



Dr. Mohamed Al-Amri & Co.
Accountants & Consultants

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

**INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE THREE AND SIX MONTH
PERIODS ENDED JUNE 30, 2012**

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2012

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INDEPENDENT LIMITED REVIEW REPORT

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

Scope of Review

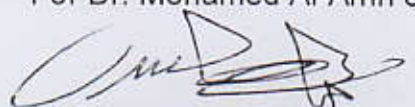
We have reviewed the accompanying interim balance sheet of Najran Cement Company ("the Company") (a Saudi Joint Stock Company) as of June 30, 2012, the related interim statement of income for the three and six month periods ended 30 June 2012, and the interim statements of cash flows and changes in shareholders' equity for the six months then ended, including the related notes from 1 to 14. These interim financial statements are the responsibility of the Company's management and have been prepared by them and presented to us together with all the information and explanations, which we required.

We conducted our review in accordance with Saudi Organization for Certified Public Accountants ("SOCPA") standards on interim financial information. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of a limited review is substantially less than an audit conducted in accordance with generally acceptable auditing standards in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim financial statements of the Company for them to be in conformity with generally acceptable accounting principles in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.



Jamal Mohamed Al-Amri
Certified Public Accountant



Sha'ban 25, 1433 (H)
July 15, 2012 (G)

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM BALANCE SHEET
AS AT JUNE 30, 2012

	<u>Note</u>	2012 <u>SR</u> Unaudited	2011 <u>SR</u> Audited
ASSETS			
Current assets			
Cash and cash equivalents	3	538,439,033	36,578,692
Accounts receivable		68,522,890	89,593,488
Inventories and work in progress	4	150,835,480	148,305,450
Prepayments and other receivables		50,555,990	60,243,766
Total current assets		<u>808,353,393</u>	<u>334,721,396</u>
Non-current assets			
Property, plant and equipment	5	1,421,479,734	1,470,682,497
Capital work in progress	6	358,173,417	-
Intangible assets		31,171,073	41,831,838
Total non-current assets		<u>1,810,824,224</u>	<u>1,512,514,335</u>
TOTAL ASSETS		<u>2,619,177,617</u>	<u>1,847,235,731</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short term financing		-	56,000,000
Current portion of long term loans	7	85,000,000	119,550,000
Trade creditors		82,056,040	49,655,761
Accruals and other payables		22,007,478	11,252,489
Provision for zakat		17,263,265	10,163,265
Total current liabilities		<u>206,326,783</u>	<u>246,621,515</u>
Non-current liabilities			
Long term loans	7	596,283,152	315,370,000
End-of-service indemnities		5,235,024	3,042,216
Total non-current liabilities		<u>601,518,176</u>	<u>318,412,216</u>
Total liabilities		<u>807,844,959</u>	<u>565,033,731</u>
Shareholders' equity			
Capital	1,8	1,700,000,000	1,150,000,000
Statutory reserve		11,389,185	60,840,919
Retained earnings		99,943,473	71,361,081
Total shareholders' equity		<u>1,811,332,658</u>	<u>1,282,202,000</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>2,619,177,617</u>	<u>1,847,235,731</u>

The accompanying notes 1 through 14 form an integral part of these financial statements.

NAJRAN CEMENT COMPANY
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INTERIM STATEMENT OF INCOME
FOR THE TWO PERIODS ENDED JUNE 30, 2012

	<u>Note</u>	For the three months ended June 30,		For the six months ended June 30,	
		2012 <u>SR</u> Unaudited	2011 <u>SR</u> Unaudited	2012 <u>SR</u> Unaudited	2011 <u>SR</u> Audited
Revenues	10	154,076,728	201,948,116	341,171,240	380,728,316
Cost of revenues	10	(90,408,303)	(104,896,526)	(183,696,443)	(202,627,374)
Gross profit		63,668,425	97,051,590	157,474,797	178,100,942
Selling and marketing expenses		(2,021,138)	(1,507,048)	(3,776,712)	(2,754,623)
General and administrative expenses		(8,917,038)	(9,205,083)	(14,694,648)	(13,898,954)
Operating income		52,730,249	86,339,459	139,003,437	161,447,365
Financial expenses		(2,872,921)	(3,690,883)	(4,968,589)	(7,056,963)
Other income/(expenses)	8,9	(21,277,011)	(2,034,993)	(21,730,511)	(2,034,993)
Net income before zakat		28,580,317	80,613,583	112,304,337	152,355,409
Zakat		(2,000,000)	(2,500,000)	(5,100,000)	(6,000,000)
Net income for the period		26,580,317	78,113,583	107,204,337	146,355,409
Earnings (loss) per share:					
From operating income	11	0.36	0.71	1.03	1.32
From other activities, including zakat	11	(0.18)	(0.07)	(0.24)	(0.12)
From net income	11	0.18	0.64	0.79	1.20

The accompanying notes 1 through 14 form an integral part of these financial statements.

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INTERIM STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2012

	2012 SR Unaudited	2011 SR Audited
<u>Cash flows from operating activities:</u>		
Net income before zakat for the period	112,304,337	152,355,409
<u>Adjustments to reconcile net income before zakat with net cash provided by operating activities:</u>		
Depreciation	36,798,070	38,236,844
Amortization	6,219,617	5,404,402
Gain on sale of property, plant and equipment	(10,908)	-
Finance charges	1,533,126	7,056,961
End-of-service indemnities	1,123,275	365,281
Costs of Initial Public Offering	11,637,790	-
<u>Changes in operating assets and liabilities:</u>		
Accounts receivable	39,156,840	(19,035,798)
Inventories and work in progress	(9,144,159)	10,418,917
Prepayments and other receivables	(9,389,697)	(17,875,170)
Trade creditors	(12,020,369)	29,677,876
Accruals and other payables	3,551,096	(12,736,016)
Cash from operations	181,759,018	193,868,706
Zakat paid	-	(4,281,847)
Finance charges paid	(1,533,126)	(7,056,961)
End-of-service indemnities paid	(48,872)	(105,827)
Net cash provided by operating activities	180,177,020	182,424,071
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(5,114,053)	(9,788,242)
Payments to contractors (capital work in progress)	(101,462,164)	-
Proceeds from sale of property, plant and equipment	23,800	-
Additions to intangible assets	(41,475)	(7,790,621)
Net cash used in investing activities	(106,593,892)	(17,578,863)
<u>Cash flows from financing activities:</u>		
Net short term financing movements	(60,000,000)	41,000,000
Proceeds from long term loans	72,783,152	-
Repayment of long term loans	(25,000,000)	(40,000,000)
Proceeds (gross) from Initial Public Offering ("IPO")	835,925,000	-
Payments to selling shareholders	(367,731,179)	-
Costs of IPO	(2,700,418)	-
Dividends paid	-	(162,150,000)
Net cash provided by/(used in) financing activities	453,276,555	(161,150,000)
Net change in cash and cash equivalents	526,859,683	3,695,208
Cash and cash equivalents, beginning of the period	11,579,350	32,883,484
Cash and cash equivalents, end of the period	538,439,033	36,578,692
<u>Material non-cash transactions:</u>		
Capital work in progress costs outstanding	46,189,804	-
IPO costs deducted at source	14,075,000	-

The accompanying notes 1 through 14 form an integral part of these financial statements.

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INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD ENDED JUNE 30, 2012

	Capital SR	Statutory reserve SR	Retained earnings SR	Total SR
Balance as at January 1, 2011	1,150,000,000	46,205,378	101,791,213	1,297,996,591
Net income for the period	-	-	146,355,409	146,355,409
Transfer to statutory reserve		14,635,541	(14,635,541)	-
Dividends paid	-	-	(162,150,000)	(162,150,000)
Balance as at June 30, 2011- Audited	1,150,000,000	60,840,919	71,361,081	1,282,202,000
Balance at January 1, 2012	1,219,000,000	668,751	3,459,570	1,223,128,321
Net income for the period	-	-	107,204,337	107,204,337
Transfer to statutory reserve	-	10,720,434	(10,720,434)	-
Issue of share capital	481,000,000	-	-	481,000,000
Balance as at June 30, 2012 - Unaudited	1,700,000,000	11,389,185	99,943,473	1,811,332,658

The accompanying notes 1 through 14 form an integral part of these financial statements.

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2012**

1. ORGANIZATION AND ACTIVITIES

- Name of the Company : Najran Cement Company ("the Company")
- Legal Entity : A Saudi Joint Stock Company
- Commercial Registration : The Company was registered on Ramadan 5, 1426 (corresponding to October 9, 2005) under Commercial Registration number 5950010479 and Industrial License number 1693/S dated Zul Qada'h 28, 1425 (corresponding to January 9, 2005) granted to Thamarat Najran Company which was amended in favor of Najran Cement Company by Industrial License number 1949 issued on Rajab 2, 1428 (corresponding to August 4, 2007). On Rajab 25, 1432 (corresponding to June 27, 2011), the Company was granted a new Industrial License number 5482.
- Capital : The Company was founded with a share capital of SR 1,150,000,000, divided into 115,000,000 shares of SR 10 per share. On November 21, 2011, the Company's shareholders approved the increase in the Company's authorized share capital to SR 1,700,000,000 and the issuance of 6.9 million bonus shares of SR 10 each, thereby increasing the Company's issued share capital to SR 1,219,000,000, being 121,900,000 shares of SR 10 each. On May 12, 2012, the Company increased its issued share capital to SR 1,700,000,000 by the issue of 48,100,000 shares of SR 10 each following an Initial Public Offering.
- Company's Activities : The principal activities of the Company are manufacturing and marketing of diversified qualities of cement. In addition, the Company is authorized to manufacture and market building materials, and become involved in establishing or participating in establishing industrial service companies to provide maintenance and services for factories as well as management and operations of cement factories, acquisition of land and real estate, patents and commercial trademarks to achieve its purposes.

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements have been prepared in accordance with the Standard of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The significant accounting policies applied by the Company, in preparing these interim financial statements, are consistent with those stated in its annual audited financial statements for the year ended December 31, 2011.

Financial Year and Interim Periods

The financial year of the Company commences on 1 January of each year and ends on 31 December of the same year. Interim reports are prepared for the three months ending on, and the period from the beginning of the year to the end of March, June, September and December.

Adjustments related to the period

The Company's management has made all the required adjustments so that the interim financial statements will present fairly the interim financial position and results of operations for the company. In addition, results presented in these interim financial statements may not represent an accurate indicator for the full year.

Interim financial statements do not include all information and disclosures required for the annual audited financial statements, therefore these interim financial statements should be read in conjunction with the latest annual audited financial statements and its related notes.

Accounting convention

The accompanying interim financial statements have been prepared under the historical cost convention on the accruals basis of accounting in accordance with generally accepted accounting principles in the Kingdom of Saudi Arabia.

Use of estimates

The preparation of the accompanying interim financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that might affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. The significant areas of estimation uncertainty and critical adjustments in applying accounting policies that might have most significant effect on the amounts recognized in the financial statements are as follows:

- estimated useful economic lives & residual values of property, plant & equipment
- estimated useful lives of intangible assets
- provisions

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FOR THE PERIOD ENDED JUNE 30, 2012

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments of less than three months maturity at their acquisition date.

Accounts receivable and amounts due to customers

Accounts receivable are stated in the balance sheet at net realizable value after deducting provision for doubtful debts (if any). The provision is re-estimated based on an analysis of the collectible amounts of the accounts receivable balances at the end of the period.

The Company has a policy of requiring certain customers to pay in advance of receipt of goods. Where advances have been received but goods not delivered as at the period end, this is classified as amounts due to customers and included in current liabilities.

Offsetting

In the normal course of business, the Company both provides cement to certain companies, and receives services from such companies. For purposes of financial statements presentation and based on an understanding between the relevant parties, the receivables and payables balances are offset against each other.

Inventories and work in progress

Inventories and work in progress are stated at the lower of cost or net realizable value. Cost is determined on the weighted average basis. Cost of raw materials, fuel and packing materials, and work in progress and finished goods includes, where applicable, cost of materials, labor and an appropriate proportion of direct overheads. Net realizable value is selling price less costs to sell.

Spare parts for plant and machinery, being of a consumable nature, are included in current assets.

Property, plant and equipment

Property, plant and equipment, except land which is not depreciated, are stated at cost less accumulated depreciation and impairment, if any. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the declining balance method. The estimated annual rates of depreciation of the principal classes of assets are as follows:

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

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2012**

Capital work in progress

Capital work in progress includes all costs incurred to date in connection with major expansion projects, and which have not been reclassified as property, plant and equipment.

Borrowings costs incurred to finance the construction of property, plant and equipment are capitalized as part of the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use.

Impairment of non-current assets

At each reporting date, the Company reviews the carrying amounts of property, plant and equipment, capital work in progress and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount, and the impairment loss is recognized as an expense immediately in the statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

Intangible assets

Intangible assets comprise the Saudi Industrial Development Fund ("SIDF") evaluation fees and feasibility studies. The SIDF evaluation fees are amortized over the period of the loan (8 years) and shown as financial expenses. All the other intangible assets are amortized using the straight line method, over a period of 5 years after completion of the related projects.

Borrowings

Borrowings are recognized based on gross proceeds received. The difference between gross proceeds and redemption value is recognized as finance expenses and reported within 'financial & other expenses' in the statement of income over the period of borrowings. Where the finance cost is paid in advance at the time of loan disbursement, the amount is treated as an intangible asset and amortized over the term of the loan in a manner so as to yield a constant rate on the balance of the loan outstanding. Commission relating to borrowings is reported within 'financial & other expenses' in the statement of income.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Where the Company has a long-term facility agreement operated

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on a Tawarroq mechanism of roll-overs through individual deals, and management intends to roll-over such borrowings, these amounts are classified as long term borrowings.

For statement of cash flow purposes, these roll-over transactions are treated as one transaction.

Accounts payable, accrued expenses and advances to suppliers

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the suppliers or not. Appropriate provisions are made for production related charges in accordance with service contract arrangements.

During the normal course of business, the Company is required to pay in advance for certain goods or services so as to guarantee production and delivery of goods or services. Where advances have been made but goods or services not received as at the period end, this is classified as amounts due from suppliers and included in current assets.

Zakat

The Company is subject to the Regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Provision for zakat is provided for on the accruals basis. Any difference in the estimate is recorded in the period in which the final assessment is approved.

End-of-service indemnities

End-of-service indemnities, as required by Saudi Arabian Labor Law, are provided in the interim financial statements based on the employees' length of service.

Contingent liabilities

Contingent liabilities are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the issued share capital. This reserve is not available for dividend distribution.

Revenue recognition

Revenues are recognized upon delivery of goods to customers and are stated net of trade and quantity discounts.

Cost of revenues

Cost of revenues includes direct costs of production, including costs of materials, contract services, depreciation of production related property, plant and equipment, amortization of production related intangible assets and directly attributable production overheads.

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Expenses

'Selling and marketing expenses' comprise of costs incurred in the distribution and sale of the Company's products including employees' costs and transportation costs. All other operating expenses are classified as 'general and administrative expenses'.

Foreign currency translation

The Company maintains its accounts in Saudi Riyals. Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income as part of general and administrative expenses.

Earnings per share

Earnings per share from operating income, other activities and net income is calculated by dividing operating income, other activities and net income for the relevant period by the weighted average of ordinary shares issued and outstanding during the period. Where a bonus issue of shares has been effected by way of capitalization of reserves and there has been no consideration received, the weighted average number of shares outstanding is re-stated as if the bonus issue had been made from the beginning of the first period presented. Other increases in the number of issued shares are accounted for from the date of issue.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at June 30, 2012 includes SR 500 million invested in a short-term Murabaha investment.

4. INVENTORIES AND WORK IN PROGRESS

Inventories include spare parts for plant and machinery amounting to SR 105,344,463 (2011: SR 82,801,174).

5. PROPERTY, PLANT AND EQUIPMENT

Net book values of property, plant and equipment at June 30 comprise the following:

	2012 <u>SR</u>	2011 <u>SR</u>
Land	2,562,500	2,562,500
Buildings	526,735,117	548,597,059
Plant and quarry machinery and equipment	872,926,773	902,585,295
Vehicles	6,134,104	7,342,596
Furniture, fixtures and office equipment	8,107,623	7,903,690
Computers	5,013,617	1,691,357
	<u>1,421,479,734</u>	<u>1,470,682,497</u>

6. CAPITAL WORK IN PROGRESS

Capital work in progress includes SR 323,770,236 in respect of the third production line and SR 34,403,181 in respect of other projects.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2012

7. LONG-TERM LOANS

	2012 SR	2011 SR
Balance at January 1,	633,500,000	474,920,000
Drawn-down during the period	72,783,152	-
Repaid during the period	(25,000,000)	(40,000,000)
Balance at June 30,	681,283,152	434,920,000
Current portion of long term loan	(85,000,000)	(119,550,000)
Long term portion	596,283,152	315,370,000

Long-term loans are with Saudi Industrial Development Fund and Banque Saudi Fransi.

8. CAPITAL INCREASE AND COSTS OF ISSUANCE

On May 12, 2012, the Company completed an Initial Public Offering whereby the issued share capital of the Company was increased by SR 481 million, and existing shareholders sold shares with a value of SR 369 million. The total issuance was SR 850 million, equal to 50% of the enlarged issued share capital of the Company.

Total costs of the Initial Public Offering was SR 24,421,424, of which SR 3,855,683 was accounted for in the year ended December 31, 2010. Out of the remaining IPO expenses of SR 20,565,741, SR 8,927,951 relates to selling shareholders of which SR 1,268,821 has been recovered, whilst SR 7,659,130 is included under 'prepayments and other receivables'. The remaining IPO expenses of SR 11,637,790 are included in other income/(expenses) for the periods ended June 30, 2012.

9. OTHER INCOME/(EXPENSES)

Other income/(expenses) includes IPO costs (see note 8) as well as the impact of the change in royalty rates for raw materials. The Company was availing lower rates for royalties on raw materials. Ministry of Petroleum and Natural Resources concluded the five years grace period in FY 2010 and that was only known to the Company in 2012, when the payment demand for FY 2011 royalties was received. The impact of SR 10,659,271 has been recorded in the periods ended June 30, 2012.

10. INSURANCE CLAIM

On April 3, 2012, a technical problem occurred in the motor of one of the cement mills in the main plant resulting in the shut-down of the mill. The motor was repaired and brought back into production on July 8, 2012. Documents relating to the incident have been provided to the insurance loss adjuster with regard to recovery of repair costs and a loss of profits insurance claim. At the date of issuance of these interim financial statements, it has not been possible to estimate the amounts that may be recovered under this claim.

11. EARNINGS PER SHARE

The weighted average numbers of shares in issue, taking into account the issue of 6,900,000 bonus shares on November 21, 2011 and the issue of 48,100,000 shares on May 12, 2012, were 135,114,286 (six months ended June 30, 2012), 148,087,778 (three months ended June 30, 2012) and 121,900,000 (three and six months ended June 30, 2011).

**NAJRAN CEMENT COMPANY
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2012**

12. COMMITMENTS

As of June 30, 2012, the Company had commitments in the form of letters of credit amounting to SR 17,640,437 (2011: SR 8,745,276), letters of guarantee amounting to SR nil (2011: SR 52,695) and performance bonds amounting to SR 2,000,000 (2011: SR 500,000).

As of June 30, 2012, the Company had outstanding capital commitments of SR 821,533,376 (US\$ 219,075,567) relating to the construction of a third production line and waste heat recovery project at its plant. The total contract commitment is SR 1,169,205,000 (US\$ 311,788,000), of which SR 347,671,624 (US\$ 92,712,433) had been invoiced or paid in advance as at June 30, 2012.

13. SEGMENT INFORMATION

The Company is administered as one operating segment engaged in the production of cement and related products. The Company carries out its activities solely in the Kingdom of Saudi Arabia.

14. FINANCIAL INSTRUMENTS - FAIR VALUE AND RISK MANAGEMENT

Fair values of financial assets and liabilities:

The carrying book values of financial assets and liabilities are not materially different from their fair values at the balance sheet date.

Currency risk:

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

"Commission rate" risk:

"Commission rate" risk arises from the possibility that changes in market "commission rates" will affect the value of "commission earning assets and commission bearing liabilities". The Company does not believe it is materially exposed to "commission rate" risk, as its only exposure is a Murabaha investment and loans taken from Banque Saudi Fransi where rates can vary but not materially. Other funding, including the SIDF loan, is obtained on fixed commission rate terms.

Liquidity risk:

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately, or by breach of funding covenants. To mitigate this risk, management monitors the maturity profile of its financial assets and liabilities to ensure that adequate liquidity is maintained or made available, as necessary. Accordingly, management does not believe that the Company is materially exposed to liquidity risk.

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
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Credit risk:

The Company's credit risk is primarily attributable to its liquid funds and receivables. Cash and investment balances are deposited with major banks with good credit standings. Whilst a small number of customers account for a significant proportion of both revenues and accounts receivable balances, these customers have all provided appropriate guarantees ensuring that their debt will be recoverable. All major customers are high profile customers within the Kingdom of Saudi Arabia and there is no reason to suggest that there will be a loss of custom from these sources. The amounts presented in the balance sheet are stated at net realizable value, estimated by the Company's management based on experience. Accordingly, the management does not believe that the Company is materially exposed to credit risk.

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