

2.5.2 (B) Impairment of financial assets

The Group records an allowance for ECLs for all loans and other debt financial assets not held at FVTPL. For Contract assets and Trade and other receivables that do not contain a significant financing component, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. As a practical expedient, the Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)
2.5 Material accounting policies (Continued)
2.5.3 Revenue from Contract with Customers

The Group recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15. This includes:

Step 1. Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5. Recognize revenue when (or as) the entity satisfies a performance obligation.

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

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
2. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Group's performance does not create an asset with an alternative use to the Group and the group has an enforceable right to payment for performance completed to date.

For performance obligations, where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognized, this gives rise to a contract liability.

Revenue shall be measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognized. Where there are no specific criteria, above policy will apply and revenue is recorded as earned and accrued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.3 Revenue from Contract with Customers (Continued)

Sale of goods

For contracts with customers in which the sale of cement is generally expected to be the only performance obligation revenue from the sale is recognized at the time that control of the asset is transferred to the customer at a point in time, which is usually upon delivery.

The Group recognizes revenue at the point in time at which the customer obtains control of a promised asset and the entity satisfies the performance obligations. The Group takes into account the below- mentioned indicators in assessing the transfer of control over the promised asset:

- The Group has a present right to payment for the asset
- The Customer has legal title to the asset
- The Group has transferred physical possession of the asset
- The Customer has the significant risks and rewards of ownership of the asset
- The Customer has accepted the asset

Precast revenues

a) Contracts over a period of time

The Group determined that, for certain contracts, its performance does not create an asset with alternative use to the Group and it has concluded that, at all times, it has an enforceable right to payment for performance completed to date. Therefore, control transfers over time for these contracts. For contracts that meet the over a period of time revenue recognition criteria, the Group's performance is measured using an output method, by reference to the progress of the performance obligation.

b) Point in time contracts

For other contracts, where the criteria for overtime revenue recognition is not met, revenue is recognized at a point in time, only when the control criteria as per IFRS 15 paragraph 38 is met. Control is normally obtained by the customers when they are able to obtain economic benefits from the sold products, this is typically on handover of the of the constructed precast. In order for the precast products to be ready for handover, all the individual promises in the contract must be completed.

Dividends income

Dividend income is recognized only when:

- The Group's right to receive paid dividends is confirmed,
- The economic benefits associated with the dividend are likely to flow to the Group,
- It is possible to measure the amount of dividends in a reliable way.

Rental income

The rental revenues are recognized according to the straight-line method over the life of the lease agreement and the terms of the lease.

Other income

Other income is recognized when it accrues in the consolidated statement of profit or loss and other comprehensive income

2.5.4 Property, plant and equipment

Property, plant and equipment are carried at the historical cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the consolidated statement of profit or loss, using the straight-line method to allocate the costs of the related assets less their residual values over the following estimated economic useful lives:

	<u>Years</u>
Buildings	40 years
Thermal Bricks, Grinding Balls and Other	1 – 5 years
Machinery, equipment and heavy trucks	15 – 20 years
Critical Spare parts	5 – 20 years
Furniture, fixtures and tools	5 years

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.4 Property, plant and equipment (Continued)

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

The cash generating unit (CGU) at which the impairment assessment and testing is performed, is defined as the smallest identifiable Company of assets that generates cash inflows that are largely independent of the cash inflows from other assets or Companies of assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Annual review of residual lives and useful lives

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. If expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

Componentization of assets

Property, plant and equipment (PPE) is often composed of various parts with varying useful lives or consumption patterns. These parts are (individually) replaced during the useful life of an asset. Accordingly:

- Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately, except where one significant part has a useful life and a depreciation method that is the same as those of another part of that same item of PPE; in which case, the two parts may be companied together for depreciation purposes;
- Under the component approach, the Group does not recognize in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. These costs are recognized in the consolidated statement of profit or loss as incurred. The various components of assets are identified and depreciated separately only for significant parts of an item of PPE with different useful lives or consumption patterns; however, the principles regarding replacement of parts (that is, subsequent cost of replaced part) apply generally to all identified parts, regardless whether they are significant or not.

Capitalization of costs under PPE

The cost of an item of property, plant and equipment comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation incurred either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that year.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)
2.5 Material accounting policies (Continued)
2.5.4 Property, plant and equipment (Continued)
Capitalization of costs under PPE (Continued)

Borrowing costs related to qualifying assets are capitalized as part of the cost of the qualified assets until the commencement of commercial production.

All other repairs and maintenance are charged to the statement of consolidated profit or loss during the reporting year in which they are incurred. Maintenance and normal repairs which do not extend the estimated economic useful life of an asset or production output are charged to the consolidated statement of profit or loss as and when incurred.

Critical Spare Parts (CSP)

The Group classifies CSPs into critical spare parts (strategic spare parts) and general spare parts using the below guidance:

- A critical spare part is one that is on “stand-by”, i.e. probable to be a major item / part critical to be kept on hand to ensure uninterrupted operation of production equipment. They would normally be used only due to a breakdown, and are not generally expected to be used on a routine basis. Depreciation on critical spares commences immediately on the date of purchase.
- General spare parts are other major spare parts not considered critical and are bought in advance due to planned replacement schedules (in line with prescribed maintenance program) to replace existing major spare parts with new parts that are in operation. Such items are considered to be “available for use” only at a future date, and hence depreciation commences when it is installed as a replacement part. The depreciation period for such general capital spares is over the lesser of its useful life, and the remaining expected useful life of the equipment to which it is associated.

Capital work-in-progress

Assets in the course of construction or development are capitalized in the capital work-in-progress (“CWIP”) account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment or intangible assets (depending on the nature of the project), once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work in progress comprises its purchase price, construction / development cost and any other directly attributable to the construction or acquisition of an item of CWIP intended by management. Costs associated with testing the items of CWIP (prior to its being available for use) are capitalized net of proceeds from the sale of any production during the testing period. Capital work-in-progress is not depreciated or amortized.

2.5.5 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, where applicable.

Finite life of intangible assets is amortized over the shorter of their contractual or useful economic lives. They comprise mainly management information systems. The Group amortized these intangible assets over 5-10 years on a straight-line basis assuming a zero residual value.

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 consolidated statement of profit or loss when the asset is derecognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.6 Investment properties

Investment properties consist of lands and buildings held by the Group for the purpose of earning rental income or for the purpose of capital development, through an increase in value, or for both purposes and does not include land and buildings used for the production or supply of goods or services or for administrative purposes or for the purposes of normal sale.

Investment properties are stated at cost less accumulated depreciation (if any) and impairment losses (reduction) in accumulated value (if any), bearing in mind that land is not depreciated. The cost includes the purchase price plus all costs directly related to the construction or acquisition of the property investment in the condition necessary to be available for use for the intended purpose. The significant parts of the investment property are depreciated separately from other parts.

The notes for the fair value of the investment properties that have been evaluated by a qualified and independent expert are disclosed in accordance with the disclosure requirements in accordance with the International Financial Reporting Standards endorsed in the Kingdom of Saudi Arabia.

The carrying amount of the investment property is derecognized when it is disposed of (either through sale or through entering into a finance lease) or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between, the net proceeds from the disposal of the investment property and the carrying amount of the investment property, is recognized in the consolidated statement of profit or loss and other comprehensive income in the year in which the asset is derecognized or written off.

If the use of the investment property changes to a property used in the Group 's operation, it is reclassified to the property, plant and equipment item.

The estimated life of the buildings item is as follows:

	<u>Years</u>
Buildings	40

2.5.7 Impairment of non-financial assets

At the date of each statement of consolidated financial position, it will be seen whether there are indications of impairment of non-financial assets. In the event that indications exist, the recoverable amount of that asset is estimated in order to determine the size of this loss. In cases where it is not possible to estimate the recoverable value of that single asset, the Group estimates the recoverable amount of the cash-generating unit to which that asset belongs.

In cases where the recoverable amount of the asset or cash-generating unit is estimated at less than its book value, then the cost of that asset or cash-generating unit is reduced to its recoverable value, and the impairment losses in the value of the asset is recognized as expenses in the statement of consolidated profit or loss and other comprehensive income for the Financial year in which it occurs.

And if subsequently the impairment loss is reversed, then the cost of the asset or cash-generating unit is increased to its adjusted recoverable value, provided that its increased cost does not exceed the original cost that was supposed to be determined had the impairment loss in the value of that asset or cash generating unit not been recognized in previous years. A reversal of an impairment loss is recognized as revenue in the consolidated statement of profit or loss and other comprehensive income for the financial year in which it occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.8 Investment in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In case the shareholding in an associate do not create significant influence, the Group classify this investment as fair value through profit or loss.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated profit or loss where appropriate. The Group's share of post-acquisition profit or loss is recognized in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount separately in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates.

Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the statement of profit or loss.

2.5.9 Inventories

Inventories are valued at lower of cost and net realizable value (NRV). Cost is determined using the weighted average method. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods comprises raw material cost and other overheads incurred in production process in case result approximate actual cost. In light of current condition. Any write-down to NRV are recorded as an expense and reversal reversed from expenses in consolidated statement of profit or loss in the year in which it occurs.

Net realizable value and provision assessment of inventory

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The NRV assessment to write-down the inventory is normally made on an individual item basis. This would be where items relate to the same product line (which have a similar purpose and end use) are produced and marketed in the same geographical area.

The practice of writing inventories down below cost to net realizable value is consistent with the view under IFRS that assets should not be carried in excess of amounts expected to be realized from their sale.

An allowance is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures. Provision for slow moving and obsolete inventories is assessed by each inventory category as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.10 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with the bank, all of which have original maturities of 90 days or less and are available for use by the Group unless otherwise stated. In the consolidated statement of financial position, for the murabaha deposit held with the bank, all of which have original maturities more than 90 days based on its nature, murabaha deposit is presented separately from the cash and cash equivalents.

2.5.11 Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments.

2.5.12 Dividends

Provision or liability is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the Group, on or before the end of the reporting year but not distributed at the end of the reporting year.

2.5.13 Functional and presentation currency

Items included in the consolidated financial statements of the Group is measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The functional currency and the presentation currency for the Group is Saudi Riyals (SR). Figures have been rounded off to the nearest thousands Riyal except where mentioned otherwise.

Transactions and balances

Foreign currency transactions are translated into functional currency at the rates of exchange prevailing at the time of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss.

2.5.14 Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any premeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and restoration costs. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over underlying asset's useful life. Right-of-use assets are subject to impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.15 Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Incremental rate is the rate that the individual lessee would pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is premeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments are allocated between principal and finance charges. The finance cost is charged to consolidated profit and loss over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability of each year.

Short-term leases and leases of low-value assets

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

2.5.16 Employees benefits

Short term obligation

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting year and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations within accruals in the consolidated statement of financial position.

Employees' end-of-service benefits (EOSB)

The liability or asset recognized in the consolidated statement of financial position in respect of defined benefit. EOSB plan is the present value of the defined benefit obligation at the end of the reporting year. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.16 Employees benefits (Continued)

Employees' end-of-service benefits (EOSB) (Continued)

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Defined benefit costs are categorized as follows:

Service cost

Service costs includes current service cost and past service cost are recognized immediately in consolidated statement of profit or loss.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in consolidated statement of profit or loss as past service costs.

Interest cost

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

Re-measurement gains or losses

Re-measurement gains or losses arising from experience adjustments and changes in actuarial assumptions are recognized in the year in which they occur, directly in other comprehensive income.

2.5.17 Provisions

Provisions are recognized when the Group has:

- A present legal or constructive obligation as a result of a past event;
- It is probable that an outflow of economic resources will be required to settle the obligation in the future; and
- The amount can be reliably estimated.

If the effect of the time value of money are material, provisions are discounted using a current rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where there are a number of similar obligations, (e.g. product warranties, similar contracts or other provisions) the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.5.18 Zakat

The Group is subject to the regulations of the Zakat, Tax, and Customs Authority (ZATCA) in the Kingdom of Saudi Arabia. Zakat is provided for on accrual basis and the provision for zakat is calculated on the basis of the higher of zakat base, or the adjusted net income. Any difference in the estimates between the calculated zakat and the final assessment (if any) is to be recorded in the consolidated statement of profit or loss of the year in which the assessment is finalized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.19 Selling, marketing and distribution expenses

Selling, marketing and distribution expenses comprise of all costs for selling and marketing the Group's products and include expenses for advertising, marketing fees and other sales related overheads.

2.5.20 General and administrative expenses

General and Administrative expenses include indirect costs not specifically part of cost of sales or the selling, marketing and logistics activity of the Group. Finance income / (expense) is presented as a separate line item in the consolidated statement of profit or loss.

2.5.21 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares; and
- By the weighted average number of ordinary shares outstanding during the financial period.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.5.22 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.

Transactions between segments are carried out at arm's length and are eliminated. The revenue from external parties is measured in the same way as in the consolidated statement of profit or loss.

The Group defines its operating segments as:

- **Cement**
Manufacturing and wholesale ordinary cement, salt-resistant cement and clinker cement
- **Precast**
Manufacture of partitions, frames and prefabricated buildings from prefabricated concrete

2.5.23 Change in accounting estimates

The Group may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting estimate does not relate to prior years and is not the correction of an error.

The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior year errors.

A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

The effect of a change in an accounting estimate, is recognized prospectively in profit or loss in the period of the change, if the change affects that period only or the period of the change and future periods, if the change affects both.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.24 Critical Judgments And Key Sources Of Estimation Uncertainty

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2.5.24.1 Critical judgements in applying accounting policies

The following critical judgments that have most significant effect on the amounts recognized in the consolidated financial statements:

Determining the timing of revenue recognition on the sale of precast products

The Group evaluates the timing of revenue recognition on the sale of precast based on analyzing of the rights and obligations under the terms of each contract.

The Sale of precast products

The Group assesses its contracts with customers for the sale of precast products to determine whether performance obligations are satisfied over time or at a point in time.

The Group concluded that the Group's performance does not create an asset with an alternative use where the Group is restricted contractually from redirecting the precast product to another use during its production based on the sale agreements entered into with customers, where the Group's contracts are entered into to provide specified products to the customer that accordingly does not create an asset with an alternative use to the Group.

Also, the Group concluded that it has an enforceable right to payment for performance completed to date, where it is entitled to an amount that at least compensates it for performance completed to date (usually costs incurred to date plus a reasonable profit margin) by having enforceable rights of being compensated for work completed to date in the event of any dispute or contract termination.

Based on this, the Group recognizes revenue from sale of precast product over time.

Significant influence over an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Going concern

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

2.5.24.2 Key sources of estimation uncertainty

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

Impairment of investment properties

An assessment of fair value of investment properties is carried out annually by an external valuation firm who hold recognized and relevant professional qualifications and has recent experience in the location and category of the asset being valued. In determining the valuation, the valuer used the market valuation for land and replacement cost for buildings methodology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.24 Critical Judgments and Key Sources Of Estimation Uncertainty (Continued)

2.5.24.2 Key sources of estimation uncertainty (Continued)

Lease payment discount

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

Property lease classification – the Group as lessor:

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of this property and accounts for the contracts as operating leases.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment. During the current financial year, there was no material financial effect of revising lease terms to reflect the effect of exercising extension or termination options.

Economic useful lives of property, plant, equipment

The Group periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Zakat

Management has assessed the zakat position having regard to the regulations of Zakat, Tax, and Customs Authority (ZATCA), decrees issued periodically and conventions. Interpretation of such legislation, decrees, and conventions is not always clear and entails completion of assessment by ZATCA.

Estimated cost

The Group uses the output method for percentage-of-completion ("POC") in accounting for its long-term construction of precast contracts. Use of POC requires the Group to estimate the total cost of the contract.

Impairment of non-financial asset

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

Estimation of defined benefit obligation

The cost of defined benefit obligation and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

2. BASIS OF PREPARATION (Continued)

2.5 Material accounting policies (Continued)

2.5.24 Critical Judgments and Key Sources Of Estimation Uncertainty (Continued)

2.5.24.2 Key sources of estimation uncertainty (Continued)

Allowance for impairment for trade receivables

The Group assesses on a forward looking basis the Expected Credit Losses (“ECL”) associated with its debt instruments as part of its financial assets, which are carried at amortized cost for accounts receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables. ECL assessment requires a several estimates related to the categorization of customers, discount rates and a general assessment of the economic conditions in the market. Management use their best estimates and historical trends of customers to assess the receivables provision under ECL model.

Provision for obsolete, slow moving and damaged inventory

Management makes a provision for slow moving, obsolete and damaged inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the consolidated statement of financial position date to the extent that such events confirm conditions existing at the end of year.

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. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 ‘Inventories’ or value in use in IAS 36 ‘Impairment of Assets’, where applicable.

Valuation techniques

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3	Inputs for assets or liability that are not based on observable market data (unobservable inputs).

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

3. PROPERTY, PLANT AND EQUIPMENT

	<u>Note</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
		<u>SR’000</u>	<u>SR’000</u>
Operating fixed assets	3.1	707,842	738,013
Capital work-in-progress	3.3	25,214	24,077
		<u>733,056</u>	<u>762,090</u>

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

3.1 Operating fixed assets

December 31, 2023

	Land	Buildings	Thermal Bricks, Grinding Balls and Other	Machinery, equipment and heavy trucks	Critical Spare parts	Furniture, Fixtures & Tools	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Cost							
Balance at January 1, 2023	7,016	890,399	43,663	2,155,986	56,894	14,753	3,168,711
Additions	-	174	2,781	7,092	1,151	3,111	14,309
Disposals	-	(1,074)	(1,345)	(57,727)	(650)	(835)	(61,631)
Transfers from CWIP	-	19,420	4,760	31,940	175	884	57,179
Balance at December 31, 2023	7,016	908,919	49,859	2,137,291	57,570	17,913	3,178,568
Accumulated depreciation							
Balance at January 1, 2023	-	661,650	27,077	1,687,494	42,794	11,683	2,430,698
Charges for the year	-	18,777	12,589	64,906	2,164	1,006	99,442
Disposals	-	(1,016)	(1,341)	(55,578)	(644)	(835)	(59,414)
Balance at December 31, 2023	-	679,411	38,325	1,696,822	44,314	11,854	2,470,726
Net Book Value							
At December 31, 2023	7,016	229,508	11,534	440,469	13,256	6,059	707,842

- 20% approximately of the building in Dammam, amounting to SR 7,250 is used for the purposes of the Group's main office and other administrative purposes, accordingly it has been classified as operating fixed assets. The remaining portion of the building (80% approximately), is rented to various lessors for periods ranging from one year to five years. Leased portion part is classified as investment property (Note 5).

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

3.1 Operating fixed assets (Continued)

December 31, 2022

	Land	Buildings	Thermal Bricks, Grinding Balls and Other	Machinery, equipment and heavy trucks	Critical Spare parts	Furniture, Fixtures & Tools	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
<u>Cost</u>							
Balance at January 1, 2022	7,016	873,592	32,115	2,147,030	65,704	12,361	3,137,818
Additions	-	167	2,770	11,195	2,419	2,532	19,083
Disposals	-	(2,352)	(3,715)	(51,686)	(11,152)	(140)	(69,045)
Reclassification	-	-	-	85	(85)	-	-
Transfers from CWIP	-	18,992	12,493	49,362	8	-	80,855
Balance at December 31, 2022	7,016	890,399	43,663	2,155,986	56,894	14,753	3,168,711
<u>Accumulated depreciation</u>							
Balance at January 1, 2022	-	645,083	18,478	1,669,324	52,161	11,416	2,396,462
Charges for the year	-	18,206	12,314	68,054	1,782	397	100,753
Disposals	-	(1,639)	(3,715)	(49,949)	(11,084)	(130)	(66,517)
Reclassification	-	-	-	65	(65)	-	-
Balance at December 31, 2022	-	661,650	27,077	1,687,494	42,794	11,683	2,430,698
<u>Net Book Value</u>							
At December 31, 2022	7,016	228,749	16,586	468,492	14,100	3,070	738,013

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

3.2 Depreciation of operating fixed assets for the year has been allocated as follows:

	<u>Note</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
		<u>SR'000</u>	<u>SR'000</u>
Cost of revenue		97,369	98,569
General and administrative expenses	26	1,902	2,157
Selling and marketing expenses	27	171	27
		<u>99,442</u>	<u>100,753</u>

3.3 Capital work-in-progress:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
	<u>SR'000</u>	<u>SR'000</u>
Balance at the beginning of the year	24,077	16,820
Additions during the year	58,324	88,112
Transferred to operating fixed assets	(57,179)	(80,855)
Transferred to operating intangible assets	(8)	-
Balance at the end of the year	<u>25,214</u>	<u>24,077</u>

- As of December 31, 2023, capital work in – progress mainly represents the maintenance projects of the factory and construction of other buildings in the factory.
- During the year of 2022, the additions to capital work-in-progress included acquired assets with a purchase cost of SR 28 million. This amount represents the consideration paid by the Holding Company according to the purchase agreement dated December 29, 2021 against all property and equipment items, without the related liabilities, which has been acquired through the acquisition of Construction Industries Company Factory for Concrete Buildings (“a branch”) registered under commercial registration number 4042100240 dated Dhu’1-Hijjah 2, 1439 (Note 1). In addition, the Group capitalized the additional materials and salaries amounting to SR 6.3 million, which was required for the factory to be operating for its intended future economic benefits. During the year of 2022, these acquired and capitalized assets has been transferred to operating fixed assets.
- As of December 31, 2023, capital work in – progress included an extension to one of the Group’s factories with the cost of SR 6,6 million, which included capitalized expenditure amounting to SR 1.6 million. During the year of 2023, these capitalized assets has been transferred to operating fixed assets.
- Additions to the capital work in – progress during the year of 2023, included a total capitalized expenditure amounting to SR 2,3 million.
- During the year 2023, the cost of spare parts inventory transfer to capital work-in-progress amounting to SR 26,7 million, (2022: SR 24,6 million).

4. INTANGIBLE ASSETS

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
	<u>SR'000</u>	<u>SR'000</u>
Cost	9,501	9,415
Additions	410	86
Transfers from CWIP	8	-
Accumulated amortization	(8,786)	(8,488)
Net book value	<u>1,133</u>	<u>1,013</u>

- Intangible assets represent the licenses and software.
- Amortization for the year of 2023 and 2022 has been charged to general and administrative expenses (note 26).

5. INVESTMENT PROPERTIES

	<u>Lands</u>	<u>Buildings</u>	<u>Total</u>
	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
Cost			
Balance at January 1, 2023	51,934	70,786	122,720
Balance at December 31, 2023	<u>51,934</u>	<u>70,786</u>	<u>122,720</u>
Accumulated Depreciation			
Balance at January 1, 2022	-	31,272	31,272
Depreciation charge for the year	-	1,632	1,632
Balance at December 31, 2022	-	32,904	32,904
Depreciation charge for the year	-	1,632	1,632
Balance at December 31, 2023	<u>-</u>	<u>34,536</u>	<u>34,536</u>
Net book value			
At December 31, 2023	<u>51,934</u>	<u>36,250</u>	<u>88,184</u>
At December 31, 2022	51,934	37,882	89,816

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

5. INVESTMENT PROPERTIES (Continued)

- Depreciation for the year of 2023 and 2022 has been charged to other expenses (note 30).
- Fulfilling the requirements of disclosure in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia, investments properties fair value were assessed by a qualified and independent expert, Ahmed Al-Naeem Establishment for Real Estate Assessment, approved by the Saudi Authority for Accredited Valuator with membership number 1210000269. The fair value of the investment properties portion of the lands and buildings as of December 31, 2023 was estimated to be SR 215 million, of which SR 152 million for lands and SR 63 million for the buildings (December 31, 2022 amounted to SR 205 million, of which SR 139 million for lands and SR 66 million for the building). Investment properties fair value has been estimated using the market value for lands and the replacement cost for buildings methods.
- Investment properties include the leased area of the buildings, representing 80% of the building area and the full land of the building. Remaining area of the building is classified as property, plant and equipment (note 3).

6. THE RIGHT-OF-USE ASSET AND LEASE LIABILITIES

6.1 Movement in right of use assets is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Opening balance	7,148	5,518
Additions	1,396	3,011
Depreciation for the year	(1,963)	(1,381)
Closing balance	6,581	7,148

- Depreciation for the year of 2023 and 2022 has been charged to general and administrative expenses (note 26).
- Additions to right of use in year of 2023 and 2022 represent mainly leased vehicles and land.

6.2 Lease liabilities movement and classification in the consolidated statement of financial position are as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
January 1	7,218	5,576
Additions	1,396	3,011
Interest charged	266	141
Payments during the year	(2,170)	(1,510)
December 31	6,710	7,218
Current portion of lease liabilities	1,975	1,808
Non-current portion of lease liabilities	4,735	5,410
Total lease liabilities	6,710	7,218

Lease contractual payments and finance charges related to lease liabilities are as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Within one year	2,379	1,989
Year two to five	4,270	5,100
More than five years	758	834
Minimum lease payments	7,407	7,923
Less: finance charges	(697)	(705)
Net minimum lease payments	6,710	7,218

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

7. INVESTMENTS AT FAIR VALUE THROUGH OCI

The Group designated all of the equity investments listed below as investments at fair value through OCI, because these equity securities represent investments that the Group intends to hold for the long term for strategic purposes.

A- Investment at fair value though OCI (FVOCI) consist of the following:

	Note	December 31, 2023		December 31, 2022	
		Number of shares (in thousands)	Amount SR'000	Number of shares (in thousands)	Amount SR'000
Saudi Industrial Investment group	7-A-1	1,100	24,420	1,100	24,178
Industrialization and Energy Services Company	7-A-2	27,187	407,269	27,187	459,197
Saudi Arabian Oil Company (Aramco)	7-A-3	2,147	70,838	1,951	62,642
			<u>502,527</u>		<u>546,017</u>
Discretionary Portfolio Management (DPM) Investments	7-A-4		<u>110,580</u>		<u>96,003</u>
			<u>613,107</u>		<u>642,020</u>

7-A-1 The Saudi Industrial Investment Company (a Saudi joint stock company listed on the financial market) (Tadawul) whereby the Group owns 0.15% of the equity shares of the Company (December 31, 2022: 0.15% of the equity shares). The share price of the investee Company as of December 31, 2023 was SR 22.20 per share (December 31, 2022: SR 21.98 per share). During the year, the Group received dividends from Saudi Industrial Investment Company by an amount of SR 1 million (Note 28). During the year ended of December 31, 2022, the Group sold 1,200,000 shares of its investment in the Saudi Industrial Investment Company for SR 42,59 million, which resulted in a realized profit during the period amounting to SR 33,12 million, which had been transferred from the reserve of valuation of equity instruments carried at FVOCI to retained earnings.

7-A-2 Industrialization and Energy Services Company is Saudi closed joint stock company whereby the Group owns 3.79% of equity shares of investee Company (December 31, 2022: 3.79% of the equity shares). The Group's management determined the value of investments in the Industrialization and Energy Services Company as of December 31, 2023 based on a report from an independent evaluator based on the condensed consolidated interim financial statements of the investee company as of September 30, 2023 (which represent the latest available financial information) by a value of SR 14,98 per share (December 31, 2022: SR 16.89 per share), resulting decrease in a total value of the investment to be amounting to SR 407,269 million as of December 31, 2023. For determining the fair value in year of December 31, 2023, the Group used the "price to book market multiple" method. For determining the fair value as of December 31, 2023, the Group used the latest available financial information to calculate the fair value of the investment according to the aforementioned valuation method, i.e. September 30, 2023, which that calculation leads to decrease in value of the Group's investment in Taqa Company. During the year, the Group received dividends from Taqa company by an amount of SR 8.2 million (Note 28).

7-A-3 On year 2019, the Group acquired 1.8 million shares in the shares of the Saudi Arabian Oil Company (Aramco) at a price of SR 32 per share, and the price per share on December 31, 2023 was SR 32.99 (December 31, 2022: SR 32.11 per share). During the year, the Group received dividends from Aramco Company by an amount of SR 3.3 million (Note 28). In addition, during the year, Aramco issued bonus shares for the shareholders at the rate of one share to each 10 owned shares by the shareholders.

7-A-4 During the year ended December 31, 2022, the Group's management entered in local discretionary portfolio management ("DPM") agreements managed by investment manager, the Group's management has irrevocably chosen the measurement and classification of its DPM investments as investments at fair value through other comprehensive income. DPM investments include cash amounting to SR 2.9 million as of December 31, 2023 (December 31, 2022: SR 0.5 million).

B- Investments at fair value through other comprehensive income are categorized as follows:

	December 31, 2023	December 31, 2022
Quoted:	SR'000	SR'000
Saudi Industrial Investment Company	24,420	24,178
Saudi Arabian Oil Company (Aramco)	70,838	62,642
Discretionary Portfolio Management Investments	84,382	75,145
	<u>179,640</u>	<u>161,965</u>
Unquoted:		
Industrialization and Energy Services Company	407,269	459,197
Discretionary Portfolio Management Investments	26,198	20,858
	<u>433,467</u>	<u>480,055</u>
	<u>613,107</u>	<u>642,020</u>

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

7. INVESTMENTS AT FAIR VALUE THROUGH OCI (Continued)

C- The movement on the investments is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Opening balance	642,020	589,731
Change in fair value	(28,913)	(5,122)
Additions	-	100,000
Disposals	-	(42,589)
Closing balance	613,107	642,020

D- Hierarchy levels of investment is disclosed in note 36.2.4.

E- The movement on reserve of valuation of investments at fair value through other comprehensive income is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Opening balance	204,698	242,943
Unrealized losses from investments at fair value through OCI	(28,913)	(5,122)
Realized gain transferred to retained earnings	-	(33,123)
Closing balance	175,785	204,698

8. INVESTMENT IN AN ASSOCIATE

The Group has investment in the Arab Yemen Cement Company (“the associate”), a limited liability company registered in the Republic of Yemen, by 31.58% equity shares. The associate company was established to engage in cement production and started operation in 2009. The movement in investment during the year is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Opening balance	281,070	280,420
Share of (loss) / profit for the year	(13,476)	650
	267,594	281,070
Less: impairment of the investment	(98,976)	(80,636)
Closing balance	168,618	200,434

During the year ended of December 31, 2023, a study was conducted by an independent consulting office on the possibility of a decrease in the value of investment in the Arab Yemen Cement Company due to the decline in the profit of the associate, by calculating the discounted expected future cash flows of the associate and comparing it with the carrying value of the investee Company, and as a result, an additional decline in the investment value has been recognized amounting to SR 18.3 million (2022: SR 13.6 million). The Group used the discounted cash flow method to determine fair value as of December 31, 2023, the key assumptions used in the calculations of discounted cash flow are discount rate of 36.79 % and growth rate of 2%.

- The movement on the impairment of investment during the year is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Opening balance	80,636	66,996
Additional impairment of the investment	18,340	13,640
Closing balance	98,976	80,636

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

8. INVESTMENT IN AN ASSOCIATE (Continued)

Summary of financial information about the associate Company:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Current assets	465,132	465,065
Non-current assets	570,655	530,435
Current liabilities	(188,434)	(105,475)
Non-current liabilities	-	-
Equity	847,353	890,025
The Group's share of equity	267,594	281,070
Revenue	188,434	281,310
Operating losses	(42,596)	(4,194)
Total comprehensive (loss)/ income	(42,673)	2,057

The presentation currency of the financial statements of the associate is US Dollars, where the balances dominated in Yemeni Riyal has been translated using the prevailing rates in the market instead of the rates of the central bank of Yemen, to be reflective to the real transaction rates.

The audited financial statements for the year ended of December 31, 2023 reflect a going concern matter due to the political crisis, economic situation and current security events in the Republic of Yemen.

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

9. PREPAYMENTS AND OTHER ASSETS, NET

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Deferred contract cost, net	37,413	14,641
Employee loans - A	17,503	14,668
Prepaid expenses	11,995	9,952
Advances to suppliers	10,079	14,185
Accrued interest	1,731	1,115
Other receivables – B	5,366	5,678
	84,087	60,239
Less: Allowance for impairment of prepayment and other assets	(1,362)	(1,362)
	82,725	58,877
Less: non-current portion of employee loans	(14,731)	(11,284)
	67,994	47,593

A- Employee loan's fair value have been measured by actuarial valuation while resulted in debit charge to other comprehensive income by the amounts of SR 707 thousand.

B- Other receivables include a balance due from a related party "Al-Dawaa Medical Services Company" by an amount of SR 373 thousand (December 31, 2022: SR 320 thousand) (Note 20).

10. INVENTORIES, NET

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Work in progress	382,093	384,710
Spare Parts and maintenance supplies	153,162	154,318
Raw Material	63,390	28,336
Finished goods	38,918	17,199
	637,563	584,563
Provision for slow moving spare parts	(17,465)	(13,865)
	620,098	570,698

10.1 Movement in provision for slow moving spare parts is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Opening balance	13,865	15,400
Addition during the year	3,600	4,300
Utilized during the year	-	(5,835)
Closing balance	17,465	13,865

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

11. TRADE AND RETENTION RECEIVABLES, NET

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Trade receivables	322,403	307,641
Less: Allowance for impairment of trade receivables	(39,714)	(34,094)
	282,689	273,547
Retention receivables	49,447	36,819
Less: Allowance for impairment of retention receivables	(10,909)	(11,939)
	38,538	24,880
	321,227	298,427

11.1 Movement in the allowance for impairment of trade and retention receivables is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Opening balance	46,033	61,704
Provided / (reversal) of provision during the year*	4,590	(15,671)
Closing balance	50,623	46,033

* The provided / reversal of the allowance for impairment of trade and retention receivables has been recognized in the cost of revenue item.

The aging of trade receivables are as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Not yet due	127,482	123,402
Overdue 1 – 90 Days	109,948	117,252
Overdue 91 – 180 Days	27,031	16,640
Overdue 181 – 270 Days	16,801	11,868
Overdue 271 days and more	41,141	38,479
	322,403	307,641
Allowance for expected credit loss	(39,714)	(34,094)
	282,689	273,547

12. MURABAHA DEPOSITS

The Group invests part of its cash surplus in murabaha deposits with a maturity period of more than three months with financial institutions. The average annual commission rates on these deposits during the year 2023 amounting to 6.3% (2022: 5.4%).

13. CASH AND CASH EQUIVALENTS

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Cash at banks	61,802	50,827
Short term deposits - A	25,000	40,000
	86,802	90,827

A- The Group invests part of its cash surplus in term deposits with a maturity period of three months or less with financial institutions. The average annual commission rates on these deposits during the year 2023 amounting to 5.85% (December 31, 2022: Average annual commission rates of 4.65%)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

14. SHARE CAPITAL

The issued and paid up share capital of the Group is SR 860 million, which is divided into 86 million shares (December 31, 2022: SR 860 million divided into 86 million shares) of SR 10 per share.

15. STATUTORY RESERVE

As per the Company's By Laws and regulations for companies, 10% of the net income is required to be set aside to form a statutory reserve until the reserve equal 30% of the share capital. However, the management of the Group opted to keep this reserve at 50% of the share capital. The statutory reserve is not available for dividend distribution. The statutory reserve requirement has been fulfilled in the prior years and, accordingly, the Group is not required to transfer any additional amounts towards this reserve.

16. VOLUNTARY RESERVE

The general assembly of the Group, during its meeting No. 35 held on Rabi` II 13, 1431 (corresponding to March 29, 2010), approved the formation of voluntary reserve in the amount of SR 404.6 million by allocating an amount of SR 120 million from the capital expansions reserve and an amount of SR 284.6 million from the retained earnings.

17. EMPLOYEES' END OF SERVICE BENEFITS

The Group carried out actuarial valuations to account for its obligations under defined benefit plan. Following mentioned results are extracted from actuarial valuation.

Movement in employees' end of service benefits is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Opening balance	89,778	85,820
Expense charge for the year	11,238	9,391
Re-measurement loss / (gain)	121	(225)
Payments	(5,241)	(5,208)
Closing balance	95,896	89,778

Charged to profit or loss during the year:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Service cost	7,096	6,393
Interest cost	4,142	2,998
Cost recognized in profit and loss	11,238	9,391

Principal actuarial assumptions:

	December 31, 2023	December 31, 2022
Discount factor used	4.86%	4.48%
Salary increase rate	5%	5%

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

17. EMPLOYEES' END OF SERVICE BENEFITS (Continued)

Sensitivity analysis on present value of defined benefit obligations plan are as below:

	December 31, 2023		December 31, 2022	
	Percentage	Amount SR'000	Percentage	Amount SR'000
Discount rate				
Increase	+ 1 %	89,036	+ 1 %	83,130
Decrease	- 1 %	103,750	- 1 %	97,432
Expected rate of salary				
Increase	+ 1 %	104,103	+ 1 %	97,720
Decrease	- 1 %	88,605	- 1 %	81,757

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the end-of-service indemnities recognized within the consolidated statement of financial position.

18. OTHER PROVISIONS

Other provisions represent the provision for the rehabilitation of areas subject to the Group's franchise license and the removal of the factory, which measured at the present value of the expected cost of re-settlement of the Group's concession sites granted to the Group. The balance of other provision on December 31, 2023 amounting to SR 36 million (December 31, 2022, amounting to SR 35.2 million). Increase in other provision represents the related interest of the year amounting to SR 808 thousand (2022: SR789 thousand), which has been charged to finance charges (note 31).

19. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Trade payables	94,127	95,654
Accrued expenses	59,911	100,215
Advances from customers	38,661	47,506
Warranty Provision	9,489	-
Retention payable	5,924	6,934
Unearned revenues	4,795	4,907
VAT payable	4,556	4,897
Accrued board of directors' remuneration	4,450	4,030
Accrued contract cost – A	1,734	1,120
Other current liabilities	61	279
	223,708	265,542

A- Accrued contract cost represents the cost of the stock produced, invoiced and approved by customers but not yet transferred.

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

20. RELATED PARTIES BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties consist of the shareholders, directors and businesses in which shareholders and directors, individually or combined, have significant influence. The Group's transactions with related parties are authorized by the management.

Transactions represent amounts received by the Group from the account of the Arab Yemeni Cement Company (an associate company) in a bank in the State of Oman until they are paid to the suppliers and creditors of the associate on its behalf, as the associate faces difficulties in bank transfers to and from the Republic of Yemen.

<u>Company</u>	<u>Relationship</u>
Arabian Yemeni Cement Company	Associate
Al-Dawaa Medical Services Company	Related party
Walaa Cooperative Insurance Company	Related party

The significant transactions with related parties during the year are as follows:

<u>Related party</u>	<u>Nature of transaction</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
		<u>SR'000</u>	<u>SR'000</u>
Arabian Yemeni Cement Company	Payments to members of the Board of Directors of the Yemeni Company	(880)	(2,011)
	Payments to Yemeni Company suppliers, net	(2,212)	(4,581)
	Deposits from the Company	-	9,394
Al-Dawaa Medical Services Company	Rent revenue	(2,912)	(2,272)
Walaa Cooperative Insurance Company	Services received	1,065	1,528

A) Balances payable to related parties are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
	<u>SR'000</u>	<u>SR'000</u>
Walaa Cooperative Insurance Company	795	1,860
Arabian Yemeni Cement Company	255	3,347
	<u>1,050</u>	<u>5,207</u>

B) Other receivables as at December 31, 2023 the balance included balance due from Al-Dawaa Medical Services Company amounted to SR 373 thousand (December 31, 2022: SR 320 thousand).

C) Remuneration of directors and key management personnel

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Directors</u>	<u>Key management personnel</u>	<u>Directors</u>	<u>Key management personnel</u>
	<u>SR'000</u>			
Board of directors' remuneration	4,450	-	8,060	-
Salaries, wages and allowances	207	8,313	173	8,187
End of service expenses	-	1,000	-	582
	<u>4,657</u>	<u>9,313</u>	<u>8,233</u>	<u>8,769</u>

21. DIVIDENDS PAYABLE

The balance of the dividend payable at December 31, 2023 amounting to SR 61 million, which represent un-paid dividends to some shareholders for the years from 1991 to 2023 (December 31, 2022: SR 60.8 million).

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

22. ZAKAT PROVISION

The principal elements of the zakat base of the Group are as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Non-Current assets	1,625,410	1,713,805
Non-Current liabilities	136,608	130,357
Opening equity balance	2,359,723	2,402,261
Profit before zakat	226,236	169,686

Some of the amounts have been adjusted in arriving at the zakat charge for the year.

Zakat is payable at 2.5% percent of the higher of the approximate zakat base and adjusted net income.

Movement in zakat provision is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Balance at the beginning of the year	27,924	31,981
Zakat charge for the year	28,609	26,386
Paid for the year	(24,379)	(25,289)
Payment specific for additional zakat assessments	-	(5,154)
Balance at the end of the year	32,154	27,924

Components of zakat charge for the year is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Provision of zakat for the year	32,154	27,924
Prior year zakat differences	(3,545)	(1,538)
	28,609	26,386

Zakat Status

The Group submitted its zakat returns for the years up to 2022 to the Zakat, Tax and Customs Authority on the consolidated level and obtained the required certificate. During the year, the Group paid the zakat due balance for the year of 2022 return amounting to SR 24,379 million.

In year 2021, the Group received the zakat assessment for the years 2019 and 2020 from the Zakat, Tax and Customs Authority (ZATCA) claiming an amount of SR 8.4 million, of which an amount of SR 3.2 million had been paid during the same year. During Q1 2022, the Group settled and paid the remaining amounts of the assessments. During Q2 2023, the Group has paid the zakat payable balance due for the year of 2022 amounting to SR 24.4 million. The Group did not receive any zakat assessment for years of 2021 and 2022 from ZATCA yet.

23. CONTINGENCIES AND COMMITMENTS

As of December, 31, 2023, the Group's contingent liabilities against letters of credit and letters of guarantees amounting to SR 229 million (December 31, 2022: SR 205 million).

24. REVENUE, NET

Classification of the Group's revenues from contracts with customers during the year based on timing of revenue recognition and based on the product's type is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
<u>Timing of revenue recognition</u>		
At point in time	669,614	562,394
Over a period of time	314,962	221,803
	984,576	784,197

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

24. REVENUE, NET (Continued)

<u>Type of products</u>	December 31, 2023	December 31, 2022
	SR'000	SR'000
Cement	669,614	562,394
Precast	314,962	221,803
	984,576	784,197

25. COST OF REVENUE

Cost of revenue consists of consumables, salaries and wages, depreciation and other supplies. As at December 31, 2023, the cost of consumed materials from inventory was amounting to SR 131,3 million (2022: SR 132,5 million).

26. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Salaries, wages and allowances	37,175	32,290
Materials, supporting tools, licenses and programs	7,609	7,610
Board of Directors' remuneration	4,657	8,233
Depreciation of operating fixed assets and right of use and intangible assets amortization	4,163	3,830
Others	5,843	5,046
	59,447	57,009

27. SELLING AND MARKETING EXPENSES

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Salaries, wages and allowances	8,291	8,847
Depreciation	171	27
Other	544	1,059
	9,006	9,933

28. DIVIDEND AND MURABAHA INCOME

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Dividends income from investments at FVOCI (note 7)	12,510	4,971
Short term and murabha deposits interest	6,341	5,234
	18,851	10,205

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

29. OTHER INCOME

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Rent income	9,681	8,122
Scrape sales	7,021	1,524
Others	3,372	383
	20,074	10,029

30. OTHER EXPENSES

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Investments properties administrative expenses	6,849	6,943
Depreciation of investment properties	1,632	1,632
Miscellaneous expenses	5,375	4,074
	13,856	12,649

31. FINANCE CHARGES

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Finance actuarial, net	3,615	2,662
Finance Restoration and Rehabilitation	808	789
Interest on lease liabilities	266	141
Others	218	1,637
	4,907	5,229

32. SEGMENTAL REPORTING

The Group has the segregated the operations into two main reporting segments, these reporting segments are as follows:

<u>Segment</u>	<u>Business</u>
Cement	Manufacturing and wholesale ordinary cement, salt-resistant cement and clinker cement.
Precast	Manufacture of partitions, frames and prefabricated buildings from prefabricated concrete.

	Cement	Precast	Intersegment adjustments	Total
	SR'000			
<u>As of December 31, 2023</u>				
Total assets	2,572,447	313,077	(48,482)	2,837,042
Total liabilities	351,098	144,417	(48,482)	447,033

For the year ended December 31, 2023

Revenue, net	677,866	314,962	(8,252)	984,576
Net profit	154,206	43,421	-	197,627

	Cement	Precast	Intersegment adjustments	Total
	SR'000			
<u>As of December 31, 2022</u>				
Total assets	2,553,474	337,322	(39,446)	2,851,350
Total liabilities	371,647	159,426	(39,446)	491,627

For the year ended December 31, 2022

Revenue, net	562,418	221,803	(24)	784,197
Net profit	135,122	8,178	-	143,300

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

32. SEGMENTAL REPORTING (Continued)

The revenue according to the geographical areas is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Saudi Arabia	961,100	752,972
Other countries	23,476	31,225
	984,576	784,197

33. EARNINGS PER SHARE

The basic profit per share is calculated by dividing the net income for the year attributable to the ordinary shareholders of the group by the weighted average number of the outstanding ordinary shares during the year.

The following is the computation of basic and diluted earnings per share:

	For the year ended	
	December 31, 2023	December 31, 2022
Net income for the year (in SR'000)	197,627	143,300
Number of outstanding shares (in thousands of shares)	86,000	86,000
Basic and diluted		
Earnings per share of profit for the year (SR)	2.30	1.67

34. CAPITAL COMMITMENTS

The approved future capital projects as of December 31, 2023 by the Group's management amounting to SR 18 million (December 31, 2022: SR 38.4 million). The value of future capital projects that were approved after the date of the consolidated financial statements amounting to SR 270.5 million US dollars, equivalent to SR 1.014 billion, as a contract was signed with a foreign company to carry out the design, supply, construction and operation of a new cement production line (Note 38).

35. DIVIDENDS

During the year, on March 20, 2023, the board of directors has approved the cash dividends distribution amounting to SR 86 million for the second half of the fiscal year 2022, based on dividend per share of SR 1, for the number of shares eligible for dividends amounting to 86 million shares. Dividends have been paid in Q2 2023. In addition, during the year, on August 6, 2023, the board of directors has approved the cash dividends distribution amounting to SR 51.6 million for the first half of 2023, based on dividend per share of SR 0.60, for the number of shares eligible for dividends amounting to 86 million shares. Dividends have been paid in Q3 2023.

During the Q2 2022, on March 13, 2022, the board of directors has approved the cash dividends distribution amounting to SR 94.6 million for second half of the fiscal year 2021, based on dividend per share of SR 1.10, for the number of shares eligible for dividends amounting to 86 million shares. Dividends have been paid in Q2 2022. In addition, during the Q3 2022, on August 3, 2022, the board of directors has approved the cash dividends distribution amounting to SR 86 million for first half of the fiscal year 2022, based on dividend per share of SR 1, for the number of shares eligible for dividends amounting to 86 million shares. Dividends have been distributed in Q3 2022.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

36. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to the following financial risks from its use of the financial instruments:

- Credit risk.
- Liquidity risk
- Market risk (including commission rate risk and foreign currency exchange risk)

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

36.1 Financial instruments by category

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Financial assets at amortized cost:		
Trade and retention receivables, net	321,227	298,427
Employee loans	17,503	14,668
Other receivables, net	5,735	5,431
Murabaha deposits	125,000	130,000
Cash and cash equivalents	86,802	90,827
Financial assets at fair value through OCI		
Investments at fair value through OCI	613,107	642,020
Total financial assets	1,169,374	1,181,373
Financial liabilities at amortized cost:		
Accounts payable and other current liabilities	164,473	207,112
Due to related parties	1,050	5,207
Dividends payables	61,027	60,789
Lease liabilities	6,710	7,218
Total financial liabilities	233,260	280,326

The Group has no financial liability at fair value.

36.2 Risk management of financial instruments

The Group reviews and agrees policies for managing each of the risks and these policies are summarized below:

36.2.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Group has policies in place to minimize its exposure to credit risk. The maximum exposure to credit risk at the reporting date is as follows:

	December 31, 2023	December 31, 2022
	SR'000	SR'000
Trade and retention receivables, net	321,227	298,427
Employee loans	17,503	14,668
Other receivables, net	5,735	5,431
Murabaha deposits	125,000	130,000
Short term deposits	25,000	40,000
Bank balances	61,802	50,827
	556,267	539,353

The carrying amount of financial assets represents the maximum credit exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

36. FINANCIAL RISK MANAGEMENT (Continued)

36.2 Risk management of financial instruments (Continued)

36.2.1 Credit risk and concentration of credit risk (Continued)

Accounts receivable

Due to Group's long standing relations with counterparties and after giving due consideration to their financial standing, the management does not expect non-performance by these counter parties on their obligations to the Group except when trade receivables considered doubtful.

The Group seeks to limit its credit risk with respect to accounts receivable by grouping based on shared credit risk characteristics.

The Group measures the loss allowance for accounts receivable by setting credit limits for individual customers and by monitoring outstanding balances on an ongoing basis. Customers that are graded as "high risk" are placed on a separate list, and future credit sales are made only with approval of key directors. The Group assess the recoverable amount of its receivables to ensure adequate allowance for impairment is made by applying simplified approach to measure expected credit loss. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 31, 2023 or January 1, 2023 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified GDP and consumer price index (inflation rates) to be the most relevant factors and accordingly adjusted the historical loss rates based on expected changes in these factors. For ageing of receivables refer note 11.

Cash on hand and at banks

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The credit risk on bank balances is low considering the Group has outstanding loans balances and credit facilities with various banks, in Saudi Arabia, with good credit ratings (A-) as aligned from external credit rating companies such as Moody's and Fitch, so concentration risk is also low.

Employee loans include certain amounts secured by end of service benefit balance that cover the loan balance.

36.2.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet expected requirements for a period of at least 30 days.

The Group's financial current liabilities mainly consist of the accounts payable, accrued expenses, due to related parties, dividends payables, lease liabilities and other liabilities. These liabilities are expected to be settled within 12 months of the statement of financial position date and the Group expects to have adequate funds available to do so.

EASTERN PROVINCE CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

36. FINANCIAL RISK MANAGEMENT (Continued)

36.2 Risk management of financial instruments (Continued)

36.2.2 Liquidity risk (Continued)

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

	Carrying amount	Contractual cash flows	Within one year	1 -5 years	More than 5 years
	SR'000	SR'000	SR'000	SR'000	SR'000
December 31, 2023					
Lease liabilities	6,710	7,407	2,379	4,270	758
Account payable and other current liabilities	164,473	164,473	164,473	-	-
Dividends payables	61,027	61,027	61,027	-	-
Due to related parties	1,050	1,050	1,050	-	-
Total financial liabilities	233,260	233,957	228,929	4,270	758
December 31, 2022					
Lease liabilities	7,218	7,923	1,989	5,100	834
Account payable and other current liabilities	207,112	207,112	207,112	-	-
Dividends payables	60,789	60,789	60,789	-	-
Due to related parties	5,207	5,207	5,207	-	-
Total financial liabilities	280,326	281,031	275,097	5,100	834

36.2.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments due to fluctuation in the related financial instruments value. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

i) Commission rate risk

Commission risk arises from possible changes and fluctuations in commission rates that affect future profit or fair values of financial instruments. The group monitors commission rate fluctuations and believes that the impact of commission rate risk is not significant.

ii) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not exposed to fluctuations in foreign exchange rates during its ordinary course of business, since all significant transactions of the Group during the year are in Saudi Riyals and US Dollars and there are no significant risks related to balances stated at US Dollars since the exchange of Saudi Riyal pegged to US Dollar. The Group's exposure to currency risk arising from currencies that are not pegged to USD (e.g. Euro, GBPs etc.) is not material.

The Group's exposures to foreign currency rate on investment in an associate denominated by USD disclosed in Note 8 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

36. FINANCIAL RISK MANAGEMENT (Continued)

36.2 Risk management of financial instruments (Continued)

36.2.4 Fair values of financial instruments

For the purposes of financial reporting, the Group used the fair value hierarchy classified at levels 1, 2 and 3 based on the degree of observance of the inputs in the fair value measurement and the importance of these inputs in measuring the fair value in its entirety, as shown below:

- Level 1: Quoted market prices in an active market for similar assets or liabilities that the group can value at the measurement date.
- Level 2: Inputs other than quoted prices in Level 1 that can be taken as a value for the assets or liabilities, either directly or indirectly.
- Level 3: inputs for assets and liabilities that are not based on observable market information.

Investments in quoted equity instruments in the Saudi market are valued according to the market closing price on the date of the consolidated financial statements and those instruments have been classified under Level 1.

Investments in unquoted investment funds in the Saudi market are valued according to closing price provided by fund manager on the date of the consolidated financial statements and those instruments have been classified under Level 2.

Investments in unquoted equity instruments are evaluated based on approved valuation methods that depend on income approach and market approach, and those instruments are classified under level 3.

	Book value SR'000	Fair Value		
		Level-1 SR'000	Level-2 SR'000	Level -3 SR'000
As of December 31, 2023				
Investments at fair value through OCI	613,107	179,640	433,467	-
As at December 31, 2022				
Investments at fair value through OCI	642,020	161,965	480,055	-

The Valuation models used for the main investment in level 2 (i.e., Industrialization and Energy Services Company) are "Adjusted Market Multiple through price to book value" method, which based on market multiples driven from quoted prices of companies comparable to the investee Company adjusted for the effect of the non-marketability of the equity securities of the investee Company, where price to book value. Technique used are significantly depending on observable market inputs. None of those investments listed in Level No. (2) were transferred to either Level (1) or Level No. (3) during the year ending December 31, 2023.

The fair value of financial instruments carried at amortized cost

Management believes that the carrying value of financial assets and financial liabilities stated at amortized cost in the consolidated financial statements approximates their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

37. COMPARTIVE FIGURES

Certain comparative year amounts have been reclassified to conform to the current year presentation. The main items of reclassification are as follows:

Statement of financial position

Reclassification from	Reclassification to	December 31, 2022
Inventories, net	Prepayments and other assets – current, net	SR'000 7,903

These reclassifications do not affect previously reported profit for the year ended December 31, 2022 in the statement of profit or loss and other comprehensive income and the previously reported cash flows from operating activities in the statement of cash flows for the period then ended.

38. SUBSEQUENT EVENTS

-Subsequent to the year ended December 31, 2023, the Holding Company announced the following:

- A- During the year, the Board of Directors decided to invite specialized companies to submit their offers for the establishment of a new production line with a capacity of 10,000 tons / day in order to replace some of the old production lines in the Holding Company's at current plant in Khursaniyah area in order to maximize the benefit from the infrastructure of the current plant. Subsequent to the end of the year 2023, the contract was signed with the Chinese Company Sinoma CDI in exchange for the design, supply, construction and operation of a cement production line with a capacity of 10,000 tons of clinker per day at the current Holding Company's factory in the Khursaniyah area in accordance with the latest technology in the field of manufacturing cement.
- B- During the year 2024, the Group conducted an operational efficiency review at of its plant and equipment, which will be resulted in changes in the expected useful life for some certain assets which will be disposed of (Note 3) as a result of the replacement of some production lines. As a result, the expected useful life of that certain assets decreased, the effect of these changes on actual depreciation expenses will be increased by approximately an amount of SR 10 million in the next years. The impact of this replacement on the spare parts inventory item for the excluded production lines will also be reduced and excluded from spare parts inventory, with estimated value of approximately. 3,5 million yearly which will be exhausted during the remaining lives of the relevant fixed assets.
- C- The distribution of cash dividend of SR 1 per share to the shareholders of the Holding Company related to the second half of year 2023, to have a total cash dividend amounting to SR 86 million.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 10, 2024 corresponding to Shaban 29, 1445 H.