

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

**INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE THREE AND NINE MONTHS PERIOD
ENDED SEPTEMBER 30, 2016
AND INDEPENDENT AUDITOR'S LIMITED
REVIEW REPORT**

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

**INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2016**

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INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT

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

Scope of Review

We have reviewed the accompanying interim balance sheet of Najran Cement Company ("the Company") (a Saudi Joint Stock Company) as of September 30, 2016, the related interim statement of income for the three and nine months' period ended September 30, 2016, and the related statements of cash flows and changes in shareholders' equity for the period then ended, including the related notes from 1 to 12. These interim financial statements are the responsibility of the Company's management and have been prepared by them and presented to us together with all the information and explanations which we required.

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

Review Conclusion

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

For Dr. Mohamed Al-Amri & Co.,




Jamal M. Al-Amri
Certified Public Accountant



Muharram 15, 1438(H)
October 16, 2016 (G)

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM BALANCE SHEET
AS AT SEPTEMBER 30, 2016
(Expressed in '000 Saudi Riyals)

	<u>Note</u>	<u>2016</u> <u>Unaudited</u>	<u>2015</u> <u>Unaudited</u>
ASSETS			
Current assets			
Cash and cash equivalents		54,187	37,633
Accounts receivable- net		56,407	92,743
Inventories - net	3	407,040	382,034
Prepayments and other receivables - net		24,430	27,975
Total current assets		542,064	540,385
Non-current assets			
Property, plant and equipment - net	4	2,350,468	2,453,858
Intangible assets		3,805	4,966
Total non-current assets		2,354,273	2,458,824
TOTAL ASSETS		2,896,337	2,999,209
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long term & Short term financial liabilities	5	100,000	75,000
Trade creditors		43,153	55,450
Accruals and other payables		29,180	39,601
Provision for zakat	6	30,659	13,500
Total current liabilities		202,992	183,551
Non-current liabilities			
Long term loans and financial liabilities	5	625,000	725,000
End-of-service indemnities		16,931	14,030
Total non-current liabilities		641,931	739,030
Total liabilities		844,923	922,581
Shareholders' equity			
Capital	1	1,700,000	1,700,000
Statutory reserve		101,593	85,215
Retained earnings		249,821	291,413
Total shareholders' equity		2,051,414	2,076,628
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,896,337	2,999,209

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

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF INCOME
FOR THE THREE AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2016
(Expressed in '000 Saudi Riyals)

		For the three months ended September 30.		For the nine months ended September 30.	
		2016 <u>Unaudited</u>	2015 <u>Unaudited</u>	2016 <u>Unaudited</u>	2015 <u>Unaudited</u>
Revenues		136,936	211,886	566,757	810,302
Cost of revenues	7	(90,063)	(120,735)	(333,675)	(408,128)
Gross profit		46,873	91,151	233,082	402,174
Selling and distribution expenses		(18,302)	(38,385)	(69,001)	(137,961)
General and administrative expenses		(7,631)	(7,540)	(25,918)	(22,681)
Operating income		20,940	45,226	138,163	241,532
Finance expenses		(8,101)	(7,296)	(22,211)	(23,682)
Other income - net		7,025	3,625	7,602	5,527
Net income before zakat		19,864	41,555	123,554	223,377
Zakat	6	(4,500)	(9,485)	(13,500)	(21,485)
Net income for the period		15,364	32,070	110,054	201,892
Earnings/(loss) per share SR:					
From operating income		0.12	0.27	0.81	1.42
From other activities, including zakat		(0.03)	(0.08)	(0.16)	(0.23)
From net income		0.09	0.19	0.65	1.19

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

NAJRAN CEMENT COMPANY
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INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2016
(Expressed in '000 Saudi Riyals)

	2016 Unaudited	2015 Unaudited
<u>Cash flows from operating activities:</u>		
Net income before zakat for the period	123,554	223,377
<u>Adjustments to reconcile net income before zakat with net cash provided by operating activities:</u>		
Depreciation	87,394	90,372
Amortization	774	7,063
Loss on disposal of property, plant and equipment	14	457
Provision for slow moving spares and clinker stock shortage	6,000	6,000
Provision against refundable custom duties	1,213	3,097
Finance charges	21,437	17,749
End-of-service indemnities	3,289	3,535
Prior years settlement on Zakat provision	(4,995)	-
<u>Changes in operating assets and liabilities:</u>		
Accounts receivable	35,999	(8,500)
Inventories	(51,138)	8,403
Prepayments and other receivables	(3,752)	4,285
Trade creditors	(10,158)	11,467
Accruals and other payables	(20,966)	(2,340)
Cash from operations	188,665	364,965
Zakat paid	-	(28,586)
Finance charges paid	(24,060)	(16,382)
End-of-service indemnities paid	(1,166)	(168)
Net cash provided by operating activities	163,439	319,829
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(7,099)	(17,074)
Movements in spares held for capital use (strategic)	521	(1,251)
Payments to contractors (capital work in progress)	(1,077)	-
Proceeds from disposal of property, plant and equipment	212	28
Sukuk issuance expenses treated as intangibles	-	(5,162)
Net cash used in investing activities	(7,443)	(23,459)
<u>Cash flows from financing activities:</u>		
Net short term financing movements	-	(100,000)
Repayment of long term loans	(75,000)	(401,757)
Sukuk proceeds	-	400,000
Dividends paid	(186,870)	(186,801)
Directors' remunerations paid	(2,000)	(1,900)
Net cash used in financing activities	(263,870)	(290,458)
Net change in cash and cash equivalents	(107,874)	5,912
Cash and cash equivalents, beginning of the period	162,061	31,721
Cash and cash equivalents, end of the period	54,187	37,633

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

**NAJRAN CEMENT COMPANY
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**INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2016
(Expressed in '000 Saudi Riyals)**

	<u>Note</u>	<u>Capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at January 1, 2016		1,700,000	90,588	337,772	2,128,360
Net income for the period		-	-	110,054	110,054
Transfer to statutory reserve		-	11,005	(11,005)	-
Dividends	8	-	-	(187,000)	(187,000)
Balance as at September 30, 2016 - Unaudited		1,700,000	101,593	249,821	2,051,414
Balance at January 1, 2015		1,700,000	65,026	296,710	2,061,736
Net income for the period		-	-	201,892	201,892
Transfer to statutory reserve		-	20,189	(20,189)	-
Dividends	8	-	-	(187,000)	(187,000)
Balance as at September 30, 2015 - Unaudited		1,700,000	85,215	291,413	2,076,628





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

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2016
(Expressed in '000 Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES

Najran Cement Company ("the Company") is a Saudi Joint Stock Company which was registered on Ramadan 5, 1426 (corresponding to October 9, 2005) under Commercial Registration number 5950010479 (due to expire on April 28, 2020). On Jumada Awwal 12, 1435 (corresponding to March 13, 2014), the Company was granted a new Industrial License, number 2446.

The share capital of the Company is SR 1,700,000, divided into 170,000,000 shares of SR ten per share.

The principal activities of the Company are manufacturing and marketing of diversified qualities of cement. In addition, the Company is authorized to manufacture and market building materials, and become involved in establishing or participating in establishing industrial service companies to provide maintenance and services for factories as well as management and operations of cement factories, acquisition of land and real estate, patents and commercial trademarks to achieve its purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements have been prepared in accordance with the Standard of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The significant accounting policies applied by the Company, in preparing these interim financial statements, are consistent with those stated in its annual audited financial statements for the year ended December 31, 2015.

Financial year and interim periods

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

Adjustments related to the period

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

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

Accounting convention

The accompanying interim financial statements have been prepared under the historical cost convention on the accruals basis of accounting in accordance with generally accepted accounting principles in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are set out below.

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Use of estimates

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

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

- provision for doubtful debts and slow-moving inventory
- estimated useful economic lives & residual values of property, plant & equipment
- estimated useful lives of intangible assets
- provisions and accruals

Cash and cash equivalents

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

Restricted cash includes amounts in respect of unpaid dividends and which have been transferred to a specifically designated bank account.

Accounts receivable and amounts due to customers

Accounts receivable are stated in the balance sheet at net realizable value after deducting provision for doubtful debts (if any). The provision is re-estimated based on an analysis of the collectible amounts of the accounts receivable balances at the end of the period. Such analysis takes account of bank guarantees in place, payment histories and legal actions undertaken.

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

Where the Company is entitled to any third party claim, such as clinker subsidies or custom duties refundable, the agreed amount is included in other receivables, net of any provisions.

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Offsetting

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

Inventories (stock in trade and stores and spares)

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

Spare parts for plant and machinery are categorized as either capital parts, in which case they are included as part of non-current assets, or consumables, in which case they are accounted for as current assets.

Property, plant and equipment and capital work-in-progress

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

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

Capital work in progress includes all costs incurred to date (including advance payments) in connection with major expansion projects, and which have not been reclassified as one of the asset classes noted above. Capital work in progress is re-classified as property, plant and equipment when the relevant performance tests have been satisfactorily completed.

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

Intangible assets

Intangible assets comprise the Sukuk issuance costs which are being amortized over the period of the term (5 years) and shown as finance expenses.

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Impairment of non-current assets

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

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

Accounts payable, amounts due to contractors, accrued expenses and supplier advances

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

Amounts payable to contractors in respect of capital works completed as at the year-end but not paid for at that date are shown as due to contractors and included in accruals, dividends and other payables.

During the normal course of business, the Company is required to pay in advance or provide letters of credit for certain goods or services so as to guarantee production and delivery of goods or services. Where advances have been made but goods or services not received as at the period end, this is classified as amounts due from suppliers and included in current assets. Where the risks of ownership of goods have transferred to the Company, but goods are not yet received, provision is made to recognize both the goods in transit and the resultant liability.

Borrowings

Borrowings are recognized based on gross proceeds received. Borrowings are drawn-down either specifically to finance capital works in progress or for general purposes. Commissions on borrowings drawn-down for capital works in progress are capitalized. Commission relating to other borrowings is reported within finance expenses in the statement of income.

Borrowings are classified as current liabilities (either as short term financing or as current portion of long term financing) unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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Where the Company has a long term facility agreement operated on a Tawarroq mechanism of roll-overs through individual deals, and it is the Company's intention to roll-over these facilities, such amounts are classified as long term borrowings. For statement of cash flow purposes, these roll-over transactions are treated as one transaction.

End-of-service indemnities

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

Statutory reserve

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

Revenue recognition

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

Cost of revenues

Cost of revenues includes direct costs of production, including costs of materials, contract services, labor, depreciation of production related property, plant and equipment, amortization of production related intangible assets and directly attributable production overheads. Costs of production are attributed to cost of revenues and inventories based on units of production.

Expenses

Selling and distribution expenses comprise costs incurred in the distribution and sale of the Company's products, including employee costs and transportation costs (including area discounts). All other operating expenses are classified as general and administrative expenses.

Zakat

The Company is subject to the regulations of the General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat is provided for on the accruals basis. Any difference in the estimate is recorded when the final assessment is approved, or an assessment order received.

Derivative financial instruments

The Company has not designated its derivatives as hedging instruments and accordingly, the net impact of the changes in cash flows for Murabaha and Tawarroq profits is recognized in the statement of income at the corresponding settlement dates.

Foreign currency translation

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

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Contingent liabilities

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

Earnings per share

Earnings per share is calculated by dividing operating income, other activities and net income for the relevant period by the weighted average of ordinary shares issued and outstanding during the period (170 million shares).

Dividends

Dividends are recorded in the financial statements in the year in which they are approved. In the case of interim dividends, this is when recommended by directors, whilst for final dividends, this is when approved by the shareholders of the Company.

Segmental reporting

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

3. INVENTORIES - NET

Inventories include consumable spare parts for plant and machinery amounting to SR 119,014 (2015: SR 124,233).

4. PROPERTY, PLANT AND EQUIPMENT - NET

Net book values of property, plant and equipment at September 30, comprised the following:

	2016	2015
Land	2,563	2,563
Buildings	927,953	966,727
Plant and quarry machinery and equipment	1,359,874	1,425,306
Vehicles	7,105	4,900
Furniture, fixtures and office equipment	5,358	5,907
Computers and related software	5,709	5,633
Capital work in progress	1,077	-
Spare parts held for future capital use (strategic)	40,829	42,822
	<u>2,350,468</u>	<u>2,453,858</u>

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5. LONG-TERM LOANS

	2016	2015
The movement in long-term loans is as follows:		
Balance at January 1,	800,000	801,757
Sukuk proceeds	-	400,000
Repaid during the period	<u>(75,000)</u>	<u>(401,757)</u>
Balance at September 30,	725,000	800,000
Current portion of long term loans	<u>(100,000)</u>	<u>(75,000)</u>
Long term portion	<u>625,000</u>	<u>725,000</u>

Commercial Banks Facilities (Tawarroq)

The Company has signed bank facility agreements with commercial banks (some of which replace old facility agreement) as follows:

- Tawarroq facility for SR 500,000 to finance the third production line. The full amount was drawn-down and is repayable in equal quarterly installments of SR 25,000 each that started on September 30, 2013 and ends in June 2018. The amount outstanding as at September 30, 2016 was SR 175,000 (2015: SR 250,000).
- Tawarroq facility for SR 150,000 to finance the waste heat recovery plant which is repayable in equal quarterly installments of SR 25,000 each starting September 30, 2018 and ending in 2019.

All of the above agreements have conditions to maintain certain financial ratios and relating to payments of dividends. The company also has a multipurpose facility agreement amount SR 100,000 available.

Sukuk

In June 2015, the Company privately placed an unrated but registered Sukuk of SR 400,000 for five years maturing in June 2020, with a profit rate of 1.4% plus three month SIBOR, payable quarterly. The proceeds were applied towards part settlement of the existing indebtedness of the company .

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6. PROVISION FOR ZAKAT

	2016	2015
Balance at January 1	22,154	20,601
Add/ (Less)		
Prior years settlement	(4,995)	7,985
Current provision	13,500	13,500
Less:		
Paid during the period	-	(28,586)
Balance at September 30	<u>30,659</u>	<u>13,500</u>

7. COST OF REVENUES

The cost of revenues include indirect cost which related to the non-operating of part of the company's production line(s) during the period due to the unavailability of fuel in amount of SR 37,695 (2015: SR 26,667). During the current period the indirect cost is in amount SR 16,236 (2015:SR10,572)

8. DIVIDENDS PAYABLE

The shareholders of the Company, in their General Assembly held on March 29, 2016 (corresponding to Jumaada al Thaany 20, 1437), approved a dividend of SR 85,000 (50 Halala per share) (2015: SR 102,000 (60 Halala per share)) that was paid on April 21, 2016.

The shareholders of the Company, in their General Assembly held on May 11, 2016 (corresponding to Shaaban 24, 1437), approved a dividend of SR 102,000 (60 Halala per share) (2015: nil) that was paid on June 09, 2016.

Accruals and other payables are include unclaimed dividends of SR 1,351 (2015: SR 1,221).

9. CONTINGENCIES AND COMMITMENTS

As of September 30, 2016, the Company had commitments in the form of letters of credit and bills for collection amounting to SR 451 (2015: SR 1,302), letters of guarantee amounting to SR 47 (2015: SR 47) and performance bonds amounting to SR 2,304 (2015: SR 2,304).

During the period, one of the company's client filed a lawsuit against the company requesting a compensation of SR 16 million, the company did not recongise any provision because the company management believe that the final out will for the company advantage.

NAJРАН CEMENT COMPANY
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10. FINANCIAL INSTRUMENTS - FAIR VALUE AND RISK MANAGEMENT

Financial instruments comprise of financial assets and financial liabilities. The Company's financial assets consist of cash and cash equivalents and accounts receivable and other receivables and its financial liabilities consist of Sukuk, other long term financing, and trade and other accounts payable.

Currency risk:

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

Liquidity risk:

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades or the non-compliance with the terms of some agreements, which may cause certain sources of funding to dry up immediately, or by breach of funding covenants. To mitigate this risk, management monitors the maturity profile of its financial assets and liabilities to ensure that adequate liquidity is maintained or made available, as necessary.

Credit risk:

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

Fair values of financial assets and liabilities:

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.

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2016
(Expressed in '000 Saudi Riyals)

Fair value and cash flow profit rate risks

Fair value and cash flow profit rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing profit rates on the Company's financial position and cash flows. The Company's profit rate risk arises from the Sukuk and long term financing, which are at floating rates of profit rates, based on SIBOR. All debts with floating profit rates are subject to re-pricing on a regular basis. The Company has entered into derivative contracts to manage the profit rate risk associated with the Sukuk and long term financing, in addition, Management monitors the changes in profit rates on long term borrowings and believes that the fair value and cash flow rate risks to the Company are not significant.

11. COMPARATIVES

Certain reclassification have been made to conform to the current period presentation.

12. FINANCIAL STATEMENTS APPROVAL

These financial statements were approved by the Board of Directors of the Company on October 16, 2016.