

**SAUDI ARABIAN MINING COMPANY (MA'ADEN)  
(A Saudi Joint Stock Company)**

**Consolidated Financial Statements and  
Auditors' Report for the Year Ended  
December 31, 2008**

**SAUDI ARABIAN MINING COMPANY (MA'ADEN)**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

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<u>INDEX</u>	<u>PAGE</u>
Independent Auditors' report	1
Consolidated balance sheet	2
Consolidated statement of income	3
Consolidated statement of changes in shareholders' equity	4
Consolidated statement of cash flows	5-6
Notes to the consolidated financial statements	7-25

**INDEPENDENT AUDITOR'S REPORT**

February 20, 2009

To the Shareholders of Saudi Arabian Mining Company (Ma'aden):  
(A Saudi Joint Stock Company)

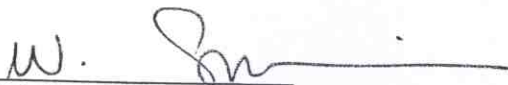
We have audited the accompanying consolidated balance sheet of Saudi Arabian Mining Company (Ma'aden) (the "Company") and subsidiaries (the "Group") as of December 31, 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company to comply with applicable articles of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. 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 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 misstatement. 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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2008 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia, appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of these financial statements.

**PricewaterhouseCoopers Al Juraid**

By:   
Walid I. Shukri  
License Number 329



**SAUDI ARABIAN MINING COMPANY (MA'ADEN)**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2008**

<b>ASSETS</b>	<b>Notes</b>	<b>2008</b>	<b>2007</b>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	3	SR 4,144,850,189	SR 595,936,585
Short-term investments		7,189,990,808	2,099,000,000
Accrued investments income		93,009,189	60,462,655
Trade and other receivables	4	21,055,544	207,511,129
Inventories, net	5	166,715,180	110,583,786
Prepaid expenses and other assets	6	752,995,738	82,407,532
Other receivable	7	61,045,987	61,045,987
Total current assets		<u>12,429,662,635</u>	<u>3,216,947,674</u>
<b>NON-CURRENT ASSETS:</b>			
Prepaid expenses and other assets	6	66,016,182	-
Advances against investment in company under formation	23b	-	1,815,796,834
Property, plant and equipment, net	8	7,052,775,305	341,277,507
Pre-operating expenses and deferred charges, net	9	1,809,990,324	474,371,224
Total non-current assets		<u>8,928,781,811</u>	<u>2,631,445,565</u>
Total assets		<u>SR21,358,444,446</u>	<u>SR 5,848,393,239</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Project and other current payables	10	SR 2,428,535,877	SR 146,652,664
Accrued expenses	11	1,082,614,149	76,299,364
Severance fees payable	12	61,728,370	29,584,467
Total current liabilities		<u>3,572,878,396</u>	<u>252,536,495</u>
<b>NON-CURRENT LIABILITIES:</b>			
Provision for mine closure and reclamation	13	66,145,395	54,852,895
End-of-service indemnities	14	72,450,755	56,859,438
Long-term loan	15	820,000,256	-
Total non-current liabilities		<u>958,596,406</u>	<u>111,712,333</u>
Total liabilities		<u>4,531,474,802</u>	<u>364,248,828</u>
Commitments and Contingencies	27		
<b>EQUITY:</b>			
Capital and reserves attributable to shareholders of the Company			
Share capital	1	9,250,000,000	4,000,000,000
Share premium		5,250,000,000	-
Statutory reserve	17	203,518,201	183,179,887
Retained earnings		1,484,009,347	1,300,964,524
Total shareholders' equity		16,187,527,548	5,484,144,411
Minority interest	2	639,442,096	-
Total equity		<u>16,826,969,644</u>	<u>5,484,144,411</u>
Total liabilities and equity		<u>SR21,358,444,446</u>	<u>SR 5,848,393,239</u>

The accompanying notes form an integral part of these consolidated financial statements

**SAUDI ARABIAN MINING COMPANY (MA'ADEN)**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Sales	18	SR 460,184,747	SR 244,130,229
Cost of sales		<u>(239,459,969)</u>	<u>(167,406,905)</u>
Gross profit		220,724,778	76,723,324
General and administrative expenses	20	(221,597,345)	(96,304,044)
Exploration expenses		(45,396,410)	(25,499,987)
Technical services expenses		<u>(9,183,210)</u>	<u>(4,879,317)</u>
Operating loss		(55,452,187)	(49,960,024)
Severance fees	12	(32,143,903)	(4,280,984)
Loss on unwinding forward hedge	24	-	(446,293,125)
Other (expenses) income, net		<u>(752,314)</u>	<u>27,694,952</u>
Loss before income from short-term investments		(88,348,404)	(472,839,181)
Income from short-term investments		<u>289,923,637</u>	<u>225,635,873</u>
Net income / (loss) before minority interest		201,575,233	(247,203,308)
Loss attributable to minority interest	2	<u>1,807,904</u>	<u>-</u>
Net income / (loss) attributable to the shareholders of the Company		<u>SR 203,383,137</u>	<u>SR (247,203,308)</u>
Operating (loss) per share (includes minority interest)	21	<u>SR (0.08)</u>	<u>SR (0.12)</u>
Earning / (loss) per share from net income (loss) for the year after minority interest	21	<u>SR 0.30</u>	<u>SR (0.62)</u>
Earning / (loss) per share from net non-operating Income / (loss) (includes minority interest)	21	<u>SR 0.38</u>	<u>SR (0.49)</u>

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**SAUDI ARABIAN MINING COMPANY (MA'ADEN)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Notes</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
January 1, 2007		SR 4,000,000,000	-	SR 183,179,887	SR 1,548,167,832	SR 5,731,347,719
Net loss		-	-	-	(247,203,308)	(247,203,308)
December 31, 2007		<u>SR 4,000,000,000</u>	<u>-</u>	<u>SR 183,179,887</u>	<u>SR 1,300,964,524</u>	<u>SR 5,484,144,411</u>
January 1, 2008		SR 4,000,000,000	-	SR 183,179,887	SR 1,300,964,524	SR 5,484,144,411
Issue of shares at premium	1	5,250,000,000	5,250,000,000	-	-	10,500,000,000
Net income		-	-	-	203,383,137	203,383,137
Net income transfer to statutory reserve	17	-	-	20,338,314	(20,338,314)	-
December 31, 2008		<u>SR 9,250,000,000</u>	<u>SR 5,250,000,000</u>	<u>SR 203,518,201</u>	<u>SR 1,484,009,347</u>	<u>SR 16,187,527,548</u>

The accompanying notes form an integral part of these consolidated financial statements

**SAUDI ARABIAN MINING COMPANY (MA'ADEN)**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>2008</u>	<u>2007</u>
<b>OPERATING ACTIVITIES:</b>		
Net income / (loss)	SR 203,383,137	SR (247,203,308)
Adjustments for:		
Depreciation	67,047,750	33,445,411
Amortization of pre-operating expenses and deferred charges	21,143,244	7,264,443
Reversal of provision for slow-moving spare parts and consumables	(512,738)	(5,895,343)
End-of-service indemnities expense	18,825,428	13,646,993
Severance fees	32,143,903	4,280,984
Income from short-term investments	(289,923,637)	(225,635,873)
Deferred revenue	-	(13,500,000)
Pre-operating expenses and deferred charges written-off	-	11,401,708
	<u>52,107,087</u>	<u>(422,194,985)</u>
Changes in working capital:		
Trade and other receivables	272,057,000	(196,889,225)
Inventories, net	(55,618,656)	(5,801,397)
Prepaid expenses and other assets	(153,238,613)	(75,669,716)
Other receivable	-	2,452,067
Project and other current payables	2,107,264,597	63,701,557
Accrued expenses	811,293,565	(8,061,044)
End-of-service indemnities paid	(5,704,922)	(2,120,589)
Net cash from / (used in) operating activities	<u>3,028,160,058</u>	<u>(644,583,332)</u>
<b>INVESTING ACTIVITIES:</b>		
Short-term investments	(5,090,990,808)	2,464,750,000
Income from short-term investments received	258,776,061	292,573,183
Advances against investment in company under formation	-	(1,383,663,018)
Additions to property, plant and equipment, net	(5,586,155,391)	(142,316,714)
Additions to pre-operating expenses and deferred charges	(830,222,416)	(173,726,557)
Net cash (used in) / from investing activities	<u>(11,248,592,554)</u>	<u>1,057,616,894</u>
<b>FINANCING ACTIVITIES:</b>		
Long-term loan received	820,000,256	-
Proceeds from the IPO	10,500,000,000	-
Minority interest	(138,756,547)	-
Net cash from financing activities	<u>11,181,243,709</u>	<u>-</u>
Net change in cash and cash equivalents	2,960,811,213	413,033,562
Cash and cash equivalents, January 1	595,936,585	182,903,023
Net cash from spin-off of the phosphates project to the newly incorporated subsidiary (Note 23b)	588,102,391	-
Cash and cash equivalents, December 31,	<u>SR 4,144,850,189</u>	<u>SR 595,936,585</u>

*(Continued)*

SAUDI ARABIAN MINING COMPANY (MA'ADEN)  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2008 (Continued)

	<u>2008</u>	<u>2007</u>
<b>NON-CASH TRANSACTIONS:</b>		
Advances against investment in a company under formation transferred to investment in a subsidiary	<u>1,815,796,834</u>	<u>-</u>
Pre-operating expenses and deferred charges and property, plant and equipment transferred to advance against investment in a company under formation	<u>-</u>	<u>432,133,816</u>
Pre-operating expenses and deferred charges transferred to property, plant and equipment	<u>21,403,822</u>	<u>-</u>
Provision for mines closure charged to pre-operating expenses and deferred charges	<u>11,292,500</u>	<u>-</u>

The accompanying notes form an integral part of these consolidated financial statements

**SAUDI ARABIAN MINING COMPANY (MA'ADEN)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

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**1. ORGANIZATION AND ACTIVITIES**

Saudi Arabian Mining Company (the "Company" or "Group") was formed as a Saudi joint stock company pursuant to Royal Decree No. M/17 dated 14 Zul Qaida 1417H (corresponding to March 23, 1997) and Council of Ministers Resolution No. 179 dated 8 Zul Qaida 1417H (corresponding to March 17, 1997), with Commercial Registration No. 1010164391 dated 10 Zul Qaida 1421H (corresponding to February 4, 2001) and with a share capital of SR 4,000,000,000 (Four billion Saudi Riyals), comprising 40,000,000 shares at a nominal value of SR 100 each.

The Company through March 2, 2008 was wholly owned by the Saudi Government (the "Government") represented by the Public Investment Fund ("PIF"). The Council of Ministers issued its resolution No. 49, dated 25 Safar 1429H (corresponding to March 3, 2008) whereby the authorized share capital of the Company was increased from SR 4,000,000,000 (Four billion Saudi Riyals) to SR 9,250,000,000 (Nine billion and two hundred fifty million Saudi Riyals) divided into 925,000,000 shares (SR 10 par value) and to offer 50% of the newly authorized share capital in the Saudi capital market through an Initial Public Offering ("IPO"). Consequently, the Government's interest in the Company was diluted to 50%.

As a result of the increase in the Company's capital, the PIF's interest in the Company was increased to SR 4,625,000,000 (Four billion six hundred and twenty five million Saudi Riyals) divided into 462,500,000 shares through an injection of SR 1,250 million which was paid by the PIF during the year, in which SR 625 million was recorded as an increase in share capital and the remaining SR 625 million as share premium.

The remaining 50% shares were offered to the Public on 2 Rajab 1429H (corresponding to July 5, 2008) through an Initial Public Offering ("IPO") to the Public Pension Agency ("PPA"), General Organization for Social Insurance ("GOSI"), Saudi citizens and certain authorized persons participating in this IPO (Note 22).

The objectives of the Company and its subsidiaries are to engage in the various aspects of mining activities relating to all stages of the mining industry, including development, advancement and improvement of the mineral industry, mineral products and by-products and related industries. These activities exclude petroleum and natural gas and materials derived therefrom; any and all hydrocarbon substances, products, by-products and derivatives; and activities related to all stages of the oil industry and the industries associated therewith and supplementary thereto.

The Company's principal mining activities are the Mahd Ad' Dahab, Al-Hajjar, Bulghah, Al-Amar, Sukhaybarat and Kaolin mines. Other mines are currently being developed in the Kingdom of Saudi Arabia.

Currently the Company mainly mines gold and low-grade bauxite.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation - The Company's consolidated financial statements are prepared in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

Accounting convention - The consolidated financial statements, expressed in Saudi Arabian Riyals, are prepared under the historical cost convention.

Principle of consolidation - The consolidated financial statements include the accounts of the Company and the following subsidiaries:

	Country of incorporation	Percentage of ownership	
		2008	2007
Ma'aden Gold and Base Metals Company ("MGC")	Saudi Arabia	100%	100%
Ma'aden Phosphate Company ("MPC") - see Note (23b)	Saudi Arabia	70%	-

MPC was incorporated on January 1, 2008 and is currently in the development stage. Saudi Basic Industries Corporation ("SABIC") holds the remaining 30% interest in MPC, and it is accounted for as minority interest in these consolidated financial statements. Accordingly, minority interest in the balance sheet, and loss attributable to the minority interest in the income statement, represent SABIC's share in the net assets and loss of MPC.

All material inter-company balances and transactions are eliminated in the accompanying consolidated financial statements. The Company and its subsidiaries apply a consistent accounting policy in all material respects.

Use of estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting standards requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Significant areas requiring the use of management estimates relate to the determination of mineral reserves, reclamation and environmental obligations, impairment of assets and useful lives used to compute depreciation, depletion and amortization. Actual results could differ from those estimates.

Segment reporting - A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Foreign currency translation - Foreign currency transactions are translated into Saudi riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

Cash and cash equivalents - Cash and cash equivalents balance includes cash on hand, cash in banks and time deposits with maturity of 90 days or less at acquisition.

Inventories - Inventories are stated at the lower of cost or net realizable value. Cost is determined, for finished goods, on a weighted average basis and includes cost of materials, labor and an appropriate proportion of direct overheads. All other inventories are valued on a moving average basis and a provision is established for items deemed to be slow moving or obsolete.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Property, plant and equipment - Property, plant and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the shorter of estimated useful lives of the applicable assets or the estimated life of the mine using the straight-line method. The estimated useful lives of the principal classes of assets are as follows:

	<u>Years</u>
Motor vehicles	4
Heavy equipment	5-13
Fixed plant and heap leach facilities	4-6
Buildings	9-20
Civil works	4
Other equipment	4
Office equipment	4-10
Furniture and fixtures	4-10

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

Capital work-in-progress - Assets in the course of construction are capitalized in the capital work-in-progress account. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. The cost of a property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Costs associated with a start up period are capitalized where the asset is available for use but incapable of operating at normal levels without a commissioning period. Capital work-in-progress is not depreciated.

Pre-operating expenses and deferred charges - Exploration, evaluation, development and pre-operating expenses are expensed in the period incurred until a prospective exploration project or mine is identified as having economical development potential. Once a prospective exploration project or mine has been determined to have economical development potential, the subsequent development and pre-operating expenses incurred on the project or mine are deferred net of proceeds from the sale of any production during the development period and then amortized over the expected life of the mine or a period of seven years whichever is lower. If a project or mine is no longer considered economical, the accumulated project costs are charged to income in the period in which the determination is made.

