CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008 TOGETHER WITH AUDITORS' REPORT

Ernsi & Young

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Yanbu Cement Company (A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008 TOGETHER WITH AUDITORS' REPORT



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Tel: +966 2 667 1040/+966 2 665 2076 Fax: +966 2 667 2129 www.ey.com/me Pegistration No. 45

### AUDITORS' REPORT TO THE SHAREHOLDERS OF YANBU CEMENT COMPANY (A Saudi Joint Stock Company)

Scope of Audit

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We have audited the accompanying consolidated balance sheet of YANBU CEMENT COMPANY (a Saudi Joint Stock Company) and its subsidiary as at 31 December 2008 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 18 which are an integral part of these financial statements. These financial statements are the responsibility of the Company's management in accordance with Article (123) of the Companies Regulations. Our responsibility is to express our opinion on these financial statements based on our audit and the information and explanations we obtained which we considered necessary for the purposes of our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### **Unqualified Opinion**

In our opinion, the consolidated financial statements referred to above:

- 1. Present fairly, in all material respects, the financial position of Yanbu Cement Company and its subsidiary as at 31 December 2008 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the Kingdom of Saudi Arabia.
- 2. Comply with the requirements of the Regulations for Companies and the company's articles of association in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young



Ahmed Reda License No. 356

24 January 2009

Jeddah



CONSOLIDATED BALANCE SHEET			
As at 31 December 2008		2008	2007
	Note	SR	SR
ASSETS			
CURRENT ASSETS		122 155 120	27 557 71
Cash and bank balances Term deposit		132,175,129 355,963,722	37,557,71 95,148,38
Investments in mutual investment		32,495,648	551,401,4
Accounts receivable and other assets	3	134,730,137	116,659,9
Inventories, net	4	270,897,568	242,768,7
TOTAL CURRENT ASSETS		926,262,204	1,043,536,2
NON-CURRENT ASSETS			
Property and equipment, net	5	1,673,160,836	1,518,355,7
Deferred charges, net	6	388,691	1,507,3
TOTAL NON-CURRENT ASSETS		1,673,549,527	1,519,863,0
TOTAL ASSETS		2,599,811,731	2,563,399,2
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bank facilities - current portion	7	4,659,504	4,659,5
Bank overdraft		3,988,873	4,143,6
Trade Accounts payable		5,718,059	23,758,8
Dividends payable		51,267,784	45,875,7
Zakat provision	14	16,497,822	19,974,8
Accrued expenses and other liabilities	8	103,582,505	86,516,
TOTAL CURRENT LIABILITIES		185,714,547	184,928,
NON-CURRENT LIABILITIES			
Bank facilities	7	5,090,976	9,707,
End of service benefits provision		36,277,543	31,177,
TOTAL NON-CURRENT LIABILITIES		41,368,519	40,884,
TOTAL LIABILITIES		227,083,066	225,813,
SHAREHOLDERS' EQUITY	^	4 0 8 0 0 0 0 0 0	1.050.000
Authorized and fully paid capital	9 10	1,050,000,000 525,000,000	1,050,000, 525,000,
Statutory reserve General reserve	11	221,318,203	323,000,
Retained earnings	11	559,736,347	748,518,
TOTAL EQUITY ATTRIBUTABLE TO			
SHAREHOLDERS IN PARENT COMPANY		2,356,054,550	2,323,518,
Minority interest		16,674,115	14,067.
TOTAL SHAREHOLDERS' EQUITY AND MONORITY INTEREST		2,372,728,665	2,337,585,
TOTAL LIABILITIES AND SHAREHOLDERS'			
EQUITY		2,599,811,731	<u>2,563,399</u>
The attached notes 1 to 18 form part of these consolidated	l financial s	statements.	

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CONSOLIDATED STATEMENT OF INCOME For the Year Ended 31 December 2008

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	Note	2008 SR	2007 SR
Net sales Cost of sales		1,093,514,140 (508,536,981)	1,170,727,807 (490,390,042)
GROSS INCOME		584,977,159	680,337,765
Selling and distribution expenses General and administration expenses	12 13	(9,905,813) (14,217,702)	(10,006,652) (14,143,084)
NET OPERATING INCOME		560,853,644	656,188,029
Financial charges Other income		(728,094) 18,867,075	(1,053,770) 18,471,781
NET INCOME BEFORE EXTRA ORDINARY REVENUE, ZAKAT AND MINORITY INTEREST	7	578,992,625	673,606,040
Insurance compensation			7,723,000
NET INCOME BEFORE ZAKAT AND MINORITY INTEREST		578,992,625	681,329,040
Zakat	14	(16,649,920)	(18,573,148)
NET INCOME BEFORE MINORITY INTEREST		562,342,705	662,755,892
Minority interest		(2,606,358)	(1,802,970)
NET INCOME		<u>559,736,347</u>	660,952,922
EARNING PER SHARE (FROM NET OPERATING PROFIT)	G	5,34	6.25
EARNING PER SHARE (FROM NET PROFIT)		5.33	6.29

CONSOLIDATED STATEMENT OF CASH FLOWS		
For the Year Ended 31 December 2008		
	2008	2007
	SR	SR
OPERATING ACTIVITIES		
Net income for the year	559,736,347	660,952,9
Adjustments to reconcile net income to net cash		
from operating activities:		
Depreciation	98,901,515	106,755,7
Amortization	1,118,621	1,186,1
Amortization of capital expenditure	18,998,274	11,691,6
Minority interest	2,606,358	1,802,9
(Gain) / loss on disposal of property and equipment	(45,950)	161,
Provision for slow moving inventories (note 14)	2,410,443	4,425,
Zakat provision, net	16,442,552	18,573,
End of service benefits, net	5,100,274	7,224,
Change in assets and liabilities:	(40.000.000)	(05.045
Accounts receivable and other assets	(18,070,205)	(27,945,
Inventories, net	(30,539,290)	(27,965,
Accounts payable	(18,040,816)	18,132,
Accrued expenses and other liabilities	17,066,352	35,343,
Zakat paid	(19,919,580)	(11,493,
Net cash from operating activities	635,764,895	798,844,
INVESTING ACTIVITIES		
Purchase of property and equipment	(272,704,856)	(27,167,
Proceeds on disposal of property and equipment	45,950	10,
Net cash used in investing activities	(272,658,906)	(27,157
FINANCING ACTIVITIES		
Settlement of bank facilities	(4,616,330)	(776
Bank overdraft	(154,731)	4,143
Dividends paid to shareholders	(519,607,985)	(418,324
Board of directors' fees	(2,200,000)	(2,200
Net cash used in financing activities	(526,579,046)	(417,157
NET INCREASE IN CASH AND CASH EQUIVALENTS	(163,473,057)	354,529
Cash and Cash Equivalents - beginning of the year	684,107,556	329,577
CASH AND CASH EQUIVALENTS - END OF THE YEAR	520,634,499	684,107
CASH WID CUSH EXCHANGING - EUD OF THE LEWI		

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## Yanbu Cement Company (A Saudi Joint Stock Company)

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# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended 31 December 2008

	E	quity attributable	Equity attributable to shareholder in the parent company	the parent compan	uy		Total shareholders'
Description	Capital SR	Statutory reserve SR	General reserve SR	Retained earnings SR	Total shareholders' equity of parent company SR	Minority interest SR	equity and minority interest SR
Balance at 1 January 2007	1,050,000,000	525,000,000	1	509,765,281	2,084,765,281	12,264,787	2,097,030,068
Net income for the year	ı	ı	,	660,952,922	660,952,922	1	660,952,922
Dividends - 2006	-	1		(420,000,000)	(420,000,000)	1	(420,000,000)
Board of directors' fees	3	-	-	(2,200,000)	(2,200,000)	ŧ	(2,200,000)
Minority interest's share of income for the year	ı	1	1	_	1	1,802,970	1,802,970
Ralance at 31 December 2007	1,050,000,000	525,000,000	•	748,518,203	2,323,518,203	14,067,757	2,337,585,960
Net income for the vear		ı	•	559,736,347	559,736,347	1	559,736,347
Dividends - 2007	•		*	(525,000,000)	(525,000,000)	1	(525,000,000)
Transferred to general reserve	ı		221,318,203	(221,318,203)	-	,	4
Board of directors' fees	-	1	1	(2,200,000)	(2,200,000)	1	(2,200,000)
Minority interest's share in income for the year	ı	1		1	•	2,606,358	2,606,358
Balance at 31 December 2008	1,050,000,000	525,000,000	221,318,203	559,736,347	2,356,054,550	16,674,115	2,372,728,665

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

### 1. ACTIVITIES

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Yanbu Cement Company (a Saudi Joint Stock 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.

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

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted in preparing the consolidated financial statements are as follows:

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiary, as explained in Note (1) after eliminating all inter-company transactions and balances.

### Revenue recognition

Revenue is recognized on delivery of goods and issuance of relevant invoice to the customer.

### Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale investments.

### 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 / depreciation

Property and equipment are stated at cost less accumulated depreciation and depreciated on a straight-line basis over the estimated useful lives of the assets. Subsidiary's paper production factory buildings, machinery and equipment are depreciated on the number of production units basis.

Expenditure for repair and maintenance is charged to income. Improvements that increase the value materially or extend the life of the related assets are capitalized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment and uncollectibility of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. If any such indicators exist the impairment is taken to statement of income.

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- 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 amortised cost, impairment is the difference between carrying amount and the present

### 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.

### **Provisions**

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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.

### **Deferred charges**

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

### Zakat

According to Zakat financial accounting standard, Zakat provision for individual fiscal periods is measured and recorded in accordance with the provisions and rules of Saudi Arabian Zakat Regulations on accrual basis. The provision is separately charged to the consolidated statement of income.

### 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, distribution, general and administration expenses are those specifically related to salesmen and other incidental selling expenses. All other expenses are classified as general and administration expenses.

### Translation of foreign currencies

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

### 3. ACCOUNTS RECEIVABLE AND OTHER ASSETS

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Accounts receivable and other assets comprise of the following as at 31 December:

	2008 SR	2007 SR
Trade accounts receivable (**)	122,331,266	106,576,191
Employees' advances	6,309,839	5,239,028
Prepaid expenses	2,735,989	1,733,504
Deposits and other receivables	2,315,986	2,089,972
Margins on letters of guarantee (Note 15)	900,000	900,000
Margins on letters of credit (Note 15)	137,057	121,237
	134,730,137	116,659,932

- (\*) Accounts receivable are secured by letters of guarantees and documentary letters of credit. Based on past experience, unimpaired receivables are expected to be fully recovered. The largest five clients account for 80% of the Company's outstanding receivables (78% as at 31 December 2007).
- (\*\*) The employees' advances are secured by the end of the service benefits.

As 31 December 2008, the ageing of receivables that were not impaired is as follows:

	Total SR	< 30 days SR	< 60 days SR	< 90 days SR	< 120 days SR	< 180 days SR	> 180 days SR
31 December 2008	122,331,266	43,948,643	42,985,876	27,218,908	2,828,292	2,237,614	3,111,933
31 December 2007	106,576,191	48,174,517	37,271,514	10,119,534	4,194,180	5,070,852	1,745,594

### 4. INVENTORIES, NET

Inventories are comprised of the following as at 31 December:

	2008 SR	2007 SR
Spare parts not for sale, net	156,052,888	138,335,491
Work-in-progress	46,087,162	45,476,849
Raw materials	45,317,586	39,461,663
Packaging materials	18,521,581	14,598,834
Oil and fuel	3,928,803	3,826,045
Other materials	989,548	1,069,839
	<u>270,897,568</u>	242,768,721

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### Yanbu Cement Company (A Saudi Joint Stock Company)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

### 5. PROPERTY AND EQUIPMENT, NET

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Factory buildings	25 years
Paper factory production buildings	30 years
Buildings and other constructions	40 years
Sea port	20 years
Machinery and equipment	25 years
Paper factory machinery and equipment	Production units
Vehicles and trucks	4 -6.67 years
Furniture and other assets	4 - 6.67 years

Details of property and equipment as at 31 December are as follows:

Description	Land	Factory Buildings SR	Paper factory buildings SR	Buildings and other constructions SR	Sea port SR	Machinery and equipment SR	Paper factory machinery and equipment SR	Vehicles and trucks SR	Furniture and other assets SR	Works in progress SR	Total 2008 SR	Total 2007 SR
Cost:	4 905 116	822 509 099	20 361 860	59.821.048	16,740,608	2,401,770,145	21,304,728	51,314,648	22,793,673	29,322,896	3,297,860,500	3,284,078,842
beginning of the year	011,000,4	-	-		1	1,390,481		1,789,576	2,233,716	267,291,083	272,704,856	27,167,792
Tonofore	1	2 924 485	-	1	1	2,999,501	ą.	,	544,500	(6,468,486)	1	-
11dusters		-		,		-	,	(403,886)	(4,265,341)	(18,998,274)	(23,667,501)	(13,386,134)
Disposais	4 805 116	672.550.263	20,361,860	59,821,048	16,740,608	2,406,160,127	21,304,728	52,700,338	21,306,548	271,147,219	3,546,897,855	3,297,860,500
Depreciation:		900 120 000	100 770 1	17 504 340	16 740 608	1 259 764 081	1 324 918	38,854,585	15,975,900	1	1,779,504,731	1,674,271,881
Beginning of the year	1	428,074,008	202,002,1	2 514 277		75,996,183	710,158	3,691,759	2,655,945	-	98,901,515	106,755,739
Charge for the year	1	12,024,404	77,610	-	,			(403,886)	(4,265,341)		(4,669,227)	(1,522,889)
Disposais	1	440 728 472	1.945,011	20,018,626	16,740,608	1,335,760,264	2,035,076	42,142,458	14,366,504		1,873,737,019	1,779,504,731
Net book value as at 31	4 805,116	231.821.791	18,416,849	39,802,422	1	1,070,399,863	19,269,652	10,557,880	6,940,044	271,147,219	1,673,160,836	•
Net book value as at 31 December 2007	4,805,116	241,551,770	19,095,578	42,316,699	r	1,142,006,064	19,979,810	12,460,063	6,817,773	29,322,896		1,518,355,769

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

### 5. PROPERTY AND EQUIPMENT, NET (continued)

Depreciation charge for the years ended 31 December is allocated as follows:

	2008 SR	2007 SR
Cost of production	97,627,995	105,846,861
Selling and distribution expenses	679,379	558,377
General and administration expenses	594,141	350,501
•	98,901,515	106,755,739

### 6. DEFERRED CHARGES, NET

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Deferred charges are comprised of the following as at 31 December:

	2008	2007
	SR	SR
Deferred charges	11,995,624	11,995,624
Less: Accumulated amortization	(11,606,933)	(10,488,312)
	388,691	1,507,312

### 7. BANK FACILITIES

During prior years, Yanbu Al-Shoaiba Paper Products Company (a subsidiary) obtained Islamic financing from a local bank to cover its obligations towards the construction contractor and all required equipment purchased locally and abroad. The Islamic financing is secured by a guarantee given by a partner of the Company - Yanbu Cement Company (a Saudi Public Company).

As at 31 December, the amount utilized of these facilities are as follows:

	2008	2007
	SR	SR
Financing of progress billing	9,750,480	14,366,810
Current portion	<u>(4,659,504</u> )	<u>(4,659,504</u> )
Non current portion	<u>5,090,976</u>	9,707,306

### 8. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables are comprised of the following as at 31 December:

	2008 SR	2007 SR
Accrued expenses	85,666,625	69,837,198
Other payables	$\frac{17,915,880}{103,582,505}$	16,678,955 86,516,153

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

### 9. CAPITAL

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As at 31 December 2008, capital is divided into 105 million shares of SR 10 each (31 December 2007: 105 million shares).

### 10. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income each year until it has built up a reserve equal to 50% of the capital. This having been achieved, the Company has resolved to discontinue such transfers. The reserve is not available for distribution.

### 11. GENERAL RESERVE

As of 18 March 2008, the board of directors agreed in their general meeting to transfer the balance of the retained earnings remaining from the year ended 31 December 2007, after dividend distribution and board of directors' fees, to the general reserve.

### 12. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses are comprised of the following for the years ended 31 December:

	2008	2007
·	SR	SR
Salaries, wages and other benefits	5,826,465	5,171,604
End of service benefits	688,488	1,139,389
Advertisement and publicity	681,261	604,266
Depreciation	679,379	558,377
GOSI	293,154	276,026
Fees and subscriptions	89,062	68,687
Other	1,648,004	2,188,303
	<u>9,905,813</u>	10,006,652

### 13. GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses are comprised of the following for the years ended 31 December:

	2008	2007
·	SR	SR
Salaries, wages and other benefits	9,655,241	9,138,310
End of service benefits	1,118,257	1,830,609
Depreciation	594,141	350,501
GOSI	517,967	464,257
Repair and maintenance	235,358	192,001
Amortization	222,120	222,120
Fee and subscriptions	207,983	146,647
Rent	18,000	65,736
Other	1,648,635	1,732,903
	14,217,702	14,143,084

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

### 14. ZAKAT

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- a) Zakat is calculated on basis of individual financial statements of the company and its subsidiaries.
- b) The movement in Zakat provision as at 31 December is as follows:

	2008	2007
	SR	SR
Balance at the beginning of the year	19,974,850	12,895,646
Depreciation during the year	(19,919,580)	(11,493,944)
Provided during the year	16,649,920	18,573,148
Provision no longer required reversed	(207,368)	**
End of the year	16,497,822	19,974,850

### c) Zakat status

### Yanbu Cement Company (A Saudi Joint Stock Company)

Zakat assessment has been agreed with the Department of Zakat and Income Tax up to the year ended 31 December 2004.

The Company has filed its Zakat assessment for the year ended 31 December 2005 through 2007 and obtained the final Zakat certificate. The DIZT has not yet raised Zakat assessment for the years ended 31 December 2005 through 2007.

### Yanbu Al-Shuaiba Paper Products Company Ltd.

The Company has filed its Zakat declaration for the period 29 December 2004 to 31 December 2005 and obtained the final Zakat certificate. The DZIT has not yet raised the final assessment for the above period.

The company had filed zakat assessments for the years ended 31 December 2006 and 2007. The DZIT has not yet raised Zakat assessment for the above years.

### 15. COMMITMENTS AND CONTINGENCIES

As at 31 December 2008, contingencies represented outstanding letters of guarantee amounting to SR 11,835,021 for which a margin deposit of SR 900,000 was paid (2007: letters of guarantee amounted to SR 10,151,170 for which margin deposit of SR 900,000,000 was paid) and outstanding letters of guarantee amounting to SR 1,461,174,315 for which margin deposit of SR 137,057 was paid (2007: letters of credit amounted to SR 21,086,672 for which margin deposit of SR 121,237 was paid).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

### 16. RISK MANAGEMENT

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### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability. The Company is subject to interest rate risk on its interest bearing assets and liabilities including bank overdraft and facility. The management seeks to limit interest rate risk by monitoring the changes in interest rates.

### Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its commitments associated with the financial liabilities as they arise. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise.

Company's financial liabilities consist of accounts payable, accruals, other payables, bank overdraft and bank facilities - current portion. Substantially, all financial liabilities are expected to be settled within 12 months from balance sheet date and the company expects to have sufficient funds to do so. Current portion of bank facilities amounting to SR 5,090,976 is expected to be paid within two years from balance sheet date.

### Credit risk

Credit risk is the risk that a 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. Letters of credit or otherwise obtaining letters of guarantee, as appropriate, as security. The five largest customers accounts for 80% of outstanding accounts receivable as at 31 December 2008 (2007: 78%).

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

### Currency risk

Currency risk is the risk that the value of financial instrument will fluctuate due to changes in foreign exchange rate. The Company is subject to fluctuations in foreign exchange in the normal course of business. The Company did not undertake significant transactions in currencies other than Saudi Riyal, US Dollar and Euro, during the year.

### 17. 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, cash equivalents, accounts receivable and other assets. Its financial liabilities consist of accounts payable, accruals other payables, bank overdraft and bank facilities and bank facilities. The fair values of financial instruments are not materially different from their carrying values.

### 18. RECLASSIFICATIONS

Certain figures of the 2007 consolidated financial statements have been reclassified to conform to the classification used in 2008.