

**NAJLAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2015**

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INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Najran Cement Company**
(a Saudi Joint Stock Company)
Najran, Kingdom of Saudi Arabia

Scope of Audit

We have audited the accompanying balance sheet of Najran Cement Company "A Saudi Joint Stock Company" ("the Company") as of December 31, 2015, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, including the related notes from 1 to 23. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and presented to us together with all the information and explanations which we required. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

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

- present fairly, in all material respects, the financial position of Najran Cement Company as of December 31, 2015 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia; and
- 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 Dr. Mohamed Al-Amri & Co.


Jamal M. Al-Amri
Certified Public Accountant
Registration No. 331

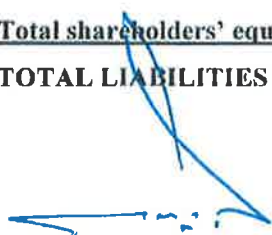


Jumaada al-Awaal 14, 1437
February 23, 2016

NAJLAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET
AS AT DECEMBER 31, 2015

	<u>Note</u>	<u>2015</u> <u>SR'000</u>	<u>2014</u> <u>SR'000</u>
<u>ASSETS</u>			
<u>Current assets</u>			
Cash and cash equivalents	3	162,061	31,722
Accounts receivable - net	4	92,406	84,243
Inventories - net	5	361,902	396,436
Prepayments and other receivables - net	6	21,890	35,358
<u>Total current assets</u>		<u>638,259</u>	<u>547,759</u>
<u>Non-current assets</u>			
Property, plant and equipment	7	2,430,434	2,526,577
Intangible assets	8	4,579	6,866
<u>Total non-current assets</u>		<u>2,435,013</u>	<u>2,533,443</u>
TOTAL ASSETS		<u>3,073,272</u>	<u>3,081,202</u>
<u>Current liabilities</u>			
Short term financing	9	-	100,000
Current portion of long term financing	10	100,000	170,000
Trade creditors		54,690	45,878
Accruals and other payables	11	53,260	40,568
Provision for zakat	12	22,154	20,601
<u>Total current liabilities</u>		<u>230,104</u>	<u>377,047</u>
<u>Non-current liabilities</u>			
Long term financing	10	700,000	631,757
End-of-service indemnities	13	14,808	10,662
<u>Total non-current liabilities</u>		<u>714,808</u>	<u>642,419</u>
<u>Total liabilities</u>		<u>944,912</u>	<u>1,019,466</u>
<u>Shareholders' equity</u>			
Share capital	1	1,700,000	1,700,000
Statutory reserve		90,588	65,026
Retained earnings		337,772	296,710
<u>Total shareholders' equity</u>		<u>2,128,360</u>	<u>2,061,736</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>3,073,272</u>	<u>3,081,202</u>



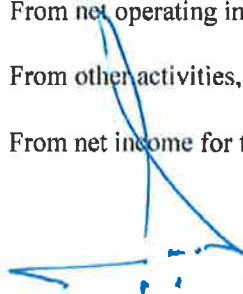


The accompanying notes form an integral part of these financial statements.

**NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Note</u>	<u>2015 SR'000</u>	<u>2014 SR'000</u>
Revenues		1,086,649	827,885
Cost of revenues		(565,052)	(429,028)
Gross profit		<u>521,597</u>	<u>398,857</u>
Selling and distribution expenses	14	(181,028)	(86,715)
General and administrative expenses	15	(31,303)	(32,217)
Net operating income		<u>309,266</u>	<u>279,925</u>
Finance expenses	16	(28,867)	(24,658)
Other income / (expenses) - net	17	5,364	(71)
Net income before zakat		<u>285,763</u>	<u>255,196</u>
Zakat	12	(30,139)	(12,000)
Net income for the year		<u>255,624</u>	<u>243,196</u>
Earnings per share:		<u>SR</u>	<u>SR</u>
From net operating income		1.82	1.65
From other activities, including zakat		(0.32)	(0.22)
From net income for the year		<u>1.50</u>	<u>1.43</u>





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

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015


	2015	2014
	<u>SR'000</u>	<u>SR'000</u>
<u>Cash flows from operating activities:</u>		
Net income before zakat	285,763	255,196
<i>Adjustments to reconcile net income before zakat with net cash provided by operating activities:</i>		
Depreciation	121,171	115,728
Amortization	7,449	7,253
Loss on disposal of property, plant and equipment	286	246
Provision for slow moving consumable spares	2,000	-
Provision against refundable custom duties	4,130	-
Finance charges	23,052	18,962
End-of-service indemnities	4,541	2,942
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	(8,163)	(52,107)
Inventories	32,534	(111,076)
Prepayments and other receivables	2,472	17,589
Trade creditors	8,812	(41,811)
Accruals and other payables	10,067	11,642
Cash from operations	<u>494,114</u>	<u>224,564</u>
Zakat paid	(28,586)	(15,754)
Finance charges paid	(20,433)	(24,922)
End-of-service indemnities paid	(395)	(435)
Net cash provided by operating activities	<u>444,700</u>	<u>183,453</u>
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(11,844)	(12,727)
Movements in spares held for capital use (strategic)	(6,729)	(9,983)
Payments to contractors (capital work in progress)	(192)	(146,992)
Proceeds received from disposal of property, plant and equipment	126	326
Sukuk issuance expenses (intangibles)	(5,162)	-
Net cash used in investing activities	<u>(23,801)</u>	<u>(169,376)</u>
<u>Cash flows from financing activities:</u>		
Net short term financing movements	(100,000)	48,302
Proceeds from long term loans	25,000	290,000
Repayment of long term loans	(426,757)	(320,335)
Sukuk proceeds	400,000	-
Dividends paid	(186,803)	(1,438)
Board of Directors' remuneration paid	(2,000)	(2,066)
Net cash (used in) / provided by financing activities	<u>(290,560)</u>	<u>14,463</u>
Net change in cash and cash equivalents	<u>130,339</u>	<u>28,540</u>
Cash and cash equivalents, beginning of the year	<u>31,722</u>	<u>3,182</u>
Cash and cash equivalents, end of the year	<u>162,061</u>	<u>31,722</u>
<u>Material non-cash transactions:</u>		
Reclassification of custom duties to property, plant and equipment	<u>6,867</u>	-
Capitalization of spare parts as property, plant and equipment	<u>6,951</u>	<u>10,443</u>

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

NAJLAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Note</u>	<u>Share capital SR'000</u>	<u>Statutory reserve SR'000</u>	<u>Retained earnings SR'000</u>	<u>Total SR'000</u>
Balance at January 1, 2015		1,700,000	65,026	296,710	2,061,736
Net income for the year		-	-	255,624	255,624
Transferred to statutory reserve		-	25,562	(25,562)	-
Dividends	18	-	-	(187,000)	(187,000)
Board of Directors' remuneration	20	-	-	(2,000)	(2,000)
Balance as at December 31, 2015		<u>1,700,000</u>	<u>90,588</u>	<u>337,772</u>	<u>2,128,360</u>
Balance at January 1, 2014		1,700,000	40,706	79,834	1,820,540
Net income for the year		-	-	243,196	243,196
Transferred to statutory reserve		-	24,320	(24,320)	-
Board of Directors' remuneration	20	-	-	(2,000)	(2,000)
Balance as at December 31, 2014		<u>1,700,000</u>	<u>65,026</u>	<u>296,710</u>	<u>2,061,736</u>


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

NAJLAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(All amounts in SR 000's unless otherwise noted)

1. ORGANIZATION AND ACTIVITIES

Najran Cement Company ("the Company") is a Saudi Joint Stock Company which was registered on Ramadan 5, 1426 (corresponding to October 9, 2005) under Commercial Registration number 5950010479 (valid until April 28, 2020) and Industrial License number 5482 that was last updated on Rajab 25, 1432 (corresponding to June 27, 2011).

The share capital of the Company is SR 1,700,000, divided into 170 million shares of SR ten per share.

The principal activities of the Company are manufacturing and marketing of diversified qualities of cement. In addition, the Company is authorized to manufacture and market building materials, and become involved in establishing or participating in establishing industrial service companies to provide maintenance and services for factories as well as management and operations of cement factories, acquisition of land and real estate, patents and commercial trademarks to achieve its purposes.

The Company's financial year starts on January 1 each Gregorian year and ends on December 31 of the same year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting convention

The accompanying financial statements have been prepared under the historical cost convention on the accruals basis of accounting in accordance with generally accepted accounting principles in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are set out below.

Use of estimates

The preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that might affect the valuation of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of current events and activities, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years. The significant areas of estimation uncertainty and critical adjustments in applying accounting policies that have most significant effect on the amounts recognized in the financial statements are as follows:

- provisions for doubtful debts, slow-moving inventory and stocks handling losses
- estimated useful economic lives and residual values of property, plant and equipment
- estimated useful lives of intangible assets
- provisions and accruals

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments of less than three months maturity at their acquisition date.

Restricted cash represents amounts in respect of unclaimed dividends and which have been transferred to a specifically designated bank account.

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2015
(All amounts in SR 000's unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable and advances from customers

Accounts receivable are stated in the balance sheet at net realizable value after deducting provision for doubtful debts (if any). The provision is re-estimated based on an analysis of the collectible amounts of the accounts receivable balances at the end of the year.

The Company has a policy of requiring certain customers to pay in advance of receipt of goods. Where advances have been received but goods not delivered as at the year end, this is classified as advances from customers and included in current liabilities.

Where the Company is entitled to any third party claim, such as clinker subsidies or custom duties refundable, the agreed amount is included in other receivables and other income, net of any provisions.

Offsetting

In the normal course of business, the Company provides cement to certain companies, and receives services from such companies as well. For purposes of financial statements disclosures and based on an understanding between the relevant parties, these balances are offset against each other.

Inventories (stock in trade and stores and spares)

Inventories are stated at the lower of cost or net realizable value, and include goods where risks and rewards of ownership have been transferred to the Company. Cost is determined on the weighted average basis. Cost of stock in trade (raw materials, fuel and packing materials, and goods in process and finished goods) includes, where applicable, cost of materials, labor and an appropriate proportion of direct overheads. Net realizable value is selling price less costs to sell.

Spare parts for plant and machinery are categorized as either capital parts in which case they are included as part of non-current assets, or consumables, in which case they are accounted for as current assets, net of provisions for slow moving items.

Property, plant and equipment and capital work in progress

Property, plant and equipment, except land which is not depreciated, are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the declining balance method and appropriate residual values. The estimated annual rates of depreciation of the principal classes of assets are as follows:

	<u>Percentage</u>
Buildings	4%
General plant, machinery and equipment	5%
Quarry machinery and equipment	15%
Vehicles	25%
Furniture, fixtures and office equipment	10% - 12.5%
Computers and related software	15%

Borrowings costs incurred to finance the construction of property, plant and equipment are capitalized as part of the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use.

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2015
(All amounts in SR 000's unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and capital work in progress (continued)

Capital work in progress includes all costs (including advance payments) which have not been reclassified as one of the asset classes noted above.

Capital work in progress is re-classified as property, plant and equipment when the relevant performance tests have been satisfactorily completed. No depreciation is provided for in respect of capital work in progress.

Impairment of non-current assets

At each balance sheet date, the Company reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount, and the impairment loss is recognized as an expense immediately in the statement of income. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

Intangible assets

Intangible assets comprise the Sukuk issuance costs which are being amortized over the period of the term (5 years) and shown as finance expenses. Other intangible assets were amortized over 7 years. Upon becoming fully amortized, intangible assets are written off.

Accounts payable, amounts due to contractors, accrued expenses & advances to suppliers

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether claimed by the suppliers or not. Appropriate provisions are made for production related charges in accordance with service contract arrangements.

Amounts payable to contractors in respect of capital works completed as at the year-end but not paid for at that date are shown as due to contractors and included in accruals, dividends and other payables.

During the normal course of business, the Company is required to pay in advance for certain goods or services so as to guarantee production and delivery of goods or services. Where advances have been made but goods or services not received as at the year end, this is classified as advances to suppliers and included in current assets. Where the risks and rewards of ownership have transferred to the Company, but goods have yet to be received, provision is made to recognize, or book, both the goods in transit and the resultant liability.

End-of-service indemnities

End-of-service indemnities, as required by Saudi Arabian Labor Law, are provided in the financial statements based on the employees' length of service.

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2015
(All amounts in SR 000's unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings

Borrowings are recognized based on gross proceeds received. Borrowings are drawn-down either specifically to finance capital works in progress or for general purposes. Commissions on borrowings drawn-down for capital works in progress are capitalized. Commission relating to other borrowings is reported within finance expenses in the statement of income.

Borrowings are classified as current liabilities (either as short term financing or as current portion of long term financing) unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Where the Company has a long term facility agreement operated on a Tawarroq mechanism of roll-overs through individual deals, and it is the Company's intention to roll-over these facilities, such amounts are classified as long term borrowings. For statement of cash flow purposes, these roll-over transactions are treated as one transaction.

Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the issued share capital. This reserve is not available for dividend distribution, however, is available for issuance of bonus shares upon obtaining appropriate approvals.

Revenue recognition

Revenues are recognized upon delivery of goods to customers and are stated net of trade and quantity discounts.

Cost of revenues

Cost of revenues includes direct costs of production, including costs of materials, contract services, depreciation of production related property, plant and equipment, amortization of production related deferred charges, and overheads directly attributable to production. Costs of production are attributed to cost of revenues and inventories based on units of production.

Expenses

Selling and distribution expenses comprise of costs incurred in the distribution and sale of the Company's products including employee costs, area discounts and transport costs. All other operating expenses are classified as general and administrative expenses.

Zakat

The Company is subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided for on the accruals basis. Any difference in the estimate is recorded when the final assessment is approved, or an assessment order received.

Derivative financial instruments

The Company has not designated its derivatives as hedging instruments and accordingly, the net impact of the changes in cash flows for Murabaha and Tawarroq profits is recognized in the statement of income at the corresponding settlement dates.

Foreign currency translation

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

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2015
(All amounts in SR 000's unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingent liabilities

Contingent liabilities are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Earnings per share

Earnings per share is calculated by dividing operating income, other activities and net income for the relevant year by the weighted average of ordinary shares issued and outstanding during the year (1,700,000 shares).

Dividends

Dividends are recorded in the financial statements in the year in which they are approved. In the case of interim dividends, this is when recommended by directors, whilst for final dividends, this is when approved by the shareholders of the Company.

3. CASH AND CASH EQUIVALENTS

	<u>2015</u>	<u>2014</u>
Cash at banks	162,061	31,722

Cash at banks as at December 31, 2015 included unclaimed dividends, representing restricted amounts, of SR 1,221 (2014: SR 1,024).

4. ACCOUNTS RECEIVABLE - NET

	<u>2015</u>	<u>2014</u>
Trade accounts receivable	93,776	85,613
Less provision for doubtful debts	<u>(1,370)</u>	<u>(1,370)</u>
	<u>92,406</u>	<u>84,243</u>

Three customers, whose sales exceeded 10% of total revenues, accounted for a combined total of SR 558,066 of revenues (51%) during the year ended December 31, 2015 (2014: 3 customers account of SR 312,579; 38%). These customers had receivables balances as at December 31, 2015 totaling SR 83,070 (2014: SR 67,428).

5. INVENTORIES - NET

	<u>2015</u>	<u>2014</u>
Raw materials, fuel and packing materials	24,352	28,432
Goods in process	209,624	237,764
Finished goods	<u>6,465</u>	<u>6,421</u>
Stock in trade	240,441	272,617
Consumables spare parts	123,461	123,819
Less: provision for slow moving items	<u>(2,000)</u>	<u>-</u>
	<u>361,902</u>	<u>396,436</u>

In addition, spares held for future capital use amounting to SR 41,350 (2014: SR 41,572) are classified within property, plant and equipment.

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2015
(All amounts in SR 000's unless otherwise noted)

6. <u>PREPAYMENTS AND OTHER RECEIVABLES - NET</u>		<u>2015</u>	<u>2014</u>
Advances to suppliers		8,681	16,412
Prepaid expenses		3,863	1,966
Refundable custom duties net of provision (SR 4,130)		5,746	15,203
Others		3,600	1,777
		<u>21,890</u>	<u>35,358</u>

7. <u>PROPERTY, PLANT AND EQUIPMENT ("PPE")</u>		<u>2015</u>	<u>2014</u>
Property, plant and equipment		2,389,084	2,485,005
Assets held for future capital use (strategic)		41,350	41,572
		<u>2,430,434</u>	<u>2,526,577</u>

	Land	Buildings	Plant, quarry machinery and other equipment	Vehicles	Furniture and fixtures, and office equipment	Computers	Total
<u>Cost</u>							
January 1, 2015	2,563	1,162,303	1,813,869	20,644	12,244	9,888	3,021,511
Additions	-	260	22,122	2,071	347	862	25,662
Disposals	-	-	-	(2,000)	-	(9)	(2,009)
December 31, 2015	<u>2,563</u>	<u>1,162,563</u>	<u>1,835,991</u>	<u>20,715</u>	<u>12,591</u>	<u>10,741</u>	<u>3,045,164</u>
<u>Accumulated depreciation</u>							
January 1, 2015	-	166,023	344,698	15,359	6,190	4,236	536,506
Charge for the year	-	39,859	78,251	1,488	648	925	121,171
Disposals	-	-	-	(1,595)	-	(2)	(1,597)
December 31, 2015	<u>-</u>	<u>205,882</u>	<u>422,949</u>	<u>15,252</u>	<u>6,838</u>	<u>5,159</u>	<u>656,080</u>
<u>Net book value</u>							
December 31, 2015	<u>2,563</u>	<u>956,681</u>	<u>1,413,042</u>	<u>5,463</u>	<u>5,753</u>	<u>5,582</u>	<u>2,389,084</u>
December 31, 2014	2,563	996,280	1,469,171	5,285	6,054	5,652	2,485,005

The Company's PPE, except the headquarters building at Najran, are constructed on two separate leased lands from the Government at Sultanah and Aakfah areas in Najran region for periods of 30 and 25 years respectively and are renewable at the option of the Company.

Additions to plant, quarry machinery and other equipment, includes capitalization of approximately SR 6,951 of spare parts (2014: SR 10,443).

Clearance is under process for the release of mortgage deeds in respect of PPE that were mortgaged to a development finance institution as security for a loan (note 10), which was repaid in June 2015.

NAJRAN CEMENT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2015
(All amounts in SR 000's unless otherwise noted)

8. INTANGIBLE ASSETS

	SIDF Evaluation Fee	Feasibility Studies and Other Project Costs	Sukuk Related Costs	Total
Cost:				
January 1, 2015	34,000	22,523	-	56,523
Additions	-	-	5,162	5,162
Written off	(34,000)	(22,523)	-	(56,523)
December 31, 2015	-	-	5,162	5,162
Accumulated Amortization:				
January 1, 2015	28,767	20,890	-	49,657
Amortization	5,233	1,633	583	7,449
Written off	(34,000)	(22,523)	-	(56,523)
December 31, 2015	-	-	583	583
Net Book Value:				
As at December 31, 2015	-	-	4,579	4,579
As at December 31, 2014	5,233	1,633	-	6,866

9. SHORT TERM FINANCING

Short-term financing that represented a fully drawn shariah compliant facility of SR 100,000, was repaid in July 2015.

10. LONG TERM FINANCING

	<u>2015</u>	<u>2014</u>
Balance at January 1	801,757	880,622
Commercial loans drawn-down during the year	25,000	290,000
Sukuk proceeds	400,000	-
Repaid during the year	(426,757)	(368,865)
Balance at December 31	<u>800,000</u>	<u>801,757</u>
Shown as:		
Current portion of long term financing	100,000	170,000
Long-term portion	700,000	631,757
	<u>800,000</u>	<u>801,757</u>
Amounts repayable:		
Within one year	100,000	170,000
Within one to two years	200,000	315,000
Within two to five years	500,000	316,757
Total	<u>800,000</u>	<u>801,757</u>

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Banque Saudi Fransi (BSF)

The master facilities and financing agreement is under renewal for three main facilities that are defined in a financing letter of agreement and governed by a commodity purchase and sales agreement (Al Tawarroq), all dated April 8, 2015.

The specific facility against the third production line for SR 500,000 has a profit rate of SIBOR plus 1.50% to be serviced on a quarterly basis, repayable in twenty quarterly installments which started on September 30, 2014 and ends on June 30, 2018. As at December 31, 2015, an amount of SR 250,000 (2014: SR 348,757) was outstanding against this facility.

The specific facility to finance the waste heat recovery project for SR 150,000 was availed in 2015 at a profit rate of SIBOR plus 1.75% to be serviced on a quarterly basis repayable in six quarterly installments starting on September 30, 2018 and ending on December 31, 2019.

The general purpose facility was repaid in full during 2015 (2014: SR 140,000).

The facilities are secured by, inter alia, four order notes amounting to SR 765,550 and assignment of the insurance policy for the third production line.

Saudi Industrial Development Fund (SIDF)

The balance of the interest-free loan that was repayable in semi-annual installments up to May 11, 2017 was repaid in full during 2015. This loan was secured by order notes supplemented by a mortgage on all property, plant and equipment of the Company (excluding the grinding facilities at Aakfah and the Head Office) that is now under process for release. SIDF was also the first beneficiary on the Company's insurance policy covering the property, plant and equipment at the main plant. An evaluation fee of SR 34,000 was also charged and included in deferred charges (see note 8). Project administration (follow up) fees were also charged, semi-annually, based on actual man-hours spent on the project.

Sukuk

In June 2015, the Company privately placed an unrated but registered Sukuk of SR 400,000 for five years maturing in June 2020, with a profit rate of 1.4% plus three month SIBOR, payable quarterly. The proceeds were applied towards part settlement of the existing indebtedness of the Company.

Derivatives

The Company has entered into derivative contracts with notional value of SR 387,500 to manage the exposure to profit rate risks associated with the above long term financing. The indicative marked to market valuations as at December 31, 2015 showed that the Company had an additional liability of approximately SR 1,781.

11. ACCRUALS AND OTHER PAYABLES

	<u>2015</u>	<u>2014</u>
Due to contractors	2,844	3,036
Accrued expenses	9,365	6,433
Raw material royalties	25,723	19,075
Dividends payable	1,221	1,024
Advances from customers	11,520	8,118
Others	2,587	2,882
	<u>53,260</u>	<u>40,568</u>

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12. PROVISION FOR ZAKAT

	<u>2015</u>	<u>2014</u>
Balance at January 1	20,601	24,355
Provision for the year	22,154	12,000
Provision in respect of prior years (see below)	7,985	-
Paid during the year	<u>(28,586)</u>	<u>(15,754)</u>
Balance at December 31	<u>22,154</u>	<u>20,601</u>

The principal elements of the zakat base were as follows:

Shareholders' equity – beginning balance	2,061,736	1,819,497
Adjusted net income before zakat	163,583	134,001
Dividends	(185,779)	-
Others	8,267	-
Non-current assets and spare parts (capital)	(1,764,636)	(1,996,274)
Non-current liabilities (financing)	<u>603,000</u>	<u>523,033</u>
Zakat base	<u>886,171</u>	<u>480,257</u>
Provision for zakat	<u>22,154</u>	<u>12,000</u>

Adjusted net income comprised:

Net income before zakat	285,763	255,196
Additions	10,958	3,188
Deductions – depreciation adjustments	<u>(133,138)</u>	<u>(124,383)</u>
Adjusted net income	<u>163,583</u>	<u>134,001</u>

In May 2015, the Company signed an agreement with the DZIT whereby the appeal against the additional demand to finalize the zakat assessments for the years 2006 through 2011 inclusive was withdrawn; settlement of the demand for SR 12,555 was made in September 2015.

The financial impact of now applying the methodology used by the DZIT in their assessment orders is an additional charge of SR 7,985 for years 2012 through to 2014. The assessments for the years 2012 through to 2014 have not yet been finalized.

13. END OF SERVICE INDEMNITIES

	<u>2015</u>	<u>2014</u>
Balance at January 1	10,662	8,155
Provision for the year	4,541	2,942
Payments made during the year	<u>(395)</u>	<u>(435)</u>
Balance at December 31	<u>14,808</u>	<u>10,662</u>

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14. SELLING AND DISTRIBUTION EXPENSES

	<u>2015</u>	<u>2014</u>
Employees' salaries and benefits	5,436	3,960
Depreciation	582	613
Area incentives and transportation charges	174,341	80,467
Others	669	1,675
	181,028	86,715

15. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2015</u>	<u>2014</u>
Wages, salaries and related costs	18,745	16,793
Professional fees	1,758	4,698
Depreciation	1,917	2,016
Donations	1,720	1,724
Information technology	1,393	1,205
Others	5,770	5,781
	31,303	32,217

16. FINANCE EXPENSES

Amortization of SIDF evaluation and Sukuk issuance fees amounting to SR 5,816 (2014: SR 5,696) and SIDF follow-up fees of SR 3,540 (2014: SR 3,070) are included in finance expenses (see notes 8 and 10). The Company has entered into profit rate swap arrangements with different commercial banks with equivalent notional values of SAR 388 million to manage the exposure to profit rate risks associated with its long term financing. During the year ended December 31, 2015, the net impact of the changes in cash flow recognized as finance expenses, at different settlement dates, was SR 194 (2014: SR (119)).

17. OTHER INCOME/(EXPENSES) - NET

Pursuant to the agreement with the DZIT (note 12), the Company succeeded in obtaining a refund settlement for the withholding tax claim for certain transactions related to the assessment periods 2006 through 2011 along with the penalties for an aggregate amount of SR 4,076.

18. DIVIDENDS

The shareholders of the Company, in their General Assembly held on March 30, 2015 (corresponding to Jumaada al Thaany 10, 1436), approved a final dividend of SR 102,000 (SR 0.60 per share) in respect of the year ended December 31, 2014 (2014: SR nil); the dividend was paid in April 2015.

The Directors of the Company, on August 9, 2015 (corresponding to Shawwal 24, 1436), recommended a interim dividend of SR 85,000 (SR 0.50 per share) in respect of the year ended December 31, 2015 (2014: SR nil); the dividend was paid in September 2015.

The Directors of the Company, on December 29, 2015 (corresponding to Rabbi Ul Awwal 18, 1437), recommended and announced a final dividend of SR 85,000 (SR 0.50 per share) in respect of the year ended December 31, 2015 (2014: SR 102,000 SR 0.60 per share) to be approved by the shareholders of the Company in their General Assembly scheduled to be held in March 2016.

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19. CONTINGENT LIABILITIES

As of December 31, 2015, the Company had commitments in the form of letters of credit and bills for collection amounting to SR 1,861 (2014: SR 2,309), letters of guarantee amounting to SR nil (2014: SR 340) and performance bonds amounting to SR 2,351 (2014: SR 2,000).

20. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions include Directors' fees for the year ended December 31, 2015 amounting to SR 2,000 (2014: SR 2,000).

21. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT

Financial instruments comprise of financial assets and financial liabilities. The Company's financial assets consist of cash and cash equivalents and accounts and other receivables and its financial liabilities consist of Sukuk, other long term financing, and trade and other accounts payable.

Currency risk:

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies. The Company does not believe it is materially exposed to currency risk as the majority of the Company's transactions and the balances are denominated in Saudi Riyals, or in US Dollars, which currency is fixed to the Saudi Riyal. Certain transactions are in Euros, but these are not material.

Liquidity risk:

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately, or by breach of funding covenants. To mitigate this risk, management monitors the maturity profile of its financial assets and liabilities to ensure that adequate liquidity is maintained or made available, as necessary.

Credit risk:

The Company's credit risk is primarily attributable to its liquid funds and receivables. Cash balances are deposited with major banks with good credit standings. Whilst a small number of customers account for a significant proportion of both revenues and accounts receivable balances, these customers have all provided appropriate guarantees ensuring that their debts will be recoverable. All major customers are high profile customers within the Kingdom of Saudi Arabia and there is no reason to suggest that there will be a loss of revenue from these sources. The amounts presented in the balance sheet are stated at net realizable value, estimated by the Company's management based on experience. Accordingly, the management does not believe that the Company is materially exposed to credit risk.

Fair values of financial assets and liabilities:

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 Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair value of the Company's financial assets and liabilities are not materially different from their carrying values.

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Fair value and cash flow profit rate risks

Fair value and cash flow profit rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing profit rates on the Company's financial position and cash flows. The Company's profit rate risk arises from the Sukuk and long term financing, which are at floating rates of profit rates, based on SIBOR. All debts with floating profit rates are subject to re-pricing on a regular basis. The Company has entered into derivative contracts to manage the profit rate risk associated with the Sukuk and long term financing, in addition, Management monitors the changes in profit rates on long term borrowings and believes that the fair value and cash flow rate risks to the Company are not significant.

22. SEGMENTAL REPORTING

The Company operates in one trading segment and all sales are within the Kingdom of Saudi Arabia.

23. FINANCIAL STATEMENTS APPROVAL

These financial statements were approved by the Board of Directors of the Company on February 23, 2016.