

**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
(Closed Joint Stock Company)  
**CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended September 30, 2014  
with  
**INDEPENDENT AUDITORS' REPORT**



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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Al Yamamah Steel Industries Company ("the Company") and its subsidiary (collectively referred to as "the Group") which comprise the consolidated balance sheet as at September 30, 2014 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 27 which form an integral part of these consolidated financial statements.

### *Management's responsibility for the financial statements*

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

### *Auditors' responsibility*

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

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

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

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



***Opinion***

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

- 1) present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2014, and the consolidated results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Bylaws with respect to the preparation and presentation of the financial statements.

**For KPMG Al Fozan & Al Sadhan:**

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Ebrahim Oboud Baeshen  
License No. 382

Jeddah, Muharram 20, 1436H  
Corresponding to November 13, 2014

# AL YAMAMAH STEEL INDUSTRIES COMPANY

(A closed Joint Stock Company)

## CONSOLIDATED BALANCE SHEET

As at September 30, 2014

Expressed in Saudi Riyals

	Notes	2014	2013
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalent	4	28,214,910	40,348,574
Trade receivables	5	310,302,869	221,896,886
Inventories	6	511,015,955	547,565,050
Due from related Parties	24	--	58,175,587
Prepayments and other current assets	7	29,217,852	33,860,847
Total current assets		878,751,586	901,846,944
Non-current assets:			
Available for sale investments	8	62,642	42,364
Deferred costs	9	6,516,218	10,326,116
Property, plant and equipment	10	479,400,653	448,963,207
Total non-current assets		485,979,513	459,331,687
Total assets		1,364,731,099	1,361,178,631
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term bank loans	11-A	462,805,294	499,695,211
Current portion of long-term bank loans	11-B	47,570,305	68,807,169
Trade payables		44,896,201	36,958,665
Provisions	12	5,482,980	--
Zakat provision	18	12,277,992	9,460,887
Accrued expenses and other current liabilities	13	39,807,519	38,285,550
Total current liabilities		612,840,291	653,207,482
Non-current liabilities:			
Long-term bank loans	11-B	23,020,000	57,286,571
Employees' end of service benefits	14	17,629,702	13,730,970
Total non-current liabilities		40,649,702	71,017,541
Total liabilities		653,489,993	724,225,023
<b>SHAREHOLDERS' EQUITY</b>			
Equity attributable to Company's shareholders:			
Share capital	15	508,000,000	508 000 000

**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
(A closed Joint Stock Company)  
**CONSOLIDATED BALANCE SHEET (Continued)**  
As at September 30, 2014  
Expressed in Saudi Riyals

	Notes	2014	2013
Statutory reserve	16	19,599,960	6,406,663
Net changes in fair value of available for sale investments		36,642	16,364
Retained earnings		68,337,978	16,654,304
Total equity attributable to Company's shareholders		595,974,580	531,077,331
Non-controlling interest		115,266,526	105,876,277
Total equity		711,241,106	636,953,608
Total liabilities and equity		1,364,731,099	1,361,178,631

The accompanying notes 1 through 27 form an integral part of these consolidated financial statements.

# AL YAMAMAH STEEL INDUSTRIES COMPANY

(A closed Joint Stock Company)

## CONSOLIDATED STATEMENT OF INCOME

For the year ended September 30, 2014

Expressed in Saudi Riyals

	Note	2014	2013
Net sales		2,011,739,781	1,775,264,303
Costs of sales		(1,766,688,169)	(1,554,978,775)
Gross profit		245,051,612	220,285,528
Selling and distribution expenses	20	(25,859,310)	(24,390,914)
General and administrative expenses	21	(39,524,055)	(40,146,057)
Income from operations		179,668,247	155,748,557
Other income	22	3,428,734	454,331
Financial charges		(17,756,137)	(20,424,860)
Net income before Zakat and non-controlling interests		165,340,844	135,778,028
Zakat	18	(11,642,624)	(8,670,851)
Net income before non-controlling interests		153,698,220	127,107,177
Non-controlling interests		(21,765,249)	21,452,783))
Net income		131,932,971	105,654,394
Earnings per share from:	19		
Income from operations		3.54	3.07
Other income		0.07	0.01
Net income		2.60	2.08

The accompanying notes 1 through 27 form an integral part of these consolidated financial statements.

**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
(A closed Joint Stock Company)  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended September 30, 2014  
Expressed in Saudi Riyals

	Notes	2014	2013
Operating activities			
Net income before Zakat and non-controlling interests		131,932,971	105,654,394
Adjustments to reconcile net income to cash flows provided by operating activities:			
Depreciation	10	38,346,006	35,456,001
Gains on sale of property, plant and equipment	22	(110,834)	(97,535)
Provision for doubtful debts – formed during the year	5	2,347,784	1,070,994
Provision for slow moving inventory	6	1,500,000	303,899
Transfer of projects under construction to expenses	10	1,040,000	--
Projects under construction written off	10	478,250	--
Amortization of deferred costs	9	3,809,898	6,436,108
Financial charges		17,756,137	20,424,860
Provisions formed during the year	12	5,482,980	--
Zakat charge for the year	18	11,642,624	8,670,851
Share of non-controlling interests in net income		21,765,249	21,452,783
Provision for employee's end of service benefits charge of the year	14	4,797,877	3,606,152
		240,788,942	202,978,507
Changes in operating assets and liabilities:			
Trade receivables		(90,753,767)	9,314,194
Inventories		35,049,095	(10,406,213)
Due from related parties		58,175,587	38,783,725
Prepayments and other current assets		4,642,995	(16,643,463)
Trade payables		7,937,536	19,340,804
Accrued expenses and other current liabilities		1,521,969	9,037,010
Zakat paid	18	(8,825,519)	(6,114,716)
Employees' end of service benefits paid	14	(899,145)	(1,039,031)
Net cash flow provided by operating activities		247,637,693	245,250,817
Investing activities			
Purchase of property, plant and equipment	10	(70,311,410)	(23,844,614)
Additions to deferred costs	9	--	(5,625,134)
Proceeds from sale of property, plant and equipment		120,542	102,249

**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
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**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**  
For the year ended September 30, 2014  
Expressed in Saudi Riyals

	Notes	2014	2013
Net cash flows used in investing activities		(70,190,868)	(29,367,499)
Financing activities			
Net movement in short-term Loans		(36,889,917)	(119,846,222)
Net movement in long-term Loans		(55,503,435)	(19,698,165)
Financial charges paid		(17,756,137)	(20,424,860)
Dividends paid		(79,431,000)	(40,640,001)
Net cash flows used in financing activities		(189,580,489)	(200,609,248)
Change in cash and cash equivalents		(12,133,664)	15,274,070
Cash and cash equivalents at the beginning of the year		40,348,574	25,074,504
Cash and cash equivalents at the end of the year	4	28,214,910	40,348,574

The accompanying notes 1 through 27 form an integral part of these consolidated financial statements.



**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
(A closed Joint Stock Company)  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended September 30, 2014  
Expressed in Saudi Riyals

	Total equity attributable to the Company's shareholders						
	Capital	Statutory reserve	Change in fair value of available for sale investments	Retained earnings	Total	Non-controlling interests	Total shareholders' equity
Balance at October 1, 2012	508,000,000	40,629	--	(41,994,055)	466,046,574	84,423,494	550,470,068
Net income for the year	--	--	--	105,654,394	105,654,394	21,452,783	127,107,177
Transferred to statutory reserve	--	6,366,034	--	(6,366,034)	--		
Changes in fair value of available for sale investments	--	--	16,364	--	16,364	--	16,364
Dividends paid	--	--	--	(40,640,001)	(40,640,001)	--	(40,640,001)
Balance at September 30, 2013	508,000,000	6,406,663	16,364	16,654,304	531,077,331	105,876,277	636,953,608
Net income for the year	--	--	--	131,932,971	131,932,971	21,765,249	153,698,220
Transferred to statutory reserve	--	13,193,297	--	(13,193,297)	--	--	--
Changes in fair value of available for sale investments	--	--	20,278	--	20,278	--	20,278
Dividends paid	--	--	--	(67,056,000)	(67,056,000)	--	--
Share of non-controlling interests in dividends paid by the subsidiary	--	--	--	--	--	(12,375,000)	(12,375,000)
Balance at September 30, 2014	508,000,000	19,599,960	36,642	68,337,978	595,974,580	115,266,526	711,241,106

The accompanying notes 1 through 27 form an integral part of these consolidated financial statements.

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

For the year ended 30 September 2014

Expressed in Saudi Riyals

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

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

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

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

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

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

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

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

On 13/03/1435H, corresponding to January 14, 2014, the shareholders of the subsidiary resolved to convert Al Yamamah company for Reinforcing steel bars from a limited liability company to closed joint stock company. The approval was obtained from the Minister of Trade on 13/03/1435H, corresponding to 14/01/2014, as per the Ministerial Decree No. (205) dated 25/08/1435H, corresponding to 23/06/2014, to change the Company from a limited liability company to a closed joint stock company.

**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (continued)**

The Company's registered Office is located in:

Al Yamamah Steel Industries Company

Riyadh 11534

P.O. Box. 55303

Kingdom of Saudi Arabia

**2. BASIS OF PREPARATION**

**(d) Statement of compliance**

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

**(e) Basis of measurement**

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

**(f) Basis of consolidation**

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

**Subsidiary**

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

**Non-controlling interest**

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

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

**(g) Functional and presentation currency**

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

**(h) Use of estimates and judgments**

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

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

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

- **Impairment of accounts receivable**

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

- **Provision for slow moving inventories**

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

- **Useful lives of property, Plant and equipment**

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
(A closed Joint Stock Company)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. BASIS OF PREPARATION (continued)**

**(d) Use of estimates and judgments (continued)**

- **Impairment of non-financial assets**

Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-current assets and that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income.

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

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

**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
(A closed Joint Stock Company)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 September 2014  
**Expressed in Saudi Riyals**

### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

#### **(a) Cash and cash equivalents**

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

#### **(b) Trade receivable**

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

#### **(c) Inventories**

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value comprises estimated selling price in the ordinary course of business, less further production costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

#### **(d) Available for sale investments**

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

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

For the year ended 30 September 2014

Expressed in Saudi Riyals

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Deferred costs**

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

**(f) Property, plant and equipment**

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

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

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

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

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

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

**(g) Accounts payable and accruals**

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

**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) Borrowings**

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

**(i) Provisions**

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

**(j) Employees' end of service benefits**

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

**(k) Revenue recognition**

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

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

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

**Sale of goods**

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

**Contract revenues**

Contract revenues are recognized on percentage of completion method for each contract, which is determined using output measures (surveys of work performed or physical completed portion of the contract work) or alternatively applying the input measure (the proportion of costs incurred to date to the total estimated contract cost). The cost of contract includes the cost and general administrative expenses that are directly attributable to the contract from the date of securing the contract to its final completion. Borrowing costs directly attributable to the construction of a qualifying asset are capitalized and included as contract costs. 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.



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Expenses**

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

**(m) Zakat**

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

**(n) Dividends**

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

**(o) Segment reporting**

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

**(p) Statutory reserve**

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

**(q) Contingent liabilities and contingent assets**

**i) Contingent liabilities**

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

**ii) Contingent assets**

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

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**4. CASH AND CASH EQUIVALENTS**

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

	2014	2013
Cash on hand	213,271	95,996
Cash at banks - current accounts	21,636,602	39,187,934
Checks under collection	6,365,037	1,064,644
	28,214,910	40,348,574

**5. TRADE RECEIVABLES**

Trade receivables as of September 30 comprise the following:

	Note	2014	2013
Trade customers		158,856,888	121,479,181
Trade customers - related parties	24	154,116,039	101,488,699
		312,972,927	222,967,880
Less: provision for doubtful debts	5-1	(2,670,058)	(1,070,994)
		310,302,869	221,896,886

**5-1 Movement in provision for doubtful debts during the year is analyzed as follows:**

	2014	2013
Balance at the beginning of the year	1,070,994	--
Provision formed during the year	2,347,784	1,070,994
Provision utilized during the year	(748,720)	--
Balance at the end of the year	2,670,058	1,070,994

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**6. INVENTORIES**

Inventories as of September 30 comprise the following:

	Note	2014	2013
Raw materials		329,987,761	362,370,850
Finished goods		105,172,053	107,225,801
Spare parts		50,334,530	49,017,025
Work in progress		16,434,184	14,709,475
Goods in transit		10,587,427	15,009,540
		512,515,955	548,332,691
Less: provision for slow moving inventory	6-1	(1,500,000)	(767,641)
		511,015,955	547,565,050

**6-1 Movement in provision for slow moving inventory during the year was as follows:**

	2014	2013
Balance at the beginning of the year	767,641	463,742
Provision formed during the year	1,500,000	303,899
Provision utilized during the year	(767,641)	--
Balance at the end of the year	1,500,000	767,641

**7. PREPAYMENTS AND OTHER CURRENT ASSESTS**

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

	2014	2013
Advances to suppliers	20,667,623	26,618,616
Prepaid medical insurance	6,082,852	4,839,682
Staff advances	2,123,377	1,827,536
Others	344,000	575,013
	29,217,852	33,860,847

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**8. AVAILABLE FOR SALE INVESTMENTS**

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

	Cost	Change in fair value	2014	2013
Arabian Pipelines Company	26,000	36,642	62,642	42,364

**9. DEFERRED COSTS - NET**

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

	Note	2014	2013
Cost:			
Cost at the beginning and end of the year		43,930,285	38,305,151
Additions during the year		--	5,625,134
		43,930,285	43,930,285
Accumulated amortization:			
Balance at the beginning of the year		(33,604,169)	(27,168,061)
Amortization for the year	21	(3,809,898)	(6,436,108)
Balance at the end of the year		(37,414,067)	(33,604,169)
Net book value		6,516,218	10,326,116

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

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**10. PROPERTY, PLANT AND EQUIPMENT**

a) The movement in property, plant and equipment during the year ended September 30, 2014 is as follows:

	Lands	Buildings	Plant & machinery	Vehicles	Furniture & office equipment	Computers & softwares & electronic equipment	Equipment & tools	Capital work in progress	Total
Cost:									
Balance at October 1, 2013	13,264,725	223,330,715	355,240,820	4,983,160	3,756,377	13,062,411	9,773,297	22,153,893	645,565,398
Additions	--	15,250	5,228,717	227,650	227,138	428,646	504,946	63,679,063	70,311,410
Disposals	--	--	--	(607,650)	(964)	(3,399)	--	(7,100)	(619,113)
Transferred from Capital work in progress	--	15,338,666	17,843,102	195,000	--	--	--	(33,376,768)	--
Transferred to expenses	--	--	--	--	--	--	--	(1,040,000)	(1,040,000)
Capital work in progress written-off	--	--	--	--	--	--	--	(478,250)	(478,250)
Balance at September 30, 2014	13,264,725	238,684,631	378,312,639	4,798,160	3,982,551	13,487,658	10,278,243	50,930,838	713,739,445
Accumulated depreciation:									
Balance at October 1, 2013	--	43,421,232	135,345,555	3,334,413	3,184,968	7,376,425	3,939,598	--	196,602,191
Depreciation charge of the year	--	9,034,278	25,534,351	530,624	267,530	2,115,912	863,311	--	38,346,006
Disposals	--	--	--	(606,421)	(772)	(2,212)	--	--	(609,405)
Balance at September 30, 2014	--	52,455,510	160,879,906	3,258,616	3,451,726	9,490,125	4,802,909	--	234,338,792
Net book value:									
At September 30, 2014	13,264,725	186,229,121	217,432,733	1,539,544	530,825	3,997,533	5,475,334	50,930,838	479,400,653
At September 30, 2013	13,264,725	179,909,483	219,895,265	1,648,747	571,409	5,685,986	5,833,699	22,153,893	448,963,207

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**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

	Note	2014	2013
Cost of sales		34,814,563	31,998,041
Selling and distribution expenses	20	174,371	177,224
General and administrative expenses	21	3,357,072	3,280,736
		<b>38,346,006</b>	<b>35,456,001</b>

- c) Property, plant and equipment includes property and equipment mortgaged to Saudi Industrial Development Fund (SIDF) related to the Company's branch, Al Yamamah Electric Poles and its accessories Factory (branch of the company), with a NBV as at September 30, 2014 amounted to SR 59 million ( September 30, 2013: SR 32 million). The company has repaid the loan in full and obtained an additional one from SIDF to finance the expansion of the factory on October 3, 2013.
- d) The factory's buildings of the subsidiary with NBV of SR 101 million as at September 30, 2014 (2013: SR 107 million) that are established or will be established on the factory's land along with all its machinery, plant and equipment along with everything that will be obtained later for the project are pledged to SIDF as a collateral for loans.
- e) The factory's buildings of the subsidiary with NBV of SR 126 million as at September 30, 2014 (2013: SR 125 million) are established on a piece of land leased from the Royal Commission for Yanbu for 35 years, started on Rabie Al Thani 5, 1427 H, for a nominal annual lease. The lease is renewable for a similar period with similar and other terms as agreed between the parties.
- f) The Company's buildings with NBV SR 186 million as at September 30, 2014 (2013: SR 179 million) are established on a piece of land leased from the Saudi Authority for Industrial Cities and Technical Areas (MODON) for 20 years, started on Shawal 29, 1429 H, for a nominal annual lease, The lease is renewable for a similar period with similar and other terms as agreed between the parties, except for the poles and towers factories as they are established on a land owned by the company.
- g) Capital work in progress is represented in the following projects:

	2014	2013
Steel blocks	2,571,968	2,571,968
Pipelines Production Factory project-Dammam	25,333,351	6,076,485
Administration building and workers residence project	3,830,722	978,234
Pipe Factory Expansion Project	14,800,170	1,614,779
Poles Factory Expansion Project	889,954	10,638,162
Expansion of Electric Tower Factory	3,504,673	--
Water Cooling Tower Project	--	274,265
	<b>50,930,838</b>	<b>22,153,893</b>

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**11. BANK FACILITIES**

**(r) Short-term bank loans**

Short-term loans represents outstanding amounts of overdraft and short term loans facilities with commercial banks to finance the working capital of the companies of the Group,

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

	2014	2013
Arab National Bank	260,820,265	363,735,928
Saudi Fransi Bank	175,717,256	119,900,000
Al Rajhi Bank	26,267,773	16,059,283
	462,805,294	499,695,211

**(s) Long-term bank loans**

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

	2014	2013
Arab National Bank	30,000,000	63,286,571
Saudi Fransi Bank	27,070,305	22,807,169
The Saudi Industrial Development Fund*	13,520,000	40,000,000
	70,590,305	126,093,740

Long- term loans were presented in consolidated balance sheet as follows:

	2014	2013
Current portion under current liabilities	47,570,305	68,807,169
Non- current portion under non- current liabilities	23,020,000	57,286,571
	70,590,305	126,093,740

The short and long-term loans are guaranteed by a promissory note issued by the parent company, these loans bear a commission according to the prevailing commercial rate and are due on quarterly instalments. Loan agreements include covenants that state, among other terms, restrictions on decreasing the capital and providing any funds or guarantees.

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**11. BANK FACILITIES (continued)**

**SIDF loans**

The parent company has obtained a long term loan from SIDF with an amount of SR 16,9 million to finance the expansion of Electric Poles factory, to be paid over semi-annual installments starting Shawal 15, 1436 H correspondent to July 31, 2015 and ends on Rabe' Al Thani 15, 1442 correspondent to November 30, 2020. This loan is guaranteed by pledging the building of the factory and all properties that are established or will be established on the land along with any other thing that will be obtained in the future for the project. The agreement includes covenants, among which, the company is required to maintain specific financial ratios.

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

**12. PROVISIONS**

Movement in provision during the year was as follows:

	2014	2013
Provision formed during the year	5,482,980	--
Balance at the end of the year	5,482,980	--

According to the claim received by the subsidiary from the Electricity and Water Utilities Company in Yanbu and Jubail (MARAFIQ) for the differences between the quantities for consumption of the water and electricity agreed on between MARAFIQ and the subsidiary and the actual quantities consumed by the subsidiary (Note 23 – A), the subsidiary has calculated and created a provision for the differences between the quantities of water and electricity agreed on between MARAFIQ and the subsidiary and the actual quantities consumed by the subsidiary for the period from January 1, 2014 and up to the date of the balance sheet to meet any future claims related to that period.



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**13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expense and other current liabilities comprise of the following:

	2014	2013
Accrued expenses	21,498,403	18,197,711
Accrued staff incentives	8,003,971	8,861,161
Accrued financial charges	2,673,991	2,941,906
Advances from customers	6,483,620	6,959,675
Other credit balances	1,147,534	1,325,097
	39,807,519	38,285,550

**14. EMPLOYEES' END OF SERVICES BENEFITS**

Movement in the employees' end of service benefits during the year was as follows:

	2014	2013
Balance at the beginning of the year	13,730,970	11,163,849
Provision during the year	4,797,877	3,606,152
Payments during the year	(899,145)	(1,039,031)
Balance at the end of the year	17,629,702	13,730,970

**15. SHARECAPITAL**

As at September 30, 2014, the subscribed and fully paid-up capital of the Company was SR 508 million (September 30, 2013: SR 508 million) divided into 50.8 million shares (September 30, 2013: 50.8 million shares) of 10 SR each (September 30, 2013: SR 10) owned as follows:

Shareholders	No. of shares	%	Amount
Rashid Abdel Rahman Al Rashid	12.288.816	24.19	122.888.160
Abdul Kader Al Mehdb and Sons	12.288.816	24.19	122.888.160
Al Muhanna Trading Company	12.288.816	24.19	122.888.160
Al Majel Trading and Contracting Company	8.056.002	15.86	80.560.020
Mr. Abdul Karim Hamad Al Majel	4.232.815	8.33	42.328.150
Mr. Riad Bin Abdullah Bin Rashed	1.644.735	3.24	16.447.350
<b>Total</b>	<b>50,800,000</b>	<b>100%</b>	<b>508,000,000</b>

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**16. STATUTORY RESERVE**

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

**17. DIVIDENDS**

The extra ordinary general assembly of the shareholders approved on 3/04/ 1435 H, corresponding to February 3, 2014, the distribution of dividends for the financial year ended September 30, 2013 with an amount of SR 0.32 per share, representing 0.03% of the nominal value of the share with a total amount of SR 16.3 million, and the general assembly of the shareholders has approved these dividends on their meeting on Safar 24, 1436H, corresponding to December 16, 2014. Accordingly, the total dividends for the financial year 2014 amounted to approximately SR 114.2 million representing 22.5% of the share capital and SR 2.25 per share.

In addition, the board of directors approved on their meeting number (9/2) dated 6/07/2435 H correspondent to May 5, 2014 to distribute interim dividends for the six months results of the financial year ended September 30, 2014 with an amount of SR 1.0 per share, representing 10% of the nominal value of the share with a total amount of SR 50.8 million.

**18. ZAKAT**

**(a) Charge for the year**

The company and its subsidiaries submit its Zakat returns separately on a non-consolidated basis using the equity method. The significant components of Zakat base represented in the opening balance of equity and provisions and the adjusted net income, less the net book value of property, plant and equipment, investments and some other items. In case the Zakat base is negative, there would not be any accrued Zakat payable for the year.

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

	2014	2013
For current year	11,642,624	8.670.851

**(b) Zakat provision**

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

	2014	2013
Balance at the beginning of the year	9,460,887	6.904.752
Add: Charge for the year	11,642,624	8.670.851
Less: Payments during the year	(8,825,519)	(6.114.716)
Balance at the end of the year	12,277,992	9.460.887

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**18. ZAKAT (continued)**

**(c) Status of assessments**

**Al Yamamah Steel Industries Company**

The company filed its Zakat returns for the period from the date of inception until the year ended September 30, 2013 and paid the zakat due and obtained a certificate valid until January 30, 2015. The company received zakat assessments from DZIT until September 30, 2007, and paid all additional liabilities to DZIT.

The company has received its Zakat assessments for the years from 2008 to 2011, where DZIT claimed additional zakat differences amounting to SR 9,9 million. The Company objected against these assessments at the Preliminary Appeal Committee, and provided a letter of guarantee to the DZIT against the amount of zakat differences claimed and no decision was received yet, However, the Company's management believes that the decision will be in its favor.

**Al Yamamah Company for Reinforcing Steel Bars**

The Company finalized its zakat for the period from the date of inception until September 30, 2013 and paid all zakat due according to these zakat returns and obtained a valid zakat until June 30, 2015

**19. EARNING PER SHARE**

Earnings per share from operating income, income from operation, other income and net income for the year ended September 30, 2014 are calculated based on average outstanding number of shares during the period amounting to 50.8 million shares (2013: 50.8 million shares).

**20. SELLING AND DISTRIBUTION EXPNESES**

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

	Note	2014	2013
Transportation expenses		18,569,573	17,238,727
Salaries, wages and related benefits		5,363,260	5,262,005
Advertising and marketing		1,402,467	1,387,963
Depreciation	10	174,371	177,224
Rent		50,688	55,837
Others		298,951	269,158
		25,859,310	24,390,914

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**21. GENERAL AND ADMINISTRATION EXPNESES**

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

	Note	2014	2013
Salaries, wages and related benefits		24,534,341	24,390,571
Deferred costs amortization	9	3,809,898	6,436,108
Depreciation	10	3,357,072	3,280,736
Professional and consulting fees		632,634	597,450
Software and computer support expenses		1,476,575	1,619,272
Traveling expenses		677,981	588,142
Telephone and post		624,593	577,145
Rent		190,591	251,688
Repair and maintenances		216,494	151,260
Stationery and printing		179,682	148,356
Advertising and marketing		245,476	134,173
Provision for doubtful debts		2,347,784	1,070,994
Others		1,230,934	900,162
		39,524,055	40,146,057

**22. OTHER INCOME**

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

	2014	2013
Human resources support fund	2,725,825	--
Gains on sale of property, plant and equipment	110,834	97,535
Others	592,075	356,796
	3,428,734	454,331

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**23. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

- a) The subsidiary received a claim from Water and Electricity Utilities Company in Yanbu and Jubail (MARAFIQ) with an amount of SR 40,364,269 related to the differences between the quantities of Water and Electricity agreed on between the subsidiary and MARAFIQ and the actual quantities consumed for the years 2012 and 2013. Currently, the claim is being reviewed against the contract between the subsidiary and MARAFIQ. The shareholders in the subsidiary assured that they will be personally responsible to pay in cash for any liabilities resulting from this claim in the future, each according to his share in the share capital, in addition, the shareholders of the Company confirmed to be personally responsible to pay in cash the company's share amounting to 72.5% for any liabilities that could result from the current or future claims, each according to his share in the capital.
- b) At September 30, 2014, the contingent liabilities for uncovered portion of letters of guarantees issued by local banks on behalf of the Group amounted to SR 114,687,359 million (September 30, 2013: SR 937,707,844 million).
- c) At September 30, 2014 the capital commitments related to projects under construction amounted to SR 35 million (September 30, 2013: SR 64 million).
- d) At September 30, 2014 the contingent liabilities against outstanding letters of credit issued in the ordinary course of business for the group's companies amounted to SR 378,853,456 million (September 30, 2013: SR 201,398,565 million).

**24. RELATED PARTIES TRANSACTIONS AND BALANCES**

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

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

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**24. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)**

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

	Nature of	Amount of transaction		Closing balance	
Transactions with	transaction	during the year		Receivable	
		2014	2013	2014	2013
Under trade receivables:					
Al Fozan Building Materials Company	Sales	355,446,726	312,430,829	70,797,151	39.739.396
Abdul Kader and Sons Company	Sales	386,526,256	360,449,824	48,538,635	35.463.723
Al Muhanna Trading Company	Sales	51,298,156	65,124,464	18,019,561	12.898.687
Rashid Abdel Rahman Al Rashid & Sons Company	Sales	102,357,759	84,647,964	14,046,201	
Al Majel Trading Company	Sales	2,707,050	23.484.300	2,707,050	10.637.393
Al Fozan for Metals Company	Sales	7,211,400	--	7,441	2.749.500
				154,116,039	101.488.699
Under due to related parties:					
Mr. Abdul Karim Hamad Bin Abdul Karim Al Majel	Purchase of land		8,081,433	--	4.847.373
Al Majel Trading and Contracting Company	Purchase of land	--	15,376,072	--	9.225.643
Mr. Riad Bin Abdullah Bin Rashed	Purchase of land	--	3,139,220	--	1.883.532
Al Muhanna Trading Company	Purchase of land		23,455,022	--	14.073.013
Abdul Kader and Sons Company	Purchase of land	--	23,455,022	--	14.073.013
Rashid Abdel Rahman Al Rashid & Sons Company	Purchase of land	--	23,455,022	--	14.073.013
				--	58,175,587

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

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**24. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or not).

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

Transactions with	Nature of transaction	2014	2013
Key management	Salaries, allowances and related benefits	9,855,161	6,624,133

**25. RISK MANAGEMENT**

**Interest rate risk**

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

**Liquidity risk**

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

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

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Cash and cash equivalents of the Group standing at the balance sheet date are placed with foreign and local banks with sound credit ratings. Trade receivables are mainly due from local customers, 77% as of December 31, 2014 (2013: 77%) of the Group's trade receivables are due from 11 main customers (2013: 7 customers). Trade receivables are stated at their estimated realizable values.

**Currency risk**

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

**AL YAMAMAH STEEL INDUSTRIES COMPANY**  
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**25. RISK MANAGEMENT (continued)**

Fair values of financial instruments

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

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

**26. SEGMENT REPORT**

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

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

First : Operating Segments							
Description	Pipelines Factory	Electric Poles Factory	Frames factory	Electric Power Towers Factory	Al Yamamah for Reinforcing Steel Bars	Others	Total
September 30, 2014							
-Property, plant and equipment	96,967,860	60,085,427	4,632,755	36,035,564	269,316,481	12,362,566	479,400,653
- Net sales	489,935,774	187,068,735	20,674,277	192,588,251	1,121,472,744	--	2,011,739,781
-Net income	16,852,148	37,909,727	3,742,765	16,047,220	57,381,111	--	131,932,971
September 30, 2013							
-Property, plant and equipment	67.804.392	33.808.892	5.162.040	38.869.401	282.135.866	21.182.616	448.963.207
- Net sales	458.250.244	140.890.121	13.557.116	127.879.280	1.034.687.542	--	1.775.264.303
-Net income	23.883.563	20.009.259	186.297	5.017.939	56.557.336	--	105.654.394

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

**27. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved for issuance by the Board of Directors on Muharram 20, 1436H, corresponding to November 13, 2014.