

FINANCIAL STATEMENTS (UNAUDITED) 30 JUNE 2011

Ernst & Young

Yanbu Cement Company (A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) 30 JUNE 2011



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REVIEW REPORT TO THE SHAREHOLDERS OF YANBU CEMENT COMPANY (A Saudi Joint Stock Company) ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of YANBU CEMENT COMPANY ("the Company") (a Saudi Joint Stock Company) and its subsidiary as at 30 June 2011 and the related interim consolidated statements of income for the three month and six month periods then ended and the interim consolidated statements of cash flows and changes in shareholders' equity for the six months period then ended, which have been prepared by the company's management and submitted 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 review is limited primarily to analytical procedures applied to financial data and inquiries of Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

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

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Ahmed I. Reda

Certified Public Accountant

Licence No. 356

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INTERIM CONSOLIDATED BALANCE SHEET (Unaudited) As at 30 June 2011

	Note	2011 SR	2010 SR
ASSETS	11010	DK	D.K.
CURRENT ASSETS Cash and bank balances Investment placement and Investments in trading Fund Accounts receivable and other assets Inventories		487,926,657 17,087 179,789,438 291,456,321	54,688,974 17,059 197,260,606 262,799,380
TOTAL CURRENT ASSETS	•	959,189,503	514,766,019
NON-CURRENT ASSETS Property and equipment Deferred charges	4	3,463,401,224	2,869,666,549 55,511
TOTAL NON-CURRENT ASSETS		3,463,401,224	2,869,722,060
TOTAL ASSETS		4,422,590,727	3,384,488,079
LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT LIABILITIES			
Bank facilities - current portion Bank overdraft Trade Accounts payable Dividends payable Zakat provision Accrued expenses and other liabilities		242,743,825 3,728,949 195,153,396 56,402,982 5,669,725 119,711,844	2,761,206 702,098 148,030,565 61,067,411 5,169,640 136,027,365
TOTAL CURRENT LIABILITIES		623,410,721	353,758,285
NON-CURRENT LIABILITIES Bank facilities End of service benefits provision		1,150,802,660 54,797,361	630,321,060 45,028,538
TOTAL NON-CURRENT LIABILITIES		1,205,600,021	675,349,598
TOTAL LIABILITIES		1,829,010,742	1,029,107,883
SHAREHOLDERS' EQUITY Authorized and fully paid capital Statutory reserve Expansionary reserve Retained earnings	1	1,050,000,000 525,000,000 741,879,357 251,000,603	1,050,000,000 525,000,000 523,715,604 236,596,732
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS IN PARENT COMPANY		2,567,879,960	2,335,312,336
Minority interest		25,700,025	20,067,860
TOTAL SHAREHOLDERS' EQUITY	•	2,593,579,985	2,355,380,196
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	-	4,422,590,727	3,384,488,079

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited) For the period ended 30 June 2011

in the state of th	For the three months period ended 30 June		For the six months period ended 30 June	
	2011 SR	2010 SR	2011 SR	2010 SR
Net sales Cost of sales	311,370,564 (152,804,904)	252,026,420 (129,927,320)	540,418,500 (271,002,105)	491,560,210 (241,808,299)
GROSS INCOME	158,565,660	122,099,100	269,416,395	249,751,911
Selling and distribution expenses General and administrative expenses	(2,974,237) (5,504,563)	(2,231,194) (4,028,395)	(5,863,675) (9,941,478)	(4,662,149) (7,452,176)
NET OPERATING INCOME	150,086,860	115,839,511	253,611,242	237,637,586
Financial charges Other income	(55,810) 4,982,738	(13,945) 1,486,134	(130,918) 5,811,063	(46,494) 6,216,677
NET INCOME BEFORE ZAKAT AND MINORITY INTEREST	155,013,788	117,311,700	259,291,387	243,807,769
Zakat	(3,597,012)	(3,064,367)	(5,725,951)	(5,514,367)
NET INCOME BEFORE MINORITY INTEREST	151,416,776	114,247,333	253,565,436	238,293,402
Minority interest	(1,513,383)	(830,069)	(2,564,833)	(1,696,670)
NET INCOME	149,903,393	113,417,264	251,000,603	236,596,732
EARNING PER SHARE: 3				
FROM NET OPERATING PROFIT	1.43	1.10	2.42	2.26
FROM NET INCOME	1.43	1.08	2.39	2.25

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
For the period ended 30 June 2011

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	2011	2010
	SR	SR
OPERATING ACTIVITIES		
Net income for the period before zakat & minority interest	259,291,387	243,807,769
Adjustments for:		
Depreciation	53,577,034	50,264,914
Amortization	-	111,060
Gain on disposal of property and equipment	(7,100)	(4,015)
End of service benefits, net	6,178,346	4,374,581
	319,039,667	298,554,309
Change in assets and liabilities:		230,001,005
Accounts receivable and other assets	(9,948,235)	(52,835,981)
Inventories	27,401,734	24,245,359
Trade Accounts payable	(11,124,834)	105,761,744
Accrued expenses and other liabilities	(24,751,346)	19,110,145
Zakat paid	(12,473,522)	(11,877,990)
	(12,+13,322)	(11,077,000)
Net cash from operating activities	288,143,464	382,957,586
INVESTING ACTIVITIES		
Purchase of property and equipment	(233,411,473)	(815,532,422)
Proceeds on disposal of property and equipment	7,100	4,015
Net cash used in investing activities	(233,404,373)	(815,528,407)
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FINANCING ACTIVITIES Bank facilities	402 804 806	£10.001.070
	382,901,906	512,321,060
Settlement of bank facilities	(60,388,254)	(2,329,758)
Bank overdraft	2,709,091	(4,000,241)
Dividends paid to shareholders	(209,858,660)	(311,230,359)
Board of directors' fees	(2,200,000)	(2,200,000)
Net cash from/(used in) financing activities	113,164,083	192,560,702
INCRAESE/(DECREASE) IN CASH AND CASH		
EQUIVALENTS	167,903,174	(240,010,119)
Cash and Cash equivalents - beginning of the period	320,040,570	294,716,152
CASH AND CASH EQUIVALENTS - END OF THE		
PERIOD PERIOD	487,943,744	54,706,033
SUPPLEMENTAL NONCASH INFORMATION		···········
Retained earnings transferred to expansionary provision	218,163,753	164,861,054
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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' BQUITY (Unaudited)
For the period ended 30 June 2011

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT COMPANY	Note	2011 SR	2010 SR
AUTHORIZED AND FULLY PAID CAPITAL		1,050,000,000	1,050,000,000
STATUTORY RESERVE		525,000,000	525,000,000
GENETRAL RESERVE Balance at the beginning of the period Transferred from retained earnings Balance at the end of the period	1	523,715,604 218,163,753 741,879,357	358,854,550 164,861,054 523,715,604
RITAINED EARNINGS Balance at the beginning of the period Net income for the period Dividends Transferred to general reserve Board of directors fees	1	430,363,753 251,000,603 (210,000,000) (218,163,753) (2,200,000)	482,061,054 236,596,732 (315,000,000) (164,861,054) (2,200,000)
Balance at the end of the period TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT COMPANY		251,000,603	2,335,312,336
MINORIY INTERESTS			
Balance at the beginning of the period Minority share of net income for the period		23,135,192 2,564,833	18,371,190 1,696,670
Balance at the end of the period		25,700,025	20,067,860
TOTAL PARTNERS' EQUITY		2,593,579,985	2,355,380,196

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1 ACTIVITIES

Yanbu Cement Company (a Saudi Joint Stock Company) ("The Company" and "Parent 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.

As of 9 March 2011, the board of directors agreed in their general meeting to transfer the balance of the retained earnings remaining from the year ended 31 December 2010, after dividend distribution and board of directors' fees, to the expanding reserve.

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

The interim condensed consolidated financial statements comprise the accounts of the parent company, Yanha Coment Company and its subsidiary as detailed below:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements are prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and in accordance with Saudi Organization for Certified Public Accountants standards on interim financial information. The Company's significant accounting policies followed in preparing these interim financial statements are consistent with the policies stated in the annual financial statements.

Interim condensed consolidated financial reports do not include all the information and disclosures required for the audited financial statements which are prepared according to the Saudi Organization for Certified Public Accountants. In addition, results presented in these interim consolidated financial reports may not represent an accurate indicator for the year ending 31 December 2011.

Basis of consolidation

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

Accounting convention

The interim condensed consolidated financial statements are prepared under the historical cost convention, except investments in mutual funds which are measured at fair value.

Use of estimate

The preparation of interim condensed financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed financial statements and the reported amounts of revenues and expenses during the condensed financial statements period.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unmudited)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognized on delivery of goods and issuance of relevant invoice to the customer, net of trade and quantity discounts and are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably normally on delivery to the customer.

Accounts receivable

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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

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

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

Deferred expenses

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

Accounts payable and accruals

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

Zakat

In accordance to Zakat financial accounting standard, Zakat provision for individual fiscal periods is measured and recognized in accordance with Saudi Arabia applicable Zakat regulations on accrual basis. The liability is charged to the consolidated statement of income.

Provisions

Provisions are recognized 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 may be measured reliably.

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.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NAMES AND ASSESSMENT OF THE RESIDENCE

Selling and distribution expenses are those that specifically relate to salesmen, warehousing and other overheads. All other expenses are classified as general and administration expenses.

Borrowing costs

Borrowing costs that are directly attributable to the construction of an asset are capitalised up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the interim income statement.

Translation of foreign currencies

The accompanying interim consolidated financial statements are expressed in Saudi Riyals. Appropriate exchange rates are used to translate transactions or balances denominated in foreign currencies. The resulting gains or losses are included in the statement of income.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

- (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:
- For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate

EARNING PER SHARE

flarnings per share from net income from operations are calculated by dividing the net income from operations for the period by the weighted average number of shares amounting to 105,000,000 shares during that period.

Earnings per share from net profit are calculated by dividing net profit for the period by the weighted average number of shares during the period amounting to 105,000,000.

4 PROPERTY AND EQUIPMENT

Property and equipment include an amount of SR 2,099,975,048 which represents what was spent on construction of production line number five which still under construction.

5 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 and bank balances and accounts receivable and prepayments while its financial liabilities consist of accounts payable and accruals.

The fair values of financial instruments are not materially different from their carrying values.

Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unnudlted).

6 RISK MANAGEMENT

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is not subject to interest rate risk as it does not have interest bearing assets or liabilities.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Company's financial liabilities consist of account payables and accruals and bank facilities. All the current financial liabilities are expected to be settled within 12 months of the balance sheet date and the Company expects to have adequate funds available to do so.

Credit risk

Credit risk is the risk that one 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. At the balance sheet date, no significant concentrations of credit risk were identified by management.

With respect to credit risks arising from the other financial assets of the Company, including bank balances and receivables, the company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and Euros, during the year.

As the Saudi Riyal is pegged to the US Dollars, balances in US Dollars are not considered to represent significant currency risk.

7 KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of trade accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.