Yanbu Cement Company (A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009 TOGETHER WITH AUDITORS' REPORT

Ernst & Young

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31 DECEMBER 2009 TOGETHER WITH AUDITORS' REPORT



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

Scope of Audit

We have audited the accompanying consolidated balance sheet of Yanbu Cement Company (A Saudi Joint Stock Company) ("the Company") and its subsidiary ("the Group") as at 31 December 2009 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with Article (123) of the Companies Regulations and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

### **Unqualified Opinion**

In our opinion, the consolidated financial statements taken as a whole:

- 1. Present fairly, in all material respects, the financial position of the Group as at 31 December 2009 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- 2. Comply with the requirements of the Regulations for Companies and the company's articles of association in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Ahmed Reda

Certified Public Accountant

License No. 356

8 Safar 1431 H 23 January 2010

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Abdulaziz A. Alsowailim 277 Fahad M. Al-Toaimi 354 Samul Tarah 168 Abdulhamid M. Bushnag 155 Abdulaziz Alshubaibi 339 Ahmed I. Reda 356

CONSOLIDATED BALANCE SHEET As at 31 December 2009			
As at 31 December 2009		2009	2008
	Note	SR	SR
ASSETS			
CURRENT ASSETS			100 100 100
Bank balances and cash Investment deposit and investments in mutual fund		111,798,474 182,917,678	132,175,129 388,459,370
Accounts receivable and other assets	3	144,424,625	134,730,137
Inventories	4	287,044,739	270,897,568
TOTAL CURRENT ASSETS		726,185,516	926,262,204
NON-CURRENT ASSETS			
Property and equipment, net	5	2,104,399,041	1,673,160,836
Deferred charges, net	6	<u>166,571</u>	388,691
TOTAL NON-CURRENT ASSETS		2,104,565,612	1,673,549,527
TOTAL ASSETS		2,830,751,128	2,599,811,73
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bank facilities - current portion	7	4,659,504	4,659,50
Bank overdraft Trade Assessments psychia		4,702,339 42,268,821	3,988,87 5,718,05
Trade Accounts payable Dividends payable		57,297,770	51,267,78
Zakat provision	14	11,533,263	16,497,82
Accrued expenses and other liabilities	8	116,917,220	103,582,50
TOTAL CURRENT LIABILITIES		237,378,917	185,714,54
NON-CURRENT LIABILITIES			
Bank facilities	7	118,431,460	5,090,97
Employees' terminal benefits		40,653,957	36,277,54
TOTAL NON-CURRENT LIABILITIES		159,085,417	41,368,51
TOTAL LIABILITIES		396,464,334	227,083,06
SHAREHOLDERS' EQUITY Authorized and fully paid capital	9	1,050,000,000	1,050,000,00
Statutory reserve	10	525,000,000	525,000,00
General reserve	11	358,854,550	221,318,20
Retained earnings		482,061,054	559,736,34
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS IN PARENT COMPANY		2,415,915,604	2,356,054,5
Minority interest		18,371,190	16,674,1
TOTAL SHAREHOLDERS' EQUITY		2,434,286,794	<u>2,372,728,6</u> 6
			2,2,2,0,0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,830,751,128	2,599.811.7
The attached notes 1 to 17 form part of these consolidated	l financial	statements.	

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CONSOLIDATED STATEMENT OF INCOME Year Ended 31 December 2009			
Teal Ended 31 December 2009			
	Note	2009 SR	2008 SR
	Note	5 <b>X</b>	510
Net sales		943,229,615	1,093,514,140
Cost of sales		(433,687,920)	(508,536,98
GROSS PROFIT		509,541,695	584,977,15
Selling and distribution expenses	12 13	(9,600,654) (14,246,000)	(9,905,81 (14,217,70
General and administration expenses  NET INCOME FROM MAIN OPERATIONS	13	485,695,041	560,853,644
		, ,	
Financial charges Other income		(218,580) 11,095,290	(728,09 18,867,07
NET INCOME BEFORE ZAKAT AND			
MINORITY INTEREST		496,571,751	578,992,62
Zakat	14	(11,613,622)	(16,649,92
NET INCOME BEFORE MINORITY INTEREST	• •	484,958,129	562,342,70
Minority interest		(2,897,075)	(2,606,3
NET INCOME		482,061,054	559,736,3
EARNING PER SHARE (FROM NET INCOME			
FROM MAIN OPERATION)		4.63	<u>5.</u>
EARNING PER SHARE (FROM NET PROFIT)		4,59	5.
,			

The attached notes 1 to 17 form part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS		
Year Ended 31 December 2009	2009	2008
	SR	SR
OPERATING ACTIVITIES		
Net income before zakat	493,674,676	576,178,899
Adjustments for:	~	00 001 515
Depreciation	97,793,627	98,901,515
Amortization	222,120	1,118,621
Amortization of capital expenditure	2 907 075	18,998,274 2,606,358
Minority interest	2,897,075 (24,450)	2,000,336 (45,950
Gain on disposal of property and equipment	4,376,414	5,100,274
Employees terminal benefits, net	4,570,414	5,100,274
Change in operating assets and liabilities:		
Accounts receivable and other assets	(9,694,488)	(18,070,205
Inventories, net	(16,147,171)	(28,128,847
Accounts payable	36,550,762	(18,040,810
Accrued expenses and other liabilities	13,334,715	17,066,352
Zakat paid	(16,578,181)	(19,919,580
Net cash from operating activities	606,405,099	635,764,895
INVESTING ACTIVITIES		
Purchase of property and equipment	(529,031,832)	(272,704,85
Proceeds from disposal of property and equipment	24,450	45,95
Net cash used in investing activities	(529,007,382)	(272,658,90
FINANCING ACTIVITIES		
Bank facilities	118,000,000	
Settlement of bank facilities	(4,659,516)	(4,616,33
Bank overdraft	713,466	(154,73
Dividends paid to shareholders	(413,970,014)	(519,607,98
Dividends paid to minority shareholders	(1,200,000)	~
Board of directors' fees	(2,200,000)	(2,200,00
Net cash used in financing activities	(303,316,064)	(526,579,04
DECREASE IN CASH AND CASH EQUIVALENTS	(225,918,347)	(163,473,05
Cash and Cash Equivalents at the beginning of the year (Note 2)	520,634,499	684,107,55
CASH AND CASH EQUIVALENTS	204 716 152	520.634.49
AT THE END OF THE YEAR (NOTE 2)	<u>294,716,152</u>	

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CONSOLIDATED STATEMENT OF CHANGES IN SE Year Ended 31 December 2009	IAKEHOLDERS	EQUITY
	2009	2008
	SR	SR
EQUITY ATRIBUTABLE TO SHAREHOLDERS' IN PARENT COMPANY		
CAPITAL	1,050,000,000	1,050,000,000
STATUTORY RESERVE	525,000,000	525,000,00
GENERAL RESERVE		
Balance at the beginning of the year	221,318,203	
Transferred from retained earnings Balance at the end of the year	137,536,347 358,854,550	221,318,20 221,318,20
RETAINED EARNINGS		
Balance at the beginning of the year	559,736,347	748,518,20
Net profit for the year Dividends	482,061,054 (420,000,000)	559,736,34 (525,000,00
Transferred to general reserve	(137,536,347)	(221,318,20
Board of Director's fees	(2,200,000)	(2,200,00
Balance at the end of the year	482,061,054	559,736,34
TOTAL EQUITY ATRIBITABLE TO SHAREHOLDERS' IN PARENT COMPANY	2,415,915,604	2,356,054,
MINORITY INTEREST		
Balance at the beginning of the year	16,674,115	14,067,7
Minority interests share in the profit for the year Dividends	$\substack{2,897,075\\ (1,200,000)}$	2,606,3
Balance at the end of the year	18,371,190	16,674,1
	<u> </u>	
TOTAL SHAREHOLDERS' EQUITY	<u>2,434,286,794</u>	2,372,728.6

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### Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2009

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### 1. **ACTIVITIES**

Yanbu Cement Company (a Saudi Joint Stock Company) is incorporated per Royal Decree No. M/10 of 24/3/1397H based on the Council of Ministers Resolution No. 1074 of 10/8/1394H, and registered in Yanbu City under Commercial Registration No. 4700000233 of 21/11/1398H pursuant to Ministry of Industry and Electricity Resolution No. 67/S of 17/3/1396H.

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

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

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

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 2.

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

### Basis of consolidation

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

### Accounting convention

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

### Revenue recognition

Sales 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, as the invoice value of goods supplied by the Company during the year, net of trade and quantity discount.

### Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### **Inventories**

Raw material inventories, work-in-progress and spare parts are stated at the lower of cost or net realizable value. Cost of raw materials and spare parts is determined using the moving average method. The cost of work-in-progress includes direct materials, direct labor and any related overheads. Slow moving and obsolete spare parts are provided for and stated at net book value.

### Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary 3 A NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 December 2009 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 3** Property and equipment / depreciation Property and equipment are stated at cost less accumulated depreciation and depreciated on a straight-line basis over the estimated useful lives of the assets. Subsidiary's paper production factory D Y buildings, machinery and equipment are depreciated on the number of production units basis. 8 X The carrying values of property 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 asset are written down to their recoverable amount, being the higher of their fair value les costs to sell and their value in use. Expenditure for repair and maintenance is charged to income. Improvements that increase the value materially or extend the life of the related assets are capitalized. Impairment and uncollectibility of financial assets Financial assets are assessed for indicators of impairment at each balance sheet date. If any such indicators exist the impairment is taken to consolidated statement of income. For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement; 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 For assets carried at amortised cost, impairment is the difference between carrying amount and the Accounts payable and accruals Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Provisions Provisions are recognised when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. Deferred charges Deferred charges are amortized over the estimated useful life of 5 years. According to Zakat financial accounting standard, Zakat provision for individual fiscal periods is measured and recognized in accordance with the provisions and rules of Saudi Arabian Zakat Regulations on accrual basis. The provision is separately charged to the consolidated statement of income. Employee's terminal benefits Provision is made for amounts payable under the Saudi Arabian Labour Law applicable to employees' accumulated periods of service at the balance sheet date. Cash and cash equivalents For the statement of cash flow purposes cash and cash equivalents separately shown in the consolidated balance sheet comprise bank balances, cash in hand, time deposits and investments in mutual fund readily convertible to cash and has a maturity of 3 months or less as at the purchase

date.

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### Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2009

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

### Selling, distribution, general and administration expenses

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

### Foreign currencies transactions

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

### **Borrowing cost**

Borrowing cost are recognized on an accrual basis and charges to the statement of income.

### 3. ACCOUNTS RECEIVABLE AND OTHER ASSETS

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

	2009 SR	2008 SR
		,
Trade accounts receivable (**)	120,425,601	122,331,266
Employees' advances (*)	6,319,946	6,309,839
Prepaid expenses	3,210,112	2,735,989
Deposits and other receivables	822,813	2,315,986
Margins on letters of guarantee (Note 15)	900,000	900,000
Margins on letters of credit (Note 15)	<u>12,746,153</u>	<u>137,057</u>
•	<u>144,424,625</u>	<u>134,730,137</u>

- (\*\*) Accounts receivable are secured by letters of guarantees and documentary letters of credit. Based on past experience, unimpaired receivables are expected to be fully recovered. The largest five clients account for 76% of the Company's outstanding receivables (80% as at 31 December 2008).
- (\*) Employees' advances are secured by the end of the service benefits.

As at 31 December, the ageing of unimpaired receivables are as follows:

	Total SR	< 30 days SR	< 60 days SR	< 90 days SR	< 120 days SR	< 180 days SR	> 180 days SR
2009	120,425,601	38,427,778	25,947,204	23,511,133	8,239,348	10,204,353	14,095,785
2008	122,331,266	43,948,643	42,985,876	27,218,908	2,828,292	2,237,614	3,111,933

## Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2009

### 4. **INVENTORIES**

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Inventories are comprise following as at 31 December:

	2009 SR	2008 SR
Spare parts not for sale, net	145,879,312	156,052,888
Work-in-progress	70,631,625	46,087,162
Raw materials	50,412,971	45,317,586
Packaging materials	15,860,656	18,521,581
Oil and fuel	3,777,251	3,928,803
Other materials	482,924	989,548
	287,044,739	270,897,568

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2009

# 5. PROPERTY AND EQUIPMENT, NET

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

Paper factory buildings
Paper factory buildings
Buildings and other constructions
Berth
Machinery and equipment
Paper factory machinery and equipment
Vehicles and trucks
Furniture and other assets
Paper factory buildings
Production units
4 -6.67 years
Furniture and other assets

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

								-				
Бегеприон	Land	Factory Buildings	Paper factory buildings	Buildings and other constructions	Berth SR	Machinery and equipment SR	Paper Jactory machinery and equipment SR	Vehicles and trucks SR	Furniture and other assets SR	Works in progress SR	Total 2009 SR	Total 2008 SR
Cost:	3K	WC 055 CL7	20.361.860	59 821 048	16.740.608	2,406,160,127	21,304,728	52,700,338	21,306,548	271,147,219	3,546,897,855	3,297,860,500
Beginning of the year	4,805,110	0/2,000,200	200,100,04	1		52,927,457	4	3,405,550	2,420,533	470,278,292	529,031,832	272,704,856
Tomorrow E			1	,		7,023.985	ı	1	ı	(7,023,985)		-
ransters	1				,		1	(80,250)	(7,532,322)	1	(7,612,572)	(23,667,501)
Disposals	ı				00000	077 111 660	207 200 10	859 500 95	16 194 759	734.401.526	4,068,317,115	3,546,897,855
At the end of the year	4,805,116	672,550,263	20,361,860	59,821,048	16,740,608	2,466,111,369	77,504,70	30,020,02	10117111			
Depreciation:		010 000	1 045 011	20.018.626	16.740.608	1.335.760.264	2,035,076	42,142,458	14,366,504	1	1,873,737,019	1,779,504,731
Beginning of the year	•	440,720,472	1,740,011	707,707		25 070 142	710158	3.768.913	2.964.596	ı	97,793,627	98,901,515
Charge for the year	1	12,299,605	678,729	1,401,484		7-1,0/2,0/	20167				(072 013 07)	(777 049 1)
Disposals	,	1	ŧ		,	ı	ſ	(80,250)	(7,532,322)		(4)(5,010,1)	(Tame (100 st.)
A+ the and of the west		453.028.077	2,623,740	21,420,110	16,740,608	1,411,730,406	2,745,234	45,831,121	9,798,778	•	1,963,918,074	1,873,737,019
Net book value as at 31	4 005 116	210 522 186	17.738.120	38,400,938		1,054,381,163	18,559,494	10,194,517	6,395,981	734,401,526	2,104,399,041	
December 2007  Net book value as at 31  December 2008	4,805,116	231,821,791	18,416,849	39,802,422	-	1,070,399,863	19,269,652	10,557,880	6,940,044	271,147,219		1,673,160,836

### K Yanbu Cement Company (A Saudi Joint Stock Company) and its Subsidiary D NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 December 2009 K PROPERTY AND EQUIPMENT, NET (continued) 5. N Depreciation charge for the years ended 31 December is allocated as follows: Ž 2008 2009 SR3 97,627,995 96,429,006 Cost of production 757,560 Selling and distribution expenses (Note 12) 607,061 General and administration expenses (Note 13) 97,793,627 98,901,515 N 6. DEFERRED CHARGES, NET Deferred charges are comprised of the following as at 31 December: 2009 **D**

	2009	2008
	SR	SR
Deferred charges	11,995,624	11,995,624
Less: Accumulated amortization	(11,829,053)	<u>(11,606,933</u> )
	166,571	388,691

SR

679,379

594,141

### 7. BANK FACILITIES

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	2009	2008
	SR	SR
Bank facilities	123,090,964	9,750,480
Current portion	(4,659,504)	(4,659,504)
Non current portion	<u>118,431,460</u>	<u>5,090,976</u>

### Bank facilities comprise:

- 1) During the year the Yanbu Cement Company obtained bank facilities amounting to SR 118 million (2008: SR Nil) from a local bank to finance the construction of fifth production line. The first installment of the unsecured loan is payable on 1 March 2011.
- 2) During the prior years Yanbu Saudi Kuwaiti Products Company (Formerly: Yanbu Al Shuaibah Paper Products Company) (subsidiary) obtained bank facilities to cover its obligations to construction contactor and finance local and foreign purchase of the equipment required. The loan is secured by a guarantee from a partner (Yanbu Cement Company Saudi Joint Stock Company). The portion payable in 2010 amounting TO SR 4,659,504 (2008: SR 4,659,504) is recognized under current liabilities.

### ACCRUED EXPENSES AND OTHER PAYABLES 8.

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

	2009 SR	2008 SR
Accrued expenses Other payables	89,585,320 27,331,900 116,917,220	85,666,625 17,915,880 103,582,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2009

### 9. CAPITAL

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Capital is divided into 105 million shares of SR 10 each (2008: 105 million shares).

### 10. STATUTORY RESERVE

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

### 11. GENERAL RESERVE

On 4 March 2009 the ordinary General Meeting approved the conversion of the balance of retained earnings for the year ended 31 December 2008, remaining after dividend payments and directors' fees; to general reserve.

### 12. SELLING AND DISTRIBUTION EXPENSES

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

	2009 SR	2008 SR
Salaries, wages and other benefits	5,712,497	5,826,465
End of service benefits	691,296	688,488
Advertisement and publicity	786,279	681,261
Depreciation (Note 5)	757,560	679,379
GOSI	300,731	293,154
Fees and subscriptions	77,238	89,062
Other	1,275,053	1,648,004
,	9,600,654	9,905,813

### 13. GENERAL AND ADMINISTRATION EXPENSES

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

	2009	2008
	SR	SR
Salaries, wages and other benefits	9,465,069	9,655,241
End of service benefits	1,231,944	1,118,257
Depreciation (Note 5)	607,061	594,141
GOSI	481,857	517,967
Repair and maintenance	339,281	235,358
Amortization	222,120	222,120
Fee and subscriptions	633,495	207,983
Rent	18,000	18,000
Other	<u> 1,247,173</u>	1,648,635
	14,246,000	<u>14,217,702</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2009

### 14. ZAKAT

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

	2009 SR	2008 SR
Balance at the beginning of the year	16,497,822	19,974,850
Provided during the year	11,613,622	(19,919,580)
Paid during the year	(16,578,181	16,649,920
Provision no longer required reversed		(207,368)
End of the year	11,533,263	16,497,822

### c) Zakat status

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

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

The Company has filed its Zakat returns for the years ended 31 December 2005 through 2008. Zakat assessment for the years ended 31 December 2005 through 2008 are not yet raised by the DZIT.

Yanbu Saudi Kuwaiti Paper Products Company (Formerly: Yanbu Al-Shuaiba Paper Products Company Ltd.)- subsidiary. Zakat assessments for the first fiscal period from 29 December 2004 through 31 December 2005 and the years ended 31 December 2006, 2007 and 2008 have been agreed with the DZIT.

### 15. COMMITMENTS AND CONTINGENCIES

As at 31 December 2009 the company has contingencies in the form of letters of guarantee amounting to SR 23,348,930 for which a margin deposit of SR 900,000 is paid (2008: SR 11,835,021 for which a margin deposit of SR 900,000 was paid) and documentary letters of credit amounting to SR 1,343,513,657 for which a margin deposit of SR 12,746,153 is paid (2008: SR 1,461,174,315 for which a margin deposit of SR 137, 057 was paid).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2009

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### 16. RISK MANAGEMENT

### Interest rate risk

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

### Liquidity risk

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

Company's financial liabilities consist of accounts payable, accruals, other payables, bank overdraft and bank facilities - current portion. Substantially, all financial liabilities are expected to be settled within 12 months from balance sheet date and the company expects to have sufficient funds to do so. Current portion of bank facilities amounting to SR 118,431,460 is expected to be paid within six years from balance sheet date.

### Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. Letters of credit or otherwise obtaining letters of guarantee, as appropriate, as security. The five largest customers accounts for 76% of outstanding accounts receivable as at 31 December 2009 (2008: 80%).

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

### Currency risk

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

### 17. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash, cash equivalents, accounts receivable and other assets. Its financial liabilities consist of accounts payable, accruals other payables, bank overdraft and bank facilities. The fair values of financial instruments are not materially different from their carrying values.