

ASTRA INDUSTRIAL GROUP COMPANY
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2011 AND
INDEPENDENT AUDITORS' REPORT**

ASTRA INDUSTRIAL GROUP COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT

February 26, 2012

To the Shareholders of Astra Industrial Group Company
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying consolidated balance sheet of Astra Industrial Group Company (the "Company") and Subsidiaries (collectively the "Group") as of December 31, 2011 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By: _____
Omar M. Al Sagga
License Number 369

ASTRA INDUSTRIAL GROUP COMPANY
(A Saudi Joint Stock Company)
Consolidated balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

Assets	Notes	December 31,	
		2011	2010
Current assets			
Cash and cash equivalents	4	118,885,180	188,496,240
Murabaha investments		459,106,759	751,681,239
Accounts receivable, net	5	579,173,855	504,298,597
Due from related parties	9	42,845,677	43,438,589
Inventories, net	6	552,280,893	415,808,528
Prepayments and other assets	7	89,013,364	67,114,846
		1,841,305,728	1,970,838,039
Non-current assets			
Investment in unconsolidated subsidiaries and associates	8	1,590,634	9,095,196
Property and equipment, net	10	1,072,319,694	873,449,243
Goodwill	11	44,054,811	34,868,562
Other intangible assets, net	12	3,077,155	911,718
		1,121,042,294	918,324,719
Total assets		2,962,348,022	2,889,162,758
Liabilities			
Current liabilities			
Short-term tawaroq loans	13	520,658,175	488,306,618
Current portion of murabaha loan	17	-	37,500,000
Notes payable	14	23,923,605	8,595,086
Accounts payable		103,546,603	96,933,803
Due to related parties	9	10,967,063	543,817
Accrued and other liabilities	15	150,912,955	137,543,679
Provision for zakat and income tax	16	35,290,938	49,504,330
		845,299,339	818,927,333
Non-current liabilities			
Murabaha loan	17	-	103,125,000
Due to related parties	9	218,783,516	160,242,206
Other liabilities	18	5,994,700	10,812,133
End of service benefits	19	59,151,127	51,160,192
		283,929,343	325,339,531
Total liabilities		1,129,228,682	1,144,266,864
Equity			
Shareholders of the Company:			
Share capital	1,20	741,176,470	741,176,470
Statutory reserve	21	406,568,677	406,568,677
Retained earnings		658,047,024	540,514,006
Foreign currency translation reserve		(8,605,373)	(3,868,076)
Changes in fair value of cash flow hedges	22	(6,160,635)	-
Total shareholders' equity		1,791,026,163	1,684,391,077
Minority interest		42,093,177	60,504,817
Total equity		1,833,119,340	1,744,895,894
Total liabilities and equity		2,962,348,022	2,889,162,758
Contingencies and commitments	31		

The notes on pages 6 to 22 form an integral part of these consolidated financial statements.

ASTRA INDUSTRIAL GROUP COMPANY
(A Saudi Joint Stock Company)
Consolidated income statement
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2011	2010
Sales		1,381,988,548	1,120,460,275
Cost of sales		(827,674,537)	(635,402,433)
Gross profit		554,314,011	485,057,842
Operating expenses			
Selling and marketing	23	(222,040,540)	(195,826,155)
General and administrative	24	(131,175,352)	(102,668,818)
Research and development		(14,316,158)	(11,245,663)
Income from operations		186,781,961	175,317,206
Other income (expenses)			
Share in net losses of unconsolidated subsidiaries and associates	8	(87,128)	(5,364,607)
Financial charges	13,17	(16,253,650)	(12,868,635)
Other, net	26	61,428,885	64,540,342
Income from continuing operations before minority interest		231,870,068	221,624,306
Gain on sale of a subsidiary	25	-	28,836,929
Minority interest		16,257,926	8,527,595
Net income for the year		248,127,994	258,988,830
Earnings per share:	28		
Operating income		2.52	2.37
Non-operating income		0.61	1.01
Net income		3.35	3.49

The notes on pages 6 to 22 form an integral part of these consolidated financial statements.

ASTRA INDUSTRIAL GROUP COMPANY
(A Saudi Joint Stock Company)
Consolidated cash flow statement
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2011	2010
Cash flow from operating activities			
Net income for the year		248,127,994	258,988,830
<u>Adjustments for non-cash items</u>			
Gain on sale of a subsidiary	25	-	(28,836,929)
Depreciation	10	27,806,008	30,603,910
Amortization	12	635,687	368,597
Share in net losses of unconsolidated subsidiaries and associates		87,128	5,364,607
Loss applicable to minority interest		(16,257,926)	(8,527,595)
<u>Changes in working capital</u>			
Accounts receivable		(74,875,258)	(86,477,415)
Due from related parties		592,912	52,869,112
Inventories		(136,472,365)	(57,819,021)
Prepayments and other current assets		(21,898,518)	(11,479,055)
Accounts payable		6,612,800	(14,800,342)
Due to related parties		10,423,246	(1,399,472)
Accrued and other current liabilities		2,391,208	41,496,965
Zakat and income tax paid		(31,831,897)	(29,910,719)
End of service benefits		7,990,935	8,060,016
Net cash generated from operating activities		23,331,954	158,501,489
Cash flow from investing activities			
Murabaha investments		292,574,480	(378,474,727)
Investment in unconsolidated subsidiaries and associates		(6,506,112)	(12,209,734)
Purchases of property and equipment		(269,163,892)	(299,943,763)
Proceeds from disposal of property and equipment, net		42,487,433	5,958,380
Purchase of a subsidiary, net		-	(26,184,269)
Sale of a subsidiary, net		-	87,610,883
Additions to intangible assets		(2,801,124)	(128,957)
Proceeds from sale of intangible assets, net		-	2,351,271
Net cash generated from (utilized in) investing activities		56,590,785	(621,020,916)
Cash flow from financing activities			
Short-term tawaroq loan		32,351,557	488,306,618
Murabaha loan		(140,625,000)	140,625,000
Due to related parties, net		58,541,310	32,061,550
Notes payable		15,328,519	(8,834,278)
Dividends paid		(111,176,471)	(92,647,059)
Remuneration for board members		(1,800,000)	(1,800,000)
Minority interest		(2,153,714)	4,446,414
Net cash (utilized in) generated from financing activities		(149,533,799)	562,158,245
Net change in cash and cash equivalents		(69,611,060)	99,638,818
Cash and cash equivalents at beginning of year		188,496,240	88,857,422
Cash and cash equivalents at end of year	4	118,885,180	188,496,240
Supplemental non-cash information -			
Provision for zakat and income tax charged to shareholders' equity	16	17,618,505	38,094,371
Change in fair value of cash flow hedge	22	(6,160,635)	-
Other liabilities against purchase of property and equipment		-	10,812,133
For other supplemental non-cash information related to acquisition and disposal of subsidiaries please refer to note 25 and 27.			

The notes on pages 6 to 22 form an integral part of these consolidated financial statements.

ASTRA INDUSTRIAL GROUP COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Changes in fair value of cash flow hedges	Total
January 1, 2011		741,176,470	406,568,677	540,514,006	(3,868,076)	-	1,684,391,077
Net income for the year		-	-	248,127,994	-	-	248,127,994
Dividends	30	-	-	(111,176,471)	-	-	(111,176,471)
Board members' remuneration		-	-	(1,800,000)	-	-	(1,800,000)
Currency translation difference of consolidated subsidiaries		-	-	-	(4,737,297)	-	(4,737,297)
Changes in fair value of cash flow hedge	22	-	-	-	-	(6,160,635)	(6,160,635)
Zakat and income tax	16	-	-	(17,618,505)	-	-	(17,618,505)
December 31, 2011		741,176,470	406,568,677	658,047,024	(8,605,373)	(6,160,635)	1,791,026,163
January 1, 2010		741,176,470	406,568,677	414,066,606	-	-	1,561,811,753
Net income for the year		-	-	258,988,830	-	-	258,988,830
Dividends	30	-	-	(92,647,059)	-	-	(92,647,059)
Board members' remuneration		-	-	(1,800,000)	-	-	(1,800,000)
Currency translation difference of consolidated subsidiaries		-	-	-	(3,868,076)	-	(3,868,076)
Zakat and income tax	16	-	-	(38,094,371)	-	-	(38,094,371)
December 31, 2010		741,176,470	406,568,677	540,514,006	(3,868,076)	-	1,684,391,077

The notes on pages 6 to 22 form an integral part of these consolidated financial statements.

ASTRA INDUSTRIAL GROUP COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2011**

(All amounts in Saudi Riyals unless otherwise stated)

1) General information

Astra Industrial Group Company (the "Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia, under commercial registration No. 1010069607 dated Muharram 9, 1409H (corresponding to August 22, 1988). The shares of Astra Industrial Group Company were listed on the Saudi Stock Market ("Tadawul") on Shabaan 17, 1429H (corresponding to August 18, 2008) through subscription of 30% of the Company's shares by the public.

Astra Industrial Group Company and its subsidiaries (collectively the "Group") consist of the Company and its various Saudi Arabian and foreign subsidiaries listed below. The Company's main objectives, as per its commercial registration, include establishment, management, operating and investment in industrial entities (subject to obtaining the Saudi Arabian General Investment Authority ("SAGIA") approval for each project to be established).

The accompanying consolidated financial statements include the accounts of the Company and its following subsidiaries, operating under individual commercial registrations:

Name of Subsidiary	Country of incorporation	Effective ownership % at December 31, 2011	
		Direct	Indirect
➤ Tabuk Pharmaceutical Manufacturing Company ("TPMC"). This company has the following subsidiaries:	Saudi Arabia	95	5
- Tabuk Pharmaceutical Research Company	Jordan	100	-
- Alsaudia Advanced Pharmaceutical Industries - incorporated in 2010	Sudan	80	-
- Al Bareq Pharmaceutical Manufacturing Factory Company Limited*	Saudi Arabia	95	-
➤ Astra Polymer Compounding Company Limited ("Polymer"). This company has the following fully owned subsidiary:	Saudi Arabia	95	5
- Constab Middle East Polimer A.S. ("CMEP")	Turkey	100	-
➤ International Building Systems Factory Company Limited ("IBSF")	Saudi Arabia	95	5
➤ Astra Industrial Complex Co. Ltd. for Fertilizer and Agrochemicals ("AstraChem"). This company has the following foreign subsidiaries:	Saudi Arabia	95	5
- AstraChem Saudia	Algeria	100	-
- AstraChem Morocco	Morocco	100	-
- Aggis International Limited	British Virgin Islands	100	-
- AstraChem Turkey	Turkey	100	-
- Astrachem Syria	Syria	100	-
- Astrachem Tashqand	Uzbekistan	100	-
- Astra Industrial Complex Co. Ltd. for Fertilizer and Agrochemicals, Jordan - incorporated in 2010	Jordan	50	-
- Astra Nova, Turkey	Turkey	67	-
➤ Al-Tanmiya Company for Steel Manufacturing. This company has the following fully owned subsidiary:	Jordan	51	-
- Al Inma'a Company	Iraq	51	-
➤ Astra Energy LLC	Jordan	76	-
➤ Astra Mining Company Limited	Saudi Arabia	60	-

*The remaining 5% interest in this company is owned by Astra Industrial Group Company.

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The principal activities of the subsidiaries are as follows:

- Production, marketing and distribution of medicine and pharmaceutical products.
- Production of polymer compounds, plastic additives, color concentrates and other plastic products.
- Metal based construction of industrial buildings and building frames.
- Production of compounded fertilizers and agriculture pesticides and the wholesale and retail trading of fertilizers, forages and insecticides. Also, execution of agricultural contracting projects.
- Production of steel pallets and rebar and generation of the required power of such activity.
- Exploration of all ores and minerals in all regions of the Kingdom of Saudi Arabia except for those lands and marine areas beyond the scope of application of the mining investment law specified in Article No. 8 of the law.

These consolidated financial statements were approved by the Board of Directors on February 19, 2012.

2) Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by the revaluation of derivatives financial instruments to fair value, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

2.3 Investments

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Investments in subsidiaries which are not considered as material to the consolidated financial statements are accounted for using the equity method of accounting.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill is tested annually for impairment and carried at cost, net of impairment losses, if any.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

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The Group's share of its associates' post-acquisition income or losses is recognized in the consolidated income statement and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

2.4 Segment reporting

(a) Business segment

A business segment is a group of assets, operations or entities:

- (i) Engaged in revenue producing activities;
- (ii) Results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) Financial information is separately available.

(b) Geographical segment

A geographical segment is a group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.5 Foreign currency translation

(a) Reporting currency

These consolidated financial statements are presented in Saudi Riyals ("SR") which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

(c) Group companies

The results and financial position of foreign subsidiaries and associates having reporting currencies other than Saudi Riyals are translated into Saudi Riyals as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) components of the equity accounts are translated at the exchange rates in effect at the dates the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of foreign subsidiaries and associates into Saudi Riyals, if material, are reported as a separate component of equity.

Dividends received from an associate are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the consolidated income statement.

When an investment in a foreign subsidiary and an associate is partially disposed off or sold, currency translation differences that were recorded in equity are recognized in income as part of gain or loss on disposal or sale.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

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Notes to the consolidated financial statements for the year ended December 31, 2011

(All amounts in Saudi Riyals unless otherwise stated)

2.7 Murabaha investments

Murabaha investments are short-term highly liquid investments with original maturities of three months or more but not more than one year from the purchase date. Commission income is recognized on an accrual basis using agreed commission rates.

2.8 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the consolidated income statement, and reported under "Selling and marketing expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "Selling and marketing expenses" in the consolidated income statement.

2.9 Accrued revenue

Accrued revenue represents revenue earned but not yet billed at year-end. Such amounts will be billed in the subsequent period. These balances are currently included under accounts receivable.

2.10 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

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

2.11 Property and equipment

Property and equipment are carried at cost less accumulated depreciation except projects under construction which is carried at cost. Land is not depreciated. Depreciation is charged to the consolidated income statement, using the straight-line method to allocate the costs of the related assets over the following estimated useful lives:

	Number of Years
Buildings	10 - 33
Leasehold improvements	4 - 10
Machinery and equipment	5 - 12.5
Furniture, fixtures and office equipment	3 - 10
Vehicles	4

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

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated income statement, as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.12 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets 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 income statement. Impairment losses recognized on intangible assets are not reversible.

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Notes to the consolidated financial statements for the year ended December 31, 2011

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2.13 Intangible assets

Intangible assets, apart from goodwill, represent registration and license fees and are amortized on a straight-line method over a period of 5 years.

2.14 Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred, if any. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated income statement.

2.15 End of service benefits

End of service benefits required by Saudi Labor and Workman Law are accrued by the Group and charged to the consolidated income statement. The liability is calculated; at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The foreign subsidiaries provide currently for employee termination and other benefits as required under the laws of their respective countries of domicile. There are no funded or unfunded benefit plans established by the foreign subsidiaries.

2.16 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.17 Zakat and taxes

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Group is subject to zakat attributable to the Saudi shareholders and to income taxes attributable to the foreign shareholders. Provisions for zakat and income taxes are charged to the equity accounts of the Saudi and the foreign shareholders, respectively. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. For subsidiaries outside the Kingdom of Saudi Arabia, provision for income tax is computed in accordance with tax regulations as applicable in the respective countries, if required, and charged to the consolidated income statement.

Deferred income taxes are recognized on all major temporary differences between financial income and taxable income during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax assets on carry forward losses are recognized to the extent that it is probable that future taxable income will be available against which such carry-forward tax losses can be utilized. Deferred income taxes are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income taxes arising out of such temporary differences were not significant and, accordingly, were not recorded as of December 31, 2011 and 2010.

The Group and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2.18 Derivative financial instruments

The Group uses forward contracts to hedge its risks of foreign currency fluctuations associated with operational activities and are recognized at fair value. All financial derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

Usually, fair values of forward contracts are being obtained with reference to current market prices, if such market prices are not available, fair values are determined at other forecast bases, as appropriate.

When using derivative financial instruments to hedge risks of cash flows related to certain obligations or expected transactions. Gains or losses arising from financial instruments that qualify for hedge accounting are directly taken to shareholders' equity. The ineffective portion of an effective hedge is taken to the consolidated statement of income and any gains/losses generated at recognition of financial instrument values, are being recognized.

If the hedging instrument expires and hedged transactions are still probable to occur, gains and losses are retained in the shareholders' equity, and recognized in accordance with the policy above, if such transaction is not probable, accumulated gains/losses - which is already recognized in shareholders' equity - are taken to the consolidated statement of income.

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Notes to the consolidated financial statements for the year ended December 31, 2011

(All amounts in Saudi Riyals unless otherwise stated)

2.19 Provisions

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.20 Revenue recognition

Revenues are recognized upon delivery of products and customer acceptance, if any, or on the performance of services. Revenues are shown net of trade or quantity discounts and transportation expenses, if any, and after eliminating sales within the Group. Royalty income is recognized on an accrual basis in accordance with the substance of agreements.

2.21 Selling, marketing and general and administrative expenses

Selling, marketing and general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between selling, marketing and general and administrative expenses and production costs, when required, are made on a consistent basis.

2.22 Research and development costs

Research and development costs are charged to the consolidated income statement in the period in which they are incurred.

2.23 Operating leases

Rental expenses under operating leases are charged to the consolidated income statement over the period of the respective lease.

2.24 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the shareholders of the Company.

2.25 Reclassification

Following reclassification has been made in the comparative 2010 financial statements to conform with 2011 presentation:

- (i) For proper presentation bonus goods amounting to Saudi Riyals 22.9 million for the year ended December 31, 2010 have been reclassified as part of cost of sales from selling and marketing expenses.

3) Financial instruments and risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by senior management. The most important types of risks are summarized below.

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, Murabaha investments, accounts receivable, due from related parties, short-term tawaroq loan, accounts payable, notes payable, due to related parties, borrowings and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts reported in the consolidated financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, US dollars and Sudanese Pound.

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The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group also has investments in foreign subsidiaries and associates, whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between Saudi Riyals against Sudanese Pound. Such exposures are recorded as a separate component of shareholders' equity in the accompanying consolidated financial statements.

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group's interest rate risks arise mainly from its murabaha investments and murabaha loan which are at floating rate of interest and are subject to repricing on a regular basis.

3.3 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is currently not exposed to price risk.

3.4 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. The Group has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts.

3.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

3.6 Fair value

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 Group'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 values of the Group's financial assets and liabilities are not materially different from their carrying values.

4) Cash and cash equivalents

	<u>2011</u>	<u>2010</u>
Cash in hand	2,833,142	551,113
Cash at banks	<u>116,052,038</u>	<u>187,945,127</u>
	<u>118,885,180</u>	<u>188,496,240</u>

5) Accounts receivable, net

	<u>2011</u>	<u>2010</u>
Accounts receivable - trade	570,471,915	493,862,806
Accrued revenue	29,132,763	25,788,106
Less: Provision for doubtful receivables	<u>(20,430,823)</u>	<u>(15,352,315)</u>
	<u>579,173,855</u>	<u>504,298,597</u>

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6) Inventories, net

	<u>2011</u>	<u>2010</u>
Raw and packing materials	367,889,860	281,234,938
Finished goods	103,945,254	89,762,230
Work in process	33,691,499	24,350,634
Goods in transit	39,673,407	18,416,565
Spare parts and consumables (not held for sale)	24,877,855	19,400,816
	<u>570,077,875</u>	<u>433,165,183</u>
Less: Provision for obsolete and slow moving inventories	<u>(17,796,982)</u>	<u>(17,356,655)</u>
	<u>552,280,893</u>	<u>415,808,528</u>

7) Prepayments and other current assets

	<u>2011</u>	<u>2010</u>
Advances to suppliers	32,951,217	15,294,046
Prepaid expenses	24,963,462	17,429,768
Employees' receivables	13,643,241	15,599,447
Refundable deposits and insurance claims	7,329,967	12,593,977
Accrued murabaha income	2,120,497	-
Other	8,004,980	6,197,608
	<u>89,013,364</u>	<u>67,114,846</u>

8) Investment in unconsolidated subsidiaries and associates

	<u>Ownership interest</u>	
	<u>2011</u>	<u>2010</u>
Unconsolidated subsidiaries:		
Tabuk Poland Limited - Poland	100%	100%
Tabugen France - France	100%	100%
Tabuk Czech s.r.o - Czech Republic	100%	100%
Associates:		
Mastra Agricultural Company - Egypt	49%	49%
Astra Agricultural Company Ltd. - Republic of Yemen	49%	49%

Movement of the Group's share in unconsolidated subsidiaries and associates is as follows:

	<u>2011</u>	<u>2010</u>
January 1	9,095,196	2,250,069
Additions	134,889	12,209,734
Disposals / transfers	(7,552,323)	-
Share in net loss	(87,128)	(5,364,607)
December 31	<u>1,590,634</u>	<u>9,095,196</u>

9) Related party transactions and balances

During the years 2011 and 2010, the Company and its subsidiaries transacted with various related parties. Terms of those billings and charges are similar to commercial transactions with external parties. Following are the details of the major transactions with related parties during the years ended December 31:

	<u>2011</u>	<u>2010</u>
Sales	14,170,552	16,755,973
Purchases	12,196,524	6,048,451
Finance commission	8,505,341	5,953,050

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Due from related parties comprises of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Al-Kendi Factory – Algeria	24,693,789	21,721,046
United Pharmaceutical Manufacturing Company	9,124,810	8,540,421
Astra Agricultural Company Ltd. - Republic of Yemen	3,344,566	2,588,712
Munir Sukhtian Group – Jordan	1,583,541	7,442,890
Societe Tabuk Algeri (E.U.R.L)	1,570,410	827,895
Arab Supply and Trading Company	-	590,285
AstraNova –Turkey	-	1,394,794
Other	2,528,561	332,546
	<u>42,845,677</u>	<u>43,438,589</u>

Due to related parties comprises of the following as of December 31:

	<u>2011</u>	<u>2010</u>
<u>Current:</u>		
Dr. Bahaa Al Din AbdIhamid	4,316,740	-
Nour Communications Company	2,725,590	305,138
Arab Supply and Trading Company	1,455,113	-
Others	2,469,620	238,679
	<u>10,967,063</u>	<u>543,817</u>
<u>Non-current:</u>		
Al Maseera International Company	181,283,516	124,617,206
Ali Shamara	37,500,000	35,625,000
	<u>218,783,516</u>	<u>160,242,206</u>

Non-current amounts above represent long term loans from the minority shareholders in Al-Tanmiya Company for Steel Manufacturing and Astra Energy Company (subsidiaries), to finance the construction of the steel factory and a power station. These balances are not scheduled for repayment during next twelve month.

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10) Property and equipment, net

	Lands	Buildings	Leasehold improvements	Machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Projects under construction	Total
Cost								
January 1, 2011	12,872,237	132,492,811	5,670,527	276,227,612	31,633,525	19,679,597	634,241,884	1,112,818,193
Additions	90,551	25,272,761	4,602,404	47,039,267	8,814,304	10,073,012	173,271,593	269,163,892
Disposals/transfers	(54,095)	(683,441)	(610,638)	(13,572,528)	(973,938)	(2,278,235)	(39,289,451)	(57,462,326)
December 31, 2011	12,908,693	157,082,131	9,662,293	309,694,351	39,473,891	27,474,374	768,224,026	1,324,519,759
Accumulated depreciation								
January 1, 2011	-	46,754,281	3,668,399	151,454,157	23,203,864	14,288,249	-	239,368,950
Charge for the year	-	4,500,775	747,014	17,090,867	2,112,208	3,355,144	-	27,806,008
Disposals	-	-	(610,638)	(11,532,757)	(827,349)	(2,004,149)	-	(14,974,893)
December 31, 2011	-	51,255,056	3,804,775	157,012,267	24,488,723	15,639,244	-	252,200,065
Net book value								
December 31, 2011	12,908,693	105,827,075	5,857,518	152,682,084	14,985,168	11,835,130	768,224,026	1,072,319,694
December 31, 2010	12,872,237	85,738,530	2,002,128	124,773,455	8,429,661	5,391,348	634,241,884	873,449,243

Some of the buildings and plant facilities of the Company's subsidiaries are constructed on land leased under various operating lease agreements at nominal annual rent under renewable operating leases.

The property and equipment also include an amount equal to Saudi Riyals 27.6 million related to commission on loans which was capitalized as part of property and equipment cost in accordance with the accounting standards applicable in the Kingdom of Saudi Arabia.

The Group is in the process of expanding and establishing new production facilities. Projects under construction at December 31, 2011 principally represent costs incurred on several expansion and new projects.

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11) Goodwill

	<u>2011</u>	<u>2010</u>
January 1	34,868,562	18,848,057
Additions	9,186,249	16,020,505
December 31	<u>44,054,811</u>	<u>34,868,562</u>

12) Other intangible assets, net

	<u>2011</u>	<u>2010</u>
Cost:		
January 1	1,433,230	3,919,083
Additions	2,801,124	178,905
Disposals	-	(2,664,758)
December 31	<u>4,234,354</u>	<u>1,433,230</u>
Accumulated amortization:		
January 1	521,512	466,402
Charge for the year	635,687	368,597
Disposals	-	(313,487)
December 31	<u>1,157,199</u>	<u>521,512</u>
Net book value:		
December 31	<u>3,077,155</u>	<u>911,718</u>

13) Short-term tawaroq loans

At December 31, 2011, the Group has number of bank facility agreements in the form of short-term Tawaroq loans with local banks to finance the Group companies' ongoing funding needs of which SR 520,658,175 million (2010: SR 488,306,618) was utilized as of December 31, 2011. The loans bear commission charges at prevailing market rates.

14) Notes payable

The Group was liable to various vendors for interest-free notes payable issued in the normal course of business amounting to SR 23,923,605 (December 31, 2010: SR 8,595,086).

15) Accrued and other current liabilities

	<u>2011</u>	<u>2010</u>
Employees' benefits	23,155,859	22,518,027
Sales commission	21,572,537	19,059,615
Professional fees	20,913,795	16,465,269
Employees' bonus and incentives	19,459,983	14,447,345
Accrued expenses	18,411,766	14,698,339
Operations costs	10,408,673	21,448,370
Advances from customers	9,188,942	17,264,115
Contractor retentions	7,052,929	2,073,394
Financial instruments hedging (Note 22)	6,160,635	-
Other	14,587,836	9,569,205
	<u>150,912,955</u>	<u>137,543,679</u>

16) Provision for zakat and income tax

16.1 Components of zakat base

The Group's Saudi Arabian subsidiaries file separate zakat and income tax declarations on an unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulation are principally comprised of equity, provisions at the beginning of year, Murabaha loans and estimated taxable income, less deductions for the net book value of property and equipment, investments and certain other items.

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16.2 Provision for zakat and income tax

Movement for the year ended December 31, 2011:	Zakat	Tax	Total
January 1	42,383,098	7,121,232	49,504,330
Provision for the year	12,934,427	4,684,078	17,618,505
Payments	(26,008,066)	(5,823,831)	(31,831,897)
December 31	29,309,459	5,981,479	35,290,938

Movement for the year ended December 31, 2010:	Zakat	Tax	Total
January 1	38,442,753	5,273,848	43,716,601
Provisions:			
For current year	32,352,866	5,741,505	38,094,371
Adjustments	(2,129,737)	(266,187)	(2,395,924)
Payments	(26,282,784)	(3,627,934)	(29,910,718)
December 31	42,383,098	7,121,232	49,504,330

16.3 Status of final assessments

The Company and its subsidiaries filed zakat/tax returns up to the year ended December 31, 2010. The following are the final zakat and tax assessments of the Subsidiaries that have been agreed with the DZIT up to December 31, 2011:

Name of subsidiary	Final zakat /tax assessments up to
Tabuk Pharmaceutical Manufacturing Company	2002
ASTRA Polymer Compounding Company Limited	2002
International Building Systems Factory Company Limited	2002
Astra Industrial Complex Ltd. for Fertilizers and Agrochemicals	2005

17) Murabaha loan

	2011	2010
Bank loan	-	140,625,000
Current maturity shown under current liabilities	-	(37,500,000)
Non-current portion	-	103,125,000

The Company obtained a murabaha loan amounting to Saudi Riyals 150 million to finance working capital requirements. The facility carries profit charges based on prevailing market rates. The murabaha loan was payable in sixteen equal quarterly annual installments which commenced on October 30, 2010. During 2011, the Group settled all outstanding amount of such murabaha loan.

18) Other liabilities

Other liabilities are principally related to purchase of assets during the year ending December 31, 2010 by the Group's subsidiary in Sudan from Sigma Tau International SA. Such balance is due after the year ending December 31, 2012.

19) End of service benefits

	2011	2010
January 1	51,160,192	48,072,253
Provisions	14,816,017	9,162,601
Payments	(6,825,082)	(6,074,662)
December 31	59,151,127	51,160,192

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20) Share capital

The share capital of the Company as of December 31 was comprised of 74,117,647 shares stated at SR 10 per share owned as follows:

Shareholders	Shareholding	
	2011	2010
Saudi founding shareholders	58.89%	58.89%
Non-Saudi founding shareholders	11.11%	11.11%
Public	30.00%	30.00%
	<u>100.00%</u>	<u>100.00%</u>

21) Statutory reserve

In accordance with the Regulations for Companies in Saudi Arabia and the Company's By-laws, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals at least 50% of the share capital. This reserve is not available for dividend distribution.

22) Derivative financial instruments

The fair value of derivative financial instruments (foreign exchange forward contract) together with the contract amounts is as follows:

	Notional amount	Negative fair value
December 31, 2011	<u>61,845,113</u>	<u>(6,160,635)</u>

23) Selling and marketing expenses

	2011	2010
Employees' salaries, bonus and other benefits	114,267,482	97,860,670
Marketing, advertising and promotions	48,003,138	42,734,365
Sales delivery	12,966,206	10,108,590
Registration	8,186,135	6,263,462
Travel and transportation	4,862,104	6,744,671
Medical samples	4,533,052	4,901,179
Freight charges	4,381,822	6,301,986
Provision for doubtful debts	4,088,937	3,999,800
Rent	3,737,470	2,563,738
Expired and damaged inventory	3,026,266	2,490,181
Depreciation	2,142,753	1,312,909
Utilities	1,944,029	1,714,259
Other	9,901,146	8,830,345
	<u>222,040,540</u>	<u>195,826,155</u>

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24) General and administrative expenses

	<u>2011</u>	<u>2010</u>
Employees' salaries and other benefits	80,419,064	57,791,830
Travel and transportation	13,296,140	11,594,061
Professional fees	10,449,593	6,939,390
Depreciation	6,526,364	4,424,947
Rent	5,106,974	3,954,562
Communications and office expenses	2,489,544	1,630,043
Utilities	2,007,701	1,053,118
Maintenance	1,912,668	798,514
Amortization	635,687	368,597
Other	8,331,617	14,113,756
	<u>131,175,352</u>	<u>102,668,818</u>

25) Sale of a subsidiary and related income

In February 2010, the Board of Directors approved the offer received for the sale of a subsidiary; Arabian Company for Comforts and Pillows ("ACCP"). The sale was further approved by the General Assembly in its meeting held on March 30, 2010. Accordingly, the subsidiary was sold during the year ended December 31, 2010. The Company sold its shareholding in ACCP based on December 31, 2009 balances in accordance with the underlying arrangement except for its investment in Astra Chem amounting to SR 3.99 million.

Following is the composition of the balance sheet as of December 31, 2009 and income statement for the year then ended of the ACCP and the calculation of gain on disposal:

Balance sheet

Assets:

Cash and cash equivalents	7,396,810
Accounts receivable	28,812,506
Inventories	30,341,945
Prepayments and other assets	2,383,785
Property and equipment	11,312,269

Liabilities:

Notes payable	(2,056,027)
Accounts payable	(1,111,709)
Accrued and other liabilities	(3,450,381)
Provision for zakat and income tax	(2,486,357)
Employees termination benefits	(4,972,077)

Net assets sold 66,170,764

Total consideration 95,007,693

Gain on sale 28,836,929

Income statement

Sales	70,033,450
Cost of sales	(50,658,091)
Gross profit	<u>19,375,359</u>

Selling and distribution expenses (1,898,132)

General and administrative expenses (6,966,941)

Operating income 10,510,286

Other income 5,065

Net income 10,515,351

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26) Other income, net

	<u>2011</u>	<u>2010</u>
Toll manufacturing fee	33,478,413	24,315,958
Income on Murabaha investments	15,335,666	34,417,767
Sale of scraped items	2,348,766	1,504,635
Royalty income	2,297,099	2,226,748
Other	7,968,941	2,075,234
	<u>61,428,885</u>	<u>64,540,342</u>

27) Acquisition of subsidiaries and related goodwill

During the year ended December 31, 2010, the Group acquired 100% of Constab Middle East Polymer A.S. ("CMEP"), through purchase of 100% of its shares for an amount of SR 26,907,644.

Following is the composition of the fair value, which approximates the book value, of net assets acquired and the goodwill arising on acquisition of CMEP:

Cash and cash equivalent	723,375
Accounts receivable	3,059,058
Inventories	2,703,425
Prepayments and other assets	996,427
Property and equipment	7,511,521
Intangible assets	49,948
Other assets	45,262
Bank loan	(1,928,373)
Accounts payable	(2,074,815)
Accrued and other liabilities	(108,255)
Provision for income tax	(90,434)
Net assets acquired	<u>10,887,139</u>
Total consideration paid	<u>26,907,644</u>
Goodwill	<u>16,020,505</u>

CMEP is located in European free trade zone in Corlu, Turkey. The main activity of the CMEP is production and sales of non-color master batch.

28) Earnings per share

Earnings per share for the years ended December 31, 2011 and 2010 have been computed by dividing the income from operations, non-operating income and net income for each year by weighted average number of shares outstanding during such years.

29) Segment information

The Group operates principally in the following major business segments:

- (i) Pharmaceuticals;
- (ii) Specialty Chemicals;
- (iii) Steel Industries; and
- (iv) Holding Company and other

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Selected financial information as at December 31, 2011 and 2010 and for the years then ended summarized by the above business segments was as follows:

2011	Pharmaceuticals	Specialty Chemicals	Power and Steel Industries	Holding Company and other	Total
Sales and projects revenue:					
- Local	350,076,156	359,454,184	295,540,729	-	1,005,071,069
- Export	194,867,439	160,774,465	21,275,575	-	376,917,479
- Total	544,943,595	520,228,649	316,816,304	-	1,381,988,548
Gross profit	331,618,445	161,122,270	61,573,296	-	554,314,011
Income (loss) from operations	97,973,321	91,055,787	16,061,355	(18,308,502)	186,781,961
Income from continuing operations	133,837,262	79,414,583	18,831,066	(212,843)	231,870,068
Amortization	313,583	322,104	-	-	635,687
Depreciation	10,287,744	9,699,829	6,726,083	1,092,352	27,806,008
Property and equipment Capital expenditures incurred	166,792,958	123,301,476	765,502,963	16,722,297	1,072,319,694
	65,124,023	94,969,914	99,527,161	9,542,794	269,163,892
2010	Pharmaceuticals	Specialty Chemicals	Power and Steel Industries	Holding Company and other	Total
Sales and projects revenue:					
- Local	311,206,078	295,130,865	171,404,717	-	777,741,660
- Export	139,721,838	151,824,454	51,172,323	-	342,718,615
- Total	450,927,916	446,955,319	222,577,040	-	1,120,460,275
Gross profit	280,861,291	143,318,535	60,878,016	-	485,057,842
Income (loss) from operations	83,710,085	84,612,015	25,023,831	(18,028,725)	175,317,206
Income from continuing operations	102,404,857	82,027,622	25,128,930	12,062,897	221,624,306
Amortization	368,597	-	-	-	368,597
Depreciation	17,969,849	6,508,398	5,529,656	596,007	30,603,910
Property and equipment Capital expenditures incurred	112,348,303	77,435,342	675,393,742	8,271,856	873,449,243
	29,600,336	16,319,934	245,865,857	8,157,636	299,943,763

The Group's operations are conducted principally in Saudi Arabia, in addition to Iraq and other countries. Selected financial information as of December 31 and for the years then ended summarized by geographic area, was as follows:

2011	Saudi Arabia	Iraq	Other countries	Total
Property and equipment	321,803,492	698,282,869	52,233,333	1,072,319,694
2010	Saudi Arabia	Iraq	Other countries	Total
Property and equipment	222,457,736	620,322,405	30,669,102	873,449,243

More than 70% of the Group's export sales are in the Middle East and North African (MENA) region.

Property and equipment in Iraq is owned by the Group through its two subsidiaries, Al Inma'a Company and Astra Energy LLC., in which it holds 51% and 76% interest.

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30) Dividends

The General Assembly approved in its meeting held on 26 Jumada Al-Awwal, 1432H (corresponding to April 30, 2011) the Company's Board of Directors' recommendation to distribute cash dividends amounting to SR 111,176,471 for the year ended December 31, 2010 of SR 1.5 for each outstanding share.

31) Contingencies and commitments

At December 31, 2011, the Group had contingent liabilities arising in the normal course of business, in respect of letters of guarantee, amounting to SR 145,723,440 (2010: SR 79,548,103) and letters of credit amounting to SR 109,531,037 (2010: SR 91,235,407).

The Group in the normal course of business has entered into arrangements with suppliers for the purchase of machines and equipment and other services. The capital commitments at December 31, 2011 are amounting to SR 53.1 million (2010: SR Nil).