

**THE SAUDI ARABIAN AMIANTIT COMPANY
AND SUBSIDIARIES
(A Saudi Joint Stock Company)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED
MARCH 31, 2012 AND INDEPENDENT AUDITORS'
LIMITED REVIEW REPORT**

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2012

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INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

To the shareholders of
The Saudi Arabian Amiantit Company
(A Saudi Joint Stock Company)

April 12, 2012

Scope of review

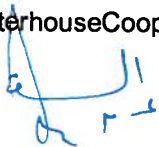
We have reviewed the accompanying interim consolidated balance sheet of The Saudi Arabian Amiantit Company and Subsidiaries (the "Group") as of March 31, 2012 and the related interim consolidated statements of income and cash flows for the three-month period then ended, including the related interim notes to the financial statements. These interim consolidated financial statements are the responsibility of the Group's management.

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

Conclusion

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

PricewaterhouseCoopers

By: 
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License Number 369

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated balance sheet
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)	March 31, 2011 (Unaudited)
Assets				
Current assets				
Cash and cash equivalents		279,121	390,676	369,205
Short-term bank deposit		1,383	1,330	644
Accounts receivable	2	1,874,135	1,747,882	1,413,349
Inventories		1,077,902	1,049,647	931,329
Prepayments and other receivables		142,526	125,078	192,753
Non-current assets held for sale	1	-	-	21,298
		3,375,067	3,314,613	2,928,578
Non-current assets				
Investments in associates		215,531	228,717	263,540
Property, plant and equipment		797,298	784,702	832,851
Intangible assets		10,772	10,873	6,759
Deferred income tax assets		12,436	11,686	12,394
Other non-current assets		33,210	56,822	31,139
		1,069,247	1,092,800	1,146,683
Total assets		4,444,314	4,407,413	4,075,261
Liabilities				
Current liabilities				
Short-term borrowings		1,287,156	1,128,792	978,393
Current maturity of long-term borrowings		91,106	81,006	29,193
Current maturity of liabilities against capital leases		6,092	12,186	12,188
Accounts payable		579,066	569,286	544,044
Accrued and other liabilities		315,006	289,129	350,916
Zakat and tax payable		128,418	148,395	158,424
		2,406,844	2,228,794	2,073,158
Non-current liabilities				
Long-term borrowings		208,569	224,501	66,406
Liabilities against capital leases		-	-	6,093
Employee termination benefits		89,089	89,903	94,132
Warranty provisions		51,118	48,578	50,971
Other non-current liabilities		10,176	10,139	2,848
		358,952	373,121	220,450
Total liabilities		2,765,796	2,601,915	2,293,608
Equity				
Equity attributable to shareholders of the Company:				
Share capital		1,155,000	1,155,000	1,155,000
Statutory reserve		148,678	148,678	133,553
Retained earnings	5	242,886	348,992	247,173
Treasury shares and reserve	1	(40,600)	-	-
Currency translation differences		2,054	(17,178)	41,912
Total shareholders' equity		1,508,018	1,635,492	1,577,638
Minority interest		170,500	170,006	204,015
Total equity		1,678,518	1,805,498	1,781,653
Total liabilities and equity		4,444,314	4,407,413	4,075,261
Contingencies and commitments	6			

The notes from 1 to 6 form an integral part of these interim consolidated financial statements.

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated income statement
For the three-month period ended March 31, 2012
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2012 (Unaudited)	2011 (Unaudited)
Sales	4	900,020	778,876
Cost of sales		(744,108)	(622,399)
Gross profit		<u>155,912</u>	<u>156,477</u>
Operating expenses			
Selling and marketing		(18,881)	(23,252)
General and administrative		(57,326)	(56,503)
Income from operations		<u>79,705</u>	<u>76,722</u>
Other income (expenses)			
Share in net loss of associates		(10,060)	(1,131)
Financial charges		(20,701)	(13,696)
Other, net	3	(2,118)	(5,083)
Income before foreign income taxes, zakat and minority interest		<u>46,826</u>	<u>56,812</u>
Income taxes related to foreign subsidiaries		(2,138)	(2,820)
Zakat		(11,255)	(15,000)
Income before minority interest		<u>33,433</u>	<u>38,992</u>
Minority interest		<u>1,746</u>	<u>(4,688)</u>
Net income for the period		<u>35,179</u>	<u>34,304</u>
Earnings (loss) per share (Saudi Riyals):			
• Operating income	2.28	<u>0.70</u>	<u>0.66</u>
• Non-operating loss		<u>(0.39)</u>	<u>(0.36)</u>
• Net income for the period		<u>0.31</u>	<u>0.30</u>

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THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated cash flow statement
For the three-month period ended March 31, 2012
(All amounts in Saudi Riyals thousands unless otherwise stated)

	2012 (Unaudited)	2011 (Unaudited)
Cash flow from operating activities		
Net income for the period	35,179	34,304
<u>Adjustments for non-cash items</u>		
Depreciation, impairment, amortization and provisions	23,671	40,819
Share in net loss of associates	10,060	1,131
Gain from sale of an investment	-	(2,600)
Deferred income tax credits	(198)	(501)
(loss) income applicable to minority interest	(1,746)	4,688
<u>Changes in working capital</u>		
Accounts receivable	(119,893)	(67,672)
Inventories	(16,068)	(13,408)
Prepayments and other receivables	(9,079)	(3,763)
Accounts payable	393	113,530
Accrued and other liabilities	6,806	(7,511)
Employee termination benefits	(1,225)	736
Net cash (utilized in) generated from operating activities	<u>(72,100)</u>	<u>99,753</u>
Cash flow from investing activities		
Short-term bank deposit	(53)	132,489
Investments	(473)	-
Proceeds from sale of an investment	-	2,600
Purchase of property, plant and equipment	(21,998)	(13,229)
Intangible assets and other	31,050	538
Net cash generated from investing activities	<u>8,526</u>	<u>122,398</u>
Cash flow from financing activities		
Increase in short-term borrowings	158,679	89,995
Proceeds from long-term borrowings	459	6,196
Repayments of long-term borrowings	(12,606)	(10,808)
Repayments of liabilities against capital leases	(6,094)	(6,093)
Dividends paid	(144,375)	(173,250)
Board of Directors' fee paid	(1,800)	(1,550)
Purchase of treasury stock	(41,757)	-
Changes in minority interests and other	(487)	988
Net cash utilized in financing activities	<u>(47,981)</u>	<u>(94,522)</u>
Net change in cash and cash equivalents	(111,555)	127,629
Cash and cash equivalents at beginning of period	<u>390,676</u>	<u>241,576</u>
Cash and cash equivalents at end of period	<u>279,121</u>	<u>369,205</u>

The notes from 1 to 6 form an integral part of these interim consolidated financial statements.

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month period ended March 31, 2012 (Unaudited)
(All amounts in Saudi riyals thousands unless otherwise stated)

1 General information

The Saudi Arabian Amiantit Company (the "Company" or "SAAC") and its subsidiaries (collectively the "Group") consist of the Company and its various Saudi Arabian and foreign subsidiaries. The Group is principally engaged in manufacturing and selling various types of pipes and related products, licensing of related technologies and supply of pipe manufacturing machines, and water management services including related consultancy, engineering and operations.

The Company is a joint stock company, registered in the Kingdom of Saudi Arabia, operating under Commercial Registration No. 2050002103 issued in Dammam on 17 Rabi' I 1388 AH (June 13, 1968). The registered address of the Company is P.O. Box 589, First Industrial Area, Dammam 31421, Kingdom of Saudi Arabia.

During the three-month period ended March 31, 2012, SAAC has implemented an Employee Share Ownership Plan ("ESOP"), which provides a 3 year service awards to certain levels of employees effective January 1, 2012. These employees, subject to their subscription of ESOP and meeting the underlying conditions, will be given the Company's shares, at no costs, provided certain of service conditions are met. To implement this plan, the Company through a local financial institution has purchased its shares which are held by the local financial institution.

The accompanying interim consolidated financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Group's management to present a fair statement of the financial position, results of operations and cash flows. The interim results of the operations for the three-month period ended March 31, 2012 may not represent a proper indication for the annual results of operations. These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2011.

The accompanying interim consolidated financial statements were authorized for issue by the Company's management on April 12, 2012.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

2.1 Basis of preparation

The accompanying interim consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of derivative financial instruments to fair value, and in compliance with the Standard of Accounting for Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. Significant accounting policies adopted by the Group for preparing such interim consolidated financial statements are consistent with the accounting policies described in the 2011 annual audited consolidated financial statements of the Group.

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

2.3 Investments

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
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For the three-month period ended March 31, 2012 (Unaudited)

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The purchase method of accounting is used to account for the acquisition of subsidiaries. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under "Intangible assets" in the balance sheet. Goodwill is tested annually for impairment and carried at cost, net of impairment losses.

Inter-company transactions, balances and unrealized gains and losses on transactions between group companies are eliminated. Unrealized losses are also eliminated.

(b) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, which is adjusted subsequently for impairment loss, if any.

2.4 Segment reporting

(a) Business segment

A business segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.5 Foreign currencies

(a) Reporting currency

These interim consolidated financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period-end exchange rates are recognized in the income statement.

(c) Group companies

Cumulative adjustments resulting from the translations of the financial statements of the foreign subsidiaries and associates into Saudi Riyals are reported as a separate component of equity.

Dividends received from subsidiaries and associates are translated at the exchange rate in effect at the transaction date.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

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2.7 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

At March 31, 2012 approximately 36% (2011: 40%) of accounts receivable were related to government projects.

2.8 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

2.9 Non-current assets held for sale

Non-current assets held for sale are assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Liabilities associated with non-current assets held for sale are presented separately under current liabilities in the balance sheet.

2.10 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, except construction in progress which is stated at cost. Land is not depreciated. Depreciation is charged to the income statement, using the straight-line method, to allocate the cost of the related assets to their estimated useful lives.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.11 Deferred charges

Costs that are not of benefit beyond the current period are charged to the income statement, while costs that will benefit future periods are capitalized. Deferred charges, reported under "Intangible assets" in the balance sheet, include certain indirect construction costs and pre-operating expenses which are amortized over periods which do not exceed seven years.

2.12 Patents, trademarks and licenses

Expenditure to acquire patents, trademarks and licenses, included under "Intangible assets" is capitalized and amortized using the straight-line method over their useful lives, but not exceeding twenty years.

2.13 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. Impairment losses recognized on intangible assets are not reversible.

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2.14 Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the income statement.

2.15 Capital leases

The Group accounts for property, plant and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to the income statement by applying the straight-line method at the rates applicable to the related assets.

2.16 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.17 Provisions

Warranty provisions - The Group offers warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Warranty provisions are charged to "Cost of sales" in the income statement.

Onerous contracts - Provision against onerous contracts are recognized when the Group expects that the costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Such provisions are charged to "Cost of sales" in the income statement.

2.18 Zakat and tax

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income tax. Income tax provisions related to the foreign shareholders in such subsidiaries are charged to the minority interest.

Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the income statement. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

The Company and its Saudi Arabian subsidiaries withhold tax on certain transactions with non-resident parties, including dividend payments to foreign shareholders of the Saudi Arabian subsidiaries, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Foreign subsidiaries are subject to income tax in their respective countries of domicile which are charged to the income statement.

Deferred income tax are recognized on all major temporary differences between financial income and taxable income during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2.19 Employee termination benefits

Employee termination benefits required by the Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the income statement.

The foreign subsidiaries provide currently for employee termination and other benefits as required under the laws of their respective countries of domicile.

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2.20 Employees share ownership plan

The employees' service cost of share options granted to them under the ESOP is measured by reference to the fair value of the Company's shares on the date on which the options are granted. This cost is recognized as an expense over the period in which service conditions are fulfilled by the employees, ending on the date on which the relevant employees become fully entitled to the shares (the "vesting date"). The cumulative expense recognized, for the equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Company's best estimate of the number of shares that will ultimately vest. The charge for a period recorded in the income statement represents the movement in cumulative expense recognized as at the beginning and end of that period.

Shares purchased by the financial institution acting as trustee for the ESOP are carried at cost as a deduction from shareholders' equity until the options vest and the underlying shares are transferred to the employee on which date any difference between the employee service cost and the purchase cost of the shares is taken directly to retained earnings as an equity adjustment.

2.21 Revenues

Sales are recognized upon delivery of products or on the performance of services. Revenues on long-term contracts are recognized on the percentage of completion basis. Revenues are shown net of certain expenses and after eliminating sales within the Group.

2.22 Selling, marketing and general and administrative expenses

Selling, marketing and general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between selling, marketing and general and administrative expenses and production costs, when required, are made on a consistent basis.

2.23 Dividends

Dividends are recorded in the financial statements in the period in which they are approved by shareholders of the Company.

2.24 Derivative financial Instruments

Derivative financial instruments are initially recorded at cost, if any, and are re-measured to their fair values at subsequent reporting dates. Changes in the fair value of derivative financial instruments which do not qualify for hedge accounting are recognized in the income statement as they arise and the resulting positive and negative fair values are reported under current assets and liabilities, respectively, in the balance sheet.

2.25 Operating leases

Rental expense under operating leases are charged to the income statement over the period of the respective lease.

2.26 Reclassifications

Certain amounts in the comparative 2011 financial statements have been reclassified to conform with 2012 presentation.

2.27 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of their net income to a statutory reserve until such reserve equals 50% of share capital. The statutory reserve in the accompanying interim consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

2.28 Earnings (loss) per share

Earnings (loss) per share for the three-month period ended March 31, 2012 has been computed by dividing the operating income, non-operating loss and net income for the period by weighted average number of 114,618,500 shares outstanding at March 31, 2012 (2011: 115,500,000 shares).

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3 Other income (expenses)

	2012	2011
Impairment losses against investments and plant and equipment	(4,502)	(6,854)
Gain on sale of investment	-	2,600
Foreign exchange gain (loss)	2,295	(7,365)
Miscellaneous income	89	6,536
	<u>(2,118)</u>	<u>(5,083)</u>

4 Segment information

The Group operates principally in the following business segments:

- (i) Manufacturing and selling various types of pipes;
- (ii) Development and licensing of technologies related to production of various types of pipes, construction and supply of related pipe manufacturing machines; and
- (iii) Water management and related consultancy, engineering and operations.

Selected financial information as of March 31, 2012 and 2011 and for the periods then ended, summarized by the above business segments, was as follows:

	Pipe manufacturing	Technology	Water management	Total
2012				
Sales	821,055	3,864	75,101	900,020
Net income (loss)	47,651	(6,398)	(6,074)	35,179
Total assets	4,010,715	79,616	353,983	4,444,314
2011				
Sales	683,749	9,727	85,400	778,876
Net income (loss)	33,769	(298)	833	34,304
Total assets	3,649,900	70,698	354,663	4,075,261

The Group's operations are conducted in Saudi Arabia, Europe and certain other geographical areas. Selected financial information as of March 31, 2012 and 2011 and for the periods then ended, summarized by geographic area, was as follows:

	Saudi Arabia	Europe and other countries	Total
2012			
Sales	643,115	256,905	900,020
Non-current assets:			
Property, plant and equipment	489,440	307,858	797,298
Other non-current assets	199,284	72,665	271,949
2011			
Sales	477,770	301,106	778,876
Non-current assets:			
Property, plant and equipment	487,833	345,018	832,851
Other non-current assets	244,135	69,697	313,832

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5 Dividends

The shareholders have approved a dividend of Saudi Riyal 1.25 per share, amounting to Saudi Riyals 144.4 million, in their meeting held on February 29, 2012. Such dividends were fully paid during the period.

6 Contingencies and commitments

- (i) The Group was contingently liable for bank guarantees issued in the normal course of the business amounting Saudi Riyals 540.4 million at March 31, 2012. SAAC, collectively with other shareholder of an associate, is also contingently liable for a corporate guarantee amounting to Saudi Riyals 260.0 million in relation to borrowing facilities of the associate.
- (ii) The capital expenditure contracted by the Group but not yet incurred till March 31, 2012 was approximately Saudi Riyals 31.9 million.