

Yanbu Cement Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
31 March 2011

**REVIEW REPORT TO THE SHAREHOLDERS OF
YANBU CEMENT COMPANY (A Saudi Joint Stock Company)
ON THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**

Scope of Review

We have reviewed the consolidated interim balance sheet of YANBU CEMENT COMPANY (a Saudi Joint Stock Company) and its subsidiary as at 31 March 2011 and the related consolidated interim statements of income, cash flows and changes in shareholders' equity for the period from 1 January 2011 to 31 March 2011, which have been prepared by the company's management and submitted 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 review is limited principally to analytical procedures applied to financial data and inquiries of Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

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

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Registration No. 356

7 Jamadi Alawal 1432H
11 April 2011

Jeddah

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)**

As at 31 March 2011

| | <i>Note</i> | 2011 SR | 2010 SR |
|--|-------------|----------------------|----------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and bank balances | | 536,629,645 | 111,886,174 |
| Investments in trading Fund | | 17,087 | - |
| Accounts receivable and other assets | | 183,734,159 | 161,505,148 |
| Inventories | | 346,123,493 | 281,538,692 |
| TOTAL CURRENT ASSETS | | 1,066,504,384 | 554,930,014 |
| NON-CURRENT ASSETS | | | |
| Property and equipment | 4 | 3,371,970,610 | 2,552,676,299 |
| Deferred charges | | - | 111,041 |
| TOTAL NON-CURRENT ASSETS | | 3,371,970,610 | 2,552,787,340 |
| TOTAL ASSETS | | 4,438,474,994 | 3,107,717,354 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Bank facilities - current portion | | 242,168,787 | 3,926,085 |
| Bank overdraft | | 12,366,478 | 1,699,283 |
| Trade Accounts payable | | 193,963,322 | 106,484,824 |
| Dividends payable | | 172,667,279 | 64,684,047 |
| Zakat provision | | 14,183,077 | 13,718,905 |
| Accrued expenses and other liabilities | | 118,081,397 | 113,792,122 |
| TOTAL CURRENT LIABILITIES | | 753,430,340 | 304,305,266 |
| NON-CURRENT LIABILITIES | | | |
| Bank facilities | | 1,189,211,022 | 518,986,428 |
| End of service benefits provision | | 53,670,423 | 43,292,797 |
| TOTAL NON-CURRENT LIABILITIES | | 1,242,881,445 | 562,279,225 |
| TOTAL LIABILITIES | | 1,996,311,785 | 866,584,491 |
| SHAREHOLDERS' EQUITY | | | |
| Authorized and fully paid capital | | 1,050,000,000 | 1,050,000,000 |
| Statutory reserve | | 525,000,000 | 525,000,000 |
| Expansionary reserve | 1 | 741,879,357 | 523,715,604 |
| Retained earnings | | 101,097,210 | 123,179,468 |
| TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS IN PARENT COMPANY | | 2,417,976,567 | 2,221,895,072 |
| Minority interest | | 24,186,642 | 19,237,791 |
| TOTAL SHAREHOLDERS' EQUITY | | 2,442,163,209 | 2,241,132,863 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 4,438,474,994 | 3,107,717,354 |

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary**INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**

For the period ended 31 March 2011

| | <u>For the three month period ended 31 March</u> | |
|---|---|--------------------|
| | 2011 | 2010 |
| | SR | SR |
| <i>Note</i> | | |
| Net sales | 229,047,936 | 239,533,790 |
| Cost of sales | (118,197,201) | (111,880,979) |
| GROSS PROFIT | 110,850,735 | 127,652,811 |
| Selling and distribution expenses | (2,889,438) | (2,430,955) |
| General and administrative expenses | (4,436,915) | (3,423,781) |
| NET INCOME FROM MAIN OPERATIONS | 103,524,382 | 121,798,075 |
| Financial charges | (75,108) | (32,549) |
| Other income | 828,325 | 4,730,543 |
| NET INCOME BEFORE ZAKAT AND MINORITY INTEREST | 104,277,599 | 126,496,069 |
| Zakat | (2,128,939) | (2,450,000) |
| NET INCOME BEFORE MINORITY INTEREST | 102,148,660 | 124,046,069 |
| Minority interest | (1,051,450) | (866,601) |
| NET INCOME | <u>101,097,210</u> | <u>123,179,468</u> |
| EARNING PER SHARE FROM NET INCOME FROM MAIN OPERATIONS | <u>0.99</u> | <u>1.16</u> |
| | 3 | |
| EARNING PER SHARE FROM NET INCOME | <u>0.96</u> | <u>1.17</u> |

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

As at 31 March 2011

| | <i>2011</i> <i>SR</i> | <i>2010</i> <i>SR</i> |
|---|--------------------------|--------------------------|
| OPERATING ACTIVITIES | | |
| Net income before zakat and minority interest | 104,277,599 | 125,629,468 |
| Adjustments for: | | |
| Depreciation | 26,575,436 | 25,141,666 |
| Amortization | - | 55,530 |
| Gain on disposal of property and equipment | (6,900) | (3,800) |
| End of service benefits, net | 5,051,408 | 2,638,840 |
| | <u>135,894,843</u> | <u>154,328,305</u> |
| Change in operating assets and liabilities: | | |
| Accounts receivable and other assets | (13,892,956) | (17,080,523) |
| Inventories | (27,265,438) | 5,506,047 |
| Trade accounts payable | (12,314,908) | 64,216,003 |
| Accrued expenses and other liabilities | (26,381,793) | (3,125,098) |
| Zakat paid | (363,158) | (264,358) |
| | <u>55,679,290</u> | <u>203,580,376</u> |
| Net cash from operating activities | | |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (114,979,261) | (473,418,924) |
| Proceeds on sale and disposal of property and equipment | 6,900 | 3,800 |
| | <u>(114,972,361)</u> | <u>(473,415,124)</u> |
| Net cash used in investing activities | | |
| FINANCING ACTIVITIES | | |
| Bank facilities received | 380,735,230 | 400,986,428 |
| Bank facilities settled | (20,388,254) | (1,164,879) |
| Bank overdraft | 11,346,620 | (3,003,056) |
| Dividends paid to shareholders | (93,594,363) | (307,613,723) |
| Board of directors' fees | (2,200,000) | (2,200,000) |
| | <u>275,899,233</u> | <u>87,004,770</u> |
| Net cash from financing activities | | |
| INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>216,606,162</u> | <u>(182,829,978)</u> |
| Cash and Cash equivalents - beginning of the period | 320,040,570 | 294,716,152 |
| | <u>536,646,732</u> | <u>111,886,174</u> |
| CASH AND CASH EQUIVALENTS - END OF THE PERIOD | | |
| SUPPLEMENTAL NONCASH INFORMATION | | |
| Retained earnings transferred to expansionary provision | 218,163,753 | 164,861,054 |

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS'****EQUITY (UNAUDITED)**

As at 31 March 2011

| | | 2011 | 2010 |
|--|-------------|----------------------|----------------------|
| | | SR | SR |
| | <i>Note</i> | | |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT COMPANY | | | |
| AUTHORIZED AND FULLY PAID CAPITAL | | 1,050,000,000 | 1,050,000,000 |
| STATUTORY RESERVE | | 525,000,000 | 525,000,000 |
| EXPANSIONARY RESERVE | | | |
| Balance at the beginning of the period | | 523,715,604 | 358,854,550 |
| Transferred from retained earnings | 1 | 218,163,753 | 164,861,054 |
| Balance at the end of the period | | 741,879,357 | 523,715,604 |
| RETAINED EARNINGS | | | |
| Balance at the beginning of the period | | 430,363,753 | 482,061,054 |
| Net income for the period | | 101,097,210 | 123,179,468 |
| Dividends | | (210,000,000) | (315,000,000) |
| Transferred to expansionary reserve | 1 | (218,163,753) | (164,861,054) |
| Board of directors fees | | (2,200,000) | (2,200,000) |
| Balance at the end of the period | | 101,097,210 | 123,179,468 |
| TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT COMPANY | | 2,417,976,567 | 2,221,895,072 |
| MINORIY INTERESTS | | | |
| Balance at the beginning of the period | | 23,135,192 | 18,371,190 |
| Minority share of net income for the period | | 1,051,450 | 866,601 |
| Balance at the end of the period | | 24,186,642 | 19,237,791 |
| TOTAL PARTNERS' EQUITY | | 2,442,163,209 | 2,241,132,863 |

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at 31 March 2011

1 ACTIVITIES

Yanbu Cement Company (a Saudi Joint Stock Company) ("The Company" and "Parent Company") incorporated per Royal Decree No. M/10 of 24/3/1397H based on the Council of Ministers Resolution No. 1074 of 10/8/1394H, is registered in Yanbu City under Commercial Registration No. 4700233 of 21/11/1398H pursuant to Ministry of Industry and Electricity Resolution No. 67/S of 17/3/1396H.

As of 9 March 2011, the board of directors agreed in their general meeting to transfer the remaining balance of the retained earnings for the year ended 31 December 2010, after dividend distribution and board of directors' fees, to expansionary reserve.

The Company is engaged in the manufacturing of ordinary Portland cement, resistant cement and pozolanic cement.

The interim consolidated financial statements comprise the accounts of the parent company, Yanbu Cement Company its two branches and subsidiary as detailed below:

| Company's Name | Country of Incorporation | Shareholding |
|---|---------------------------------|---------------------|
| Yanbu Saudi Kuwaiti Paper Products Company Ltd. | Kingdom of Saudi Arabia | 60% |

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements are prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and in accordance with Saudi Organization for Certified Public Accountants standard on interim financial information. The Company's significant accounting policies followed in preparing these interim condensed consolidated financial statements are consistent with the policies stated in the financial statements for the year ended 31 December 2011.

Interim condensed consolidated financial reports do not include all the information and disclosures required for the audited financial statements which are prepared according to the Saudi Organization for Certified Public Accountants. In addition, results presented in these interim condensed consolidated financial reports may not represent an accurate indicator for results for the year ending 31 December 2011.

Basis of consolidation

The interim condensed consolidated financial statements comprise the interim consolidated financial statements of the parent company and its subsidiary, as explained in Note (1) above. All inter-company transactions and balances are eliminated when consolidating.

Accounting convention

The interim condensed consolidated financial statements are prepared under the historical cost convention, except investments in mutual funds which are measured at fair value.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at 31 March 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimate

The preparation of interim condensed consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the condensed consolidated financial statements period.

Revenue recognition

Revenue is recognized, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably normally on delivery to the customer net of trade and quantity discounts.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Inventories

Raw material inventories, work-in-progress and spare parts are stated at the lower of cost or net realizable value. Cost of raw materials and spare parts is determined using the moving average method. The cost of work-in-progress includes direct materials, direct labor and any related overheads. Slow moving and obsolete spare parts are provided for and stated at net book value.

Property and equipment

Freehold land is not depreciated. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets – effective from its date of purchase or construction. Paper products factory buildings and paper products factory plant and equipment relating to the subsidiary are depreciated using the units of production method.

The carrying values of property 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 values exceed 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.

Expenditures for repairs and maintenance are charged to statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

Deferred charges

Deferred charges are amortized over the estimated useful life of 5 years.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at 31 March 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat

In accordance to Zakat financial accounting standard, Zakat provision for individual fiscal periods is measured and recognized in accordance with Saudi Arabian Zakat rules and regulations on accrual basis. Zakat for the period was accounted for on estimate basis. The liability is charged to the condensed consolidated statement of income in an independent item. Zakat is accounted for on accurate basis when issuing the audited financial statement for the year ending 31 December 2011.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

End of service benefits

Provision is made for amounts payable under the Saudi Arabian Labour Law applicable to employees' accumulated periods of service at the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash in hand, time deposits and investments in mutual funds readily convertible to cash and has a maturity of 3 months or less as at the purchase date.

Selling, distribution, general and administration expenses

Selling and distribution expenses are those that specifically relate to salesmen, warehousing and other overheads. All other expenses are classified as general and administration expenses.

Borrowing costs

Borrowing costs that are directly attributable to the construction of an asset are capitalised up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the condensed consolidated statement of income.

Translation of foreign currencies

The accompanying interim financial statements are expressed in Saudi Riyals. Appropriate exchange rates are used to translate transactions or balances denominated in foreign currencies. The resulting gains or losses are included in the statement of income.

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists any impairment loss is recognized in the statement of income. Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the condensed consolidated statement of income.
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- c) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at 31 March 2011

3 EARNING PER SHARE

Earnings per share from net income from operations are calculated by dividing the net income from operations for the period by the weighted average number of shares amounting to 105,000,000 shares during that period.

Earnings per share from net profit are calculated by dividing net profit for the period by the weighted average number of shares during the period amounting to 105,000,000.

4 PROPERTY AND EQUIPMENT

Included in property and equipment an amount of SR 2,039,228,014 representing what was expended on construction of production line number five which is still under construction. Also, an amount of SR 22,261,052 is included in property and equipment representing what was expended on construction of new production line number two relating to the subsidiary which is still under constructing.

5 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The company's financial assets consist of cash and cash equivalent, accounts receivables and other assets, its financial liabilities consist of bank facilities, trade accounts payables and other liabilities.

The fair values of financial instruments are not materially different from their carrying values.

6 RISK MANAGEMENT

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of the financial instruments. The Company is subject to interest rate risk on its interest bearing assets and liabilities mainly bank overdraft and bank facilities. The management limits the company's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing liabilities are denominated.

Liquidity risk

Liquidity risk is the risk that an enterprise 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 Company's financial liabilities consist of bank facilities, trade accounts payables, dividends payable and accrued expenses and other liabilities. All the financial liabilities are expected to be settled within 12 months of the balance sheet date and the Company expects to have adequate funds available to do so.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables and obtaining letters of guarantee and letters of credit from some customers' as a guarantee.

With respect to credit risks arising from the other financial assets of the Company, including cash and cash equivalents and other assets the company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at 31 March 2011

6 RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the period, and therefore it was not exposed to significant currency risk.

7 KEY SOURCE OF ESTIMATION UNCERTAINTY

Impairment of trade accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a allowance applied according to the inventory type and the degree of ageing or obsolescence, based on expected selling prices.