

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
DECEMBER 31, 2014
With
INDEPENDENT AUDITORS' REPORT

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
For the year ended December 31, 2014
Expressed in Saudi Arabian Riyals

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INDEPENDENT AUDITORS' REPORT

The Shareholders
Methanol Chemicals Company
Dammam, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of Methanol Chemicals Company ("the Company") which comprise the balance sheet as at December 31, 2014 and the related statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 22 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with article 123 of the Regulations for Companies and the Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

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

- 1) present fairly, in all material respects, the financial position of the Company as at December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License No. 352



Al Khobar, 15 February 2015G
Corresponding to: 26 Rabi' Al Thani 1436H.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET

As at December 31, 2014

Expressed in Saudi Arabian Riyals

	Note	2014	2013
ASSETS			
Current assets:			
Cash and cash equivalents	4	50,313,840	79,045,791
Trade receivables		207,155,453	245,767,102
Inventories	5	162,725,961	127,936,115
Prepayments and other current assets	6	42,741,903	26,237,488
Total current assets		462,937,157	478,986,496
Non-current assets:			
Intangible assets	7	12,206,250	12,993,750
Property, plant and equipment	8	2,174,393,702	2,265,174,790
Total non-current assets		2,186,599,952	2,278,168,540
Total assets		2,649,537,109	2,757,155,036
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables		57,303,657	45,681,459
Short term loans		207,241,138	60,000,000
Current portion of long-term bank debts	9	154,098,505	149,098,505
Current portion of long term obligations	7	1,337,500	1,337,500
Accrued expenses and other current liabilities	10	52,366,065	49,640,268
Zakat provision	11	-	5,000,000
Total current liabilities		472,346,865	310,757,732
Non-current liabilities:			
Long-term bank debts	9	608,076,758	831,735,262
Employees' end of service benefits		27,841,087	31,430,811
Total non-current liabilities		635,917,845	863,166,073
Total liabilities		1,108,264,710	1,173,923,805
EQUITY			
Share capital	12	1,206,000,000	1,206,000,000
Share premium		72,850,071	72,850,071
Statutory reserve		44,118,693	40,898,576
Retained earnings		218,303,635	263,482,584
Total equity		1,541,272,399	1,583,231,231
Total liabilities and equity		2,649,537,109	2,757,155,036

The Financial Statements appearing on pages 1 to 16 were approved by the management on behalf of Board of Directors of the Company on 15 February 2015, and have been signed on their behalf by:


Zeyad A. Al-Barrak
Chief Financial Officer


Khalid Al Rabiah
Chief Executive Officer


Sami Mohammed Jalal
Board Member

The accompanying notes 1 through 22 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME

For the year ended December 31, 2014

Expressed in Saudi Arabian Riyals

	Note	2014	2013
Sales		884,666,252	873,722,183
Cost of sales		(701,072,817)	(657,977,183)
Gross profit		183,593,435	215,745,000
Selling and distribution expenses	14	(69,844,461)	(66,558,521)
General and administrative expenses	15	(42,589,259)	(32,507,623)
Operating income		71,159,715	116,678,856
Other expenses	16	(1,514,693)	(2,027,121)
Financial charges		(40,732,148)	(36,871,730)
Income before Zakat		28,912,874	77,780,005
Zakat credit/(charge), net	11	3,288,294	(5,661,774)
Net income		32,201,168	72,118,231
Earnings per share	17	0.27	0.60



The accompanying notes 1 through 22 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
For the year ended December 31, 2014
Expressed in Saudi Arabian Riyals

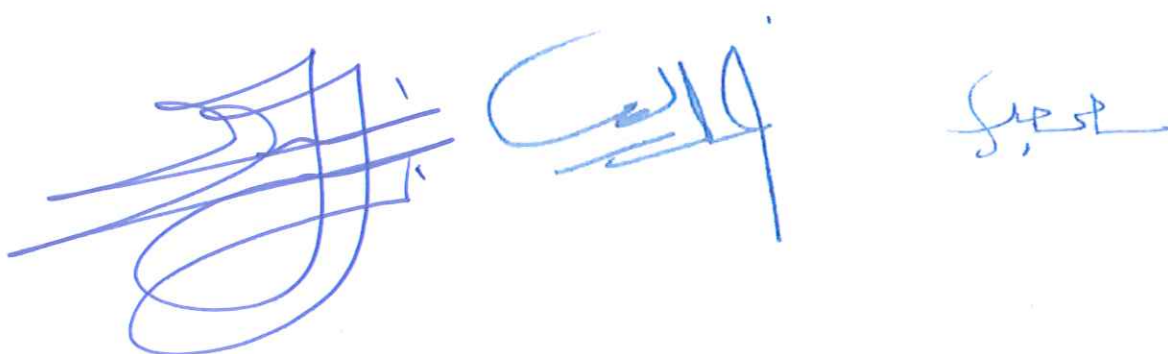
	Note	2014	2013
Cash flow operating activities:			
Net income for the year		32,201,168	72,118,231
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>			
Depreciation	8	163,558,102	153,742,792
Amortisation		6,248,995	8,017,224
Employees' end of service benefits (credit)/charge		(1,594,434)	8,663,920
Zakat (credit)/charge, net	11	(3,288,294)	5,661,774
Loss/(gain) from disposal of property, plant and equipment		707,129	(1,528)
		<u>197,832,666</u>	<u>248,202,413</u>
Changes in operating assets and liabilities:			
Trade receivables and prepayments and other current assets		24,907,234	25,137,766
Inventories		(34,789,846)	(6,490,574)
Trade payables and accrued expenses and other current liabilities		12,547,995	(3,433,250)
Employees' end of service benefits paid		(1,995,290)	(4,876,587)
Zakat paid	11	(4,511,706)	(5,563,175)
Net cash provided by operating activities		<u>193,991,053</u>	<u>252,976,593</u>
Cash flow from investing activities:			
Additions to property, plant and equipment	8	(73,495,426)	(76,633,764)
Proceeds from disposal of property, plant and equipment		11,283	1,520,151
Net cash used in investing activities		<u>(73,484,143)</u>	<u>(75,113,613)</u>
Cash flow from financing activities:			
Net movement in short term loans		147,241,138	60,000,000
Repayment of long term loans		(224,120,000)	(212,185,000)
Repayment of long term obligations		-	(1,750,000)
Dividend paid		(72,360,000)	(60,159,492)
Net cash used in financing activities		<u>(149,238,862)</u>	<u>(214,094,492)</u>
Net decrease in cash and cash equivalents		(28,731,951)	(36,231,512)
Cash and cash equivalents at the beginning of the year		79,045,791	115,277,303
Cash and cash equivalent at the end of the year	4	<u>50,313,840</u>	<u>79,045,791</u>

The accompanying notes 1 through 22 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2014
Expressed in Saudi Arabian Riyals

	Share capital	Share premium	Statutory reserve	Retained earnings	Total
Balance at December 31, 2012	1,206,000,000	72,850,071	33,686,753	260,702,849	1,573,239,673
Net income for the year	-	-	-	72,118,231	72,118,231
Directors' remuneration	-	-	-	(1,826,673)	(1,826,673)
Transfer to statutory reserve	-	-	7,211,823	(7,211,823)	-
Dividend paid	-	-	-	(60,300,000)	(60,300,000)
Balance at December 31, 2013	1,206,000,000	72,850,071	40,898,576	263,482,584	1,583,231,231
Net income for the year	-	-	-	32,201,168	32,201,168
Directors' remuneration	-	-	-	(1,800,000)	(1,800,000)
Transfer to statutory reserve	-	-	3,220,117	(3,220,117)	-
Dividend paid	-	-	-	(72,360,000)	(72,360,000)
Balance at December 31, 2014	1,206,000,000	72,850,071	44,118,693	218,303,635	1,541,272,399



The accompanying notes 1 through 22 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

Expressed in Saudi Arabian Riyals

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Methanol Chemicals Company ("Chemanol" or "the Company") is a Saudi Joint Stock Company registered in Saudi Arabia under Commercial Registration number 2055001870 dated Dhu Al-Hijjah 28, 1409H corresponding to July 31, 1989. It is licensed to engage in the production of formaldehyde liquid and urea formaldehyde liquid or their mixture with different concentrations, paraformaldehyde, formaldehyde resins, hexane methylene tetramine, phenol formaldehyde resins, concrete improvers, methanol, carbon monoxide, di-methylamine, mono-methylamine, tri-mono-methylamine, di-methyl formamide, di-methyl carbon, penta arithertol, sodium formate and acetaldehyde, as per ministerial resolution number (616/Saud) dated Safar 12, 1429H, corresponding to February 19, 2008.

The Company was converted from a limited liability company into a joint stock company in accordance with Ministerial Resolution No. 286 dated Dhul al-Qa'dah 4, 1428H, corresponding November 14, 2007.

2. BASIS OF PREPARATION

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

The financial statements were authorized for issue by the Board of Directors on February ____, 2015.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis using the accrual basis of accounting, with exception of derivative financial instruments that are measured at fair value, and the going concern concept.

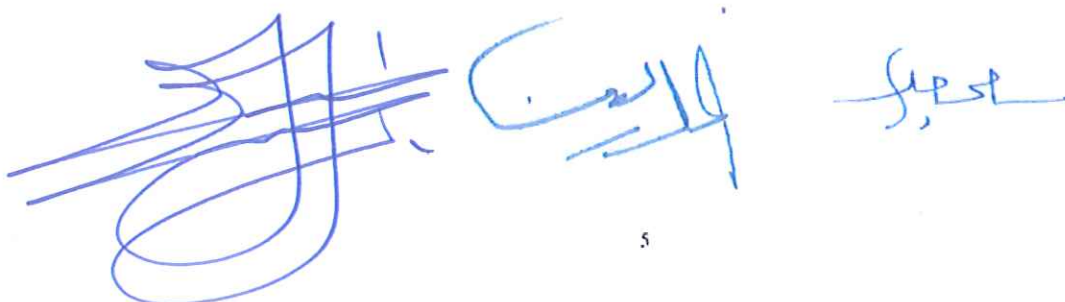
(c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Company.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.



METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

Expressed in Saudi Arabian Riyals

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

a. Trade receivables

Trade receivables are stated at original invoice amount less provisions made for amounts which in the opinion of the management may not be received. Bad debts are written off when identified.

b. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

c. Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the Statement of Income when incurred.

Depreciation is charged to the Statement of Income on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment.

The estimated useful lives of assets for current and comparative periods are as follows:

	<u>Years</u>
Buildings	33.33
Improvements on leasehold lands	5
Furniture, fixtures and office equipments	7 to 10
Computers and software	4 to 8
Plant, equipment and capital spares	10 to 20
Plant overhaul	3
Motor vehicles	4
Catalysts	1 to 3

Capital work in progress is stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

Expressed in Saudi Arabian Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Intangible assets

Estimated value of the right to use pipelines owned by other parties for transporting raw materials and finished goods are treated as intangible assets and are amortized over the estimated period of future economic benefits.

e. Upfront facility fees

Upfront facility fees represents SIDF facility appraisal fees, Murahaba facility appraisal and restructuring fees are amortized over the facility period and are presented net of the liability due at year end.

f. Long term prepaid expenses

Loan appraisal fees of the Saudi Industrial Development Fund ('SIDF') are treated as long term prepaid expenses and amortised over the period of the loan. Amortisation is capitalized up to the date the plant is available for its intended use.

g. Impairment of assets

Financial assets, property, plant and equipment and other non-current assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

h. Long term obligations

Long term obligations represent the amount payable in respect of the acquisition costs of intangible assets.

i. Trade payables and accruals

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

j. Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the Statement of Income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

k. Share premium

Share premium represents the excess amount collected over the face value of shares issued and is shown net of expenses incurred in relation to the share issue.

l. Revenue recognition

Revenue from sales is recognized upon delivery or shipment of products and when the risks and rewards have passed to the customer. Revenue is recorded net of returns, trade discounts and volume rebates.

Any other income is recognized when the realization of income is virtually certain.

m. Operating leases

Payments under operating leases are recognized in the Statement of Income on a straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

Expressed in Saudi Arabian Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Expenses

Selling and distribution expenses are those arising from the Company's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding direct costs and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales, selling and marketing and general and administrative expenses, when required, are made on a consistent basis.

o. Zakat

Zakat, computed in accordance with Saudi Arabia Tax and Zakat regulations, is accrued and charged to the Statement of Income.

p. Foreign currency translation

Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to the functional currency of the Company at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the Statement of Income currently.

q. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash at banks which is available to the Company without any restrictions.

r. Earnings per share

Earnings per share from net income are calculated by dividing the net income for the period by the weighted average number of shares outstanding during the period.

s. Segmental reporting

A segment is a distinguishable component of the Company that is engaged in providing products, services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the management views the whole activities of the Company as one operating segment, reporting is provided by geographical segment only.

t. Dividends

Interim dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved by the shareholders.

u. Fair values

The fair value of commission-bearing items is estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

v. Comparative reclassification

Certain comparative figures have been reclassified to comply with the current year presentation of the financial statements.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

Expressed in Saudi Arabian Riyals

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, comprise of the following:

	<u>2014</u>	<u>2013</u>
Cash in hand	47,957	60,000
Cash at bank	50,265,883	78,985,791
	<u>50,313,840</u>	<u>79,045,791</u>

5. INVENTORIES

Inventories at December 31, comprise of the following:

	<u>2014</u>	<u>2013</u>
Raw materials	27,105,251	22,571,698
Finished goods	47,673,727	30,530,378
Spare parts	72,895,628	68,568,974
Consumables	22,107,145	13,315,114
Packing materials	4,913,614	3,879,656
Provision for slow moving inventories	(11,969,404)	(10,929,705)
	<u>162,725,961</u>	<u>127,936,115</u>

6. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets at December 31, comprise of the following:

	<u>2014</u>	<u>2013</u>
Advances to suppliers	26,049,921	14,435,444
House rent allowance receivable from employees	6,595,796	5,869,023
Prepaid expenses	5,955,979	4,505,054
Receivable from DZIT (Refer note 11)	2,800,000	-
Other receivables	1,340,207	1,221,088
Amounts due from companies affiliated to shareholders	-	206,879
	<u>42,741,903</u>	<u>26,237,488</u>

7. INTANGIBLE ASSETS

On March 7, 2010, the Company entered into a Pipeline Services Agreement ('PSA') for three years, which provides the Company with a contractual right to use the pipeline for ammonia supply. During 2013, the PSA was extended to 26 December 2013. Management is in the process of obtaining an extension to the PSA.

The Company has capitalized the estimated amount payable in respect of the Capital Investment Component, which amounts to SR 15.75 million. The intangible assets have been amortized over twenty years, on the basis that this is the estimated useful life of the asset. The Management believes that the ammonia supply will continue for the foreseeable future.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

Expressed in Saudi Arabian Riyals

8. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the year ended December 31, 2014 is analyzed as under:

<u>Cost</u>	<u>Building and improvement on leasehold land</u>	<u>Furniture, fixtures and office equipment</u>	<u>Computers and software</u>	<u>Plant, equipment, capital spares and motor vehicles</u>	<u>Capital work in progress (CWIP)</u>	<u>Catalyst</u>	<u>Plant overhaul</u>	<u>Total</u>
Balance at January 1	358,680,058	18,466,995	19,620,700	2,565,273,378	9,102,943	44,449,156	30,202,161	3,045,795,391
Additions	553,622	865,089	5,620,736	21,516,436	25,851,422	8,556,573	10,531,548	73,495,426
Transfers from CWIP	-	-	-	1,105,054	(1,105,054)	-	-	-
Disposals	-	(2,799)	(70,022)	(3,217,644)	-	-	-	(3,290,465)
Balance at December 31	359,233,680	19,329,285	25,171,414	2,584,677,224	33,849,311	53,005,729	40,733,709	3,116,000,352
<u>Accumulated depreciation</u>								
Balance at January 1	53,997,158	12,822,146	9,169,915	663,118,761	-	35,702,829	5,809,792	780,620,601
Charge for the year	10,877,656	1,556,393	4,005,758	127,958,263	-	6,313,669	12,846,363	163,558,102
Eliminated on disposals	-	(350)	(64,622)	(2,507,081)	-	-	-	(2,572,053)
Balance at December 31	64,874,814	14,378,189	13,111,051	788,569,943	-	42,016,498	18,656,155	941,606,650
<u>Net book value</u>								
At December 31, 2014	294,358,866	4,951,096	12,060,363	1,796,107,281	33,849,311	10,989,231	22,077,554	2,174,393,702
At December 31, 2013	304,682,900	5,644,849	10,450,785	1,902,154,617	9,102,943	8,746,327	24,392,369	2,265,174,790

- One of the company's plant caught fire during the quarter ended 30 September 2014. All the assets damaged due to fire incident at PARA plant with a net book value of SR 0.71 million were written off. The Company has filed a claim with the insurer for the damage caused due to the fire. The insurer is in the process of evaluating the claim.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

Expressed in Saudi Arabian Riyals

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company's factory premises are situated in the Jubail Industrial Area and have been constructed on land leased from the Royal Commission for Jubail and Yanbu ('the Commission') for a period of 25 years from April 16, 1990 corresponding to Ramadan 21, 1410H at an annual rent of SR 110,430. The Company has entered into land lease arrangement with Sea Ports Authority of King Fahad Industrial Port, Al – Jubail for a period of 20 years from April 11, 2006 corresponding to Shawwal 13, 1427H at an annual lease rent of SR 310,044. The Company has entered into another land lease arrangement with the Commission for a period of 30 years from July 20, 2007 corresponding to Rabi II 3, 1428H at an annual rent of SR 290,728. The Company has the option of renewing the lease arrangement on expiry of the initial lease arrangement.

The term loans of the Saudi Industrial Development Fund ('SIDF') are secured by a mortgage over property, plant and equipment.

9. BANK DEBTS

a. Short-term bank debts

The Company has obtained working capital facilities with local banks. Commission is charged on the short-term loans at commercial rates. The short-term loans are secured by promissory notes.

b. Long-term bank loans

Long-term bank loans at December 31 comprise of the following:

	2014	2013
Saudi Industrial Development Fund (note 1)	385,000,000	470,000,000
Murabaha facility from a syndicate of banks (note 2)	322,245,000	431,365,000
Project cost overrun Murabaha Facility from a syndicate of banks (note 2)	75,000,000	105,000,000
Less: Unamortized deferred charges	(20,069,737)	(25,531,233)
	762,175,263	980,833,767

Presented in the balance sheet as follows:

	2014	2013
Current portion shown under current liabilities	154,098,505	149,098,505
Non-current portion shown under non-current liabilities	608,076,758	831,735,262
	762,175,263	980,833,767

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

Expressed in Saudi Arabian Riyals

9. BANK DEBTS (Continued)

- 1) On May 15, 2011, the Company reached an agreement with the SIDF to restructure the existing outstanding debt balance. The restructured debt amounting to SR 600,000,000 will be payable in 15 instalments, with the first and last instalment due on January 9, 2012 and October 25, 2018, respectively.

The term loans of the Saudi Industrial Development Fund ('SIDF') are secured by a mortgage over property, plant and equipment.

- 2) In December 2007, the Company entered into a Murabaha Facility Agreement with a syndicate of banks, namely; Arab Banking Corporation (B.S.C), Riyadh Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and SABB (collectively called as "Murabaha Facility Participants") to provide Project Murabaha Facility of SR 940 million, refinance Murabaha Facility of SR 37.5 million, and Working Capital Murabaha Facility and Standby Murabaha Sub-Facility of SR 150 million. The Project Murabaha Facility loan amounting to SR 525 million has been repaid on availment of the SIDF loan.

In October 2009, the Company entered into a Project Cost Overrun Murabaha Facility Agreement with a syndicate of banks, namely; Arab Banking Corporation (B.S.C), Riyadh Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and SABB (collectively called as "The Project Cost Overrun Murabaha Facility Participants") to provide Project Cost Overrun Murabaha Facility of SR 326 million to finance ongoing expansion projects. As per the agreement, the amounts drawn under this facility were originally repayable in two years from drawdown note i.e. November 18, 2011.

On June 5, 2011, the Company entered into a refinancing agreement with a syndicate of banks, namely; SABB, Riyadh Bank and Samba Financial Group (collectively called as "The Murabaha Facility Participants") to refinance both i) the outstanding balance under the Project Murabaha Facility & the Working Capital Facility Agreement of SAR 506 million dated December 26, 2007, ii) the Cost Overrun Facility Agreement of SAR 326 million dated October 27, 2009.

As per the new Murabaha Facility Agreement dated June 5, 2011, the Project Murabaha Facility amounting to SR 682 million will be payable in 14 semi-annual instalments starting from July 2011 to December 2017. The Working Capital Murabaha Facility amounting to SR 150 million will be payable in 10 semi-annual instalments starting from January 2013 to December 2017.

The Company holds a derivative financial instrument to hedge its interest rate risk exposure on the Murabaha facility. The derivative is measured at fair value and any changes in the fair value are recognised in the Statement of Income.

The facilities are secured by promissory notes. The Company is required to comply with certain covenants under all of above facilities. The instalments due within one year from the balance sheet date are shown as current liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

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10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as at December 31, comprise of the following:

	<u>2014</u>	<u>2013</u>
Accrued expenses	46,918,907	47,356,544
Advance from customers	4,795,185	2,031,927
Amounts due to companies affiliated to shareholders	511,467	111,289
Others	140,506	140,508
	<u>52,366,065</u>	<u>49,640,268</u>

11. ZAKAT

- a) During the year, the Company received final assessment for the years ended December 31, 2009 and December 31, 2010 from DZIT. As per the assessment order, the Company is due a refund of SR 4.8 million in respect of zakat paid for the years 2009 and 2010. The Company has filed its Zakat declaration for all the years upto 2013 and paid Zakat accordingly and the assessment is awaited.

- b) The Zakat (credit)/charge for the year ended December 31 comprises of the following:

	<u>2014</u>	<u>2013</u>
Charge for the current year	2,000,000	5,661,774
Over provision for prior years	(5,288,294)	-
	<u>(3,288,294)</u>	<u>5,661,774</u>

- c) Summary of the items included in the Zakat base for the year ended 31 December is as follows:

	<u>2014</u>	<u>2013</u>
Capital	1,206,000,000	1,206,000,000
Adjusted equity and provision at the beginning of the year	1,194,917,109	1,319,851,138
Net adjusted income	33,667,831	77,180,837
Deductions for the year	(2,355,879,228)	(2,403,468,114)

- d) The movement in the Zakat provision is as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of the year	5,000,000	4,901,401
Zakat (credit)/charge for the year	(3,288,294)	5,661,774
Payments during the year	(4,511,706)	(5,563,175)
(Receivable)/Payable at end of the year	<u>(2,800,000)</u>	<u>5,000,000</u>

12. SHARE CAPITAL

Share capital is divided into 120,600,000 shares (2013: 120,600,000 shares) of SR 10 each.

13. DIRECTORS' REMUNERATION

The Board of Directors' remuneration has been shown as an appropriation in the Statement of Changes in Equity in accordance with the Company's by-laws.

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14. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses during the year ended December 31, are summarized as follows:

	2014	2013
Freight	46,268,994	41,847,127
Sales commission	9,928,890	10,703,839
Employee costs	5,556,376	5,989,242
Custom charges	2,945,449	3,819,659
External manpower services	809,647	1,054,306
Others	4,335,105	3,144,348
	<u>69,844,461</u>	<u>66,558,521</u>

15. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses during the year ended December 31, are summarized as follows:

	2014	2013
Employee costs	17,092,100	16,569,165
Depreciation	5,133,293	3,944,968
External manpower services	4,903,557	2,566,217
Project evaluation costs	3,953,910	-
Professional fees	2,242,750	1,668,137
Bad debts written off	2,307,482	-
Utilities and common expenses	1,323,114	393,327
Travel and air fares	659,516	669,388
Tadawul fees	484,996	460,000
Advertising	320,978	363,881
Rents	304,513	271,374
Amortisation of deferred charges	-	1,768,228
Others	3,863,050	3,832,938
	<u>42,589,259</u>	<u>32,507,623</u>

16. OTHER (EXPENSES)/INCOME NET

Other (expenses)/income, net during the year ended December 31, are summarized as follows:

	2014	2013
Foreign exchange loss	(1,793,046)	(1,643,555)
(Loss)/gain on disposal of assets	(707,129)	1,528
Others	985,482	(385,094)
	<u>(1,514,693)</u>	<u>(2,027,121)</u>

17. EARNINGS PER SHARE

Earnings per share (Basic) for the year ended December 31, 2014 have been computed by dividing the net income for such year by the weighted-average number of ordinary shares outstanding during the year. Diluted earnings per share is same as Basic earnings per share.

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18. CAPITAL COMMITMENTS

As at December 31, 2014, the Company had capital expenditure commitments of SR 45.12 million (2013: SR 22.69 million).

The future aggregate minimum lease commitments under non-cancellable operating leases are as follows:

	2014	2013
Not later than 1 year	600,772	662,234
Later than 1 year but not later than 5 years	2,403,088	2,403,088
Later than 5 year till lease period	6,713,573	7,314,345
	<u>9,717,433</u>	<u>10,379,667</u>

19. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of business, the Company undertakes transactions with other companies that have certain common shareholders. All such transactions are executed on commercial terms that are approved by management.

There were no sales of finished goods during the current year to affiliated companies (2013: SR Nil).

The cost of sales and expenses include amounts of SR 2,659,394 (2013: SR 3,861,196) in respect of purchase of inventories and services provided by companies affiliated to shareholders.

Amounts receivable from companies affiliated to shareholders in respect of advances paid are included Prepayments and other current assets under note 6.

Amounts payable to companies affiliated to shareholders are included in Accrued expenses and other current liabilities under note 10.

20. CONTINGENCIES AND COMMITMENTS

The Company has received a notification from Power & Utility Company for Jubail and Yanbu ("Marafiq", Water utility provider to the Company) for the unutilized booked capacity as per the Utility Supply Agreement for the years 2012, 2013 and 2014. The Company is disputing Marafiq's claim and is in dialogue with Marafiq to resolve this matter.

At December 31, 2014, the Company has a contingent liability of SR 55,876,002 (2013: SR 49,411,075) in respect of bank guarantees and letter of credits issued by the Company's banks in respect of bid bonds, contracts advance payments and performance bonds.

21. SEGMENT INFORMATION

The management of the Company views the whole business activities of the Company as one operating segment for performance assessment and resources allocation. Accordingly, reporting is provided by geographical segment only. SR 541 million (61%) of the sales are through export (2013: SR 548 million (63%)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

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22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet include cash and cash equivalents, margin deposits with the bank, trade receivables, certain other current assets, inventories, trade payables, short term loans, current portion of term loans, long term obligations and certain other current liabilities.

Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party may incur a financial loss. The Company has no significant concentration of credit risks. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are actively monitored by the management for recoverability and impairment and are stated at their estimated realizable values.

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risk arise mainly from short-term borrowings and long term debts, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company could be significant.

Liquidity risk is the risk that an enterprise may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments.

Currency risk is the risk that the value of a financial instrument may fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyal, United States dollar and Euro. Transactions in Saudi Riyal, United States dollar and Euro are not considered to represent a significant risk to the Company.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.