

**THE SAUDI ARABIAN AMIANTIT COMPANY  
AND SUBSIDIARIES**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2009

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES  
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**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

April 14, 2009

To the Shareholders of The Saudi Arabian Amiantit Company:

We have reviewed the accompanying interim condensed consolidated balance sheet of The Saudi Arabian Amiantit Company and Subsidiaries (the "Group") as of March 31, 2009 and the related interim condensed consolidated statements of income and of cash flows for the three-month period then ended, including the related interim condensed notes to the financial statements. These interim condensed consolidated financial statements are the responsibility of the Group's management.


We conducted our review in accordance with the standards established by the Saudi Organization for Certified Public Accountants. A 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.


Based on our review, we are not aware of any material modifications that should be made to the interim condensed consolidated financial statements of the Group as of March 31, 2009 and for the three-month period then ended for them to be in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group.

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**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**

**Interim condensed consolidated balance sheet**

(All amounts in Saudi riyals thousands unless otherwise stated)

	Note	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)	March 31, 2008 (Unaudited)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		327,478	329,139	126,488
Accounts receivable	2	1,689,958	1,689,994	1,767,634
Inventories		966,214	1,092,947	840,232
Prepayments and other receivables		66,595	69,030	56,890
		<b>3,050,245</b>	<b>3,181,110</b>	<b>2,791,244</b>
<b>Non-current assets</b>				
Investments in associates	1	313,072	306,513	319,933
Property, plant and equipment		934,756	960,346	914,205
Intangible assets		27,418	27,047	58,779
Other non-current assets		27,166	28,783	68,778
		<b>1,302,412</b>	<b>1,322,689</b>	<b>1,361,695</b>
<b>Total assets</b>		<b>4,352,657</b>	<b>4,503,799</b>	<b>4,152,939</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Short-term borrowings		1,314,746	1,439,666	1,261,233
Current maturity of long-term borrowings		40,846	46,846	69,052
Current maturity of liabilities against capital leases		12,188	12,188	10,312
Accounts payable, accrued and other liabilities		1,017,607	1,001,041	950,445
		<b>2,385,387</b>	<b>2,499,741</b>	<b>2,291,042</b>
<b>Non-current liabilities</b>				
Long-term borrowings		54,085	74,234	98,956
Liabilities against capital leases		30,469	36,562	-
Employee termination benefits		101,191	98,165	97,952
Other non-current liabilities		36,307	31,249	42,433
		<b>222,052</b>	<b>240,210</b>	<b>239,341</b>
<b>Total liabilities</b>		<b>2,607,439</b>	<b>2,739,951</b>	<b>2,530,383</b>
<b>Equity</b>				
Equity attributable to shareholders of the Company:				
Share capital		1,155,000	1,155,000	1,155,000
Statutory reserve		96,795	96,795	73,263
Retained earnings	5	281,383	233,367	67,276
Currency translation differences		(34,310)	1,573	82,244
<b>Total shareholders' equity</b>		<b>1,498,868</b>	<b>1,486,735</b>	<b>1,377,783</b>
Minority interest		246,350	277,113	244,773
<b>Total equity</b>		<b>1,745,218</b>	<b>1,763,848</b>	<b>1,622,556</b>
<b>Total equity and liabilities</b>		<b>4,352,657</b>	<b>4,503,799</b>	<b>4,152,939</b>
<b>Contingencies and commitments</b>	6			

The notes on pages 6 to 12 form an integral part of these interim condensed consolidated financial statements.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Interim condensed consolidated income statement**  
**For three-month period ended March 31, 2009**  
(All amounts in Saudi riyals thousands unless otherwise stated)

	<b>Note</b>	<b>2009</b> <b>(Unaudited)</b>	<b>2008</b> <b>(Unaudited)</b>
Sales	4	<b>846,904</b>	928,536
Cost of sales		<b>(639,632)</b>	(723,945)
Gross profit		<b>207,272</b>	204,591
<b>Operating expenses</b>			
Selling and marketing		<b>(19,114)</b>	(18,448)
General and administrative		<b>(77,103)</b>	(83,860)
Income from operations		<b>111,055</b>	102,283
<b>Other income (expenses)</b>			
Financial charges - net		<b>(24,153)</b>	(33,658)
Other - net	3	<b>(16,530)</b>	7,396
Income before foreign income taxes, zakat and minority interest		<b>70,372</b>	76,021
Income taxes related to foreign subsidiaries		<b>(7,279)</b>	(9,136)
Zakat		<b>(7,800)</b>	(6,000)
Income before minority interest		<b>55,293</b>	60,885
Minority interest		<b>(7,277)</b>	(15,187)
<b>Net income</b>		<b>48,016</b>	45,698
<b>Earnings (loss) per share (Saudi riyals):</b>			
• Income from operations		<b>0.96</b>	0.89
• Non-operating loss		<b>(0.54)</b>	(0.49)
• Net income		<b>0.42</b>	0.40

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**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Interim condensed consolidated cash flow statement**  
**For three-month period ended March 31, 2009**  
(All amounts in Saudi riyals thousands unless otherwise stated)

	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>Unaudited)</b>
<b>Cash flow from operating activities</b>		
Net income	<b>48,016</b>	45,698
<u>Adjustments for non-cash items</u>		
Depreciation, amortization and provisions	<b>78,462</b>	72,514
Share in net income of associates	<b>(7,770)</b>	(12,730)
Deferred income tax charges	<b>32</b>	1,646
Income applicable to minority interest	<b>7,277</b>	15,187
<u>Changes in working capital</u>		
Accounts receivable	<b>(49,138)</b>	(223,838)
Inventories	<b>101,162</b>	(4,322)
Prepayments and other receivables	<b>1,006</b>	7,083
Accounts payable, accrued and other liabilities	<b>(8,992)</b>	77,692
Employee termination benefits	<b>3,558</b>	4,755
Net cash generated from (utilized in) operating activities	<b>173,613</b>	(16,315)
<b>Cash flow from investing activities</b>		
Investments	<b>(10,000)</b>	(418)
Dividends received from associates	<b>3,788</b>	-
Purchase of property, plant and equipment - net	<b>(26,338)</b>	(14,778)
Proceeds from disposal of non-current assets held for sale	<b>-</b>	52,500
Changes in other non-current assets	<b>640</b>	(3,719)
Net cash (utilized in) generated from investing activities	<b>(31,910)</b>	33,585
<b>Cash flow from financing activities</b>		
Decrease in short-term borrowings	<b>(118,981)</b>	(53,209)
Increase in long-term borrowings	<b>-</b>	20,849
Repayments of long-term borrowings	<b>(19,204)</b>	(54,824)
Repayments of liabilities against capital leases	<b>(6,093)</b>	-
Dividends paid by subsidiaries to minority interests	<b>-</b>	(6,348)
Changes in minority interest and other non-current liabilities	<b>914</b>	1,155
Net cash utilized in financing activities	<b>(143,364)</b>	(92,377)
<b>Net change in cash and cash equivalents</b>	<b>(1,661)</b>	(75,107)
Cash and cash equivalents at beginning of period	<b>329,139</b>	201,595
<b>Cash and cash equivalents at end of period</b>	<b>327,478</b>	126,488

The notes on pages 6 to 12 form an integral part of these interim condensed consolidated financial statements.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Notes to the interim condensed consolidated financial statements**  
**For three-month period ended March 31, 2009 (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'l 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.

Effective March 31, 2009, SAAC increased its share holding in one of its Saudi Arabian subsidiaries "Saudi Arabian Ductile Iron Pipe Co. Ltd." from 75% to 95% through an acquisition of 20% equity interest from its foreign shareholder against a cash consideration of Saudi riyals 16.0 million.

The accompanying interim condensed 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 periods ended March 31, 2009 and 2008 may not represent a proper indication for the annual results of operations. These interim condensed 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, 2008.

The accompanying interim condensed consolidated financial statements were authorized for issue by the Company's management on April 14, 2009.

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these interim condensed 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 condensed 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 condensed consolidated financial statements are consistent with the accounting policies described in the 2008 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 and are de-consolidated from the date that control ceases.

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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 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 condensed consolidated financial statements of the Company 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 date of the transaction. 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 year-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 and related currency translation differences are realized in the income statement.

**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, 2009 approximately 38% (2008: 30%) 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 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 their costs to their residual values over 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.

**2.10 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.

**2.11 Patents, trademarks and licenses**

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

**2.12 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.

**2.13 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.

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**2.14 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.

**2.15 Accounts payable and accruals**

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

**2.16 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.

**2.17 Zakat and taxes**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Taxes (the "DZIT"). Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income taxes. 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 taxes 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 taxes in their respective countries of domicile which are charged to the income statement.

Deferred income tax assets are recognized on carry-forward tax losses and all major temporary differences between financial income and taxable income to the extent that it is probable that future taxable income will be available against which such carry-forward tax losses and the temporary differences can be utilized. Deferred income tax liabilities are recognized on significant temporary differences expected to result in an income tax liability in future periods. Deferred income taxes are determined using tax rates which have been enacted at 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.

**2.18 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 for employee termination and other benefits as required under the laws of their respective countries of domicile.

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**2.19 Revenues**

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

**2.20 Operating expenses**

Operating expenses comprise of selling, marketing and general and administrative expenses that 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.

**2.21 Dividends**

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

**2.22 Derivative financial instruments**

Derivative financial instruments are initially recorded at cost, if any, and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that 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.

**2.23 Operating leases**

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

**2.24 Statutory reserve**

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

**2.25 Earnings (loss) per share**

Earnings (loss) per share for the three-month periods ended March 31, 2009 and 2008 has been computed by dividing the income from operations, non-operating loss and net income for each periods by weighted average number of 115,500,000 shares outstanding at March 31, 2009 and 2008.

**3 Other income (expense)**

	<b>2009</b>	<b>2008</b>
Group's share in net income of associates	<b>7,770</b>	12,730
Impairment provisions against investments and plant and equipment	<b>(9,863)</b>	-
Provision for settlement of claims against subsidiaries	<b>(5,850)</b>	(2,845)
Foreign exchange losses	<b>(13,405)</b>	(2,589)
Other - net	<b>4,818</b>	100
	<b>(16,530)</b>	7,396

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**4 Segment information**

The Group operates principally in the following business segments:

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

Selected financial information as of March 31, 2009 and 2008 and for the periods then ended, summarized by the above business segments, was as follows:

	<b>Pipe manufacturing</b>	<b>Technology</b>	<b>Water management</b>	<b>Total</b>
<b>2009</b>				
Sales	<b>770,866</b>	<b>18,538</b>	<b>57,500</b>	<b>846,904</b>
Net income (loss)	<b>44,627</b>	<b>3,469</b>	<b>(80)</b>	<b>48,016</b>
Total assets	<b>3,874,379</b>	<b>157,172</b>	<b>321,106</b>	<b>4,352,657</b>
<b>2008</b>				
Sales	857,016	20,151	51,369	928,536
Net income (loss)	43,983	2,887	(1,172)	45,698
Total assets	3,602,494	271,462	278,983	4,152,939

The Group's operations are conducted in Saudi Arabia, Europe and certain other geographical areas. Selected financial information as of March 31, 2009 and 2008 and for the periods then ended, summarized by geographic area, was as follows:

	<b>Saudi Arabia</b>	<b>Europe</b>	<b>Other countries</b>	<b>Total</b>
<b>2009</b>				
Sales	<b>483,055</b>	<b>286,648</b>	<b>77,201</b>	<b>846,904</b>
Property, plant and equipment	<b>565,820</b>	<b>249,217</b>	<b>119,719</b>	<b>934,756</b>
Other non-current assets	<b>219,897</b>	<b>59,406</b>	<b>88,353</b>	<b>367,656</b>
<b>2008</b>				
Sales	498,895	308,583	121,058	928,536
Property, plant and equipment	547,273	239,487	127,445	914,205
Other non-current assets	279,949	61,361	106,180	447,490

**5 Proposed dividends**

The Board of Directors of the Company have proposed a dividend of Saudi riyals 0.5 per share, amounting to Saudi riyals 57.8 million, in their meeting held on February 15, 2009.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
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(All amounts in Saudi riyals thousands unless otherwise stated)

**6 Contingencies and commitments**

- (i) The Group was contingently liable for bank guarantees issued on behalf of the Group in the normal course of the business amounting Saudi riyals 596.6 million at March 31, 2009.
- (ii) SAAC and certain Saudi Arabian subsidiaries have received additional zakat assessments. SAAC and these subsidiaries have appealed the assessments and management believes that no material liability will arise upon the ultimate resolution of these assessments. Accordingly, no provisions have been made in the accompanying interim condensed consolidated financial statements. Certain foreign subsidiaries have outstanding assessments related to income taxes and other local taxes in their respective countries of domicile. Such assessments are in various stages of appeal process. Group management believes that no material gain or loss will arise upon the ultimate resolution of these matters. Certain subsidiaries also have contingent carry over tax benefits.
- (iii) The capital expenditure contracted by the Group but not incurred till March 31, 2009 was approximately Saudi riyals 87.9 million.