

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
DECEMBER 31, 2012
With
INDEPENDENT AUDITORS' REPORT

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
For the year ended December 31, 2012
Expressed in Saudi Arabian Riyals

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INDEPENDENT AUDITORS' REPORT

The Shareholders
Methanol Chemicals Company
Dammam, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of Methanol Chemicals Company ("the Company") which comprise the balance sheet as at December 31, 2012 and the related statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 25 which form an integral part of the financial statements.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we 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.



Opinion

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

- 1) present fairly, in all material respects, the financial position of the Company as at December 31, 2012, and the 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 Company; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License No. 352



Al Khobar, February 21, 2013
Corresponding to: Rabi' Thani 11, 1434H

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET

As at December 31, 2012

Expressed in Saudi Arabian Riyals

	Note	2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents	4	114,777,303	122,114,884
Margin deposits with bank		500,000	500,000
Trade receivables		251,468,777	226,301,554
Inventories	5	121,445,541	118,249,916
Prepayments and other current assets	6	45,673,579	38,075,696
Total current assets		533,865,200	505,242,050
Non-current assets:			
Intangible assets	7	13,781,250	14,568,750
Deferred charges	8	1,768,228	4,741,092
Long term prepaid expenses	9	30,992,729	36,545,584
Property, plant and equipment	10	2,343,802,441	2,461,354,999
Total non-current assets		2,390,344,648	2,520,210,425
Total assets		2,924,209,848	3,025,452,475
LIABILITY AND EQUITY			
Current liabilities:			
Trade payables		56,498,531	46,500,384
Short term loans	11	-	40,000,000
Current portion of long-term bank debts	11	142,625,000	124,790,000
Current portion of long term obligations	7	3,087,500	5,250,000
Accrued expenses and other current liabilities	12	40,289,265	33,133,819
Zakat provision	13	4,901,401	3,996,440
Total current liabilities		247,401,697	253,670,643
Non-current liabilities:			
Long-term bank debts	11	1,075,925,000	1,261,175,000
Long term obligations	7	-	3,087,500
Employees' end of service benefits		27,643,478	24,106,278
Total non-current liabilities		1,103,568,478	1,288,368,778
Total liabilities		1,350,970,175	1,542,039,421
EQUITY			
Share capital	14	1,206,000,000	1,206,000,000
Share premium	15	72,850,071	72,850,071
Statutory reserve		33,686,753	24,543,813
Retained earnings		260,702,849	180,019,170
Total equity		1,573,239,673	1,483,413,054
Total liabilities and equity		2,924,209,848	3,025,452,475

The Interim Financial Statements appearing on pages 1 to 17 were approved by the management on behalf of Board of Directors of the Company on February 20, 2013, and have been signed on their behalf by:

Ahmed Al-Hashim
Chief Financial Officer

Khalid Al Rabiah
Chief Executive Officer

Adeeb Abdullah Al Zamil
Board Member

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

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME
For the year ended December 31, 2012
Expressed in Saudi Arabian Riyals

	Note	2012	2011
Sales		920,747,322	829,737,011
Cost of sales		(703,297,587)	(637,924,084)
Gross profit		<u>217,449,735</u>	<u>191,812,927</u>
Selling and distribution expenses	17	(68,991,497)	(59,994,571)
General and administrative expenses	18	(25,590,062)	(18,041,480)
Amortisation of deferred charges	8	(2,972,864)	(2,955,265)
Operating income		<u>119,895,312</u>	<u>110,821,611</u>
Other income, net	19	14,077,491	2,332,704
Financial charges		(37,643,403)	(39,942,354)
Income before Zakat		<u>96,329,400</u>	<u>73,211,961</u>
Zakat	13	(4,900,000)	(3,000,000)
Net income		<u>91,429,400</u>	<u>70,211,961</u>
Earnings per share	20	<u>0.76</u>	<u>0.58</u>

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

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
For the year ended December 31, 2012
Expressed in Saudi Arabian Riyals

	Note	2012	2011
Cash flow operating activities:			
Net Income for the period		91,429,400	70,211,961
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>			
Depreciation	10	150,587,184	151,433,588
Amortisation		9,313,219	10,009,558
Employees' end of service benefits, net		3,537,200	2,832,073
Zakat charge		4,900,000	3,000,000
Gain from disposal of property, plant and equipment		<u>(406,523)</u>	<u>(756,306)</u>
		259,360,480	236,730,874
Changes in operating assets and liabilities:			
Trade receivables and prepayments and other current assets		(32,765,106)	(45,720,095)
Inventories		(3,195,625)	(34,217,813)
Trade payables and accrues expenses and other current liabilities		15,550,812	(27,932,970)
Zakat paid	13	<u>(3,995,039)</u>	<u>(3,583,418)</u>
Net cash provided by operating activities		<u>234,955,522</u>	<u>125,276,578</u>
Cash flow from investing activities:			
Additions to property, plant and equipment		(30,071,351)	(17,996,957)
Proceeds from disposal of property, plant and equipment		443,248	1,057,438
Net movement in amounts due to project contractors		-	(53,176,129)
Additions to long term prepaid expenses		-	(10,543,635)
Payment of long term obligations		<u>(5,250,000)</u>	<u>(4,812,500)</u>
Net cash used in investing activities		<u>(34,878,103)</u>	<u>(85,471,783)</u>
Cash flow from financing activities:			
Net movement in short term loans		(40,000,000)	(1,606,587)
Net movement in long term loans		<u>(167,415,000)</u>	<u>(52,252,834)</u>
Net cash used in by financing activities		<u>(207,415,000)</u>	<u>(53,859,421)</u>
Net decrease in cash and cash equivalents		(7,337,581)	(14,054,626)
Cash and cash equivalents at the beginning of the year		<u>122,114,884</u>	<u>136,169,510</u>
Cash and cash equivalent at the end of the year	4	<u>114,777,303</u>	<u>122,114,884</u>

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

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2012
Expressed in Saudi Arabian Riyals

	Share capital	Share premium	Statutory reserve	Retained earnings	Total
Balance at December 31, 2010	1,206,000,000	72,850,071	17,522,617	118,403,193	1,414,775,881
Net income for the year	-	-	-	70,211,961	70,211,961
Directors' remuneration	-	-	-	(1,574,788)	(1,574,788)
Transfer to statutory reserve	-	-	7,021,196	(7,021,196)	-
Balance at December 31, 2011	1,206,000,000	72,850,071	24,543,813	180,019,170	1,483,413,054
Net income for the year	-	-	-	91,429,400	91,429,400
Directors' remuneration	-	-	-	(1,602,781)	(1,602,781)
Transfer to statutory reserve	-	-	9,142,940	(9,142,940)	-
Balance at December 31, 2012	1,206,000,000	72,850,071	33,686,753	260,702,849	1,573,239,673

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

**METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012
Expressed in Saudi Arabian Riyals**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Methanol Chemicals Company ("Chemanol" or "the Company") is a Saudi Joint Stock Company registered in Saudi Arabia under Commercial Registration number 2055001870 dated Dhu Al-Hijjah 28, 1409H corresponding to July 31, 1989. It is licensed to engage in the production of formaldehyde liquid and urea formaldehyde liquid or their mixture with different concentrations, paraformaldehyde, formaldehyde resins, hexane methylene tetramine, phenol formaldehyde resins, concrete improvers, methanol, carbon monoxide, di-methylamine, mono-methylamine, tri-mono-methylamine, di-methyl formamide, di-methyl carbon, penta acetheritol, sodium formate and acetaldehyde, as per ministerial resolution number (616/Saud) dated Safar 12, 1429H, corresponding to February 19, 2008.

The Company was converted from a limited liability company into a joint stock company in accordance with Ministerial Resolution No. 286 dated Dhul al-Qa'dah 4, 1428H, corresponding November 14, 2007.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The financial statements were authorized for issue by the Board of Directors on February 20, 2013.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis using the accrual basis of accounting and the going concern concept.

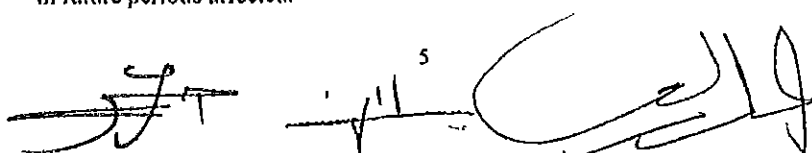
(c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Company.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, 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.

The image shows three handwritten signatures or initials in black ink. The first is a stylized signature on the left, the second is a signature with a small '5' above it in the middle, and the third is a large, bold signature on the right.

METHANOL CHEMICALS COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012
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3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements. Certain comparative figures in notes 5, 6, 10 and 11 have been reclassified to conform to the current year's presentation.

a. Trade receivables

Trade receivables are stated at original invoice amount less provisions made for amounts which in the opinion of the management may not be received. Bad debts are written off when identified.

b. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and 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 is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

c. Property, plant and equipment

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

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the Statement of Income when incurred.

Depreciation is charged to the Statement of Income on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment.

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

	<u>Years</u>
Buildings	33.33
Improvements on leasehold lands	5
Furniture, fixtures and office equipments	7 to 10
Computers and software	4 to 8
Plant, equipment and capital spares	10 to 20
Motor vehicles	4
Catalysts	1 to 3

Capital work in progress is stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012
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3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

d. **Intangible assets**

Estimated value of the right to use pipelines owned by other parties for transporting raw materials and finished goods are treated as intangible assets and are amortised over the estimated period of future economic benefits.

e. **Deferred charges**

Costs relating to software licence fees and implementation thereof are treated as deferred charges and amortised over the estimated period of future economic benefits.

f. **Long term prepaid expenses**

Loan appraisal fees of the Saudi Industrial Development Fund ('SIDF') are treated as long term prepaid expenses and amortised over the period of the loan. Amortisation is capitalized up to the date the plant is available for its intended use.

g. **Impairment of assets**

Financial assets, property, plant and equipment and other non-current assets are reviewed at each reporting date to determine whether there is any indication of impairment. 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.

h. **Long term obligations**

Long term obligations represent the amount payable in respect of the acquisition costs of intangible assets.

i. **Trade payables and accruals**

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

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 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. **Share premium**

Share premium represents the excess amount collected over the face value of shares issued and is shown net of expenses incurred in relation to the share issue.

l. **Revenue recognition**

Revenue from sales is recognized upon delivery or shipment of products and when the risks and rewards have passed to the customer. Revenue is recorded net of returns, trade discounts and volume rebates.

Any other income is recognized when the realization of income is virtually certain.

m. **Operating leases**

Payments under operating leases are recognized in the Statement of Income on a straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

METHANOL CHEMICALS COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Expenses

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

o. Zakat

Zakat, computed in accordance with Saudi Arabia Tax and Zakat regulations, is accrued and charged to the Statement of Income.

p. Foreign currency translation

Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to the functional currency of the Company at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the Statement of Income currently.

q. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash at banks which is available to the Company without any restrictions.

r. Earnings per share

Earnings per share from net income are calculated by dividing the net income for the period by the weighted average number of shares outstanding during the period.

s. Segmental reporting

A segment is a distinguishable component of the Company that is engaged in providing products, services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the management views the whole activities of the Company as one operating segment, reporting is provided by geographical segment only.

t. Dividends

Interim dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved by the shareholders.

u. Fair values

The fair value of commission-bearing items is estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, comprise of the following:

	<u>2012</u>	<u>2011</u>
Cash in hand	60,278	6,760
Cash at bank in current accounts	59,942,025	122,108,124
Short term bank deposits	54,775,000	-
	<u>114,777,303</u>	<u>122,114,884</u>

The short term bank deposits have maturity period of 15 days and carry the interest rate in the range of 0.08% to 0.2%.

5. INVENTORIES

Inventories at December 31, comprise of the following:

	<u>2012</u>	<u>2011</u>
Raw materials	20,704,171	23,732,299
Finished goods	10,748,751	16,357,239
Spare parts	66,413,012	53,137,212
Consumables	19,033,958	20,343,281
Packing materials	4,545,649	4,679,885
	<u>121,445,541</u>	<u>118,249,916</u>

6. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets at December 31, comprise of the following:

	<u>2012</u>	<u>2011</u>
Advances to suppliers	18,815,565	29,281,813
Amount due from insurers	14,900,000	-
House rent allowance receivable from employees	5,723,324	2,422,694
Prepaid expenses	4,344,341	5,548,776
Other receivables	1,391,446	822,413
Amounts due from companies affiliated to shareholders	498,903	-
	<u>45,673,579</u>	<u>38,075,696</u>

7. INTANGIBLE ASSETS

On March 7, 2010, the Company entered into a Pipeline Services Agreement ('PSA') for three years, which provides the Company with a contractual right to use the pipeline for ammonia supply. Payments will be made over the 3 year period, commencing April 2010.

The Company has capitalised the estimated amount payable in respect of the Capital Investment Component, which amounts to SR 15.75 million. The intangible assets have been amortised over twenty years, on the basis that this is the estimated useful life of the asset. The Management believes that the ammonia supply will continue for the foreseeable future.

METHANOL CHEMICALS COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012
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8. DEFERRED CHARGES

The movement in deferred charges for the year ended December 31, is as follows:

	<u>2012</u>	<u>2011</u>
<u>Cost</u>		
At January 1	14,776,298	14,776,298
Additions during the year	-	-
At December 31	<u>14,776,298</u>	<u>14,776,298</u>
<u>Accumulated amortization</u>		
At January 1	10,035,206	7,079,942
Charge for the year	2,972,864	2,955,264
At December 31	<u>13,008,070</u>	<u>10,035,206</u>
Net book value at December 31	<u>1,768,228</u>	<u>4,741,092</u>

Deferred charges represent software license and implementation costs and are amortised over the period of five years from the date of successful implementation.

9. LONG TERM PREPAID EXPENSES

The movement in long term prepaid expenses for the year ended December 31, is as follows:

	<u>2012</u>	<u>2011</u>
<u>Cost</u>		
At January 1	55,543,635	45,000,000
Additions during the year	-	10,543,635
At December 31	<u>55,543,635</u>	<u>55,543,635</u>
<u>Accumulated amortization</u>		
At January 1	18,998,051	13,125,008
Charge for the year	5,552,855	5,873,043
At December 31	<u>24,550,906</u>	<u>18,998,051</u>
Net book value at December 31	<u>30,992,729</u>	<u>36,545,584</u>

Long term prepaid expenses represent the mainly SIDF funding appraisal costs and also include Murabaha facility appraisal and restructuring costs and are being amortized over a period of six to nine years.

METHANOL CHEMICALS COMPANY
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

10. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the year ended December 31, 2012 is analyzed as under:

	Building and improvement on leasehold land	Furniture, fixtures and office equipment	Computers and software	Plant, equipment, capital spares and motor vehicles	Capital work in progress (CWIP)	Catalyst	Total 2012
<u>Cost</u>							
Balance at January 1	356,635,327	16,017,774	14,313,666	2,527,194,816	7,042,700	26,643,672	2,947,847,955
Additions	149,500	1,552,644	1,345,484	19,058,482	1,516,424	6,448,817	30,071,351
Transfers from CWIP	-	443,037	14,618	2,569,088	(3,026,743)	-	-
Disposals	-	(26,660)	-	(1,141,888)	-	-	(1,168,548)
Balance at December 31	356,784,827	17,986,795	15,673,768	2,547,680,498	5,532,381	33,092,489	2,976,750,758
<u>Accumulated depreciation</u>							
Balance at January 1	32,624,320	9,044,519	9,643,260	408,799,978	-	23,380,879	483,492,956
Charge for the year	10,669,724	1,872,318	1,681,616	128,265,411	-	8,098,115	150,587,184
Eliminated on disposals	-	(26,660)	-	(1,105,163)	-	-	(1,131,823)
Balance at December 31	43,294,044	10,890,177	11,324,876	535,960,226	-	31,478,994	632,948,317
<u>Net book value</u>							
At December 31, 2012	313,490,783	7,096,618	4,348,892	2,011,720,272	5,532,381	1,613,495	2,343,802,441
At December 31, 2011	324,011,007	6,973,255	4,670,406	2,118,394,838	7,042,700	3,262,793	2,464,354,999

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10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company's factory premises are situated in the Jubail Industrial Area and have been constructed on land leased from the Royal Commission for Jubail and Yanbu ('the Commission') for a period of 25 years from April 16, 1990 corresponding to Ramadan 21, 1410H at an annual rent of SR 110,430. The Company has entered into land lease arrangement with Sea Ports Authority of King Fahad Industrial Port, Al – Jubai for a period of 20 years from April 11, 2006 corresponding to Shawwal 13, 1427H at an annual lease rent of SR 310,044. The Company has entered into another land lease arrangement with the Commission for a period of 30 years from July 20, 2007 corresponding to Rabi II 3, 1428H at an annual rent of SR 290,728. The Company has the option of renewing the lease arrangement on expiry of the initial lease arrangement.

The term loans of the Saudi Industrial Development Fund ('SIDF') are secured by a mortgage over property, plant and equipment.

11. BANK DEBTS

a. Short-term bank debts

The Company has working capital facilities with local banks. Commission is charged on the short-term loans at commercial rates. The short-term loans were secured by promissory notes, which were fully repaid during the year.

b. Long-term bank loans

Long-term bank loans at December 31 comprise of the following:

	<u>2012</u>	<u>2011</u>
Saudi Industrial Development Fund (note a)	540,000,000	600,000,000
Murabaha facility from a syndicate of banks (note b)	528,550,000	635,965,000
Project cost overrun Murabaha Facility from a syndicate of banks (note b)	<u>150,000,000</u>	<u>150,000,000</u>
	<u>1,218,550,000</u>	<u>1,385,965,000</u>

Presented in the balance sheet as follows:

	<u>2012</u>	<u>2011</u>
Current portion shown under current liabilities	142,625,000	124,790,000
Non-current portion shown under non-current liabilities	<u>1,075,925,000</u>	<u>1,261,175,000</u>
	<u>1,218,550,000</u>	<u>1,385,965,000</u>

- a) On May 15, 2011, the Company reached an agreement with the SIDF to restructure the existing outstanding debt balance. The restructured debt amounting to SR 600,000,000 will be payable in 15 installments, with the first and last installment due on January 9, 2012 and October 25, 2018, respectively.

The term loans of the Saudi Industrial Development Fund ('SIDF') are secured by a mortgage over property, plant and equipment.

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11. BANK DEBTS (Continued)

- b) In December 2007, the Company entered into a Murabaha Facility Agreement with a syndicate of banks, namely; Arab Banking Corporation (B.S.C), Riyadh Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and SABB (collectively called as "Murabaha Facility Participants") to provide Project Murabaha Facility of SR 940 million, refinance Murabaha Facility of SR 37.5 million, and Working Capital Murabaha Facility and Standby Murabaha Sub-Facility of SR 150 million. The Project Murabaha Facility loan amounting to SR 525 million has been repaid on availment of the SIDF loan.

In October 2009, the Company entered into a Project Cost Overrun Murabaha Facility Agreement with a syndicate of banks, namely; Arab Banking Corporation (B.S.C), Riyadh Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and SABB (collectively called as "The Project Cost Overrun Murabaha Facility Participants") to provide Project Cost Overrun Murabaha Facility of SR 326 million to finance ongoing expansion projects. As per the agreement, the amounts drawn under this facility were originally repayable in two years from drawdown note i.e. November 18, 2011.

On June 5, 2011, the Company entered into a refinancing agreement with a syndicate of banks, namely; SABB, Riyadh Bank and Samba Financial Group (collectively called as "The Murabaha Facility Participants") to refinance both i) the outstanding balance under the Project Murabaha Facility & the Working Capital Facility Agreement of SAR 506 million dated December 26, 2007, ii) the Cost Overrun Facility Agreement of SAR 326 million dated October 27, 2009.

As per the new Murabah Facility Agreement dated June 5, 2011, the Project Murabaha Facility amounting to SR 682 million will be payable in 14 semi-annual installments starting from July 2011 to December 2017. The Working Capital Murabaha Facility amounting to SR 150 million will be payable in 10 semi-annual installments starting from January 2013 to December 2017.

The facilities are secured by promissory notes. The Company is required to comply with certain covenants under all of above facilities. The installments due within one year from the balance sheet date are shown as current liabilities.

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12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as at December 31, comprise of the following:

	<u>2012</u>	<u>2011</u>
Accrued expenses	38,592,661	31,945,144
Amount due to project contractor	-	227,036
Amounts due to companies affiliated to shareholders	489,705	137,992
Advance from customers	1,206,899	823,647
	<u>40,289,265</u>	<u>33,133,819</u>

13. ZAKAT

a) The Department of Zakat and Income Tax ("DZIT") has raised final Zakat assessment for all years up to 31 December 2008. The Company has filed its Zakat declaration for all the years upto 2011 and paid Zakat accordingly and the assessment is awaited.

b) The Zakat charge for the year ended December 31 comprises of the following:

	<u>2012</u>	<u>2011</u>
For current year	4,901,401	3,916,249
For previous year	(1,401)	(916,249)
Balance at end of the year	<u>4,900,000</u>	<u>3,000,000</u>

c) Summary of the items included in the Zakat base for the year ended 31 December is as follows:

	<u>2012</u>	<u>2011</u>
Capital	1,206,000,000	1,206,000,000
Adjusted equity and provision at the beginning of the year	1,377,870,183	1,476,914,645
Net adjusted income	(162,459,997)	(271,002,125)
Deductions for the year	<u>(2,247,651,730)</u>	<u>(2,255,262,563)</u>

d) The movement in the Zakat provision is as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of the year	3,996,440	4,579,858
Charged during the year	4,900,000	3,000,000
Payment during the year	(3,995,039)	(3,583,418)
Balance at end of the year	<u>4,901,401</u>	<u>3,996,440</u>

14. SHARE CAPITAL

Share capital is divided into 120,600,000 shares (2011: 120,600,000 shares) of SR 10 each.

15. SHARE PREMIUM

During the year ended December 31, 2008, 60,300,000 shares, having a face value of SR 10 each, were issued at a premium of SR 2 per share. Share premium amounted to SR 72,850,071 as at December 31, 2012 (2011: SR 72,850,071).

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16. DIRECTORS' REMUNERATION

The Board of Directors' remuneration has been shown as an appropriation in the Statement of Changes in Equity in accordance with the Company's by-laws.

17. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses during the year ended December 31, are summarized as follows:

	<u>2012</u>	<u>2011</u>
Employee costs	4,976,458	3,970,172
Freight	44,927,268	38,900,495
Sales commission	11,970,218	11,322,762
Advertisement and promotion	123,522	70,130
Others	6,994,031	5,731,012
	<u>68,991,497</u>	<u>59,994,571</u>

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses during the year ended December 31, are summarized as follows:

	<u>2012</u>	<u>2011</u>
Employee costs	15,996,910	12,306,660
Depreciation	2,351,003	1,904,999
Travel and air fares	480,720	392,684
Professional fees	1,015,697	416,251
External services	822,299	839,118
Advertising	579,670	130,127
Utilities and common expenses	475,652	381,227
Rents	275,462	210,004
Consumables	71,568	122,593
Withholding tax	1,194,264	246,706
Others	2,326,817	1,091,111
	<u>25,590,062</u>	<u>18,041,480</u>

19. OTHER INCOME, NET

Other income, net during the year ended December 31, are summarized as follows:

	<u>2012</u>	<u>2011</u>
Insurance proceeds	14,900,000	-
Foreign exchange (loss)/gain	(1,889,100)	596,268
Gain on disposal of assets	406,523	756,306
Others	660,068	980,130
	<u>14,077,491</u>	<u>2,332,704</u>

Insurance proceeds relate to a claim in respect of property damage and business interruption as a result of significant component failure at the plant in 2011. The Company was negotiating the settlement amount with the insurers during the year . The Company has accepted a settlement of SR 14.9 million made by the insurers.

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20. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2012 have been computed by dividing the net income for such period by the weighted-average number of ordinary shares outstanding during the year ended December 31, 2012 of 120,600,000 shares.

21. CAPITAL COMMITMENTS

As at December 31, 2012, the Company had capital expenditure commitments of SR 4.84 million (2011: SR 4.77 million).

The future aggregate minimum lease commitments under non-cancellable operating leases are as follows:

	<u>2012</u>	<u>2011</u>
Not later than 1 year	711,159	711,159
Later than 1 year but not later than 5 years	2,464,376	2,573,161
Later than 5 year till lease period	7,914,763	8,517,137
	<u>11,090,298</u>	<u>11,801,457</u>

22. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of business, the Company undertakes transactions with other companies that have certain common shareholders. All such transactions are executed on commercial terms that are approved by management.

There were no sales of finished goods during the current year to affiliated companies (2011: SR Nil).

The cost of sales and expenses include amounts of SR 3,826,814 (2011: SR 455,020) in respect of purchase of inventories and services provided by companies affiliated to shareholders.

Amounts receivable from companies affiliated to shareholders in respect of advances paid are included in trade receivables and prepayments under note 5.

Amounts payable to companies affiliated to shareholders are included in accounts payable and accruals under note 11.

23. CONTINGENT LIABILITY

At December 31, 2012, the Company has a contingent liability of SR 65,725,256 (2011: SR 43,978,168) in respect of bank guarantees and letter of credits issued by the Company's banks in respect of bid bonds, contracts advance payments and performance bonds.

24. SEGMENT INFORMATION

The management of the Company views the whole business activities of the Company as one operating segment for performance assessment and resources allocation. Accordingly, reporting is provided by geographical segment only. SR 619 million (67%) of the sales are through export (2011: SR 571 million (69%)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

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25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet include cash and cash equivalents, margin deposits with the bank, trade receivables and prepayments, inventories, trade payables and accruals, short term loans, current portion of term loans and long term obligations and zakat provision.

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risks. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are actively monitored by the management for recoverability and impairment and are stated at their estimated realizable values.

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 Company's financial position and cash flows. The Company's interest rate risk arise mainly from short-term borrowings and long term debts, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company could be significant.

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 the 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 to meet the Company's future commitments.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyal, United States dollar and Euro. Transactions in Saudi Riyal and United States dollar are not considered to represent a significant risk to the Company.

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 accompanying financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.