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Mohamed Hilal
An instinct for growth

# Arabian Cement Company – S.A.E

Consolidated Financial Statements and Independent auditor's report
For the three months ended March 31, 2014

Translation from Arabic

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# Independent Auditor's Report

Translation from Arabic

To: The Shareholders
Arabian Cement Company (S.A.E)

**Report on the consolidated financial statements**

- We have audited the accompanying consolidated financial statements of Arabian Cement Company (S.A.E) which comprise the consolidated financial position as of March 31, 2014 and the related consolidated statements of income, consolidated cash flows and consolidated changes in owners' equity for the Three Months ended, and summary of significant accounting policies and other disclosures.

**Management's responsibility for the consolidated financial statements**

- The consolidated financial statements are the responsibility of the Company's Management. The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance to the Egyptian accounting standards and within the view of the current Egyptian laws and regulations, also management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements whether due to errors or fraud. The management's responsibility also includes selection and implementation of appropriate accounting policies and making accounting estimates that are reasonable in circumstances.

**Auditor's responsibility**

- Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Egyptian Auditing Standards and within the view of the current Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting

- Policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.
- We believe that our audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on the consolidated financial statements.

**Opinion**

- In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arabian Cement Company (S.A.E) as of March 31, 2014, and of its financial performance and its consolidated cash flows for the Three Months then ended in conformity with the Egyptian accounting standards and within the view of the Egyptian laws and regulations.

**Report on other legal and regulatory requirements**

- The company keeps proper accounting records which include all that is required by law and the statutes of the company and the accompanying consolidated financial statements are in agreement therewith and the company's management undertook the inventory physical count as of the date of the consolidated financial statements in accordance with the norms of the physical count practice.
- The consolidated financial information contained in the report of the Board of Directors' report as required by the companies Law No. 159 for the year 1981 and its executive regulations, is in agreement with the company's accounting records within the limit that such information is recorded therein.

**Hossam Mohamed Hilal**

R.A.A no. 5101
E.F.S.A. 147
Grant Thornton Mohamed Hilal
Cairo May 22, 2014

Grant Thornton - Mohamed Hilal
Public Accountants
The Egyptian Member Firm of
Grant Thornton International

# Arabian Cement Company
## Consolidated Statement of Financial Position
## As of March 31, 2014

Translation from Arabic

| | Notes | 31/3/2014 EGP | 31/12/2013 EGP |
|---|---|---|---|
| **Non current Assets** | | | |
| Property plant and equipment (net) | 3 | 2,668,964,737 | 2,653,318,452 |
| Projects under construction | 4 | 103,372,889 | 143,613,902 |
| Intangible assets (net) | 5 | 156,903,601 | 162,456,478 |
| Investments in Joint ventures | 6 | 31,250 | 31,250 |
| **Total non-current Assets** | | **2,929,272,477** | **2,959,420,082** |
| **Current Assets** | | | |
| Inventory | 7 | 143,864,508 | 96,510,807 |
| Due from subsidiaries and related parties | 8 | 1,625,940 | 1,758,966 |
| Debtors and other debit balances | 9 | 78,727,027 | 52,246,471 |
| Cash and Bank Balances | 10 | 120,113,855 | 161,152,693 |
| **Total Current Assets** | | **344,331,330** | **311,668,937** |
| **Current Liabilities** | | | |
| Provisions | 11 | 7,110,829 | 7,110,829 |
| Long - term loans - current portion | 14 | 321,449,077 | 337,970,515 |
| Long - term liabilities - current portion | 15 | 69,438,000 | 69,438,000 |
| Income Tax liabilities | | 36,643,342 | 518,278 |
| Due to subsidiaries and related parties | 8 | 1,481,919 | 1,921,649 |
| Creditors and Other credit balances | 12 | 286,198,957 | 328,554,225 |
| **Total Current Liabilities** | | **722,322,124** | **745,513,496** |
| **Net deficit in Working capital** | | **(377,990,794)** | **(433,844,559)** |
| **Total investment** | | **2,551,281,683** | **2,525,575,523** |
| **Total investments to be financed as follow** | | | |
| **Equity** | | | |
| Issued and paid up capital | 13 | 757,479,400 | 757,479,400 |
| Legal Reserve | | 118,796,016 | 118,792,048 |
| Retained Earning | | 307,946,375 | 214,078,006 |
| **Total parent's shareholder's Equity** | | **1,184,221,791** | **1,090,349,454** |
| **Minority interests** | 23 | 5,405 | 4,336 |
| **Total** | | **1,184,227,196** | **1,090,353,790** |
| **Non current liabilities** | | | |
| Long term loans | 14 | 469,828,106 | 520,680,947 |
| Long term liabilities | 15 | 556,253,724 | 576,555,416 |
| Deferred income tax liability | 16 | 340,972,657 | 337,985,370 |
| **Total non-current Liabilities** | | **1,367,054,487** | **1,435,221,733** |
| **Total equity and non-current liabilities** | | **2,551,281,683** | **2,525,575,523** |

* The accompanying accounting principles and the notes to the financial statements from note no. (1) to (28) are integral part of these financial statements and must be read with them.

* Independent auditor report is accompanying.

| **Chief Financial Officer** | **Chief Executive Officer** |
|---|---|
| **Sherif Salib** | **Jose Maria Magrina** |
| Sherif Salib | Jose Maria |

# Arabian Cement Company
# Consolidated Statement of income
# For the three months ended March 31, 2014

Translation from Arabic

| | Notes | For the period from 1/1/2014 to 31/3/2014 | 2013 |
|---|---|---|---|
| | | EGP | EGP |
| Net sales | 17 | 532,072,507 | 2,075,452,431 |
| **Less:** | | | |
| Cost of sales | 18 | (331,210,346) | (1,398,812,119) |
| **Gross Profit** | | **200,862,161** | **676,640,312** |
| **(Less) / Add** | | | |
| General and administrative expenses | 19 | (20,158,893) | (57,082,529) |
| Provisions | | 0 | (6,338,531) |
| Other Income | 20 | 205,778 | 13,516,433 |
| **Profit from Operation** | | **180,909,046** | **626,735,685** |
| **Less:** | | | |
| Finance cost - net | 21 | (24,845,684) | (186,930,833) |
| **Net profit of the period / year before income tax** | | **156,063,362** | **439,804,852** |
| Income Tax | 22 | (39,112,351) | (20,486,537) |
| **Net profit of the period / Year after income tax** | | **116,951,011** | **419,318,315** |
| **Distributed as follows:** | | | |
| parent company's share if profit | | 116,949,942 | 419,316,999 |
| Minority interests | | 1,069 | 1,316 |
| **Net profit of the period / Year after income tax** | | **116,951,011** | **419,318,315** |
| **Earnings per share of the period/Year** | 24 | **0.31** | **1.09** |

* The accompanying accounting principles and the notes to the financial statements from note no. (1) to (28) are integral part of these financial statements and must be read with them.

* Independent auditor report is accompanying.

**Chief Financial Officer**
**Sherif Salib**

Sherif Salib

**Chief Executive Officer**
**Jose Maria Magrina**

Jose Maria

# Arabian Cement Company
## Consolidated Statement of change in equity
## For the three months ended March 31, 2014

Translation from Arabic

| | Paid up Capital | Legal Reserve | Retained Earning | Total parent's shareholder's Equity | Minority interest | Total Owners' Equity and Minority interests |
|---|---|---|---|---|---|---|
| | L.E | L.E | L.E | L.E | L.E | L.E |
| **Balance as of January 1, 2013** | **757,479,400** | **76,938,113** | **359,466,968** | **1,193,884,481** | **3,020** | **1,193,887,501** |
| Year Profit | 0 | 0 | 419,316,999 | **419,316,999** | 1,316 | **419,318,315** |
| Transfer to Legal Reserve | 0 | 41,853,935 | (41,853,935) | **0** | 0 | **0** |
| Dividends | 0 | 0 | (522,852,026) | **(522,852,026)** | 0 | **(522,852,026)** |
| **Balance as of December 31,2013** | **757,479,400** | **118,792,048** | **214,078,006** | **1,090,349,454** | **4,336** | **1,090,353,790** |
| Period Profit | 0 | 0 | 116,949,942 | **116,949,942** | 1,069 | **116,951,011** |
| Transfer to Legal Reserve | | 3,968 | (3,968) | **0** | | **0** |
| Dividends | 0 | 0 | (23,077,605) | **(23,077,605)** | 0 | **(23,077,605)** |
| **Balance as of March 31,2014** | **757,479,400** | **118,796,016** | **307,946,375** | **1,184,221,791** | **5,405** | **1,184,227,196** |

* The accompanying accounting principles and the notes to the financial statements from note no. (1) to (28) are integral part of these financial statements and must be read with

* Independent auditor report is accompanying.

| | |
|---|---|
| **Chief Financial Officer** | **Chief Executive Officer** |
| **Sherif Salib** | **Jose Maria Magrina** |
| Sherif Salib | Jose Maria |

# Arabian Cement Company
## Consolidated Statement of cash flows
## For the three months ended March 31, 2014

Translation from Arabic

| | Notes | For the period from 1/1/2014 to 31/3/2014 EGP | 2013 EGP |
|---|---|---|---|
| **Cash Flow From Operating Activities:** | | | |
| Net profit before income tax | | 156,063,362 | 439,804,852 |
| **Adjustments to Reconcile Net Profit to Net Cash Flows from Operating Activities** | | | |
| Fixed assets depreciation | 3 | 41,429,741 | 166,203,962 |
| Intangible assets' amortization | 5 | 5,552,877 | 22,519,999 |
| Credit interest | | (82,844) | (1,468,411) |
| Provision | | 0 | 6,338,531 |
| Debit interest | | 22,506,078 | 119,696,449 |
| Usage of Provision | | 0 | (152,367) |
| **operating profit before changes in working capital** | | **225,469,214** | **752,943,015** |
| (Increase) in inventory | | (47,353,701) | (29,005,307) |
| Decrease in due from subsidiaries and related parties | | 133,026 | 41,636 |
| (Increase) decrease in debtors and other debit balances | | (26,480,556) | 254,670 |
| (Decrease) Increase in creditors and other credit balances | | (42,355,268) | 22,135,277 |
| (Decrease) increase in due to subsidiaries and related parties | | (439,730) | 604,811 |
| Paid income tax | | 0 | (37,762) |
| **Net Cash flows generated from operating activities** | | **108,972,985** | **746,936,340** |
| **Cash Flow From Investing Activities:** | | | |
| Acquisition of fixed assets | | (2,860,389) | (9,032,410) |
| Acquisition of projects under construction | | (13,974,624) | (85,117,763) |
| Acquisition of Investment in subsidiaries and joint ventures | | 0 | (31,250) |
| Interest income | | 82,844 | 1,468,411 |
| **Net cash (used in) investing activities** | | **(16,752,169)** | **(92,713,012)** |
| **Cash Flow From Financing Activities:** | | | |
| Payments of operation and electricity license | | (20,301,692) | (68,096,000) |
| Paid interest | | (22,506,078) | (119,696,449) |
| Payment of bank loans | | (67,374,279) | (275,794,580) |
| Dividends paid | | (23,077,605) | (191,989,742) |
| **Net cash (used in) financing activities** | | **(133,259,654)** | **(655,576,771)** |
| Changes in cash and cash equivalents during the period /Year | | (41,038,838) | (1,353,443) |
| Cash and cash equivalents at the beginning of the period /Year | | 161,152,693 | 162,506,136 |
| **Cash and cash equivalents at the end of the period /Year** | 10 | **120,113,855** | **161,152,693** |

* The accompanying accounting principles and the notes to the financial statements from note no. (1) to (28) are integral part of these financial statements and must be read with them.

* Independent auditor report is accompanying.

| Chief Financial Officer | Chief Executive Officer |
|---|---|
| Sherif Salib | Jose Maria Magrina |
| Sherif Salib | Jose Maria |

# Notes to the consolidated financial statements
# For the three months ended March 31, 2014

## 1. Incorporation and purpose :

### 1-1 Incorporation:

- **Arabian Company for Cement**

- Arabian Cement Company S.A.E. ("the company") was established as a joint stock company on 5 March 1997 under Law No. 230 for the year 1989 and law no. 95 for the year 1992 according to the decision of the president of General Authority for Investment and Free Zone (GAFI) number 167 for the year 1997.
- The company is registered in the commercial register under number 13105 in Cairo on 3 April 2005, which was changed to No. 53445 on 16 August 2012 as the company changed its registered office from 72 Gameat El Dowal Street, Mohandiseen, Giza Egypt to be Villa 56 El Gihaz Street, fifth Settlement, New Cairo, Egypt.
- The main shareholder of the company is Aridos Jativa – Spanish Group and it owns 60% of the Group's share capital.
- The consolidated financial statements have been approved for issue by the board of directors meeting dated 21/5/2014.The general assembly of shareholders has the power to amend the financial statements after being issued.

### 1-2 Company's period:

- Company's period is 25 years starting from the date of registering in the commercial register.

### 1-3 Company's Main Purpose:

- The company's objectives are the manufacturing and sale of clinker, cement and the other related products and usage of mines and extraction of all mining materials required for the production of construction materials and road transportation for all the company's product.

### 1-4 Registration in stock market:

Registration of company shares in stock market

- Capital's shares had been registered in Egyptian stock market with approval of the registration committee held on 24/3/2014. Company's shares had been included in data base on 25/3/2014, company's shares registration data have been adjusted after stock splitting by the par value on 17/4/2014.

Registering company's shares in central security

- Company's shares had been registered according to central depository and registry system in Misr for Central Clearing on 19/1/2014 and had been adjusted as a result of stock splitting share's par value on 17/4/2014.

## 2. Significant Accounting Policies :

- The principal accounting policies adopted in the preparation of these financial statements are Summarized below:

### 2-1 Basis of preparation:

- The consolidated financial statements have been prepared in accordance with Egyptian Accounting Standards (EAS) and applicable laws and regulations. The consolidated financial statements have been prepared under the historical cost measurement basis.
- The preparation of consolidated financial statements in conformity with EAS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Note (2-27) discloses the significant accounting estimates used and personal judgement applied in the preparation of the consolidated financial statements.
- The EAS requires the reference to the IFRS when there is no EAS, or legal requirements that explain the treatment of specific balances and transactions.

### 2-2 Basis of consolidation:

- The consolidated financial statements as of 31 March 2014 included the financial statements of the following subsidiary:

| Company name | Investment % | Legal structure |
|---|---|---|
| ACC for Management and Trading | 99% | L.L.C. |
| Andalus Concrete | 99.96% | S.A.E. |

### A. Subsidiaries

- Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.
- 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.
- Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.
- 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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.
- Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.
- Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

### B. Transactions and non-controlling interest

- The group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the group. Disposals to non-controlling interests result in gains and losses for the group that are recorded in the equity. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.
- If the losses applicable to the minority in a consolidated subsidiary exceed the non-controlling interest in the subsidiary's equity, the excess, and any future losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

### C. Associates

- Associates are all 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 recognised at cost.
- The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.
- The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.
- When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.
- Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

## 2-3 Foreign currency translation:

### A. Functional and presentation currency

- Items included in the financial statements of the Group are measured using the currency the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Egyptian Pounds which is the Group's functional and presentation currency.

### B. Transactions and balances

- Foreign currency transactions are translated into the functional currency 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 the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### 2-4 Property, plant and equipment:

- All property, plant, and equipment are stated at historical cost less accumulated depreciation, historical cost includes all costs associated with acquiring the asset and bringing it to a ready-for use condition.
- Depreciation is calculated on the straight-line method to write off the cost of each asset to its residual value over the estimated useful lives of assets excluding land, which is not depreciated.
- Estimated useful lives of assets are as follows:

| Asset Description | Depreciation years |
|---|---|
| Machinery and equipment | 20 |
| Technical installations | 20 |
| Buildings | 10:20 |
| Vehicles | 5:7 |
| IT equipment and software and other installations | 3:5 |
| Office furniture and fixtures | 16 |

- The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date
- Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.
- Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset and are included in income from operations.
- Repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company. Minor renovations are depreciated over the remaining useful life of the related asset or the estimated useful life of the renovation, whichever is less.
- Cost of machinery and equipment included operating license cost for each production line separately according to the estimated useful life for the line..

### 2-5 projects under construction:

- Projects under construction were recorded at cost, and recognized as property, plant and equipment upon the fulfilment of conditions for recognition of property, plant and equipment. When the value of the projects under construction exceeds the recoverable value, the value of the projects under construction is reduced to the recoverable value and the differences are recorded within the income statement.

### 2-6 Intangible Assets:

#### a) Goodwill

- Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.
- The management annually assesses whether there is any indication of impairment in the goodwill value. If such indications exist, an analysis is preformed to assess whether the carrying amount of goodwill is fully recoverable. Impairment losses on goodwill are charged to the statement of income and are not reversed.
- Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
- Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit directly from the business combination in which the goodwill arose.

#### b) Electricity generation agreement

- The expenditure is directly attributable to the Electricity Generation fees agreement. These expenditures have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight–line method to allocate these costs over 10 years.

### 2-7 Investments in joint ventures:

- Investment in Joint ventures is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Group's investments in Joint ventures are accounted for using the cost method of accounting whereby an interest in a jointly controlled entity is initially recorded at cost and less any impairment, impairment is estimated for each investment separately.

### 2-8 Impairment of non-financial assets;

- Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the statement of income for the period 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 or its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash flows.
- Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. Impairment losses are also reversed to release the impairment amount that is equal to the depreciation for the period of the impaired balance. The reversals are recorded in statement of income.

## 2-9 Financial assets:

### i. Classification

- The Group classifies its financial assets in the following categories: at fair value through profit or loss, held for maturity, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

### A. Financial assets at fair value through profit or loss:

- Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.
- Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

### B. Held for maturity;

- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:
  - Those that the entity upon initial recognition designates as at fair value through profit or loss
  - Those that that the entity designates as available for sale; and
  - Those that meet the definition of loans and receivables.

### C. Loans and receivables:

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables have been included in the balance sheet with debtors and other debit balances.

### D. Available-for-sale financial assets:

- Available-for-sale financial assets are non-derivatives that are either designated in this category at acquisition date or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

### ii. Reclassification

- The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification
- Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

### iii. Measurement and subsequent measurement

- Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset.
- Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.
- Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.
- Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.
- At the balance sheet date, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Held to maturity, loans and receivables are carried at amortised cost using the effective interest method.
- Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the income statement in the year in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.
- Changes in the fair value of monetary securities debt instruments (bonds, treasury bills) denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.
- Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.
- The Group assesses at balance sheet date whether there is an objective evidence that a financial asset or a Group of financial assets is impaired.
- When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

### 2-10 Inventories:

- Inventories are stated at the lower of cost or net realizable value. Cost is determined using the moving average method. The cost of finished goods and work in progress comprises raw materials. Direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses, The needed provision are determined with the value of the slow moving, obsolete and damaged inventory items, according to the management' s estimates.

**The company evaluates inventory elements as follows**

A- Raw materials : cost (Moving average)

B- Spare parts : cost (Moving average)

C- Finished goods : is measured at the lower of manufacturing cost or net realizable value, the manufacturing cost comprises raw materials, direct labour and cost includes an appropriate share of overheads based on normal operation capacity.

**2-11 Trade receivables:**

- Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.
- A provision for impairment of trade receivables 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than granted credit limits) is considered indicators that the trade receivable is impaired.
- The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate used to determine the amortized cost. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

**2-12 Cash and cash equivalents:**

- Bank overdrafts are included within borrowings in the current liabilities in the balance sheet.
- For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks with original maturities of three months or less.

**2-13 Share capital:**

- Ordinary shares are classified as equity.

**2-14 Borrowings:**

- Borrowings are recognised initially at the amount of the proceeds received, net of transaction costs incurred. Loans are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over year the borrowings.
- The fair value of the liability portion of a convertible loan is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability at the initial recognition and subsequently recorded at an amortised cost basis until extinguished on conversion or maturity of the bonds whichever the lower. The remainder of the proceeds are allocated to the conversion option, which is recognised in shareholders' equity.
- Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2-15 **Current and deferred income taxes:**

- The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.
- Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
- Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2-16 **Trade payables:**

- Trade payables are generally carried at the fair value of goods or services received from others, whether invoiced or not. Where material, goods and services received and trade payables are initially recognised at the present value of expected cash outflows using the market rate of interest for similar borrowings. Thereafter, trade payables are carried at amortized cost.

2-17 **Leases:**

**1) Finance lease:**

- Leases are accounted for under Law 95 of 1995 if the lessee is not obliged to purchase the asset at end of the lease period, the lease contract is recorded in the relevant register with the Companies Authority, the contract gives the option to the lessee to buy the asset at a specific date and amount and the period of the contract represents at least 75% of the useful life of the asset or if the present value of total lease payments represents at least 90% of the asset value.
- For leases within the scope of Law 95 of 1995, lease costs including maintenance expense of leased assets are recognized in the statement of income in the period incurred.
- If the Group elects to exercise the purchase option on the leased asset, the option cost is capitalized as property, plant, and equipment and depreciated over their expected remaining useful lives on a basis consistent with similar assets.

**2) Operating lease:**

- Operating lease contracts represents any lease contract which lesser has ownership risks and benefits.
- Payments made under operating leases (net of any incentives received from the lesser) are charged to the statement of income on a straight-line basis over the period of the lease.

## 2-18 Employee benefits:

### A. Profit sharing:

- The company pays the lesser of 10% of its cash dividends as profit sharing to its employees or the employees annual basic salary. Profit sharing is recognized as a dividend distribution through equity and as a liability when approved by the Group's shareholders. No liability is recognized for profit sharing relating to undistributed profits.

### B. Pension obligations:

- For defined contribution plans, the Group pays contributions to the Public Authority for Social Insurance plans on a mandatory basis. Once the contributions have been paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

## 2-19 Provisions:

- Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.
- If the effect of the time value of the money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

## 2-20 Revenue recognition:

- Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns or rebates.
- The Group recognizes revenue when significant risks and rewards of ownership of the goods are transferred to the buyer and when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

➢ **Sales of goods**

- Sales of goods are recognized when entity has delivered products to the wholesaler, the wholesaler has full discretion over the price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been delivered either in the Group warehouse or in the wholesaler's locations depending on the agreements. Accordingly, the risks and benefits have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- No element of financing is deemed present as the sales are made on a short credit term basis.

➢ **Interest income**

- Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective interest rate method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount.

➢ **Dividends revenue**

- Dividends revenue recognized on maturity.

### 2-21 Expenses:

- Expenses are measured according to the recognition of all operating expenses, including administrative expenses and overheads with loaded to the consolidated income statement in the financial period where there have been those expenses according to the accrual basis.

### 2-22 Cost of borrowing:

- The group records the cost of borrowing in the consolidated statement of income in the financing expenses on the period where it allocated , except the cost of borrowing that directly related with build or produce a fixed asset qualify to be allocated with this cost and it depreciated during the time life of the asset .

### 2-23 Transactions with related parties:

- The group's records all transactions with the related parties in the context of their regular and in the same principles for dealing with others.

### 2-24 Cash flow statements:

- Consolidated cash flow statement is prepared in accordance with the indirect method.

### 2-25 Dividends:

- Dividends are recorded in the Group's financial statements in the year in which they are approved by the Group's shareholders.

### 2-26 Comparative figures:

- Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period.

### 2-27 Financial risk management:

#### (1) Financial risk factors:

- The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's efforts are addressed to minimize potential adverse effects of such risks on the Group's financial performance. The Group does not use derivative instruments to hedge specific risks.

#### A. Market risk:

**I. Foreign exchange risk:**

- The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Euro. Foreign exchange risk arises from future commercial transactions and assets and liabilities in foreign currencies at the date of the consolidated financial statements.

- The below table shows the foreign currency positions:

| | Assets EGP | Liabilities EGP | 31/3/2014 Net EGP | 31/12/2013 Net EGP |
|---|---|---|---|---|
| US Dollars | 2,901,910 | (595,322,814) | (592,420,904) | (571,721,334) |
| Euro | 1,812,388 | (1,481,919) | 330,469 | 760,298 |

- The exchange rate during the period:

| | Actual price | |
|---|---|---|
| | 31/3/2014 | 31/12/2013 |
| EGP : USD | 6.997 | 6.978 |
| EGP : EURO | 9.635 | 9.633 |

**II. Price risk:**

- The group has no investment in quoted equity securities. Therefore company is not exposed to the fair value risk due to changes in prices.

**III. Interest rate risk**

- The Group's interest rate risk arises from loans. Loans issued at variable rates expose the Group to cash flow interest rate risk. There is no loans issued at fixed interest rate loans and borrowings with variable interest rate that is subject to the changes of interest rate as of 31 March 2014 is amounting to LE 1,264,157,183 ( 2013: LE 1,344,275,462 ).
- No loans with fixed interest rate.

**B. Credit risk:**

- The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Financial institutions that the Group deals with are only those enjoying high credit quality.

**C. Liquidity risk:**

- Prudent liquidity risk management implies maintaining sufficient cash.

**(2) Capital risk management:**

- The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain an optimum capital structure to reduce the cost of capital.
- The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total trade and other payables and borrowings, less cash and cash equivalents. Total capital is calculated as equity in addition to net debt.

- The gearing ratio at 31 March 2014 was as follows:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Borrowings | 791,277,183 | 858,651,462 |
| Long-term liabilities | 556,253,724 | 576,555,416 |
| Trade and other payables | 286,198,957 | 328,554,225 |
| Long-term liabilities – current portion | 69,438,000 | 69,438,000 |
| Due to related parties | 1,481,919 | 1,921,649 |
| Less: cash and cash equivalents | (120,113,855) | (161,152,693) |
| **Net debt** | **1,584,535,928** | **1,673,968,059** |
| Total equity | 1,184,227,196 | 1,090,353,790 |
| **Total capital** | **2,768,763,124** | **2,764,321,849** |
| **Gearing ratio** | **57%** | **61%** |

- The decrease in the gearing ratio is mainly due to the payments of loan and borrowings during the period.

**(3) Fair value estimation:**

- The fair value of financial assets or liabilities with maturities date less than one year is assumed to approximate their carrying value. The fair value of financial liabilities – for disclosure purposes – is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 2-28 Critical accounting estimates and judgments

### Critical accounting estimates and assumptions

- Estimates and adjustments 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.
- The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results.

**1. Property and equipment – useful life:**

- The property and equipment owned by the Group have long lives that extend to 20 years. To ensure the use of reliable estimates, the management has benchmarked the useful lives of its owned assets with estimates made by other entities and with those estimates developed internally by its technical resources. Management, in line with the requirements of Egyptian Accounting standards, reviews the useful lives of property and equipment regularly, to ensure consistency with its estimate, or otherwise, revise the remainder of useful lives as appropriate.

**2. Income tax:**

- The Group is subject to corporate income tax. The Group estimates the income tax provision by using the advice of an expert. In case there are differences between the final and preliminary results, these differences will affect the income tax and deferred tax provision in these years.

3. **Intangible assets – useful life:**

- The Company capitalized the expenditure that is directly attributable to the electricity generation fees agreement. These expenditures have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight–line method to allocate these costs over 10 years.

4. **Impairment of goodwill:**

- The management annually assesses the goodwill to determine the existence of impairment in the carrying amount. If the carrying amount of the goodwill is higher than its recoverable amount, the carrying amount will be reduced and the impairment losses will be charged to the statement of income and cannot be reversed.

**Critical Judgments in applying the Group accounting policies**

- In general, applying the Group accounting policies does not require judgments (apart from those involving estimates refer to in Note (2-28) that have significant effects on the amounts recognized in the consolidated financial statements.

**2-29 Legal Reserve:**

- In accordance with the companies' law no. 159 of 1981 and the Company's Articles of Association, 10% of annual net profit is transferred to legal reserve. Upon the recommendation of the board of Directors, the Company may stop such transfers when the legal reserve reaches 50% of the issued capital. The statutory reserve is not eligible for distribution to shareholders.

- Estimated ratios was as follow:

| Company | Ratio |
|---|---|
| Arabian Cement Company | 10% |
| Andalous Concrete | 10% |
| ACC for Management and Trading | 5% |

## 3. Property plant and equipment (net) :

Translation from Arabic

| | Land | Building | Vehicles | Machinery and equipment | IT equipment and other installations | Computer and software | Furniture, fixtures and office | Total |
|---|---|---|---|---|---|---|---|---|
| | EGP | EGP | EGP | EGP | EGP | EGP | EGP | EGP |
| **COST:** | | | | | | | | |
| **Balance at 1 January** | 50,243,436 | 495,886,666 | 13,449,691 | 2,570,800,437 | 129,011,456 | 8,934,328 | 4,994,040 | **3,273,320,054** |
| **Additions** | 0 | 15,153,624 | 3,545,345 | 30,872,264 | 6,218,541 | 664,223 | 622,029 | **57,076,026** |
| **Balance at 31 March** | **50,243,436** | **511,040,290** | **16,995,036** | **2,601,672,701** | **135,229,997** | **9,598,551** | **5,616,069** | **3,330,396,080** |
| **Accumulated depreciation:** | | | | | | | | |
| **Balance at 1 January** | 0 | 66065134 | 6,423,658 | 501516550 | 37,572,773 | 7,501,787 | 921,700 | **620,001,602** |
| **Depreciation charge** | 0 | 6,611,528 | 443,714 | 31,935,709 | 1,902,411 | 405,786 | 130,593 | **41,429,741** |
| **Balance at 31 March** | **0** | **72,676,662** | **6,867,372** | **533,452,259** | **39,475,184** | **7,907,573** | **1,052,293** | **661,431,343** |
| **Net book value as of March 31,2014** | **50,243,436** | **438,363,628** | **10,127,664** | **2,068,220,442** | **95,754,813** | **1,690,978** | **4,563,776** | **2,668,964,737** |
| **Net book value as of December 31,2013** | **50,243,436** | **429,821,532** | **7,026,033** | **2,069,283,887** | **91,438,683** | **1,432,541** | **4,072,340** | **2,653,318,452** |

* There is a commercial and real state mortgage with first-class rank for the benefit of the National Bank of Egypt as a guarantee for loans granted by the bank and the company's land and all current and future buildings and constructions and the material and moral elements of the company's factory as disclosed in detail in note (14).

** According to the loans contracts granted by the National Bank of Egypt the company insured for the benefit of the bank an insurance policy against all potential risks on the company's factory and the production lines by 110% of the full amount of the loans and the bank is the first and only beneficiary of this policy with a value of EGP 3,941,111,859.

*** The company has insurance for its benefit on silos by EGP 4,600,000 cars by EGP 715,000 and Katamia Villa by EGP 6,600,000.

**Property, plant and equipment-net (continued):**

The Group has assets related to finance lease based on contracts under Law No. 95 for the year 1995, which states that these assets should not be classified as fixed assets according to the accounting policy (2/17)

| 5 years contracts | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Total contracted lease payments | 48,150,249 | 47,211,506 |
| Bargain purchase value | 1 EGP | 1 EGP |
| Average useful life | 5 years | 5 years |
| Annual lease payments | 2,523,837 | 9,442,301 |

## 4. Projects Under Construction:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Balance at 1 January | 143,613,902 | 9,229,356 |
| Additions | 6,059,428 | 131,104,105 |
| Advance to suppliers | 7,915,196 | 9,947,782 |
| Transfer to property , plant and equipment | (54,215,637) | (6,667,341) |
| **Total** | **103,372,889** | **143,613,902** |

- These projects under construction represent the following categories:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Building | 9,459,726 | 23,456,326 |
| Machinery and equipment | 84,993,062 | 109,227,768 |
| Technical and other installations | 1,004,905 | 982,026 |
| Advance to suppliers | 7,915,196 | 9,947,782 |
| **Total** | **103,372,889** | **143,613,902** |

## 5. Intangible Assets (net):

| | *Electricity supply agreement | **Goodwill | Total |
|---|---|---|---|
| **Costs** | | | |
| Balance at January 1 | 225,200,000 | 8,274,220 | 233,474,220 |
| Additions during the period | 0 | 0 | 0 |
| **Balance at 31/3/2014** | 225,200,000 | 8,274,220 | 233,474,220 |
| **Amortization** | | | |
| Balance at January 1 | (71,017,742) | (0) | (71,017,742) |
| Period Amortization | (5,552,877) | (0) | (5,552,877) |
| **Balance at 31/3/2014** | **(76,570,619)** | **(0)** | **(76,570,619)** |
| **Net Book Value 31/3/2014** | **148,629,381** | **8,274,220** | **156,903,601** |
| **Net Book Value 31/12/2013** | **154,182,258** | **8,274,220** | **162,456,478** |

* The power supply contract represents the value of the contract with the Ministry of Electricity, where the Ministry of Electricity identifies the needs of heavy industrial projects and arranging their needs, either through the establishment of new stations or already established ones, while the cost of investments will be paid by the company to what have been determined by the ministry, and the cost been agreed upon those arrangements is a value of EGP 217.2 millions, where payment has been agreed as shown below:

a) 15% advance payment equivalent to EGP 32.58 million.
b) 120 monthly instalments due on the first of every month from April 2010 amounted to EGP 1.220 million per each instalment.
c) 120 monthly instalments due on the first of every month from February 2011 amounted by EGP 1.342 million per each instalment.
d) In addition to EGP 8 million for the allocation of two cells of the traditional type, to be paid in four quarterly instalments. And the last instalment to be in 1st of February 2011.

**In December 2012, Arabian Cement Company acquired 99.96% from the shares of Andalus for Concrete through purchase. Such transaction resulted in a goodwill amounted to EGP 8,274,220,which represents the surplus of the acquisition cost compared to the value of the net assets of the acquired company.

## 6. Investments in Joint ventures:

| | Country of incorporation | Ownership | 31/3/2014 | 31/12/2013 |
|---|---|---|---|---|
| Andalus Reliance for Mining | Egypt | 50% | 31,250 | 31,250 |
| **Total** | | | **31,250** | **31,250** |

- Andalus Reliance for Mining "S.A.E" was founded on November 14, 2013. At the date of issuing the financial statements, the company has not started its activity.

## 7. Inventory:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Finished goods | 49,984,096 | 7,277,043 |
| Spare parts | 26,548,855 | 26,201,222 |
| Packing materials | 25,354,124 | 21,719,302 |
| Raw materials | 40,654,124 | 40,133,367 |
| WIP | 1,316,159 | 1,179,873 |
| Fuel and oils | 7,150 | 0 |
| **Total** | **143,864,508** | **96,510,807** |

## 8. Related Parties transactions:

### Due from subsidiaries and related parties:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Cementos San Juan– Chile | 1,026,517 | 1,026,517 |
| New Giza for development and construction | 599,423 | 732,449 |
| **Total** | **1,625,940** | **1,758,966** |

### Due to subsidiaries and related parties:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Cementos la union– Spain | 1,380,993 | 1,520,851 |
| Aridos Jativa | 100,926 | 400,798 |
| **Total** | **1,481,919** | **1,921,649** |

**The following represents the nature and value of main transactions between related parties during the period / year:**

| | Relation type | Transaction nature | For the period from 1/1/2014 to 31/3/2014 | 2013 |
|---|---|---|---|---|
| Aridos Jativa | Main shareholder | Services | 370,779 | 1,271,490 |
| Cementos La Union – Spain | Subsidiary of the parent company | Services | 0 | 700,392 |
| Cementos San Juan– Chili | Subsidiary of the parent company | payments | 0 | 64,580 |
| New Giza Company for development and construction | Related Party | Sales | 241,088 | 1,355,010 |

**Amounts paid for the members of the board of directors during the period / year:**

| | For the period from 1/1/2014 to 31/3/2014 | 2013 |
|---|---|---|
| Board allowance | 3,869,551 | 11,552,201 |
| Salaries and wages | 1,760,724 | 5,426,577 |
| **Total** | **5,630,275** | **16,978,778** |

### 9. Debtors and Other Debit Balances:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Trade Debtors | 2,119,778 | 1,754,543 |
| Advance to Suppliers | 37,565,400 | 11,707,359 |
| Letter of Credit | 6,550,643 | 14,300,435 |
| Deposits with others | 18,532,389 | 18,532,389 |
| Payments under dividends distributions to employees | 3,165,153 | 2,911,468 |
| Sales Tax | 646,913 | 583,565 |
| Imprest – Employee's loan | 1,262,690 | 647,121 |
| Prepaid quarry rental | 7,147,206 | 0 |
| Letter of guarantee cover | 34,049 | 34,049 |
| Withholding Tax | 929,690 | 800,703 |
| Add Tax | 182,461 | 0 |
| Other debit balances | 590,655 | 974,839 |
| **Total** | **78,727,027** | **52,246,471** |

### 10. Cash and Bank Balances:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Cash on hand | 5,600,458 | 5,190,182 |
| Current Account – Local Currency | 109,198,127 | 141,146,112 |
| Current account – Foreign Currency | 3,687,781 | 13,413,910 |
| Bank deposits | 1,627,489 | 1,402,489 |
| **Total** | **120,113,855** | **161,152,693** |

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Average interest rates for bank deposits - USD | 0.06% | 0.06% |
| Average interest rates for bank deposits - EGP | 6% | 6% |
| Maturity period for bank deposits | 30 days | 30 days |

For the purpose of preparation of cash flow statement, cash and cash equivalent include:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Cash and bank balances | 120,113,855 | 161,152,693 |
| Restricted cash | (72,506,687) | (108,847,106) |
| **Total** | **47,607,168** | **52,305,587** |

### 11. Provisions:

| | Balance at 31/12/2013 | Additions during the period | Used during the period | Balance at 31/3/2014 |
|---|---|---|---|---|
| provision | 7,110,829 | 0 | 0 | 7,110,829 |
| **Total** | **7,110,829** | **0** | **0** | **7,110,829** |

- The provisions relate to expected claims from some parties relates to the activities of the company, as the management reviews those provisions annually and adjusting the amount allocated in accordance with the latest developments, discussions and agreements with those parties. Also, the disclosure information about provision allocation is not according to the accounting standards because the management believes that this may strongly affect the consequences of negotiations with those parties.

### 12. Creditors and Other Credit Balances:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Advance payment from customers | 52,232,183 | 91,746,348 |
| Trade Payable | 102,059,209 | 107,843,024 |
| Accrued development fees | 68,754,580 | 54,433,940 |
| Dividends payable to shareholders | 0 | 33,193,204 |
| Taxes | 21,889,798 | 14,735,504 |
| Accrued customers rebates | 17,130,109 | 0 |
| Accrued interest | 10,058,099 | 18,722,545 |
| Retention | 5,962,172 | 6,165,801 |
| Accrued expenses | 7,945,813 | 1,713,859 |
| Other Credit Balance | 166,994 | 0 |
| **Total** | **286,198,957** | **328,554,225** |

**Accrued development fees:**

- As per law no. 147 for the year 1984, a fee for development of the country's resources is imposed as a license to use mines.
- These fees amounted to LE 27 for each ton of clay used by the cement production factory with a rate of 0.3 ton for each ton of cement. In July 2011, these fees changed to be LE 15 for each ton of cement produced and this represent the minimum amount to be paid as per the law.

## 13. Capital:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Authorized capital | 757,479,400 | 757,479,400 |
| Issued capital | 757,479,400 | 757,479,400 |
| number of shares | 378,739,700 | 378,739,700 |
| par value per share | 2 | 2 |
| issued and paid-up capital | **757,479,400** | **757,479,400** |

- By the decision of the Minister of Economy and International Cooperation (167) for the year 1997 and according to law No. 230 for the year 1989 issued on 9/3/1997 and according to the approval of the Egyptian Financial Supervisory Authority (currently), (Capital Market Authority /previously) to issue the incorporation shares with number 1663 on 30/3/1997. The company was established with an issued capital amounted to EGP 75 million distributed on 750,000 shares with par value of EGP 100 per share. The incorporators have paid 25% of the par value at inception. And the issued capital was paid at the commercial register for EGP 75 million according to the official copy of the commercial register under number 13105 on 3/4/2005 - Investment Commercial Register Office – Cairo.

- According to the decision of the Chairman of the General Authority for Investment and Free Zones (GAFI) number 2/3551 for the year 2005 issued on 14/6/2005 to amend articles number (6,7) of the company's bylaw which published in the official gazette vol. 7228 on 10 June 2009 (aggregated gazette), the decision of the Extraordinary General Assembly Meeting dated on 21 December 2004, which included the approval of the issued capital increase of EGP 75 million to be EGP 106,250,000, with an increase of EGP 31,250,000 distributed over 312,500 shares with a par value of EGP 100 per share.
- The Egyptian Financial Supervisory Authority (currently), (Capital Market Authority /previously) has issued the approval number 796 (repeated) on 6/6/2005 to increase the company's issued capital from EGP 75 million to be EGP 106,250,000, by an increase amounted to EGP 31,250,000 with par value of EGP 100 per share, with 25% cash paid percentage, according to bank deposit certificate and the issued certificate from the designated administrative body dated 2/6/2005.
- The issued capital increase from amount of EGP 75 million to be EGP 106,250,000 with paid capital amounted of EGP 82,812,500 had been registered at the commercial register with number 8215 dated on 16/6/2005, this increase has fully paid and registered in the commercial register on September 15, 2005.
- Based on the decision of the Extraordinary General Assembly Meeting dated 28 January 2006, the issued capital has increased by LE 224,662,500 so the total issued capital became LE 330,912,500 this increase was fully paid and registered in the commercial register on 22 February 2006.
- Based on the decision of the Extraordinary General Assembly Meeting dated 10 January 2008, the issued capital has increased by LE 312,266,900 so the total issued capital became LE 643,179,400 an amount of LE 78,066,725 was paid during 2008 so the paid up capital became LE 408,979,225 in 2008, the rest of the amount related to the capital increase amount to LE 156,133,450 was paid in

2009, so the total paid up capital became LE 565,112,675 in 2009 and this increase was registered in the commercial register on 8 November 2009.

- Based on the decision of the Extraordinary General Assembly Meeting dated 25 November 2009, the issued capital was increased by an amount of LE 114,300,000 so the total issued capital became LE 757,479,400 payments under capital increase in 2009 amounted to LE 80,787,719 and LE 111,579,006 in 2011, this increase was registered in the commercial register on 29 September 2011, so the total issued and paid up capital became LE 757,479,400.
- On 23 January 2014, the company's management held an extra-ordinary general assembly meeting in which a decision was approved for the stock split through modifying the par value of the company's share as a prelude for the listing of the company in the Egyptian stock exchange market. The extraordinary general assembly approved on modifying the par value of the share to be 2 EGP instead of EGP 100.
- In addition to the mentioned above, the extra-ordinary general approved updating article number (6) from the article of association which states that the capital of the company amounted to EGP 757,479,400 distributed among 7,574,794 shares the par value for each share is EGP 100 to be distributed among 378,739,700 shares the par value for each share is EGP 2.

## 14. Borrowings:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Current portion from loans | 321,449,077 | 337,970,515 |
| Non- current portion from loans | 469,828,106 | 520,680,947 |
| **Total** | **791,277,183** | **858,651,462** |

- These loans are represented in the following

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| First loan | 291,506,318 | 290,713,966 |
| Second loan | 429,583,342 | 454,014,526 |
| Third loan | 64,498,587 | 108,234,034 |
| Fourth loan | 5,688,936 | 5,688,936 |
| **Total** | **791,277,183** | **858,651,462** |

**First loan:**

- On September 2006, the Company has obtained a loan facility from the National Bank of Egypt of USD 103.9 millions.
- The loan is for 10 years with 2 years grace period with interest rate 1.6% plus Libor during the first five years and 1.7% plus Libor during the following five years. The repayments of the principal are to be made on a semi-annual basis and the first installment is dated 1 April 2009.
- In 31 January 2008, the Bank approved to increase the loan to be US $149 million to cover the increase in the investment cost, in addition to financing 15% of the operating license fee.
- The loan granted with a commercial mortgage over the assets as a security.

**Second loan:**

- In 31 January 2008, the company obtained another loan from National Bank of Egypt amounted by USD 142 million to finance the second production line as well as 25% of the second line's operating license fee; an equivalent amount of USD 57 million will be utilized in Egyptian Pounds .
- The loan for the second production line is for 10 years with 2 years grace period with interest rate 1.5% plus Libor (2011, 1.5% plus Libor) for the USD portion of the loan and 11% for the Egyptian Pounds portion of the loan, The repayments of the principal are to be made on a semi-annual basis and the first installment paid in 1st September 2011

**Third loan:**

- In 22 February 2011, the Company obtained a new loan facility from the National Bank of Egypt amounted by EGP 265 million to finance around 70% of the investment cost of the clinker mill, the loan is for 5 years including a grace period of 18 months with 2% interest above the corridor rate. The repayments of the loan are to be made on a 7 semi-annual basis starting no later than 6 months after the grace period.

**The loan is guaranteed by the following:**

1. Increase the commercial mortgage over the assets to include the assets related to the project subject to this finance (mills unit) on the condition that the commercial loan to be finalized within three months maximum after starring operations of the projects.
2. The loan granted with commercial mortgage for the bank benefit as a guarantee for this finance along with the prior given credit facilities amount to US $291,944 million over the assets (tangible & intangible) of the Company's factory.
3. The company is committed not to allow exit of the major shareholders in the project subject of this contract (especially the Spanish company) only after payment of the loan, while allowing for the Egyptian side to increase the share capital through the purchase of the Spanish party but the Spanish party share should not be less than 51% of company's capital.

- There is a real estate mortgage with first class rank for the benefit of the National Bank of Egypt as a guarantee for all loans and facilities granted by the bank. The mortgage is on the company's land and all current and future buildings and constructions.

**Fourth loan:**

- On 20 June 2013, the company obtained a loan facility from the National bank of Egypt which amounted to 70 million Egyptian pounds in order to contribute in the financing of 70% of the gross investment cost which amounted to 100 million Egyptian pounds, which is needed for new project held by the company for the purpose of using the solid and agricultural wastes as an alternative fuel beside the natural gas in the process of manufacturing.
- The loan period is 6 years starting from the date of withdrawal, with a rate by 2% plus corridor with a minimum rate 12%. Interest calculated from first withdrawing day on a daily base plus commission by 0.0105% on the higher debit balance. The company is committed to pay the loan over 16 equal quarter instalment each one is amounted to 4,375,000 Egyptian pound, first installment after two years from first withdrawal or usage for the facility.
- Amounted to LE 5,688,936 withdrawal transactions till the date of issuing the financial statements.

- The company has a grant from the bank by 20% of the value of the financing amount from the bank, in case of meeting the following conditions

  a. The utilization of the loan in the objectives determined and agreed as per the contract

  b. Application for the financing conditions including the payments terms.

  c. Obtaining the required certificate from the environmental affairs department, which indicates the pollution reduction.

**Loan commitments include the following items:**

1- The company should not do any changes to the nature of its activities or its legal form or structure of ownership only after obtaining the prior written consent of the bank.

2- The company should not sell or mortgage or lease or power of attorney to sell or mortgage only after obtaining the prior written consent of the bank.

3- The company should issue irrevocable and unchangeable insurance policies against the dangers of fire, physical damage, business interruptions and machinery failures on all assets owned by the company subjected to this loan contract within 110 % of the full loan's amount, and concede these policies to the bank as first and sole beneficiary.

## 15. Long term liabilities:

Long-term liabilities – current portion

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Operating license* | 50,976,000 | 50,976,000 |
| Electricity fees** | 18,462,000 | 18,462,000 |
| **Total** | **69,438,000** | **69,438,000** |
| Long-term liabilities | | |
| Operating license * | 421,904,000 | 434,648,000 |
| Long term liabilities – Electricity fees ** | 100,002,500 | 104,618,000 |
| Long term notes payable *** | 34,347,224 | 37,289,416 |
| **Total** | **556,253,724** | **576,555,416** |

*** Operating license:**

– As per the country's policies to obtain a license for cement factory, the general industrial Development association approved on issuing a license to the company amount to LE 281.4 million for the 1st production line with related liability on the company to pay 15% as an advance payment and the residual amount will be paid over 5 equal annual installments after 1 year from starting production with a maximum of 18 months according to interest rate determined by Central Bank of Egypt - CBE.

– The above mentioned value will be also applied for the second line and a 25% is to be paid as an advance payment and residual amount will be settled over a period of 3 years according to the interest rate determined by Central Bank of Egypt - CBE.

**** Electricity fees:**

- Arabian cement company operating license stipulate that the company should provide its own power generation facility. The Ministry of Electricity suggested that instead of building a captive plant, a fee of LE 217.2 million should be paid to the ministry to allow new cement plants to connect to the national grid.
- 15% down payment Amounted to EGP 32.580 million was paid by the company and the remaining 85% will be paid as follows:
- 120 Monthly installments amounted to EGP 1.220 million per installment including interest and the 1st installment will start April 2010.
- 120 Monthly installments amounted to EGP 1.342 million per installment including interest and the 1st installment will start February 2011.
- In addition to EGP 8 million which represent the amount of 2 ordinary cells, will be paid over four quarterly based installment to ended by 1 Feb. 2011

***** Long – term notes payable**

- The long – term notes payables presents the value of the installment due after next year, these amounts are due to the suppliers that are working on the construction of the alternative fuel which were not finalized till the date of issue of the financial statements.
- The liability is paid based on semi-annual installments that are equal in value, the last installment is due on December 2016 with an interest rate of 7% for the alternative fuel generation line and 9.5% for the coal project.

## 16. Deferred Income Tax Liabilities:

- Deferred income tax represents tax expenses on the temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Property, plant, equipment and intangible assets | 340,972,657 | 337,985,370 |
| | **340,972,657** | **337,985,370** |

- The movement of the deferred tax liability is as follows:

| | 31/3/2014 | 31/12/2013 |
|---|---|---|
| Balance at 1 January | 337,985,370 | 318,107,130 |
| Deferred tax charged to the income statement (Note 22) | 2,987,287 | 19,878,240 |
| **Balance for the period / year** | **340,972,657** | **337,985,370** |

## 17. Net Sales:

| | For the period from 1/1/2014 to 31/3/2014 | 2013 |
|---|---|---|
| Local sales | 569,300,145 | 2,223,234,303 |
| Export sales | 2,744,265 | 48,458,746 |
| Services | 8,819,359 | 36,805,350 |
| **Total sales** | **580,863,769** | **2,308,498,399** |
| **Less** | | |
| Sales discount | (48,791,262) | (233,045,968) |
| **Net sales** | **532,072,507** | **2,075,452,431** |

## 18. Cost of Sales:

| | For the period from 1/1/2014 to 31/3/2014 | 2013 |
|---|---|---|
| Raw material | 313,447,249 | 1,166,317,916 |
| Manufacturing depreciation | 41,427,483 | 166,172,336 |
| Indirect cost | 18,136,438 | 72,641,447 |
| Amortization charge for electricity supply agreement | 5,552,877 | 22,519,999 |
| Change In Inventory | (47,353,701) | (28,839,579) |
| **Total** | **331,210,346** | **1,398,812,119** |

## 19. General and Administrative Expenses:

| | For the period from 1/1/2014 to 31/3/2014 | 2013 |
|---|---|---|
| Salaries and wages | 8,529,224 | 29,282,407 |
| Professional services | 7,622,608 | 12,066,883 |
| Advertising and public relations | 948,060 | 1,377,189 |
| Rentals | 885,222 | 3,687,009 |
| Transportation | 315,111 | 1,634,345 |
| Telephone | 101,093 | 576,127 |
| Training | 118,118 | 615,054 |
| Repairs and maintenance | 36,083 | 107,876 |
| Security and cleaning services | 1,042,666 | 3,781,285 |
| Medical insurance | 96,872 | 387,299 |
| Subscription and governmental fees | 38,242 | 271,680 |
| Hospitality | 139,545 | 727,725 |
| Utilities | 11,165 | 65,893 |
| Research and development | 130 | 79,657 |
| Banks charges | 85,344 | 277,999 |
| Other expenses | 189,410 | 2,144,101 |
| **Total** | **20,158,893** | **57,082,529** |

## 20. Other income:

| | For the period from 1/1/2014 to 31/3/2014 | 2013 |
|---|---|---|
| Compensation | 0 | 12,805,800 |
| Other income | 205,778 | 710,633 |
| **Total** | **205,778** | **13,516,433** |

- The compensation income for the period from 1/1/2013 till 31/12/2013 represents compensation paid by the insurance company amounted to EGP 12,805,800 as a compensation for Arabian Cement Company due to loss occurred due to the stoppage of the first production line.

## 21. Finance cost - net:

| | For the period from 1/1/2014 to 31/3/2014 | 2013 |
|---|---|---|
| Foreign exchange (loss) | (2,318,715) | (68,702,795) |
| Loan interest | (7,658,666) | (62,390,449) |
| Operation licence interest | (11,256,000) | (45,024,000) |
| Electricity agreement interest | (3,070,500) | (12,282,000) |
| Long-term notes payable interest | (624,647) | 0 |
| Interest income | 82,844 | 1,468,411 |
| **Total** | **(24,845,684)** | **(186,930,833)** |

## 22. Income tax:

| | | For the period from 1/1/2014 to 31/3/2014 |
|---|---|---|
| Deferred income tax ( Note 16) | | 2,987,287 |
| Current income tax | | 36,125,064 |
| **Total** | | **39,112,351** |
| **Effective tax rate** | | |
| Net profit before income tax | | 156,063,362 |
| Tax using current tax rates | 25% | 39,015,841 |
| **Add:** | | |
| Accounting depreciation and amortization | | 46,982,618 |
| Expenses non-deductible for tax purpose | | 1,879,817 |
| **Less:** | | |
| Taxable depreciation | | 59,732,801 |
| **Tax bracket** | | **145,192,996** |
| Income tax according to effective tax rate | 23.15% | **36,125,064** |

## 23. Minority interests:

- Minority interest amounted to EGP 5,405as of 31/3/2014 which represents the percentage of 0.04% at Andalus concrete and 1% at ACC for Management Company, and the majority interest represents the percentage of 99.96% at Andalus concrete and 99% at ACC for Management Company.

| | Capital | Minority interest for acquired subsidiary | Retained Earning | 31/3/2014 | 31/12/2013 |
|---|---|---|---|---|---|
| Balance at 1 January | 2,500 | -1,672 | 3,508 | 4,336 | 3,020 |
| Net Profit for the period / year | 0 | 0 | 1,069 | 1,069 | 1,316 |
| | **2,500** | **-1,672** | **4,577** | **5,405** | **4,336** |

## 24. Earnings per share of the period/Year:

| | For the period from 1/1/2014 to 31/3/2014 | 2013 |
|---|---|---|
| Net profit for the Period /Year | 116,949,942 | 419,316,999 |
| Employee`s share in dividends distribution | (1,155,161) | (4,774,650) |
| **Net profit for the period / year** | **115,794,781** | **414,542,349** |
| Weighted average number of shares for the period / year | 378,739,700 | 378,739,700 |
| **Earnings per share of the period / year** | **0.31** | **1.09** |

- Earnings per share calculated before deducting the legal reserve.

## 25. Contingent liabilities:

- At 31 March 2014, the group had contingent liabilities in respect of bank and other guarantees in addition to other aspects arising from the ordinary course of business from which it is anticipated that no material liabilities will arise. Through the ordinary course of business letters of guarantee are issued by the Company to third parties amounted to LE 34,049 covered with an amount of LE 34,049.

## 26. Tax Position:

- Based on the tax inspection in Egypt which results that the final result of income tax authority inspection may results extra liabilities due to the inspection.
- Below is a summary for the tax position of the company as the date of preparing consolidated financial statements:

- **Arabian Cement Company**

**Corporate income tax:**

- The Company enjoys a tax exemption for a period of 5 years starting from the Fiscal year following the start up of the production of the Company's operation. This period was determined by the General Authority for Free Zones and Investments to start from 22 April 2008, consequently, the Company is exempted from corporate tax for the period from 1 January 2009 till 31 December 2013.
- The Company prepares Tax return according to income tax laws and regulations and submits them on a timely basis as stated by the law.

**Sales tax:**

- The sales tax was inspected till December 2011 and the company paid the final settlement.
- The Company submits tax returns on a timely basis.

**Stamp tax:**

- The stamp tax was inspected till 2011 and the company paid the final settlement.

**Payroll tax:**

- Payroll tax was inspected till 2007 by the tax authority and the company paid the final settlement.
- Payroll tax for 2008 till consolidated financial statements date was not inspected.

- **subsidiary companies**

a) **Andalus Concrete**

**Corporate tax**

- The Company prepares and submits its tax returns according to income tax laws and regulations and submits them on a timely basis as stated by the law and no inspection was performed till consolidated financial statements date.

**Sales tax**

- The company submitted and settled tax returns on a timely basis and no inspection was performed till now.

**Payroll tax**

- The company is paying the payroll taxes on a timely basis and no inspection was performed till now.

b) **ACC for Management and Trading**

**Corporate income tax:**

- The Company prepares and submits its tax returns according to income tax laws and regulations and submits them on a timely basis as stated by the law and no inspection was performed till consolidated financial statements date.

**Payroll tax:**

- The company is paying the payroll taxes on a timely basis and no inspection was performed till consolidated financial statements date.

## 27. Capital Commitment :

- The Capital Commitment as of 31/3/2014 related to fixed assets acquisition amounted to EGP 31,720,438.

## 28. Comparative Figures:

- Comparative figures were reclassified to match with current period classification.
- Comparative figures of the Balance Sheet, Income Statement, Changes in owner's Equity and Cash Flow which represents the financial year from 1/1/2013 to 31/12/2013 due to the unavailable audited consolidated financial results for the comparative period.