

AL YAMAMAH STEEL INDUSTRIES COMPANY
(Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended September 30, 2013
with
INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

The Shareholders
Al Yamamah Steel Industries Company
(Closed Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of Al Yamamah Steel Industries Company ("the Company") and its subsidiary (collectively referred to as "the Group") which comprise the consolidated balance sheet as at September 30, 2013 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 25 which form an integral part of the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 Bylaws and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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.

KPMG Al Fozan & Al Sadhan, a partnership registered in Saudi Arabia and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Opinion

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

- 1) present fairly, in all material respects, the financial position of the Group as at September 30, 2013, and the consolidated 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 Group; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Bylaws with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Al Sadhan:

Ebrahim Oboud Baeshen
License No. 382

Jeddah, Muharram 6, 1435H
Corresponding to November 10, 2013

AL YAMAMAH STEEL INDUSTRIES COMPANY

(A closed Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at September 30, 2013

Expressed in Saudi Riyals

	Notes	2013	2012
ASSETS			
Current assets:			
Cash and cash equivalent	4	40,348,574	25,074,504
Trade receivables	5	221,896,886	232,282,074
Inventories	6	547,565,050	537,462,736
Due from related Parties	22	58,175,587	38,783,725
Prepayments and other current assets	7	33,860,847	17,217,384
Total current assets		901,846,944	850,820,423
Non-current assets:			
Available for sale investments	8	42,364	26,000
Due from related parties	21	--	58,175,587
Deferred costs - net	9	10,326,116	11,137,090
Property, plant and equipment	10	448,963,207	460,579,308
Total non-current assets		459,331,687	529,917,985
Total assets		1,361,178,631	1,380,738,408
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term bank loans	11	499,695,211	619,541,433
Current portion of long-term bank loans	11	68,807,169	65,791,667
Trade payables		36,958,665	17,617,861
Accrued expenses and other current liabilities	12	38,285,550	29,248,540
Zakat provision	16	9,460,887	6,904,752
Total current liabilities		653,207,482	739,104,253
Non-current liabilities:			
Long-term bank loans	11	57,286,571	80,000,238
Employees' end of service benefits		13,730,970	11,163,849
Total non-current liabilities		71,017,541	91,164,087
Total liabilities		724,225,023	830,268,340
SHAREHOLDERS' EQUITY			
Equity attributable to Company's shareholders:			
Share capital	13	508,000,000	508,000,000

AL YAMAMAH STEEL INDUSTRIES COMPANY
(A closed Joint Stock Company)
CONSOLIDATED BALANCE SHEET (Continued)
As at September 30, 2013
Expressed in Saudi Riyals

	Notes	2013	2012
Statutory reserve	14	6,406,663	40,629
Net changes in fair value of available for sale investments	8	16,364	--
Retained earnings / (accumulated losses)		16,654,304	(41,994,055)
Total equity attributable to Company's shareholders		531,077,331	466,046,574
Non-controlling interest		105,876,277	84,423,494
Total Shareholders' equity		636,953,608	550,470,068
Total liabilities and Shareholders' equity		1,361,178,631	1,380,738,408

The accompanying notes 1 through 25 form an integral part of these consolidated financial statements.

AL YAMAMAH STEEL INDUSTRIES COMPANY

(A closed Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the year ended September 30, 2013

Expressed in Saudi Riyals

	Note	2013	2012
Net sales		1,775,264,303	1,941,818,611
Costs of sales		(1,554,978,775)	(1,764,896,842)
Gross profit		220,285,528	176,921,769
Selling and distribution expenses	18	(24,390,914)	(23,240,596)
General and administrative expenses	19	(40,146,057)	(42,231,691)
Income from operations		155,748,557	111,449,482
Other income	20	454,331	819,596
Financial charges		(20,424,860)	(15,963,910)
Net income before Zakat and non-controlling interests		135,778,028	96,305,168
Zakat	16	(8,670,851)	7,610,335))
Net income before non-controlling interests		127,107,177	88,694,833
Non-controlling interests		(21,452,783)	(17,934,228)
Net income		105,654,394	70,760,605
Earnings per share from:	17		
Income from operations		3.07	2.19
Other income		.01	.02
Net income		2.08	1.39

The accompanying notes 1 through 25 form an integral part of these consolidated financial statements.

AL YAMAMAH STEEL INDUSTRIES COMPANY
(A closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended September 30, 2013
Expressed in Saudi Riyals

	Notes	2013	2012
Operating activities			
Net income		105,654,394	70,760,605
Adjustments to reconcile net income to cash flows provided by / (used in) operating activities:			
Depreciation	10	35,456,001	32,646,058
(Gains) on sale of property, plant and equipment	20	(97,535)	(34,547)
Provision for slow moving inventory		303,899	463,742
Projects under construction written off		--	7,045,545
Amortization of deferred costs	9	6,436,108	6,398,839
Financial charges		20,424,860	15,963,910
Zakat charged for the year	16	8,670,851	7,610,335
Share of non-controlling interests in net income		21,452,783	17,934,228
Provision for employee's end of service benefits charge of the year		3,891,008	2,648,447
		202,192,369	161,437,162
Changes in operating assets and liabilities:			
Trade receivables		10,385,188	(99,957,939)
Inventories		(10,406,213)	(162,087,511)
Due from related parties		38,783,725	3,986,784
Prepayments and other current assets		(16,643,463)	4,986,294
Trade payables		19,340,804	939,187
Accrued expenses and other current liabilities		9,037,010	3,758,166
Zakat paid	16	(6,114,716)	(6,455,480)
Employees' end of service benefits paid		(1,323,887)	(587,567)
Net cash flow provided by / (used in) operating activities		245,250,817	(93,980,904)
Investing activities			
Purchase of property, plant and equipment	10	(23,844,614)	(43,112,954)
Additions to deferred costs	9	(5,625,134)	--
Proceeds from sale of property, plant and equipment		102,249	159,000
Net cash flows used in investing activities		(29,367,499)	(42,953,954)
Financing activities			
Net movement in short-term Loans		(119,846,222)	140,678,746

AL YAMAMAH STEEL INDUSTRIES COMPANY
(A closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
For the year ended September 30, 2013
Expressed in Saudi Riyals

	Notes	2013	2012
Net movement in long-term Loans		(19,698,165)	(4,454,455)
Payables to banks		--	(5,414,810)
Financial charges paid		(20,424,860)	(15,963,910)
Dividends paid		(40,640,001)	--
Net cash flows (used in) / provided by financing activities		(200,609,248)	114,845,571
Change in cash and cash equivalents		15,274,070	(22,089,287)
Cash and cash equivalents at the beginning of the year		25,074,504	47,163,791
Cash and cash equivalents at the end of the year	4	40,348,574	25,074,504

The accompanying notes 1 through 25 form an integral part of these consolidated financial statements.

AL YAMAMAH STEEL INDUSTRIES COMPANY
(A closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended September 30, 2013
Expressed in Saudi Riyals

	Total equity attributable to the Company's shareholders						
	Capital	Statutory reserve	Change in fair value of available for sale investments	Retained earnings / (accumulated losses)	Total	Non-controlling interests	Total shareholders' equity
Balance at October 1, 2012	508,000,000	40,629	--	(41,994,055)	466,046,574	84,423,494	550,470,068
Net income for the year	--	--	--	105,654,394	105,654,394	21,452,783	127,107,177
Transferred to statutory reserve	--	6,366,034	--	(6,366,034)	--	--	--
Changes in fair value of available for sale investments	--	--	16,364	--	16,364	--	16,364
Dividends paid	--	--	--	(40,640,001)	(40,640,001)	--	(40,640,001)
Balance at September 30, 2013	508,000,000	6,406,663	16,364	16,654,304	531,077,331	105,876,277	636,953,608
Balance at October 1, 2011	508 000 000	40 629	--	(112,754,660)	395,285,969	66,489,266	461,775,235
Net income for the year	--	--	--	70,760,605	70,760,605	17,934,228	88,694,833
Balance at September 30, 2012	508,000,000	40 629	--	(41,994,055)	466,046,574	84,423,494	550,470,068

The accompanying notes 1 through 25 form an integral part of these consolidated financial statements.

AL YAMAMAH STEEL INDUSTRIES COMPANY
(A closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Al Yamamah Steel Industries Company ("the Company" or "the parent company") is a closed joint stock company registered in Riyadh under Commercial Registration No. 1010070794 dated 01/06/1409H as per the Minister of Commerce Decree No. (726) dated 20/03/1427H, His Highness approval on the incorporation of the Company No (1491) dated 30/05/1427H, corresponding to 26/06/2006. The company is operating under Industrial License No. 144/X dated 22/03/1409H and the amendments pursuant to it. The Company is principally engaged in:

- a) production of welded steel pipelines (black/ galvanized), iron pipes, cutting iron sheets, production of bars and clips for tying, roadblocks, reinforcing steel bars from scrap, handy carts, hollowed iron sectors, structured tires, and shaped iron steel bars.
- b) Production of galvanized electric poles.
- c) Production of electric power towers.
- d) Production of special iron steel bars for metal constructions.

The company operates through its factories in the following cities in KSA and these factories operate under the following commercial registrations:

Factory	City	Commercial Registration No.	Date
Al Yamamah Steel Industries	Jeddah	4030068043	28/04/1410
Al Al Yamamah Electric Poles	Jeddah	4030148938	09/03/1425
Al-Yamamah Steel Industries	Dammam	2050059045	07/03/1429
Al -Yamamah Space Frames Factory	Jeddah	4030180885	09/07/1429
Al-Yamamah Electric Power Towers Factory	Jeddah	4030180886	09/07/1429

These consolidated financial statements include the financial statements of the company, its branches, and the subsidiary mentioned below, which its head office is located in Riyadh and its factory is located in Yanbu, (collectively referred to as the "group").

Company's name	Country of incorporation	Shareholding
Al Yamamah Company for Reinforcing Steel Bars	KSA	72.5%

The subsidiary is principally engaged in reinforcing steel bars, and wholesale and retail trading in reinforcing steel bars.

The Company's registered Office is located in:

Al Yamamah Steel Industries Company

Riyadh 11534

P.O. Box. 55303

Kingdom of Saudi Arabia

AL YAMAMAH STEEL INDUSTRIES COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared on historical cost basis, except for the available for sale investments which is measured at fair value and using the accrual basis of accounting and the going concern concept.

(c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional and reporting currency of the Group companies.

(d) Use of estimates and judgments

The preparation of consolidated financial statements requires management to make judgment, 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.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the consolidated financial statements are as follows:

- **Impairment of accounts receivable**

A provision for impairment of 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 agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

AL YAMAMAH STEEL INDUSTRIES COMPANY
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2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgments (continued)

- **Provision for slow moving inventories**

Management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

- **Impairment of non-financial assets**

Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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. Non-current assets and that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income.

- **Impairment of available-for-sale investments**

The management exercises judgment to calculate the impairment loss of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes an other than temporary decline in the value of investments. In case of equity instruments any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for such impairment. The determination of what is 'significant' and 'prolonged' requires management's judgment. The management also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Furthermore, management considers 20% or more as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 9 months or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

AL YAMAMAH STEEL INDUSTRIES COMPANY
(A closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2013
Expressed in Saudi Riyals

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary as at September 30 of each year as shown in note 1. The financial statements of the subsidiary was prepared for the same reporting year.

Subsidiary

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Any unrealized gains and losses arising from intra-group transactions are also eliminated on consolidating the interim consolidated financial statements.

Non-controlling interest

Non-controlling interest represents the interest in subsidiary companies, not held by the Company which are measured at their proportionate share in the subsidiary's identifiable net assets. Transactions with Non-controlling interest parties are treated as transactions with parties external to the Group.

(b) Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash in hand, time deposits and investments in mutual funds, if any, that are readily convertible to cash and has a maturity of 3 months or less as at the original investment date, if any, which are available to the Group without any restrictions.

(c) Trade receivable

Trade receivables are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful debts is established when there is an objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables. Bad debts are written off when identified, against their related provisions. The provisions are charged to consolidated statement of income and any subsequent recovery of receivable amounts previously written off are credited to income.

AL YAMAMAH STEEL INDUSTRIES COMPANY
(A closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Expressed in Saudi Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost 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 comprises estimated selling price in the ordinary course of business, less further production costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

(e) Available for sale investments

Available for sale investments principally consist of less than 20% share in quoted and unquoted equity investments including mutual funds investments, which are not held for trading purposes and where the Group does not have any significant influence or control. These are initially recognized and subsequently re-measured at fair value. Any changes in fair value are recognized in equity as fair value reserve until the investment is disposed. Any significant and prolonged decline in value of the available for sales investments, if any, is charged to the consolidated statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the consolidated balance sheet date. For investments where there is no active market, including investments in unquoted private equity, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models, otherwise the cost is considered to be the fair value for these investments.

(f) Deferred costs

Deferred costs represent the costs incurred by the Group related costs activities prior to the operations stages and which will have future benefit for the Group in the coming years. These costs are amortized over their estimated useful lives using the straight-line method over a maximum period of 5 years.

(g) Property, plant and equipment

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

AL YAMAMAH STEEL INDUSTRIES COMPANY
(A closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2013

Expressed in Saudi Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

All other expenditures are recognized in the consolidated statement of income when incurred. Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of the individual items of property, plant and equipment.

Repair and maintenance expenditures are charged to the consolidated statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalized

Freehold land is not depreciated. The cost less estimated residual value of Property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets effective from its date of purchase or construction. Paper products factory plant and equipment related to the subsidiary are depreciated using the units of production method.

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

	Years
Buildings	20-33
Machinery and equipments	10-20
Computers, softwares and electric equipment	5
Fixtures and furniture	5
Motor vehicles	5

(h) Accounts payable and accruals

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

(i) Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Further, upfront fees that were deducted in advance by the SIDF, is deferred and presented netting of the principle amount of the loan. Such deferred amount is amortized over the term of the loan using the straight line method which is not materially different from applying the prevailing interest rate). Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, otherwise, such costs are charged to the consolidated statement of income.

(j) Provisions

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefit, will be required to settle the obligation.

AL YAMAMAH STEEL INDUSTRIES COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the consolidated 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.

(l) Revenue recognition

Revenue is recognized to the extent of the following recognition requirements:

- It is probable that the economic benefits will flow to the Group,
- It can be reliably measured, regardless of when the payment is being made
- The cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

Sale of goods

Revenue from sales is recognized upon delivery or shipment of products by which the significant risks and rewards of ownership of the goods have been transferred to the buyer and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods. Sales is recorded net of returns, trade discounts and volume rebates.

(m) Expenses

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

(n) Zakat

The Company and its subsidiary are subject to zakat in accordance with the regulations of Saudi Department of Zakat and Income Tax ("DZIT"). Zakat is accrued and charged to the statement income currently. Additional zakat liability, if any, related to prior years' assessments arising from DZIT are accounted for in the period in which the final assessments are finalized.

(o) Dividends

Interim dividends are recorded in the period in which they are approved by the Board of Directors. Final Dividends are recorded in the year in which they are approved by the Shareholders' General Assembly.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segmental reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company article of association, the Company is required to transfer 10% of its net income each year to the statutory reserve until the reserve reaches 50% of the capital. The limit have been achieved on the previous years.

(r) Contingent liabilities and contingent assets

i) Contingent liabilities

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Group; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at each balance sheet date and disclosed in the Group's financial statements under contingent liabilities.

ii) Contingent assets

All possible assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group should be assessed at each balance sheet date and are disclosed in the financial statements under contingent assets.

4. CASH AND CASH EQUIVALNETS

Cash and cash equivalents at September 30, comprise of the following:

	2013	2012
Cash on hand	95,996	330,918
Cash at banks - current accounts	39,187,934	19,443,796
Checks under collection	1,064,644	5,299,790
	40,348,574	25,074,504

5. TRADE RECEIVABLES

Trade receivables as of September 30 comprise the following:

	Note	2013	2012
Trade customers		121,479,181	109,365,437
Trade customers - related parties	22	101,488,699	122,916,637
		222,967,880	232,282,074
Less: provision for doubtful debts		(1,070,994)	--
		221,896,886	232,282,074

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6. INVENTORIES

Inventories as of September 30 comprise the following:

	2013	2012
Raw materials	362,370,850	375,412,637
Goods under production	14,709,475	11,191,112
Finished goods	107,225,801	96,953,167
Spare parts	49,017,025	44,113,481
Goods in transit	15,009,540	10,256,081
	548,332,691	537,926,478
Less: provision for slow moving inventory	(767,641)	(463,742)
	547,565,050	537,462,736

7. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as of September 30 comprise the following:

	2013	2012
Prepaid expenses	26,618,616	9,675,413
Advances to suppliers	4,839,682	4,493,064
Staff advances	1,827,536	1,948,817
Others	575,013	1,344,301
	33,860,847	17,461,595
Less: provision for doubtful debts	--	(244,211)
	33,860,847	17,217,384

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8. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments represent the company's investment in Arabian Pipelines Company (Saudi joint stock listed company) as following:

	Cost	Change in fair value	2013	2012
Arabian Pipe Company	26,000	16,364	42,364	26,000

9. DEFERRED COSTS

The movement in the deferred costs for the year ended September 30 was as follows:

	Note	2013	2012
Cost:			
Cost at the beginning and end of the year		38,305,151	38,305,151
Additions during the year		5,625,134	--
		43,930,285	38,305,151
Accumulated amortization:			
Balance at the beginning of the year		(27,168,061)	(20,769,222)
Amortization for the year	19	(6,436,108)	(6,398,839)
Balance at the end of the year		(33,604,169)	(27,168,061)
Net book value		10,326,116	11,137,090

Deferred costs represent the costs that occurred and related to the establishment of new sites and includes all costs such as consultants and expert fees, legal fees and license fees for the registration of the new branch or site.

*Additions during the year represent mainly the costs related to establishing a factory in Dammam which will be amortized over maximum of 5 years.

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10. PROPERTY, PLANT AND EQUIPMENT

a) The movement in property, plant and equipment during the year ended September 30, 2013 is analyzed as following:

	Lands	Buildings	Plant & machinery	Vehicles	Furniture & office equipment	Computers & softwares & electronic equipment	Equipment & tools	Capital work in progress	Total
Cost:									
Balance at October 1, 2012	13,264,725	196,599,806	335,230,114	4,397,110	3,544,179	12,042,486	9,348,947	47,751,684	622,179,051
Additions	--	2,045,018	4,667,179	702,545	232,026	952,246	415,524	14,830,076	23,844,614
Disposals	--	--	--	(368,050)	(23,857)	(65,660)	(700)	--	(458,267)
Transferred from Capital work in progress	--	24,685,891	15,343,527	251,555	4,029	133,339	9,526	(40,427,867)	--
Balance at September 30, 2013	13,264,725	223,330,715	355,240,820	4,983,160	3,756,377	13,062,411	9,773,297	22,153,893	645,565,398
Accumulated depreciation:									
Balance at October 1, 2012	--	35,296,922	111,818,040	3,254,531	2,816,483	5,297,695	3,116,072	--	161,599,743
Depreciation charge for the year	--	8,124,310	23,527,515	445,473	392,339	2,142,139	824,225	--	35,456,001
Disposals	--	--	--	(365,591)	(23,854)	(63,409)	(699)	--	(453,553)
Balance at September 30, 2013	--	43,421,232	135,345,555	3,334,413	3,184,968	7,376,425	3,939,598	--	196,602,191
Net book value:									
At September 30, 2013	13,264,725	179,909,483	219,895,265	1,648,747	571,409	5,685,986	5,833,699	22,153,893	448,963,207
At September 30, 2012	13,264,725	161,302,884	223,412,074	1,142,579	727,696	6,744,791	6,232,875	47,751,684	460,579,308

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10. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Depreciation charge for the year ended September 30 was allocated as follows:

	Note	2013	2012
Cost of sales		31,998,041	29,905,479
Selling and distribution expenses	18	177,224	180,772
General and administrative expenses	19	3,280,736	2,559,807
		35,456,001	32,646,058

- c) In March 2013, the first stage of the pipelines production project was completed and transferred from the capital work in progress to the property, plant and equipment. The total value of the project was SR 50 million.
- d) Property, plant and equipment includes property and equipment mortgaged to Saudi Industrial Development Fund (SIDF) related to the Company's branch, Al Yamamah Electric Poles and its accessories Factory (branch of the company), with a NBV as at September 30, 2013 amounted to SR 32 million (September 30, 2012: SR 37 million). The company has repaid the loan in full and obtained an additional one from SIDF to finance the expansion of the factory on October 3, 2013.
- e) The factory's buildings of the subsidiary with NBV of SR 107 million as at September 30, 2013 (2012: SR 111 million) that are established or will be established on the factory's land along with all its machinery, plant and equipment along with everything that will be obtained later for the project are pledged to SIDF as a collateral for loans.
- f) The factory's buildings of the subsidiary are established on a piece of land leased from the Royal Commission for Yanbu for 35 years, started on Rabie Al Thani 5, 1427 H, for a nominal annual lease. The lease is renewable for a similar period with similar and other terms as agreed between the parties.
- g) The Company's buildings are established on a piece of land leased from the Saudi Authority for Industrial Cities and Technical Areas (MODON) for 20 years, started on Shawal 29, 1429 H, for a nominal annual lease, The lease is renewable for a similar period with similar and other terms as agreed between the parties, except for the poles and towers factories as they are established on a land owned by the company
- h) Capital work in progress is represented in the following projects:

	2013	2012
Poles Factory Expansion Project	10,638,162	1,100,972
Pipelines production factory project-Dammam	6,076,485	44,001,444
Steel Blocks Project	2,571,968	2,571,968
Pipelines Factory Expansion	1,614,779	--
Administration building and workers residence project	978,234	77,300
Water Cooling Tower Project	274,265	--
	22,153,893	47,751,684

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11. BANK FACILITIES

a. Short-term bank loans

Short-term bank loans represent amounts outstanding under the overdraft facilities and short-term loans facilities with some commercial banks account to fund working capital requirements of the Group's companies.

Short-term bank loans at September 30 comprise the following:

	2013	2012
Saudi Fransi Bank	119,900,000	63,576,478
Arab National Bank	363,735,928	555,964,955
Al Rajhi Bank	16,059,283	--
	499,695,211	619,541,433

b. Long-term bank loans

Long-term bank loans at September 30 comprise the following:

	2013	2012
Saudi Fransi Bank	22,807,169	40,000,238
Arab National Bank	63,286,571	43,791,667
The Saudi Industrial Development Fund*	40,000,000	62,000,000
	126,093,740	145,791,905

Long- term loans are presented in the consolidated balance sheet as following:

	2013	2012
Current portion under current liabilities	68,807,169	65,791,667
Non- current portion under non- current liabilities	57,286,571	80,000,238
	126,093,740	145,791,905

Short and long-term loans, except SIDF loan, are guaranteed by a promissory note issued from the parent company and bear commissions at the commercial rates prevailing in the market, and is payable on quarter basis installments. The loans agreements include covenants that, among other terms, put some restrictions on dividends, decreasing of the capital and providing funds on guarantees.

SIDF loans

The subsidiary obtained a long term loan from SIDF with an amount of SR 108 million to finance the establishment of steel rod blocks factory, to be paid over semi annual installments that will end on 15 Rabie Al Thani 1437 H correspondent to February 5, 2015 with an amount of SR 14 million. This loan is guaranteed by pledging the building of the factory and all properties that are established or will be established on the land along with any other thing that will be obtained in the future for the project. The agreement has some covenants that include, among other terms, some restrictions related to the decrease of capital and providing funds or guarantees.

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12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expense and other current liabilities comprise of the following:

	2013	2012
Accrued expenses	18,197,711	15,703,607
Accrued staff incentives	8,861,161	5,714,832
Accrued financial charges	2,941,906	2,194,834
Advances from customers	6,959,675	3,811,607
Others	1,325,097	1,823,660
	38,285,550	29,248,540

13. SHARECAPITAL

The subscribed and fully paid-up capital of the Company was SR 508 million (September 30, 2012: SR 508 million) divided into 50.8 million shares (September 30, 2012: 50.8 million shares) of 10 SR each (September 30, 2012: 10 SR). The share capital is owned as follows:

Shareholders	No. of shares	%	Amount
Rashid Abdel Rahman Al Rashid and Sons Company	12,288,816	24.19	122,888,160
Abdul Kader & Sons Company	12,288,816	24.19	122,888,160
Al Muhanna Trading Company	12,288,816	24.19	122,888,160
Al Majel Trading and Contracting Company	8,056,002	15.86	80,560,020
Mr. Abdul Karim Hamad Abdul Karim Al Majel	4,232,815	8.33	42,328,150
Mr. Riad Bin Abdullah Bin Rashed	1,644,735	3.24	16,447,350
Total	50,800,000	100%	508,000,000

14. STATUTORY RESERVE

In accordance with Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income each year to the statutory reserve until such reserve reaches 50% of its share capital. This reserve is not available for distribution.

15. DIVIDENDS

The Board of Directors resolved on their meeting number (6/2) dated Shawal 26, 1434H, corresponding to September 2, 2013, to distribute interim dividends for the nine months results of the financial year ended September 30, 2013 with an amount of SR 0.80 per share, representing 8% of the nominal value of the share with a total amount of SR 40.64 million.

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16. ZAKAT

(a) Charge for the year

The company and its subsidiary submit their Zakat returns separately on a non-consolidated basis using the equity method. The significant components of the Zakat base for each company consists of the opening balance of equity and provisions and the adjusted net income, less the net book value of property, plant and equipment, investments and other items. In case the Zakat base was negative, no Zakat liability is due for the Company.

Zakat charge for the year ended September 30 comprises the following:

	2013	2012
For current year	8,670,851	7,610,335

(b) Zakat provision

The movement in the Zakat provision during the year was as follows:

	2013	2012
Balance at the beginning of the year	6,904,752	5,749,897
Add: Charge for the year	8,670,851	7,610,335
Less: Payments during the year	(6,114,716)	(6,455,480)
Balance at the end of the year	9,460,887	6,904,752

(c) Zakat status

Al Yamamah Steel Industries Company

The company filed its Zakat returns for the period from the date of inception until the year ended September 30, 2012 and paid the due zakat and obtained a certificate valid to January 30, 2014. The company received zakat assessments from DZIT until September 30, 2007, and accordingly the additional liabilities were paid to DZIT.

The company filed its zakat returns for the years from 2008 to 2011 and received the assessments for these years, where DZIT claimed for zakat differences amounting to SR 9.9 Million. The Company objected against these assessments at the Preliminary Appeal Committee, and the company has provided letter of guarantee to the DZIT against the amount of zakat differences claimed. The committee didn't issue its decision yet, however the Company's management believes that the decision will be in its favor.

Al Yamamah Company for Reinforcing Steel Bars

The company filed its zakat returns for the year starting for the date of inception until September 30, 2012 and the company paid the due zakat and received restricted zakat certificate valid until April 30, 2014.

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17. EARNING PER SHARE

Earnings per share for income from operations, other income and net income for the year ended September 30, 2013 was calculated based on the average outstanding number of shares during the period amounting to 50.8 million shares (2012: 50.8 million shares).

18. SELLING AND DISTRIBUTION EXPNESES

Selling and distribution expenses for the year ended September 30 comprise the following:

	Note	2013	2012
Transportation expenses		17,238,727	17,021,113
Salaries, wages and related benefits		5,262,005	4,548,522
Advertising and marketing		1,387,963	1,078,370
Depreciation	10	177,224	180,772
Rents		55,837	70,915
Other s		269,158	340,904
		24,390,914	23,240,596

19. GENERAL AND ADMINISTRATION EXPNESES

General and administrative expenses for the year ended September 30 comprise the following:

	Note	2013	2012
Salaries, wages and related benefits	22	24,390,571	20,668,465
Deferred costs amortization	9	6,436,108	6,398,839
Depreciation	10	3,280,736	2,559,807
Professional and consulting fees		597,450	225,000
Software and computer support expenses		1,619,272	1,732,301
Traveling expenses		588,142	479,602
Telephone and post		577,145	597,689
Rent		251,688	194,403
Repair and maintenances		151,260	193,822
Stationery and printing		148,356	145,745
Advertising and marketing		134,173	67,345
Projects under construction written-off		--	7,045,545
Donations		--	1,000,000
Provision for doubtful debts		1,070,994	--
Others		900,162	923,128
		40,146,057	42,231,691

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20. OTHER INCOME

Other income for the year ended September 30 comprises the following:

	2013	2012
Gains on sale of property, plant and equipment	97,535	34,547
Others	356,796	785,049
	454,331	819,596

21. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

- At September 30, 2013 the contingent liabilities against the outstanding letters of credit issued by local banks amounted to SR 201,398,565 million (September 30, 2012: SR 303,743,421 million).
- At September 30, 2013 the contingent liabilities against the uncovered portion of the letters of guarantee issued in the ordinary course of business for the group's companies amounted to SR 93,707,844 million (September 30, 2012: SR 87,273,035 million).

22. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties include the Company's shareholders and their relatives up to the fourth generation, associated and affiliated companies and directors and key management personnel of the Group. Terms and conditions of these transactions are approved by the Group's management.

Related parties transactions mainly represent purchases and sales of goods and services which are undertaken under mutually agreed terms with the following entities:

Party	Relationship
Al Muhanna Trading Company	Shareholder
Al Muhanna Steel Group	Shareholder
Mr. Abdul Aziz Bin Abdullah Bin Ibrahim Al Muhanna	Shareholder
Mr. Ibrahim Bin Abdullah Bin Ibrahim Al Muhanna	Shareholder
Mr. Muhanna Bin Abdullah Bin Ibrahim Al Muhanna	Shareholder
Al Majel Trading Company	Shareholder
Abdul Kader Al Mehedb and Sons Company	Shareholder
Mr. Riad Bin Abdullah Bin Rashed	Shareholder
Mr. Abdul Karim Bin Hamad Bin Abdul Karim Al Majel	Shareholder
Rashed Abdul Rahman Al Rashed and Sons Company	Shareholder
Al Fozan for Building Materials Company	Shareholder in the Subsidiary

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22. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

Related parties transactions for the year ended September 30 and balances arising-there from are as follows:

	Nature of	Amount of transaction		Closing balance	
Transactions with	transaction	during the year		Receivable	
		2013	2012	2013	2012
Under trade receivables:					
Al Muhanna Trading Company	Sales	80,084,015	46,942,378	12,898,687	52,473
Al Majel Trading Company	Sales	23,484,300	11,419,500	2,749,500	4,994,100
Rashid Abdel Rahman Al Rashid & Sons	Sales	85,692,810	141,294,785	10,637,393	27,118,556
Abdulqader Almuhaiedeb & Son Company	Sales	378,312,094	301,987,531	35,463,723	30,730,276
Al Fozan Building Materials Company	Sales	300,430,829	453,602,827	39,739,396	60,021,232
				101,488,699	122,916,637
Under due to related parties:					
Abdul Karim Hamad Abdul Karim	Purchase of land	--	8,078,954	4,847,373	8,078,954
Al Majel Trading and Contracting Company	Purchase of land	--	15,376,072	9,225,643	15,376,072
Riad Ben Abdullah Ben Rashed	Purchase of land	--	3,139,220	1,883,532	3,139,220
Al Muhanna Trading Company	Purchase of land	--	23,455,022	14,073,013	23,455,022
Abdulqader Almuhaiedeb & Sons Company	Purchase of land	--	23,455,022	14,073,013	23,455,022
Rashid Abdel Rahman Al Rashid & Sons	Purchase of land	--	23,455,022	14,073,013	23,455,022
				58,175,587	96,959,312
Less: non-current portion				--	(58,175,587)
Current portion				58,175,587	38,783,725

On September 20, 2012, the Company sold a piece of land at Al Melisa in the southern of Jeddah that was recorded within the projects under construction to the shareholders of the company, each according to his share in the capital with its book value amounted to SR 96,959,312. During the year ended September 30, 2013 the shareholders paid an amount of SR 38,783, 725 and the remaining amount amounting to SR 58,175,587 was paid during the year ended September 30, 2014.

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22. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise).

The remuneration of directors and other members of key management during the year were as follows:

Transactions with	Nature of transaction	2013	2012
Key management	Salaries, allowances and related benefits	6,624,133	7,405,331

23. RISK MANAGEMENT

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of the financial instruments. The Group is subject to interest rate risk on its interest bearing assets and liabilities mainly bank overdraft and bank facilities. The management limits the Group's interest rate risk by monitoring changes in interest rates.

Liquidity risk

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

The Group's financial current liabilities consist of the current portion of bank facilities, trade accounts payables and accrued expenses and other liabilities. All the financial liabilities are expected to be settled within 12 months of the balance sheet date and the Group expects to have adequate funds available to do so.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Cash and cash equivalents of the Group standing at the balance sheet date are placed with foreign and local banks with sound credit ratings. Trade receivables are mainly due from local customers, 72% as of December 31, 2013 (2012: 22%) of the Group's trade receivables are due from 7 main customers (2012: 6 customers). Trade receivables are stated at their estimated realizable values.

Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not exposed to fluctuations in foreign exchange rates during its ordinary course of business, since all significant transactions of the Group during the year are in Saudi Riyal and US Dollars and there is no significant risks related to balance stated at US Dollars since the exchange of Saudi Riyal against the US Dollar is fixed.

23. RISK MANAGEMENT (continued)

Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The company's financial assets consist of cash and cash equivalent, accounts receivables and other assets, its financial liabilities consist of bank facilities, trade accounts payables, accrued expenses and other liabilities.

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

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24. SEGMENT REPORT

The Group carries its activities in the Kingdom of Saudi Arabia through the following main segments:

- a) Steel Pipelines Production
- b) Electric Poles Factory
- c) Frames Factory
- d) Electric Power Tower Factory
- e) Al Yamamah Company for Reinforcing Steel Bars (subsidiary)
- f) Others, which represents the property of the head office and investment returns

First : Operating Segments							
Description	Pipelines Factory	Electric Poles Factory	Frames factory	Electric Power Towers Factory	Al Yamamah for Reinforcing Steel Bars	Others	Total
September 30, 2013							
-Property, plant and equipment	67,804,392	33,808,892	5,162,040	38,869,401	282,135,866	21,182,616	448,963,207
- Net sales	458,250,244	140,890,121	13,557,116	127,879,280	1,034,687,542	--	1,775,264,303
-Net income	23,883,563	20,009,259	186,297	5,017,939	56,557,336	--	105,654,394
September 30, 2012							
-Property, plant and equipment	26,283,788	37,741,235	5,773,483	41,339,698	296,693,236	52,747,868	460,579,308
- Net sales	480,320,650	125,528,222	17,514,424	58,486,056	1,259,969,259	--	1,941,818,611
-Net income	19,635,224	11,365,561	(3,858,878)	919,818	47,281,139	(4,582,259)	70,760,605

Some other assets and liabilities were not disclosed according to their operating segment as these information are not available on the operational level.

25. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved for issuance by the Board of Directors on Muharram 6, 1435H, corresponding to November 10, 2013.