

**QASSIM CEMENT COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

## AUDITORS' REPORT

To the shareholders  
Qassim Cement Company  
Saudi Joint Stock Company  
Buraydah, Saudi Arabia

### Scope of Audit

We have audited the accompanying consolidated balance sheet of Qassim Cement Company (a Saudi Joint Stock company) and its subsidiary (referred collectively as "the Group") as of December 31, 2014, and the related consolidated statements of income, cash flows and changes in equity for the year then ended, and the notes 1 to 27 which form an integral part of these consolidated financial statements as prepared by the Group in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified Opinion

In our opinion, the consolidated financial statements, taken as a whole, present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Group, and comply with the relevant provisions of the Regulations for Companies and the articles of association of the Group as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.



Ehsan A. Makhdom  
License No. 358

Rabi Al Thani 15, 1436  
February 4, 2015

**QASSIM CEMENT COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

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## **AUDITORS' REPORT**

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Qassim Cement Company  
Saudi Joint Stock Company  
Buraydah, Saudi Arabia

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Deloitte & Touche  
Bakr Abulkhair & Co.

Ehsan A. Makhdoum  
License No. 358

Rabi Al Thani 15, 1436  
February 4, 2015

**QASSIM CEMENT COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2014**

|  | Notes | 2014<br>SR           | 2013<br>SR           |
|--|-------|----------------------|----------------------|
| <b>ASSETS</b>                                  |       |                      |                      |
| <b>Current assets</b>                          |       |                      |                      |
| Cash and cash equivalents                      | 3     | 25,822,341           | 172,396,481          |
| Cash restricted for accrued dividends          | 4     | 40,072,539           | 45,398,297           |
| Trade receivables, net                         | 5     | 45,651,891           | 34,396,570           |
| Investment in trading securities               | 6     | 798,690,723          | 626,609,541          |
| Inventory , net                                | 7     | 230,213,023          | 211,404,616          |
| Prepaid expenses and other debit balances, net | 8     | 8,073,964            | 7,902,076            |
| <b>Total current assets</b>                    |       | <b>1,148,524,481</b> | <b>1,098,107,581</b> |
| <b>Non-current assets</b>                      |       |                      |                      |
| Property, plant and equipment, net             | 9     | 986,109,386          | 1,052,177,659        |
| Projects in progress                           | 10    | 25,044,682           | 17,058,716           |
| Deferred charges, net                          | 11    | 23,153,682           | 25,927,298           |
| <b>Total non-current assets</b>                |       | <b>1,034,307,750</b> | <b>1,095,163,673</b> |
| <b>TOTAL ASSETS</b>                            |       | <b>2,182,832,231</b> | <b>2,193,271,254</b> |
| <b>LIABILITIES AND EQUITY</b>                  |       |                      |                      |
| <b>Current liabilities</b>                     |       |                      |                      |
| Trade payables                                 |       | 12,005,267           | 13,369,416           |
| Accrued expenses and other liabilities         | 12    | 77,712,010           | 75,152,236           |
| Accrued dividends                              | 21    | 53,802,074           | 45,398,297           |
| Zakat  | 13    | 35,062,530           | 35,254,860           |
| <b>Total current liabilities</b>               |       | <b>178,581,881</b>   | <b>169,174,809</b>   |
| <b>Non-current liabilities</b>                 |       |                      |                      |
| End-of-service indemnities                     | 14    | 30,296,307           | 28,258,294           |
| <b>Total non-current liabilities</b>           |       | <b>30,296,307</b>    | <b>28,258,294</b>    |
| <b>Total liabilities</b>                       |       | <b>208,878,188</b>   | <b>197,433,103</b>   |
| <b>Equity</b>                                  |       |                      |                      |
| <b>Shareholders' equity</b>                    |       |                      |                      |
| Paid-up share capital                          | 1     | 900,000,000          | 900,000,000          |
| Statutory reserve                              | 15    | 361,504,487          | 305,143,488          |
| General reserve                                | 16    | 226,016,157          | 226,016,157          |
| Retained earnings                              |       | 486,433,399          | 565,984,408          |
| <b>Total shareholders' equity</b>              |       | <b>1,973,954,043</b> | <b>1,997,144,053</b> |
| Non-controlling interests                      | 1     | -                    | (1,305,902)          |
| <b>Total equity</b>                            |       | <b>1,973,954,043</b> | <b>1,995,838,151</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>            |       | <b>2,182,832,231</b> | <b>2,193,271,254</b> |

CEO and Board Member  
Eng. Omar Bin Abdulla Al-Omar

Finance Manager  
Mohammad Saleh Ali Darwish

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



**QASSIM CEMENT COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

|  | Notes | 2014<br>SR         | 2013<br>SR         |
|--|-------|--------------------|--------------------|
| Sales  |       | 985,688,231        | 1,050,609,459      |
| Cost of sales  |       | (370,340,975)      | (406,582,014)      |
| <b>Gross profit</b>                                      |       | <b>615,347,256</b> | <b>644,027,445</b> |
| Selling and marketing expenses                           | 17    | (10,539,844)       | (10,323,740)       |
| General and administrative expenses                      | 18    | (29,282,216)       | (27,429,952)       |
| <b>Income from continuing main operations</b>            |       | <b>575,525,196</b> | <b>606,273,753</b> |
| Other income, net  | 19    | 11,042,894         | 3,650,121          |
| Unrealized gains from trading securities                 | 6     | 12,106,134         | 10,736,813         |
| <b>Income before zakat and non-controlling interests</b> |       | <b>598,674,224</b> | <b>620,660,687</b> |
| Non-controlling interests                                |       | -                  | (9,153)            |
| <b>Income before zakat</b>                               |       | <b>598,674,224</b> | <b>620,651,534</b> |
| Zakat  | 13    | (35,064,234)       | (35,646,388)       |
| <b>NET INCOME</b>  |       | <b>563,609,990</b> | <b>585,005,146</b> |
| <b>Basic earnings per share:</b>                         | 20    |                    |                    |
| From income from continuing main operations              |       | 6.39               | 6.74               |
| From net income  |       | 6.26               | 6.50               |

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**QASSIM CEMENT COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | 2014<br>SR           | 2013<br>SR           |
|---|----------------------|----------------------|
| <b>OPERATING ACTIVITIES</b>   |                      |                      |
| Income before zakat   | 598,674,224          | 620,651,534          |
| Adjustments for:  |                      |                      |
| Depreciation  | 83,544,998           | 86,384,864           |
| End-of-service indemnities  | 6,266,648            | 4,892,268            |
| Unrealized gains from trading securities                                      | (12,106,134)         | (10,736,813)         |
| Amortization of deferred charges  | 2,773,616            | 3,166,159            |
| Losses from sale of property, plant and equipment                             | 79,612               | 7                    |
| Provision for other debit balances, net                                       | (1,954,250)          | 1,821,662            |
| Provision for obsolete and slow moving items, net                             | (7,540)              | 421,779              |
| Change in non-controlling interests   | 1,305,902            | 9,153                |
| Changes in operating assets and liabilities:                                  |                      |                      |
| Trade receivables   | (11,255,321)         | 4,208,153            |
| Inventory   | (18,800,867)         | (846,873)            |
| Prepaid expenses and other debit balances, net                                | 1,782,362            | 1,653,254            |
| Trade payables  | (1,364,149)          | (3,315,742)          |
| Accrued expenses and other liabilities  | 2,559,774            | 8,491,790            |
| End-of-service indemnities paid   | (4,228,635)          | (2,763,107)          |
| Zakat paid  | (35,256,564)         | (31,987,292)         |
| <b>Net cash from operating activities</b>                                     | <b>612,013,676</b>   | <b>682,050,796</b>   |
| <b>INVESTING ACTIVITIES</b>   |                      |                      |
| Additions of deferred charges   | -                    | (163,000)            |
| Additions to property, plant, equipment and projects in progress              | (25,741,803)         | (29,955,594)         |
| Investment in trading securities  | (159,975,048)        | (105,315,943)        |
| Proceeds from sale of property, plant and equipment                           | 199,500              | -                    |
| Term Murabaha   | -                    | 199,085,000          |
| <b>Net cash (used in) from investing activities</b>                           | <b>(185,517,351)</b> | <b>63,650,463</b>    |
| <b>FINANCING ACTIVITIES</b>   |                      |                      |
| Board of Directors members' remuneration                                      | (1,800,000)          | (1,600,000)          |
| Dividends   | (571,270,465)        | (603,548,177)        |
| <b>Net cash used in financing activities</b>                                  | <b>(573,070,465)</b> | <b>(605,148,177)</b> |
| <b>Net change in cash and cash equivalents</b>                                | <b>(146,574,140)</b> | <b>140,553,082</b>   |
| Cash and cash equivalents, January 1  | 172,396,481          | 31,843,399           |
| <b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>                                 | <b>25,822,341</b>    | <b>172,396,481</b>   |
| <b>Non-cash transactions:</b>   |                      |                      |
| Transfer from projects in progress to property, plant and equipment (Note 10) | 9,918,124            | 9,296,350            |
| Restricted cash for accrued dividends (Note 4)                                | 5,325,758            | 45,398,297           |
| Transferred from general reserve to retained earnings (Note 16)               | -                    | 150,000,000          |

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Finance Manager  
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**QASSIM CEMENT COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

| Notes   | Paid-up<br>share<br>capital<br>SR | Statutory<br>reserve<br>SR | General<br>reserve<br>SR | Retained<br>earnings<br>SR | Total<br>shareholders' equity<br>SR | Non-controlling<br>interests<br>SR | Total<br>equity<br>SR |
|---|-----------------------------------|----------------------------|--------------------------|----------------------------|-------------------------------------|------------------------------------|-----------------------|
| Balance at January 1, 2013                            | 900,000,000                       | 246,642,973                | 376,016,157              | 453,579,777                | 1,976,238,907                       | (1,315,055)                        | 1,974,923,852         |
| Net income for the year                               | -                                 | -                          | -                        | 585,005,146                | 585,005,146                         | -                                  | 585,005,146           |
| Statutory reserve                                     | 15                                | 58,500,515                 | -                        | (58,500,515)               | -                                   | -                                  | -                     |
| Transferred from general reserve to retained earnings | 16                                | -                          | (150,000,000)            | 150,000,000                | -                                   | -                                  | -                     |
| Dividends   | 22                                | -                          | -                        | (562,500,000)              | (562,500,000)                       | -                                  | (562,500,000)         |
| Board of Directors members' remuneration              | -                                 | -                          | -                        | (1,600,000)                | (1,600,000)                         | -                                  | (1,600,000)           |
| Change in non-controlling interest                    | -                                 | -                          | -                        | -                          | -                                   | 9,153                              | 9,153                 |
| Balance at December 31, 2013                          | 900,000,000                       | 305,143,488                | 226,016,157              | 565,984,408                | 1,997,144,053                       | (1,305,902)                        | 1,995,838,151         |
| Balance at January 1, 2014                            | 900,000,000                       | 305,143,488                | 226,016,157              | 565,984,408                | 1,997,144,053                       | (1,305,902)                        | 1,995,838,151         |
| Net income for the year                               | -                                 | -                          | -                        | 563,609,990                | 563,609,990                         | -                                  | 563,609,990           |
| Statutory reserve                                     | 15                                | 56,360,999                 | -                        | (56,360,999)               | -                                   | -                                  | -                     |
| Dividends   | 22                                | -                          | -                        | (585,000,000)              | (585,000,000)                       | -                                  | (585,000,000)         |
| Board of Directors' members remuneration              | -                                 | -                          | -                        | (1,800,000)                | (1,800,000)                         | -                                  | (1,800,000)           |
| Change in non-controlling interest                    | 1                                 | -                          | -                        | -                          | -                                   | 1,305,902                          | 1,305,902             |
| Balance at December 31, 2014                          | 900,000,000                       | 361,504,487                | 226,016,157              | 486,433,399                | 1,973,954,043                       | -                                  | 1,973,954,043         |

CEO and Board Member  
Eng. Omar Bin Abdulla Al-Omar

Finance Manager  
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**QASSIM CEMENT COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**1. ORGANIZATION AND ACTIVITIES**

Qassim Cement Company ("the Company") is a Saudi Joint Stock company, registered in Buraydah City under the commercial registration number 1131001224 on 28 Sha'aban, 1398 H (corresponding to August 2, 1978) and established in accordance with the Royal Decree No. M/62 on 15 Sha'aban, 1396H (corresponding to August 11, 1976).

The Company's principal activities are manufacturing, producing cement and other related cement products, trading in those products and all other directly or indirectly related activities. The Company operates through its factory located in Buraydah – Al Qassim.

The Company's share capital amounting to SR 900 million, is divided into 90 million shares of SR 10 each.

These accompanying consolidated financial statements include the Company operations and its subsidiary Cement Industries Company Ltd. (a limited liability company) (the subsidiary) registered as per commercial registration No. 1131024146 issued in Buraidah on Rajab 22, 1428 H (corresponding to August 6, 2007). The main operations of the subsidiary are the production, wholesale and retail trade in ready-mix concrete, gravel, blake, court and cement products. The subsidiary operates in Buraydah and Hail.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with accounting standards issued by Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted in the preparation of these consolidated financial statements that are set out below, are consistent with those used in the audited consolidated financial statements for the year ended December 31, 2013. The following is a summary of significant accounting policies applied by the Company:

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of Qassim Cement Company and its subsidiary, over which the Company has control or it owns more than 50 % of its equity. For the purpose of preparing these consolidated financial statements, all major intercompany transactions and balances between the Company and its subsidiary are eliminated and settled. These consolidated financial statements as of December 31, 2014 include the subsidiary's accounts, as follows:

| Company Name                   | Country                 | Legal Structure           | Ownership percentage % |      |
|--------------------------------|-------------------------|---------------------------|------------------------|------|
|                                |                         |                           | 2014                   | 2013 |
| Cement Industries Company Ltd. | Kingdom of Saudi Arabia | Limited Liability Company | 99.99*                 | 99   |

\* On Rajab 6, 1435 H (corresponding to June 4, 2014) the Board of directors resolved to purchase four hundred ninety nine shares from the shares of Eng. Abdullah bin Abdulatif Al-Seif in Cement Industries Company at their nominal value. It also directed to settle the value to Eng. Abdullah bin Abdulatif Al-Seif and completed the regulatory procedures related to the transfer of ownership during 2014

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting convention**

The consolidated financial statements have been prepared on the historical cost basis and the accrual basis of accounting except for investments in trading securities that are measured at fair value.

**Management estimates**

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

**Cash and cash equivalent**

Cash and cash equivalent include cash on hand, cash at banks and short term murabaha with maturity of three months or less from acquisition date and which are available with no restriction.

**Sales**

Sales represent the value of goods for which invoices were issued and goods were delivered to customers and are recognized upon delivery to customers and stated net of discounts. Other revenues are recognized when earned.

**Expenses**

Selling and marketing expenses mainly comprise of costs incurred in the marketing and sale of the Company's products. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not directly linked to costs of sales as required under generally accepted accounting standards in the Kingdom of Saudi Arabia. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

**Trade receivables**

Trade receivables are stated at original amount of the invoice less provision for any uncollectible amounts. An assessment is made for doubtful debts and in case of uncollectibility of the full amount, the receivables are written off.

**Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined, on a weighted average basis and includes cost of acquisition and other direct expenses making inventories in their current state. Net realizable value is the actual or estimated selling price in the ordinary course of business, less the estimated costs of completion and other necessary expenses expected to be incurred to sell the inventory. Inventory is shown net of provision for slow moving and obsolete inventory.

**QASSIM CEMENT COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property, plant and equipment**

Property, plant, and equipment are measured at cost less accumulated depreciation. Depreciation is charged over the estimated useful lives on a straight-line basis. The estimated useful lives of the principal classes of assets are as follows:

|  | <i>Years</i> |
|--|--------------|
| Buildings                                | 10 – 33      |
| Machinery and equipment                  | 8 – 20       |
| Furniture, fixtures and office equipment | 3 – 10       |
| Motor vehicles                           | 4 – 8        |
| Tools                                    | 10 – 13      |

Maintenance and repairs are expensed, while improvement outlays are capitalized.

**Deferred charges**

Deferred charges are recognized when it has future economic benefits. Deferred charges are amortized using straight-line method over the estimated useful life.

**Impairment of assets**

The Company regularly reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment loss. If such indication exists, the recoverable amount of assets is estimated in order to determine the extent of the impairment loss. When 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 or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately in the consolidated statement of income.

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments in trading securities**

Trading securities are stated at fair value as at the consolidated balance sheet date, realized and unrealized gains and losses are included in the consolidated statement of income.

**Trade payables and accrued expenses**

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

**Provisions**

Provisions are recognized in the consolidated financial statements when the Company has a present obligation (legal or contractual) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reasonably estimated. Provisions are recognized based on the present value of the estimated outflows required to settle the obligations.

**End-of-service indemnities**

Employees' end of service indemnities are calculated in the consolidated financial statements in compliance with Saudi Arabia labour regulations on the basis of period spent in the service of the Company as of the consolidated balance sheet date.

**Zakat**

The Company and its subsidiary are subject to Zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is calculated on accrual basis. The Zakat provision is accrued based on the higher of zakat base or adjusted net income and charged to the consolidated statement of income. Any differences between the provision and the final assessment are recorded when the final assessment is approved, at which time the provision is cleared.

**Foreign currency translation**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Financial assets and liabilities denominated in foreign currencies at the consolidated balance sheet 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 consolidated statement of income.



**QASSIM CEMENT COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

**3. CASH AND CASH EQUIVALENTS**

|                        | 2014<br>SR        | 2013<br>SR         |
|------------------------|-------------------|--------------------|
| Cash on hand           | 435,890           | 38,400             |
| Banks current accounts | 25,386,451        | 21,758,081         |
| Short-term murabaha    | -                 | 150,600,000        |
|                        | <u>25,822,341</u> | <u>172,396,481</u> |

**4. CASH RESTRICTED FOR ACCRUED DIVIDENDS**

Cash restricted for accrued dividends represents the complete amount accrued for shareholders up to the first half of 2013. The Company has restricted those amounts for shareholders in separate accounts at a local bank. Furthermore, the Company does not have the right to withdraw those bank deposits or earn any benefits in return.

**5. TRADE RECEIVABLES**

|                              | 2014<br>SR        | 2013<br>SR        |
|------------------------------|-------------------|-------------------|
| Customers                    | 45,971,891        | 34,716,570        |
| Provision for doubtful debts | (320,000)         | (320,000)         |
|                              | <u>45,651,891</u> | <u>34,396,570</u> |

**6. INVESTMENT IN TRADING SECURITIES**

Investment in trading securities represents investment in the funds of trading commodities at local banks, which are stated at fair value. The following is the movement of the investments during the year:

|  | 2014<br>SR         | 2013<br>SR         |
|--|--------------------|--------------------|
| Fair value as at the beginning of the year     | 626,609,541        | 510,556,785        |
| Additions to investments during the year (net) | 159,975,048        | 105,315,943        |
|  | <u>786,584,589</u> | <u>615,872,728</u> |
| Unrealized gains                               | 12,106,134         | 10,736,813         |
| Fair value as at the end of the year           | <u>798,690,723</u> | <u>626,609,541</u> |

**QASSIM CEMENT COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

**7. INVENTORY**

|  | 2014<br>SR         | 2013<br>SR         |
|--|--------------------|--------------------|
| Spare parts                                  | 143,725,607        | 147,808,730        |
| Raw materials                                | 29,055,789         | 27,039,746         |
| Work in process                              | 63,486,790         | 39,261,590         |
| Finished goods                               | 5,257,856          | 6,956,241          |
| Packing and wrapping material                | 2,575,327          | 3,026,916          |
| Consumables and accessories                  | 3,293,747          | 3,695,673          |
| Goods in transit                             | 1,111,746          | 1,917,099          |
|  | 248,506,862        | 229,705,995        |
| Provision for obsolete and slow moving items | (18,293,839)       | (18,301,379)       |
|  | <u>230,213,023</u> | <u>211,404,616</u> |

The movement of provision for obsolete and slow moving items as of December 31, is as follows:

|                                      | 2014<br>SR        | 2013<br>SR        |
|--------------------------------------|-------------------|-------------------|
| Balance at the beginning of the year | 18,301,379        | 17,879,600        |
| Provision during the year            | 535,302           | 2,500,000         |
| Disposals                            | (542,842)         | (2,078,221)       |
| Balance at the end of the year       | <u>18,293,839</u> | <u>18,301,379</u> |

**8. PREPAID EXPENSES AND OTHER DEBIT BALANCES, NET**

|                                    | 2014<br>SR       | 2013<br>SR       |
|------------------------------------|------------------|------------------|
| Advances to suppliers              | 516,303          | 1,231,642        |
| Prepaid expenses                   | 5,180,586        | 3,597,580        |
| Refundable custom deposits         | 803,441          | 3,333,681        |
| Employees receivable               | 1,366,217        | 1,397,456        |
| Accrued revenues                   | -                | 235,867          |
| Other debit balances               | 944,695          | 797,378          |
|                                    | 8,811,242        | 10,593,604       |
| Provision for other debit balances | (737,278)        | (2,691,528)      |
|                                    | <u>8,073,964</u> | <u>7,902,076</u> |

**QASSIM CEMENT COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**8. PREPAID EXPENSES AND OTHER DEBIT BALANCES, NET (Continued)**

The movement of provision for other debit balances as of December 31 is as follows:

|                                      | <b>2014</b>        | <b>2013</b> |
|--------------------------------------|--------------------|-------------|
|                                      | <b>SR</b>          | <b>SR</b>   |
| Balance at the beginning of the year | <b>2,691,528</b>   | 869,866     |
| Provision for the year               | <b>250,000</b>     | 2,000,000   |
| Write off of debts                   | <b>(2,204,250)</b> | (178,338)   |
| Balance at the end of the year       | <b>737,278</b>     | 2,691,528   |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

**9. PROPERTY, PLANT AND EQUIPMENT**

|                                       | Land<br>SR        | Buildings<br>SR    | Machinery and<br>equipment<br>SR | Motor<br>vehicles<br>SR | Furniture<br>and fixtures<br>SR | Tools<br>SR      | Total<br>SR          |
|---------------------------------------|-------------------|--------------------|----------------------------------|-------------------------|---------------------------------|------------------|----------------------|
| <b>Cost</b>                           |                   |                    |                                  |                         |                                 |                  |                      |
| Balance at the beginning of the year  | 20,024,200        | 711,027,002        | 1,488,981,177                    | 66,078,499              | 23,803,204                      | 8,064,457        | 2,317,978,539        |
| Additions                             | -                 | 375,014            | 5,385,649                        | 310,000                 | 827,920                         | 939,130          | 7,837,713            |
| Disposals                             | -                 | -                  | (1,835,000)                      | (736,325)               | (1,130,762)                     | (27,724)         | (3,729,811)          |
| Transfer from projects in progress    | -                 | 4,723,049          | 3,529,054                        | -                       | 1,666,021                       | -                | 9,918,124            |
| <b>Balance at the end of the year</b> | <b>20,024,200</b> | <b>716,125,065</b> | <b>1,496,060,880</b>             | <b>65,652,174</b>       | <b>25,166,383</b>               | <b>8,975,863</b> | <b>2,332,004,565</b> |
| <b>Accumulated depreciation</b>       |                   |                    |                                  |                         |                                 |                  |                      |
| Balance at the beginning of the year  | -                 | 358,026,217        | 836,570,128                      | 46,554,690              | 20,954,954                      | 3,694,891        | 1,265,800,880        |
| Charge for the year                   | -                 | 16,088,613         | 59,153,715                       | 5,067,774               | 2,610,983                       | 623,913          | 83,544,998           |
| Disposals                             | -                 | -                  | (1,855,800)                      | (464,564)               | (1,130,335)                     | -                | (3,450,699)          |
| <b>Balance at the end of the year</b> | <b>-</b>          | <b>374,114,830</b> | <b>893,868,043</b>               | <b>51,157,900</b>       | <b>22,435,602</b>               | <b>4,318,804</b> | <b>1,345,895,179</b> |
| <b>Net book value</b>                 |                   |                    |                                  |                         |                                 |                  |                      |
| <b>December 31, 2014</b>              | <b>20,024,200</b> | <b>342,010,235</b> | <b>602,192,837</b>               | <b>14,494,274</b>       | <b>2,730,781</b>                | <b>4,657,059</b> | <b>986,109,386</b>   |
| December 31, 2013                     | 20,024,200        | 353,000,785        | 652,411,049                      | 19,523,809              | 2,848,250                       | 4,369,566        | 1,052,177,659        |

Motor vehicles include an amount of SR 3,503,500 ( 2013: SR 3,370,300 ) corresponding to vehicles which the Company handed over to its employees to be use instead of transportation allowance and they are depreciated over a 4 years period whereby ownership will be transferred to the employees once the vehicles are fully depreciated.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

**9. PROPERTY, PLANT AND EQUIPMENT (Continued)**

The depreciation expense is allocated as follows:

|   | 2014<br>SR        | 2013<br>SR        |
|---|-------------------|-------------------|
| Cost of sales                                 | 77,307,288        | 80,229,541        |
| Selling and distribution expenses (Note 17)   | 1,757,693         | 1,306,706         |
| General and administrative expenses (Note 18) | 4,480,017         | 4,848,617         |
|   | <b>83,544,998</b> | <b>86,384,864</b> |

This item includes un-utilized production capacity depreciation amounting to SR 4,154,043 related to the subsidiary tools and equipment (2013: SR 4,475,878).

**10. PROJECTS IN PROGRESS**

|  | 2014<br>SR        | 2013<br>SR        |
|--|-------------------|-------------------|
| Balance at the beginning of the year         | 17,058,716        | 22,001,429        |
| Additions                                    | 17,904,090        | 4,353,637         |
| Transferred to property, plant and equipment | (9,918,124)       | (9,296,350)       |
|  | <b>25,044,682</b> | <b>17,058,716</b> |

The projects in progress mainly include improvements work on parts of the third production line. It is expected to be completed within the fourth quarter of 2015.

**11. DEFERRED CHARGES**

|                                      | 2014<br>SR        | 2013<br>SR        |
|--------------------------------------|-------------------|-------------------|
| Balance at the beginning of the year | 25,927,298        | 28,930,457        |
| Additions                            | -                 | 163,000           |
| Amortization for the year            | (2,773,616)       | (3,166,159)       |
|                                      | <b>23,153,682</b> | <b>25,927,298</b> |

Deferred charges comprise of costs for maintenance of production lines and establishment of power plant owned by Saudi Electricity Company whereby Qassim Cement Company relies heavily on it for its operations and are amortized over a period of three to twenty years.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

**12. ACCRUED EXPENSES AND OTHER LIABILITIES**

|                         | <b>2014</b>       | <b>2013</b> |
|-------------------------|-------------------|-------------|
|                         | <b>SR</b>         | <b>SR</b>   |
| Accrued expenses        | <b>44,054,730</b> | 38,555,489  |
| Accrued quarry expenses | <b>22,599,362</b> | 24,251,069  |
| Advances from customers | <b>6,796,478</b>  | 8,277,663   |
| Retentions payable      | <b>4,185,505</b>  | 3,992,081   |
| Other credit balances   | <b>75,935</b>     | 75,934      |
|                         | <b>77,712,010</b> | 75,152,236  |

**13. ZAKAT**

The Company received its final assessment from DZIT for all the years till year 2007 whereby no additional payments were required for those years. Furthermore, the Company filed its zakat returns for the years till year 2013 which are still under review by DZIT.

The movement of zakat provision is as follows:

|                                      | <b>2014</b>         | <b>2013</b>  |
|--------------------------------------|---------------------|--------------|
|                                      | <b>SR</b>           | <b>SR</b>    |
| Balance at the beginning of the year | <b>35,254,860</b>   | 31,595,764   |
| Charged during the year              | <b>35,064,234</b>   | 35,646,388   |
| Paid during the year                 | <b>(35,256,564)</b> | (31,987,292) |
| Balance at the end of the year       | <b>35,062,530</b>   | 35,254,860   |

The zakat expense due from the Company was calculated based on the standalone financial statements due to the presence of a minority shareholder in the subsidiary company. The elements of the zakat base are as follows:

|   | <b>2014</b>            | <b>2013</b>     |
|---|------------------------|-----------------|
|   | <b>SR</b>              | <b>SR</b>       |
| Shareholders' equity                                    | <b>1,998,144,053</b>   | 1,976,238,907   |
| Adjusted net income                                     | <b>621,376,232</b>     | 621,795,799     |
| Additions   | <b>60,454,095</b>      | 39,806,189      |
| Deductions  | <b>(1,289,523,919)</b> | (1,229,203,202) |
| Net zakat base  | <b>1,390,450,461</b>   | 1,408,637,693   |
| Zakat base for the year for A and B whichever is higher | <b>1,390,450,461</b>   | 1,408,637,693   |
| Sharia Zakat expense for the year                       | <b>34,761,262</b>      | 35,215,942      |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

**14. END-OF-SERVICE INDEMNITIES**

|                                      | 2014<br>SR  | 2013<br>SR  |
|--------------------------------------|-------------|-------------|
| Balance at the beginning of the year | 28,258,294  | 26,129,133  |
| Charged during the year              | 6,266,648   | 4,892,268   |
| Paid during the year                 | (4,228,635) | (2,763,107) |
| Balance at the end of the year       | 30,296,307  | 28,258,294  |

**15. STATUTORY RESERVE**

In accordance to the Company's bylaw and the Regulations of Companies in Saudi Arabia, the Company is required to transfer 10% of the net income to the statutory reserve; the general assembly has the right to stop such transfer whenever the reserve reaches 50% of the share capital. This reserve is not available for distribution on shareholders and could be utilized to cover any losses incurred by the Company or to increase its capital after obtaining the approval of the shareholders' general assembly.

**16. GENERAL RESERVE**

The general reserve was formed through the transfer from retained earnings based on the approval of the shareholders' general assembly. The remunerations of the Board of directors' members corresponding to non-attending members are transferred to the general reserve.

The general assembly in its meeting held on Jumada Al Awal 5, 1435 H (corresponding to March 6, 2014) approved to transfer SR 150 million from the general reserve to the retained earnings, where we reissued 2013 financial statements to reflect this decision.

**17. SELLING AND DISTRIBUTION EXPENSES**

|   | 2014<br>SR | 2013<br>SR |
|---|------------|------------|
| Employees' expenses and benefits              | 5,122,051  | 4,967,140  |
| Service departments expenses*                 | 2,951,745  | 3,222,373  |
| Depreciation of property, plant and equipment | 1,757,693  | 1,306,706  |
| Advertising, promotions and public relations  | 121,451    | 132,971    |
| Fuel and maintenance                          | 66,468     | 49,291     |
| Printing and stationery                       | 39,596     | 51,652     |
| Communications                                | 30,141     | 43,517     |
| Others  | 450,699    | 550,090    |
|   | 10,539,844 | 10,323,740 |

\*This item consists of the expenses of selling and distribution tasks of the Company's service departments expenses.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

**18. GENERAL AND ADMINISTRATIVE EXPENSES**

|  | 2014<br>SR        | 2013<br>SR        |
|--|-------------------|-------------------|
| Employees' expenses and benefits                     | 11,004,586        | 11,344,957        |
| Depreciation of property, plant and equipment        | 4,480,017         | 4,848,617         |
| Provision for impairment in investment in subsidiary | 8,215,730         | 4,426,630         |
| Service departments expenses*                        | 2,343,188         | 2,781,679         |
| Board of directors attendance fees                   | 438,990           | 505,870           |
| Donations  | 703,355           | 516,856           |
| Financial and managerial consultation                | 377,847           | 891,425           |
| Printing, advertising and publishing                 | 214,694           | 106,486           |
| Hospitality and public relations expenses            | 303,786           | 356,339           |
| Maintenance, fuel and electricity                    | 235,854           | 284,363           |
| Communications and mails                             | 78,837            | 86,389            |
| Others   | 885,332           | 1,280,341         |
|  | <b>29,282,216</b> | <b>27,429,952</b> |

\*This item consists of the expenses of general and administrative tasks of the Company's service departments' expenses.

**19. OTHER INCOME, NET**

Other income for the year ended 31 December represents as follows:

|  | 2014<br>SR        | 2013<br>SR       |
|--|-------------------|------------------|
| Reversal of previous years expenses / Expenses write-off | 9,799,240         | 1,125,135        |
| Remuneration   | 306,441           | 1,731,745        |
| Income from sale of dust                                 | 373,018           | 311,269          |
| Other  | 564,195           | 481,972          |
|  | <b>11,042,894</b> | <b>3,650,121</b> |

**20. BASIC EARNINGS PER SHARE**

Earnings per share from continuing main operations and earnings per share from net income for the year are calculated by dividing income from continuing main operations and net income for the year over the weighted average number of shares outstanding for the year. Shares outstanding as of December 31, 2014 amounted to 90 million shares (2013: 90 million shares).



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**21. THE SUBSIDIARY**

The consolidated financial statements include the financial statements of the Company and Cement Industries Co. Ltd. (a subsidiary) with a total investment of 99.99% (2013: 99%) after the elimination of inter-company balances and transactions between the Company and its subsidiary. The following is the summary of the financial position as of December 31, 2014 and the results of operations of the subsidiary for the year then ended:

| <b>Total assets</b> | <b>Total liabilities</b> | <b>Sales</b>      | <b>Gross profit</b> | <b>Net income</b> |
|---------------------|--------------------------|-------------------|---------------------|-------------------|
| <b>48,832,829</b>   | <b>49,432,704</b>        | <b>51,981,806</b> | <b>7,235,319</b>    | <b>2,697,532</b>  |

The accumulated losses of the subsidiary as of December 31, 2014 amounted to SR 50.6 million (2013: SR 53.3 million) which exceeded 100% of its capital amounting to SR 50 million. The subsidiary's partners have decided in their meeting 6/2014 held on February 4, 2014 to continue the subsidiary's operations and provide the financial support to cover its losses carried forward. The losses have not been covered till the date of these consolidated financial statements. The percentage of utilization capacity of the subsidiary as of December 31, 2014 reached 28% (2013: 29%).

**22. ACCRUED DIVIDENDS**

The Company's board of directors resolved in its meeting held on July 13, 2014 to recommend the shareholders' general assembly to distribute the dividends amounting to SR 270 million at SR 3 per share for the income of the first half of the year ended December 31, 2014.

The shareholders' general assembly of the Company agreed in its meeting held on March 6, 2014 to distribute dividends amounting to SR 315 million at SR 3.5 per share for the income of the second half of the year ended December 31, 2013.

The Company's board of directors resolved in its meeting held on July 15, 2013 to recommend to the shareholders' general assembly the distribution of dividends amounting to SR 247.5 million at SR 2.75 per share for the income of the first half of the year ended December 31, 2013.

Following is the movement of dividends payable:

|  | <b>2014<br/>SR</b>   | <b>2013<br/>SR</b> |
|--|----------------------|--------------------|
| Balance at the beginning of the year           | <b>45,398,297</b>    | 41,048,177         |
| Dividends                                      | <b>585,000,000</b>   | 562,500,000        |
| Cash restricted for accrued dividends (Note 4) | <b>(5,325,758)</b>   | 45,398,297         |
| Dividends paid                                 | <b>(571,270,465)</b> | (603,548,177)      |
|  | <b>53,802,074</b>    | 45,398,297         |

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**23. SUBSEQUENT EVENTS**

Subsequent to the date of the consolidated financial statements, the Board of Directors recommended to the transfer an amount of SR 226 million from general reserve to retained earnings.

Furthermore, the Board of Directors resolved in meeting held on February 4, 2015 to recommend to general assembly to distribute dividends amounting to SR 270 million at SR 3 per share for the income of the second half of the year ended December 31, 2014.

**24. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

The following are the capital commitments and contingent liabilities on the Company as of December 31:

|  | 2014<br>SR | 2013<br>SR |
|--|------------|------------|
| Letters of credit                            | 400,633    | 1,905,287  |
| Letters of guarantee                         | 11,128,192 | 11,128,192 |
| Capital commitments for projects in progress | 50,567,132 | 19,445,938 |

**25. SEGMENT INFORMATION**

As shown in Note 1, the Company's main operations comprise solely of production of cement of different types with no other main activity. The subsidiary's operations comprise of production of ready-mix cement and produced using cement supplied by the Company. The subsidiary operates in Buraydah and Hail in the Kingdom of Saudi Arabia. In addition, the subsidiary's operations did not reach the required limits for disclosure stated in segmental reporting standard issued by the Saudi Organization for Certified Public Accountants.

|   | For the for the year ended December 31,<br>2014 |                  |               |
|---|---|------------------|---------------|
|   | Qassim<br>Cement<br>Company<br>SR               | Subsidiary<br>SR | Total<br>SR   |
| Total assets                                      | 2,133,999,402                                   | 48,832,829       | 2,182,832,231 |
| Total liabilities                                 | 159,445,484                                     | 49,432,704       | 208,878,188   |
| Property, plant and equipment                     | 952,918,220                                     | 33,191,166       | 986,109,386   |
| Sales   | 933,706,425                                     | 51,981,806       | 985,688,231   |
| Income before zakat and non-controlling interests | 595,912,754                                     | 2,761,470        | 598,674,224   |
| Net income  | 560,912,458                                     | 2,697,532        | 563,609,990   |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2014**

**25. SEGMENT INFORMATION (Continued)**

|   | For the for the year ended December 31, 2013 |                  |               |
|---|--|------------------|---------------|
|   | Qassim<br>Cement<br>Company<br>SR            | Subsidiary<br>SR | Total<br>SR   |
| Total assets                                      | 2,140,608,449                                | 52,662,805       | 2,193,271,254 |
| Total liabilities                                 | 141,472,891                                  | 55,960,212       | 197,433,103   |
| Property, plant and equipment                     | 1,013,346,131                                | 38,831,528       | 1,052,177,659 |
| Sales   | 996,400,979                                  | 54,208,480       | 1,050,609,459 |
| Income before zakat and non-controlling interests | 619,706,447                                  | 954,240          | 620,660,687   |
| Net income  | 584,089,824                                  | 915,322          | 585,005,146   |

**26. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND FAIR VALUE**

Financial instruments stated in the consolidated balance sheet comprise mainly of cash and cash equivalents, investments in trading securities, trade receivables, other assets, trade payables and other liabilities.

**Credit Risk** is the risk that one party will fail to discharge an obligation, causing the other party to incur a financial loss. Financial assets subject to credit risk are: cash and cash equivalents, trade receivables and investment in trading securities. The Company's cash is placed in reputable banks with good credit ratings, therefore credit risk is limited. Receivables are stated net of provision for doubtful debts.

**Commission Rate Risk** is the risk that the financial position and cash flow of the Company will be affected due to changes in the market commission rates. The Company monitors the fluctuations in commission rates and believes that commission rate risk is not material.

**Currency Risk** is the risk that the value of financial instruments will be affected due to changes in foreign exchange rates. The Company's main currency transactions are in Saudi Riyal, Euro and US Dollars. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material.

**Liquidity Risk** the Company manages liquidity risk through ensuring that required funds for the Company's commitments are available. The Company's sales policy requires that amounts are paid in advance or letters of guarantees are presented to ensure payment upon receipt of goods whereby trade receivables are paid within a period of 60 days from the date of purchase.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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**26. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND FAIR VALUE (Continued)**

**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. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair value of the Company's financial assets and liabilities are not materially different from their carrying values.

**27. APPROVING THE FINANCIAL STATEMENTS**

The consolidated financial statements have been approved by the board of directors on February 4, 2015.