

ASTRA INDUSTRIAL GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2012 AND
INDEPENDENT AUDITORS' REPORT

ASTRA INDUSTRIAL GROUP COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

February 24, 2013

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, 2012 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, 2012 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.

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

	Notes	As at December 31,	
		2012	2011
Assets			
Current assets			
Cash and cash equivalents	4	155,310,007	118,885,180
Murabaha investments		407,681,759	459,106,759
Accounts receivable, net	5	771,670,748	579,173,855
Due from related parties	9	45,889,308	42,845,677
Inventories, net	6	816,463,270	552,280,893
Prepayments and other assets	7	177,723,323	89,013,364
		<u>2,374,738,415</u>	<u>1,841,305,728</u>
Non-current assets			
Investment in unconsolidated subsidiaries and associates	8	1,996,201	1,590,634
Property, plant and equipment, net	10	1,159,913,122	1,072,319,694
Goodwill	11	44,054,811	44,054,811
Intangible assets, net	12	2,080,059	3,077,155
		<u>1,208,044,193</u>	<u>1,121,042,294</u>
Total assets		<u>3,582,782,608</u>	<u>2,962,348,022</u>
Liabilities			
Current liabilities			
Murabaha and tawaroq facilities	13	1,016,524,253	520,658,175
Notes payable	14	17,582,644	23,923,605
Accounts payable		149,303,400	103,546,603
Due to related parties	9	2,768,687	10,967,063
Accrued and other liabilities	15	158,560,316	158,206,712
Provision for zakat and income tax	16	30,532,513	35,290,938
		<u>1,375,271,813</u>	<u>852,593,096</u>
Non-current liabilities			
Due to related parties	9	286,136,136	218,783,516
End of service benefits	17	64,196,557	57,852,070
Total liabilities		<u>1,725,604,506</u>	<u>1,129,228,682</u>
Equity			
Shareholders of the Company:			
Share capital	1,18	741,176,470	741,176,470
Statutory reserve	19	406,568,677	406,568,677
Retained earnings		738,034,366	658,047,024
Foreign currency translation reserve		(43,366,363)	(8,605,373)
Changes in fair value of cash flow hedges	20	(84,240)	(6,160,635)
Total shareholders' equity		<u>1,842,328,910</u>	<u>1,791,026,163</u>
Minority interest		14,849,192	42,093,177
Total equity		<u>1,857,178,102</u>	<u>1,833,119,340</u>
Total liabilities and equity		<u>3,582,782,608</u>	<u>2,962,348,022</u>
Contingencies and commitments	27		

The notes on pages 6 to 20 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,	
		2012	2011
Revenues		1,496,329,255	1,381,988,548
Cost of revenues		(878,403,274)	(832,207,589)
Gross profit		617,925,981	549,780,959
Operating expenses			
Selling and marketing	21	(236,632,868)	(224,711,591)
General and administrative	22	(185,702,491)	(123,971,249)
Research and development		(10,369,541)	(14,316,158)
Income from main operations		185,221,081	186,781,961
Other income (expenses)			
Share in net income (loss) of unconsolidated subsidiaries and associates	8	405,567	(87,128)
Financial charges	13	(21,094,297)	(16,253,650)
Other, net	23	49,105,208	61,428,885
Income from continuing operations before minority interest		213,637,559	231,870,068
Minority interest		29,033,019	16,257,926
Net income for the year		242,670,578	248,127,994
Earnings per share:	24		
Income from main operations		2.50	2.52
Net income for the year		3.27	3.35

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

	Notes	Year ended December 31,	
		2012	2011
Cash flows from operating activities			
Net income for the year		242,670,578	248,127,994
<u>Adjustments for non-cash items</u>			
Depreciation	10	39,835,373	27,806,008
Amortization	12	714,376	635,687
Share in net (income) loss of unconsolidated subsidiaries and associates	8	(405,567)	87,128
Loss applicable to minority interest		(29,033,019)	(16,257,926)
<u>Changes in working capital</u>			
Accounts receivable, net		(192,496,893)	(74,875,258)
Inventories, net		(264,182,377)	(136,472,365)
Due from related parties		-	592,912
Prepayments and other current assets		(88,709,959)	(21,898,518)
Accounts payable		45,756,797	6,612,800
Accrued and other current liabilities		6,038,226	2,391,208
Due to related parties		-	10,423,246
Zakat and income tax paid	16	(35,935,779)	(31,831,897)
End of service benefits, net		6,344,487	7,990,935
Net cash (utilized in) generated from operating activities		(269,403,757)	23,331,954
Cash flows from investing activities			
Murabaha investments		51,425,000	292,574,480
Investment in unconsolidated subsidiaries and associates		-	(1,768,815)
Purchases of property, plant and equipment	10	(184,076,197)	(269,163,892)
Proceeds from disposal of property, plant and equipment, net		56,647,395	42,487,433
Intangible assets		282,720	(2,801,124)
Net cash (utilized in) generated from investing activities		(75,721,082)	61,328,082
Cash flows from financing activities			
Murabaha and tawaroq facilities		495,866,078	32,351,557
Murabaha loans		-	(140,625,000)
Notes payable		(6,340,961)	15,328,519
Due to related parties		56,110,613	58,541,310
Dividends paid	26	(129,314,106)	(111,176,471)
Board members' remuneration		(1,800,000)	(1,800,000)
Minority interest		1,789,032	(2,153,714)
Net cash generated from (utilized in) financing activities		416,310,656	(149,533,799)
Net change in cash and cash equivalents		71,185,817	(64,873,763)
Cash and cash equivalents at beginning of year		118,885,180	188,496,240
Foreign currency translation reserve		(34,760,990)	(4,737,297)
Cash and cash equivalents at end of year	4	155,310,007	118,885,180
Supplemental non-cash information -			
Provision for zakat and income tax charged to shareholders' equity	16	31,177,354	17,618,505
Changes in fair value of cash flow hedges	20	6,076,395	(6,160,635)

The notes on pages 6 to 20 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)

	Notes	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Changes in fair value of cash flow hedges	Total
January 1, 2012		741,176,470	406,568,677	658,047,024	(8,605,373)	(6,160,635)	1,791,026,163
Net income for the year		-	-	242,670,578	-	-	242,670,578
Dividends	26	-	-	(129,705,882)	-	-	(129,705,882)
Board members' remuneration		-	-	(1,800,000)	-	-	(1,800,000)
Currency translation difference of consolidated subsidiaries		-	-	-	(34,760,990)	-	(34,760,990)
Changes in fair value of cash flow hedges	20	-	-	-	-	6,076,395	6,076,395
Zakat and income tax	16	-	-	(31,177,354)	-	-	(31,177,354)
December 31, 2012		741,176,470	406,568,677	738,034,366	(43,366,363)	(84,240)	1,842,328,910
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	26	-	-	(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 hedges	20	-	-	-	-	(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

The notes on pages 6 to 20 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, 2012

(All amounts in Saudi Riyals unless otherwise stated)

1) General information

Astra Industrial Group Company (the "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 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 Company is a Saudi Joint Stock Company licensed under foreign investment license No. 030114989-01 issued in Riyadh by SAGIA and operating under commercial registration No. 1010069607 issued in Riyadh on 9 Muharram 1409H (August 22, 1988). The registered address of the Company is P.O. Box 1560, Riyadh 11441, Kingdom of Saudi Arabia. The shares of Astra Industrial Group Company were listed on the Saudi Stock Market ("Tadawul") on 17 Shabaan 1429H (August 18, 2008) through subscription of 30% of the Company's shares by the public.

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, 2012	
		Direct	Indirect
➤ Tabuk Pharmaceutical Manufacturing Company ("TPMC"). This company has the following subsidiaries:			
- Tabuk Pharmaceutical Research Company	Jordan	100	-
- Tabuk Pharmaceutical Company Limited	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:			
- 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:			
- 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	Jordan	50	-
- Astra Nova, Turkey	Turkey	67	-
➤ Al-Tanmiya Company for Steel Manufacturing. This company has the following fully owned subsidiary:			
- 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 land and marine areas beyond the scope of application of the mining investment law specified in Article No. 8 of the law.

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 Group 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.

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

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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 or a subsidiary 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 the consolidated income statement 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.

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, plant and equipment

Property, plant 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
Computer software	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.

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 its Saudi subsidiaries 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 consolidated 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 tax attributable to the foreign shareholders. Provisions for zakat and income tax 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 year 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 consolidated 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, 2012 and 2011.

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, 2012
(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, if any, and after eliminating sales within the Group. Royalty income is recognized on an accrual basis in accordance with the substance of agreements.

Contract revenues are recognized using the percentage of completion method. The percentage of completion is determined by comparison of contract cost incurred to date with the total estimated cost for the contract. Changes in cost estimates and losses on uncompleted contracts, if any, are recognized in the period they are determined. When it is probable that the total contract costs will exceed the total contract revenues, the expected loss is recognized immediately. Costs and estimated earnings in excess of billing, if any, are included in the current assets. However, billing in excess of costs incurred and estimated earnings, if any, are included in current liabilities.

2.21 Selling, marketing, general and administrative expenses

Selling, marketing, 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 cost of revenues, 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 2011 interim consolidated financial statements to conform with 2012 presentation:

- (i) For proper presentation, medical samples amounting to SR 4.53 million for the year ended December 31, 2011 have been reclassified as part of cost of revenues from selling and marketing expenses.
- (ii) Also, for proper presentation, certain balances included in non-current liabilities and end of service benefits at December 31, 2011 amounting to SR 5.99 million and SR 1.3 million, respectively, were reclassified as part of accrued and other current liabilities.

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 flows 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, investments in unconsolidated subsidiaries and associates, murabaha and tawaroq facilities, notes payable and accounts payable. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

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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, Turkish Lira, Euro, UAE Dirham, Jordanian Dinar and Sudanese Pound.

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, Turkish Lira, Jordanian Dinar and other. Such exposures are recorded as a separate component of shareholders' equity in the accompanying consolidated financial statements.

3.2 Fair value and cash flows 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 and tawaroq facilities 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. 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 except for revaluation of derivatives financial at fair value, 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>2012</u>	<u>2011</u>
Cash at banks	151,278,174	116,052,038
Cash in hand	4,031,833	2,833,142
	<u>155,310,007</u>	<u>118,885,180</u>

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5) Accounts receivable, net

	<u>2012</u>	<u>2011</u>
Accounts receivable - trade	760,159,573	570,471,915
Accrued revenue	39,263,106	29,132,763
	<u>799,422,679</u>	<u>599,604,678</u>
Less: Provision for doubtful debts	(27,751,931)	(20,430,823)
	<u>771,670,748</u>	<u>579,173,855</u>

6) Inventories, net

	<u>2012</u>	<u>2011</u>
Raw and packing materials	527,229,294	367,889,860
Finished goods	220,563,631	103,945,254
Work in process	32,468,031	33,691,499
Goods in transit	13,958,428	39,673,407
Spare parts and consumables (not held for sale)	49,189,589	24,877,855
	<u>843,408,973</u>	<u>570,077,875</u>
Less: Provision for obsolete and slow moving inventories	(26,945,703)	(17,796,982)
	<u>816,463,270</u>	<u>552,280,893</u>

7) Prepayments and other current assets

	<u>2012</u>	<u>2011</u>
Advances to suppliers	106,307,679	34,398,638
Prepaid expenses	37,754,925	23,516,041
Employees' receivables	16,855,506	13,643,241
Refundable deposits and insurance claims	4,890,346	7,329,967
Accrued murabaha income	2,867,716	2,120,497
Other	9,047,151	8,004,980
	<u>177,723,323</u>	<u>89,013,364</u>

8) Investment in unconsolidated subsidiaries and associates

	<u>Ownership interest</u>	
	<u>2012</u>	<u>2011</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>2012</u>	<u>2011</u>
January 1	1,590,634	9,095,196
Additions	-	134,889
Disposals / transfers	-	(7,552,323)
Share in net income (loss), net	405,567	(87,128)
December 31	<u>1,996,201</u>	<u>1,590,634</u>

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9) Related party transactions and balances

During the years 2012 and 2011, 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>2012</u>	<u>2011</u>
Sales	18,223,627	14,170,552
Purchases	6,852,580	12,196,524
Finance commission	11,939,921	8,505,341

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

	<u>2012</u>	<u>2011</u>
Al-Kendi Factory - Algeria	25,076,479	24,693,789
United Pharmaceutical Manufacturing Company	9,131,510	9,124,810
Astra Agricultural Company Ltd. - Republic of Yemen	5,466,005	3,344,566
Munir Sukhtian Group - Jordan	3,435,939	1,583,541
Societe Tabuk Algeri (E.U.R.L)	1,570,410	1,570,410
Other	1,208,965	2,528,561
	<u>45,889,308</u>	<u>42,845,677</u>

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

	<u>2012</u>	<u>2011</u>
<u>Current:</u>		
Nour Communications Company	436,365	2,725,590
Dr. Bahaa Al Din Abdulhamid	-	4,316,740
Arab Supply and Trading Company	-	1,455,113
Other	2,332,322	2,469,620
	<u>2,768,687</u>	<u>10,967,063</u>
<u>Non-current:</u>		
Al Maseera International Company	244,886,136	181,283,516
Mr. Ali Shamara	41,250,000	37,500,000
	<u>286,136,136</u>	<u>218,783,516</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, plant and equipment, net

	Land	Buildings	Leasehold improvements	Machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Computer software	Projects under construction	Total
Cost									
January 1, 2012	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
Additions	-	19,036,425	693,317	42,559,927	5,817,857	6,488,696	16,685,973	92,794,002	184,076,197
Disposals/transfers	-	(383,913)	(87,983)	(13,915,221)	(641,230)	(4,928,034)	-	(42,743,869)	(62,700,250)
December 31, 2012	12,908,693	175,734,643	10,267,627	338,339,057	44,650,518	29,035,036	16,685,973	818,274,159	1,445,895,706
Accumulated depreciation									
January 1, 2012	-	51,255,056	3,804,775	157,012,267	24,488,723	15,639,244	-	-	252,200,065
Charge for the year	-	5,330,988	1,276,974	20,988,744	4,523,471	4,153,045	3,562,151	-	39,835,373
Disposals	-	(371,728)	-	(3,308,965)	(622,085)	(1,750,076)	-	-	(6,052,854)
December 31, 2012	-	56,214,316	5,081,749	174,692,046	28,390,109	18,042,213	3,562,151	-	285,982,584
Net book value									
December 31, 2012	12,908,693	119,520,327	5,185,878	163,647,011	16,260,409	10,992,823	13,123,822	818,274,159	1,159,913,122
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

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.

Property, plant and equipment also include an amount equal to Saudi Riyals 39.5 million (2001: 27.6 million) related to commission on loans which was capitalized as part of property, plant 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, 2012 principally represent costs incurred on several expansion and new projects.

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11) Goodwill

	<u>2012</u>	<u>2011</u>
January 1	44,054,811	34,868,562
Additions	-	9,186,249
December 31	<u>44,054,811</u>	<u>44,054,811</u>

12) Intangible assets, net

	<u>2012</u>	<u>2011</u>
Cost:		
January 1	4,234,354	1,433,230
Additions	667,790	2,801,124
Disposals	(950,510)	-
December 31	<u>3,951,634</u>	<u>4,234,354</u>
Accumulated amortization:		
January 1	1,157,199	521,512
Charge for the year	714,376	635,687
December 31	<u>1,871,575</u>	<u>1,157,199</u>
Net book value:		
December 31	<u>2,080,059</u>	<u>3,077,155</u>

13) Murabaha and tawaroq facilities

The Group has bank facilities agreements in the form of murabaha, short-term tawaroq and other loans with local and foreign banks to finance the Group companies' ongoing funding needs of which SR 1,016.52 million was utilized as of December 31, 2012 (2011: SR 520.66 million) for murabaha and tawaroq facilities. The loans bear commission charges at prevailing market rates. These facilities are secured by corporate guarantees. The facilities agreements also contain covenants requiring maintenance of certain financial ratios and other matters. The carrying values of the murabaha and tawaroq facilities are denominated in Saudi Riyals, except an amount of approximately SR 18.98 million which is denominated in United States Dollars.

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 17,582,644 (December 31, 2011: SR 23,923,605).

15) Accrued and other current liabilities

	<u>2012</u>	<u>2011</u>
Accrued expenses	58,120,940	24,561,103
Employees' benefits	24,553,410	23,155,859
Employees' bonus and incentives	23,417,298	19,459,983
Sales commission	21,207,002	21,572,537
Professional fees	14,666,558	21,887,661
Operational costs	6,951,242	10,408,673
Advances from customers	5,629,744	9,188,942
Contractor retentions	99,800	7,052,929
Financial instruments hedging (Note 20)	84,240	6,160,635
Liabilities to purchase assets	-	5,994,700
Other	3,830,082	8,763,690
	<u>158,560,316</u>	<u>158,206,712</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

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are principally comprised of equity, provisions at the beginning of year and estimated taxable income, less deductions for the net book value of property, plant and equipment, investments and certain other items.

16.2 Provision for zakat and income tax

Movement for the year ended December 31, 2012:

	Zakat	Tax	Total
January 1	29,309,459	5,981,479	35,290,938
Provision for the year	23,783,913	7,393,441	31,177,354
Payments	(24,002,454)	(11,933,325)	(35,935,779)
December 31	<u>29,090,918</u>	<u>1,441,595</u>	<u>30,532,513</u>

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	<u>29,309,459</u>	<u>5,981,479</u>	<u>35,290,938</u>

16.3 Status of final assessments

The Company and its subsidiaries filed zakat/income tax returns for the years through December 31, 2011. The following are the final zakat and income tax assessments of the Company and its subsidiaries that have been agreed with the DZIT as at December 31, 2012:

<u>Name of subsidiary/company</u>	<u>Final zakat/ income tax assessments up to</u>
Astra Industrial Group Company	2004
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
Astra Mining Company Limited	Not yet issued
Al Bareq Pharmaceutical Manufacturing Factory Company	Not yet issued

17) End of service benefits

	2012	2011
January 1	57,852,070	51,160,192
Provisions	10,946,800	13,516,960
Payments	(4,602,313)	(6,825,082)
December 31	<u>64,196,557</u>	<u>57,852,070</u>

18) Share capital

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

Shareholders	Shareholding	
	2012	2011
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>

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19) 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.

20) 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, 2012	<u>2,722,390</u>	<u>(84,240)</u>
December 31, 2011	<u>61,845,113</u>	<u>(6,160,635)</u>

21) Selling and marketing expenses

	2012	2011
Employees' salaries, bonus and other benefits	119,660,171	114,267,482
Marketing, advertising and promotions	57,042,014	47,484,006
Distribution charges	12,627,045	17,348,028
Travel and transportation	9,506,282	6,707,733
Provision for doubtful debts	8,232,169	5,478,337
Rent	6,477,675	5,569,409
Expired and damaged inventory	3,126,269	3,026,266
Registration	2,514,774	8,186,135
Depreciation	2,835,193	3,076,498
Utilities	1,723,134	1,944,029
Other	12,888,142	11,623,668
	<u>236,632,868</u>	<u>224,711,591</u>

22) General and administrative expenses

	2012	2011
Employees' salaries, bonus and other benefits	100,400,540	80,419,064
Professional fees	29,432,948	10,449,593
Travel and transportation	18,053,406	9,042,072
Rent	6,642,400	3,512,818
Depreciation	6,289,833	6,278,127
Utilities	4,490,911	2,007,701
Maintenance	2,956,243	2,261,586
Communications and office expenses	2,231,596	1,590,497
Amortization	375,711	313,583
Other	14,828,903	8,096,208
	<u>185,702,491</u>	<u>123,971,249</u>

23) Other income, net

	2012	2011
Toll manufacturing fee	28,940,554	33,478,413
Income on Murabaha investments	11,865,816	15,335,666
Investment income	5,343,241	-
Royalty income	3,217,811	2,297,099
Sale of scrapped items	1,939,477	2,348,766
Foreign exchange (loss) gain	(8,436,954)	2,685,212
Other, net	6,235,263	5,283,729
	<u>49,105,208</u>	<u>61,428,885</u>

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24) Earnings per share

Earnings per share for the years ended December 31, 2012 and 2011 have been computed by dividing the income from main operations and net income for each year by weighted average number of shares outstanding during such years.

25) 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

Selected financial information as at December 31, 2012 and 2011 and for the years then ended summarized by the above business segments was as follows:

2012	Pharmaceuticals	Specialty Chemicals	Power and Steel Industries	Holding Company and other	Total
Sales and projects revenue:					
– Local	438,483,133	370,954,354	231,925,858	-	1,041,363,345
– Export	217,461,935	175,879,653	61,624,322	-	454,965,910
– Total	<u>655,945,068</u>	<u>546,834,007</u>	<u>293,550,180</u>	<u>-</u>	<u>1,496,329,255</u>
Gross profit	407,318,177	147,621,270	62,986,534	-	617,925,981
Income (loss) from main operations	149,500,068	67,953,018	(8,358,834)	(23,873,171)	185,221,081
Income (loss) from continuing operations before minority interest	172,147,061	60,465,598	(8,052,036)	(10,923,064)	213,637,559
Depreciation	14,841,388	13,279,299	6,799,877	4,914,809	39,835,373
Amortization	375,711	338,665	-	-	714,376
Property, plant and equipment, net	180,991,036	156,130,008	805,013,893	17,778,185	1,159,913,122
Capital expenditures	41,435,956	77,139,332	47,434,314	18,066,595	184,076,197
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	<u>544,943,595</u>	<u>520,228,649</u>	<u>316,816,304</u>	<u>-</u>	<u>1,381,988,548</u>
Gross profit	327,085,393	161,122,270	61,573,296	-	549,780,959
Income (loss) from main operations	97,973,321	91,055,787	16,061,355	(18,308,502)	186,781,961
Income (loss) from continuing operations before minority interest	133,837,262	79,414,583	18,831,066	(212,843)	231,870,068
Depreciation	10,287,744	9,699,829	6,726,083	1,092,352	27,806,008
Amortization	313,583	322,104	-	-	635,687
Property, plant and equipment, net	166,792,958	123,301,476	765,502,963	16,722,297	1,072,319,694
Capital expenditures	65,124,023	94,969,914	99,527,161	9,542,794	269,163,892

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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:

<u>2012</u>	<u>Saudi Arabia</u>	<u>Iraq</u>	<u>Other countries</u>	<u>Total</u>
Property, plant and equipment	<u>385,820,303</u>	<u>718,194,196</u>	<u>55,898,623</u>	<u>1,159,913,122</u>

2011

Property, plant and equipment	<u>321,803,492</u>	<u>698,282,869</u>	<u>52,233,333</u>	<u>1,072,319,694</u>
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More than 70% of the Group's export sales are in the Middle East and North African (MENA) region.

Property, plant 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.

26) Dividends

The General Assembly of the shareholders approved in its meeting held on 7 Rajab 1433H (corresponding to May 28, 2012) the Company's Board of Directors' recommendation to distribute cash dividends amounting to SR 129,705,882 for the year ended December 31, 2011 being SR 1.75 for each outstanding share.

27) Contingencies and commitments

At December 31, 2012, the Group had contingent liabilities arising in the normal course of business, in respect of letters of guarantee, amounting to SR 115,559,342 (2011: SR 145,723,440) and letters of credit amounting to SR 64,039,485 (2011: SR 109,531,037).

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, 2012 are amounting to SR 52.46 million (2011: SR 53.1 million).