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كيمانول
CHEMANOL
Chemicals From Methanol
شركة كيمائيات الميثانول
METHANOL CHEMICALS COMPANY

ANNUAL REPORT **2011**

A MILESTONE YEAR

CONTENTS

METHANOL CHEMICALS COMPANY
P.O. Box 3139, Dammam 31471
Kingdom of Saudi Arabia
Tel: +966 3 8144 694
Fax: +966 3 8144 678
Email: marketing@chemanol.com
www.chemanol.com

the bridge partnership.

Profile

Methanol Chemicals Company (Chemanol) is a major grass-root second generation petrochemicals company.

Chemanol manufactures premium-grade methanol derivatives including aqueous and urea formaldehydes, superplasticisers, amino resins, hexamethylene tetramine, paraformaldehyde, dimethyl formamide, methylamines, pentaerythritol, and sodium formate. These products have applications in industries as diverse as agriculture, automobiles, pharmaceuticals and construction.

Established in 1989 as the Saudi Formaldehyde Chemicals Company – the first private sector petrochemicals company in the GCC – the Company changed its name to Methanol Chemicals Company following a successful IPO in 2008. Today, Chemanol is one of the most integrated and low-cost methanol and derivatives producers globally; and one of the world's largest formaldehyde producers situated in a single location, and the biggest in the GCC.

A closed Saudi joint-stock company with a paid-up capital of SAR 1.2 Billion, Chemanol's major shareholders are leading industrialists from across the GCC. Located in Al Jubail Industrial City, the Company has a total annual production capacity of just about one million metric tons, and exports 26 product grades to over 50 countries in more than 21 different industries.

Vision

Chemanol aspires to be recognized as a major pioneering and reliable speciality petrochemicals company in the GCC.

Mission

The purpose:

Utilizing in-kingdom resources for manufacturing speciality products.

The business:

To be a major supplier and cater to the clientele spread around the globe, at most competitive prices.

The values:

Chemanol is committed to a clean environment and holds tremendous value for human life and its safety.

Values

Chemanol utilizes technical and human resources from the Kingdom of Saudi Arabia to manufacture speciality chemicals for local and international clients at competitive prices.

Net Profit standing at the end of 2011 (SR '000)

SR 70,212

Total Assets standing at the end of 2011 ('000)

SR 3,028,004

Earnings per share standing at the end of 2011

SR 0.58

Operating Income (SR '000)

2011: 110,822
2010: 40,045
2009: 30,702
2008: 45,940
2007: 35,669

Net Profit (SR '000)

2011: 70,212
2010: 6,041
2009: 22,055
2008: 38,236
2007: 24,684

Total Assets (SR '000)

2011: 3,028,004
2010: 3,092,773
2009: 3,032,727
2008: 2,639,920
2007: 1,300,875

Owners' Equity (SR '000)

2011: 1,483,413
2010: 1,414,776
2009: 1,410,580
2008: 1,390,343
2007: 678,110

Return on Equity (%)

2011: 4.73
2010: 0.43
2009: 1.56
2008: 2.75
2007: 3.64

Earnings per Share (SR)

2011: 0.58
2010: 0.05
2009: 0.18
2008: 0.48
2007: 0.41

Income Statement (SR '000)	2011	2010	2009	2008	2007
Sales	829,737	589,495	402,302	570,669	461,369
Cost of Sales	637,924	470,579	304,954	448,684	357,203
Gross Profit	191,813	118,916	97,348	121,985	104,166
Operating Income	110,822	40,045	30,702	45,940	35,669
Financial charges	39,942	29,007	8,048	12,362	11,544
Net Profit	70,212	6,041	22,055	38,236	24,684

Balance Sheet (SR '000)	2011	2010	2009	2008	2007
Assets					
Inventories	117,460	83,242	57,023	55,756	37,927
Current Assets	507,004	438,569	484,097	612,226	268,200
Non-current Assets					
Property, Plant and Equipment	2,465,145	2,598,882	2,509,585	1,982,235	1,027,678
Total Assets	3,028,004	3,092,773	3,032,727	2,639,920	1,300,875
Liabilities					
Short Term Loans	40,000	41,607	58,000	75,000	208,418
Current Liabilities	256,222	659,889	252,729	211,685	290,846
Non-current Liabilities					
Total Liabilities	1,544,591	1,677,997	1,622,148	1,249,577	622,765
Capital	1,206,000	1,206,000	1,206,000	1,206,000	603,000
Retained Earnings	180,019	118,403	114,811	96,780	64,220
Owners Equity	1,483,413	1,414,776	1,410,580	1,390,343	678,110

Cash Flow(SR '000)	2011	2010	2009	2008	2007
Cash Flow From Operating Activities	120,464	85,388	70,155	33,435	24,808
From Investing Activities	-80,659	-251,879	-473,547	-949,764	-324,761
Increase (Decrease) in Cash	-14,055	-134,271	-104,256	361,895	10,738
Cash and cash equivalents at beginning of the year	136,170	270,441	374,696	12,801	2,063
Cash and cash equivalents at end of the year	122,115	136,170	270,441	374,696	12,801

Key Ratios	2011	2010	2009	2008	2007
Current Ratio (%)	1.98	0.66	1.92	2.88	0.92
Gross Margin (%)	23.12	20.17	24.2	21.38	22.58
Net Profit Margin (%)	8.46	1.02	5.48	6.7	5.35
Operating Margin (%)	13.36	6.79	7.63	8.05	7.73
Return on Assets (%)	2.32	0.2	0.73	1.45	1.9
Return on Equity (%)	4.73	0.43	1.56	2.75	3.64


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1. Abdullah M. Al Mazrui
Chairman

Deepa United Group (JSC, UAE)
Aramex (JSC, UAE)
Emirates for Insurance (JSC, UAE)
InvestCorp Bank (JSC, Bahrain)

2. Khaled A. A. AlZamil
Board Member

Chairman of the Executive Committee
Chairman of the Nomination & Remuneration Committee

3. Badr A. Kanoo
Board Member

Unicorn Bank (closed JSC, Bahrain)
Saudi Co. for Ground Services (closed JSC, KSA)

4. Sami M. Y. Jalal
Board Member

General Co. for Trade & Foods (JSC, Bahrain)
United Co. for Paper Manufacturing (JSC, Bahrain)

5. Hamad M. H. Al Manee
Board Member

Doha Bank (JSC, Qatar)
Qatar Marine Company (JSC, Qatar)
General Qatari Insurance & Reinsurance Co. (JSC, Qatar)

6. Adeeb A. H. Al Zamil
Board Member

Zamil Industrial Investment Co. (JSC, KSA)
Bank AlBilad (JSC, KSA)
Dana Gas (JSC, UAE)
Jadwa Investment (closed JSC, KSA)

7. Mishal H. A. Kanoo
Board Member

Kanoo Group (UAE)
Axa Insurance (Gulf)
International Paints (UAE)
Johnson Arabia (UAE)

8. Abdulmohsen F. AlNafisi
Board Member

Dubai First Real Estate Development Co. (closed JSC, Kuwait)

Abdullah M. Mazrui
Chairman

Our track record to date has reinforced faith in our vision of becoming a reliable and a pioneering speciality petrochemicals company in the region.

On behalf of the Board of Directors, I have the pleasure to present the annual report and financial statements for Methanol Chemicals Company (Chemanol) for the year ended 31 December 2011.

With the grace of God, this proved to be a milestone year for Chemanol, highlighted by the highest levels of profitability and production since the Company was established 22 years ago.

I am pleased to report that Chemanol's net profit grew eleven-fold to SAR 70.2 million for the year compared to 2010. Owners' equity increased to SAR 1,483 million, with return on equity improving to 4.73 percent; while earnings per share reached a new high of SAR 0.58. During 2011, total production increased to a record 787,500 metric tons.

These record results are attributable primarily to increased sales, higher selling prices and improved margins; and enhanced operational efficiencies following the post-commissioning consolidation of the Company's new production plants. Chemanol also completed the restructuring of its long-term debts, which will provide improved financial flexibility and business focus.

Since the official commissioning of the new plants on 30 June 2010, Chemanol has successfully implemented measures to streamline operations, optimize resources, and open up additional markets for the Company's new products. The net effect of such achievements, God willing, will result in Chemanol continuing to reach new heights of profitability and production.

The Company's performance in 2011 was achieved against a backdrop of modest global economic growth. On the other hand, China and India, which are strategic markets for Chemanol, strongly outperformed other economies, helping to drive up methanol prices worldwide, to our Company's benefit.

Our track record to date has reinforced faith in our vision of becoming a reliable and a pioneering speciality petrochemicals company in the region. Although we have set clearly-defined strategies to help realize such a vision, we also recognize that many challenges lie ahead, especially in the areas of feedstock allocation, access to the right technologies, and human talent. This will necessitate the timely implementation of innovative and practical steps to overcome any potential hurdles and ensure competitiveness. We strongly believe that judicious and meticulous planning, coupled with experienced and enthusiastic employees, are the key prerequisites to future success. The Board has every confidence in Management's ability to implement our forward-thinking strategy, and explore new measures to add value to our shareholders.

Chemanol today is the product of the hard work of its loyal employees to whom we owe a great deal for believing in our vision and contributed to our continued growth and development. I am honored to be chairing a Company that boasts such a harmonious and professional team.

On behalf of my fellow Directors, I would like to express my sincere appreciation to our shareholders for their continued encouragement and wise counsel. Such support only serves to make us strive more diligently to achieve even better results. With the grace of God, our improved performance in the ensuing years will reflect our shareholders' trust and confidence, while contributing to the prosperity of all Chemanol's stakeholders.

Abdullah M. Mazrui
Chairman

Khalid Ibrahim Al Rabiah
Chief Executive Officer

Chemanol achieved greater market penetration in existing and new markets, thereby increasing the Company's market share of higher-margin products.

During 2011, total production increased to a record 787,500 metric tons, constituting almost 86 percent of the Company's total available annual production capacity.

Our results for 2011 illustrate Chemanol's recovery from the impact of the global financial crisis and economic downturn that started in late 2008. With the grace of God, I am pleased to report that we have successfully achieved full backward integration to the Company's new methanol production, and expanded our global market footprint. Such accomplishments are due to Chemanol's great teamwork and adherence to plans, demonstrating our employees' collective positive efforts, and results-oriented creative planning and implementation.

The extent of the Company's recovery is reflected in our financial performance for the year. Revenues grew to SAR 829.7 million in 2011, representing a 41 percent increase of SAR 240.2 million over 2010; while net profit increased eleven-fold to SAR 70.2 million from SAR 6 million the previous year. Chemanol also successfully completed the restructuring of its long-term debts at more consistent and reasonable rates. The 2011 ratio of debt to shareholders' equity was lowered to 1.04:1 from its 2010 level of 1.2:1.

Our improved year-on-year figures result mainly from an increase in sales, higher selling prices, and enhanced operational efficiencies. Chemanol achieved greater market penetration in existing and new markets, thereby increasing the Company's market share of higher-margin products. During 2011, total production increased to a record 787,500 metric tons, constituting almost 86 percent of the Company's total available annual production capacity.

Coupled with better management of margins, pricing mechanisms and cost optimization, these achievements further supported Chemanol's improved profitability.

The increase in revenues and profit mirrors the stability achieved in the new production facilities commissioned in mid-2010, comprising methanol, methylamines, dimethyl formamide, acetaldehyde, pentaerythritol and formaldehyde. These new plants, which constitute a major capital investment of SAR 2.4 billion, have raised Chemanol's combined annual production capacity from 424,040 to 912,040 metric tons, representing a 115 percent jump in the production capacities of a variety of product lines comprising feedstock, intermediates and finished goods. Production costs were substantially reduced in 2011 by SAR 27.5 million through increasing the efficiency of catalysts, rationalizing the consumption of raw materials, finding appropriate solutions for treating industrial waste water from the hexamine plant, and optimizing the utilization of human resources.

The success of concerted marketing campaigns in local and global markets, together with improved global and regional market conditions, also contributed to Chemanol's recovery in 2011.

We focused on proactive planning, constantly keeping a watchful eye on emerging trends, both locally and globally. The understanding of regional and international demand patterns is paramount to successful forecasting by the Company.

The global economy witnessed modest growth in 2011, especially in the economies of industrialized nations. Global GDP grew at a rate of 3.9 percent during the year compared with a contraction of minus 0.6 percent in 2009, following the financial crisis. China and India, which constitute strategic markets for Chemanol, outperformed other economies with a growth of 7 to 9 percent.

This contrasts with the economic growth of advanced industrialized nations of 1.4 percent in 2011 compared with minus 4 percent in 2009 has driven up methanol prices worldwide. From a low of US$ 200 in 2009, prices peaked at US$ 470 in 2011. As a methanol-based company, Chemanol benefited from such a price hike.

Demand for methanol is expected to continue at the high levels witnessed in recent times, especially since methanol consumption by China is set to substantially increase over the next few years. Currently, China consumes around 42 percent of the world's total methanol production, and this is forecast to rise to around 54 percent by 2015 at a CAGR of about 17 percent.

Additionally, with the ongoing construction boom in the Kingdom of Saudi Arabia, Chemanol plans to capitalize on this opportunity by establishing a strong foothold for its products which have varied applications in this sector. These include formaldehyde resin and super plasticizers, which are used for concrete admixtures, laminates, and furniture.

In an era of economic upheaval and uncertainty, perhaps the most fundamental challenges shaping Chemanol's future business strategy and overall competitiveness are feedstock allocation, access to the right technologies, and talent management. Given the Saudi Government's policy to allocate gas to value-added downstream products, Chemanol has aligned itself with such a strategy. Accordingly, the Company has taken steps to ensure access to the right technologies through additional strategic alliances.

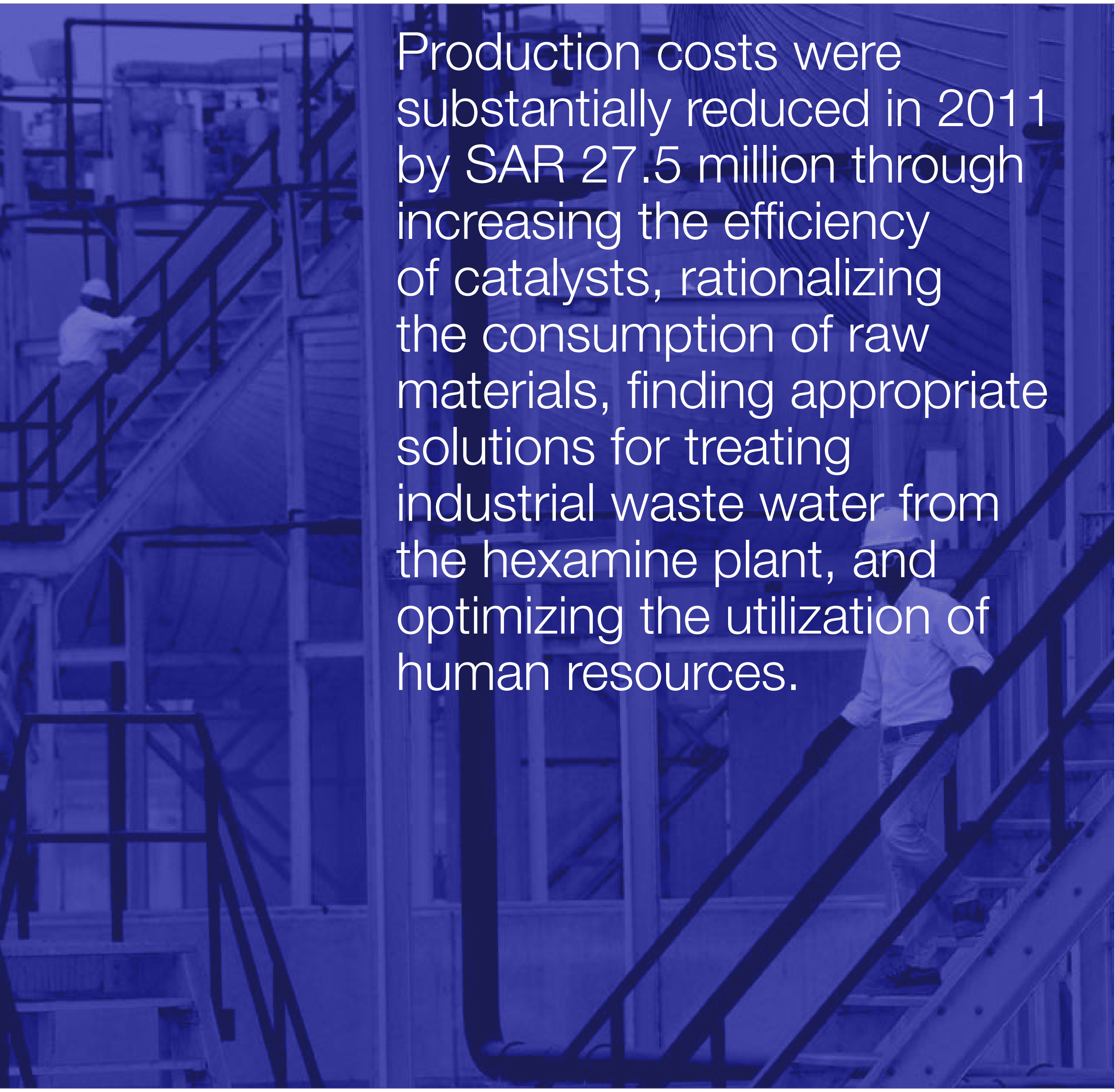
Chemanol also strives to align the professional and career development of its employees with the Company's vision, mission and objectives in order to maintain the right talent, whose innovation and productivity are key factors in maintaining a competitive edge.

Our focus during the year on enhancing returns for our shareholders did not distract us from performing our role as a responsible and caring petrochemicals company. We have an uncompromising commitment to health, safety and security; and protection of the environment. Chemanol has taken major steps towards achieving accreditation as a 'Responsible Care Company'; and to implementing the necessary systems to improve reliability of our production facilities by mitigating operational, environmental and safety risks.

Our record performance in 2011 has provided us with renewed confidence and determination to continue along our strategic growth path to even greater success. The Chemanol team remains firmly committed to increasing benefits for all stakeholders by identifying proactive measures that will ensure our continued growth and profitability.

In conclusion, I would like to thank our Board of Directors for their continued support and guidance; our clients for their loyalty and trust; our business partners for their cooperation and encouragement; and our staff for their dedication and commitment. Together, they have contributed to a milestone year for Chemanol in 2011.

Khalid Ibrahim Al Rabiah
Chief Executive Officer



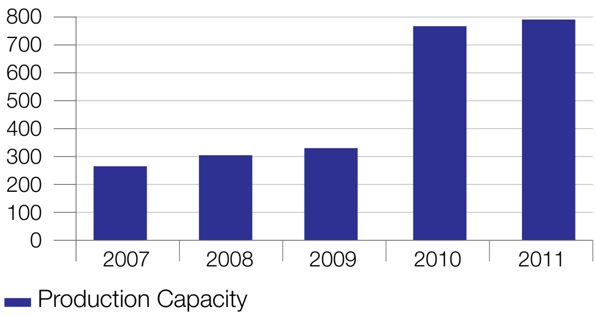
Production costs were substantially reduced in 2011 by SAR 27.5 million through increasing the efficiency of catalysts, rationalizing the consumption of raw materials, finding appropriate solutions for treating industrial waste water from the hexamine plant, and optimizing the utilization of human resources.

CHEMANOL plans to develop its business by exploring new investment avenues in methanol derivatives or other products provided they achieve both economic and synergy with existing company's products.

Operations

Periodic maintenance works during the year resulted in a 12-day downtime at the methanol and dimethyl formamide plants in order to replace the catalyst in the sulphur treatment and hydrogen production units. Despite this downtime, total production in 2011 increased by over three per cent to 787,500 metric tons, which is almost 86 per cent of total available annual production capacity. Production costs were substantially decreased in 2011 by SAR 27.5 million through increasing the efficiency of catalysts, rationalizing the consumption of raw materials, finding appropriate solutions for treating industrial waste water from the hexamine plant, and optimizing the utilization of human resources. The new production facilities commissioned in mid-2010 for methanol, methylamines, dimethyl formamide, acetaldehyde, pentaerythritol, and formaldehyde, have raised Chemanol's combined annual production capacity by 115 per cent from 424,040 to 912,040 metric tons in a variety of product lines comprising feedstock, intermediates and finished goods.

Production Output



Marketing & Logistics

Realizing the importance of making informed decisions, Chemanol has invested in research–based marketing to enable it to monitor trends and indicators, manage fluctuations, and perform more accurate forecasting. Despite lower demand for some petrochemical products in 2011, Chemanol identified products with higher margins for which production was increased, thus maximizing the Company's competitive advantage and profit. Chemanol constantly explores ways to open up new markets for its products, and to focus on high-margin areas as well as emerging markets.

Future plans also call for strengthening strategic cooperation with key regional customers by signing long-term contracts, taking into account market fluctuations that impact supply, demand and feedstock prices. For some specialized chemicals, Chemanol has long-term off-take agreements with Helm AG for dimethyl formamide, and with Perstorp AB for sodium formate and pentaerythritol. The Company has also signed a Memorandum of Understanding with Sahara Petrochemicals - Saudi Arabia to own a stake of 15 per cent in the new neo-pentyl glycol (NPG) plant, and to supply the required quantity of formaldehyde.

Chemanol has a geographically well-spread and diversified client base, with 26 product grades exported to over 50 countries worldwide for use in more than 20 different industries. The Company's marketing efforts have been recognized by receipt of a Best Exporting Company Award from the Saudi Chamber of Commerce.

Health, Safety, Security and Environment

As a fundamental principle of its business philosophy, Chemanol takes an uncompromising view of health, safety, security and environmental issues in the manufacture of its products, and the protection of the environment. To maintain harmony with the global environment and to reduce environmental impacts, Chemanol strives for product development and production that facilitate the reduction of greenhouse gas emissions, as well as conserving energy and resources, while promoting

Quality Management

To supply superior quality products and to keep developing high functional and special grades to clients, our R&D team is continuously active in developing new formulations of amino resins, hardeners and other formaldehyde-based products.

Environment

To maintain harmony with the global environment and to reduce environmental impacts, CHEMANOL strives for product development and production that facilitates the reduction of greenhouse gas emissions as well as energy and resource conservation

Chemanol is distinguished as one of the most integrated and low-cost methanol and derivatives production facilities in the world; and one of the largest formaldehyde producers in a single location globally, and the largest in the GCC.

recycling and the reduction of waste and chemical substance emission. In recognition of its sustained efforts, the Company has repeatedly received the 'Environmental Award for Secondary Industries' from the Royal Commission for Jubail and Yanbu. It has also obtained the 'Safest and Best Maintained Industry Award' from the Royal Commission.

Responsible Care Management System (RCMS)

Chemanol is committed to protecting the environment, preserving the health and safety of its employees and communities, assuring the safe operations of its processes, and complying with all applicable laws and regulations. Accordingly, the Company is in the process of implementing the Responsible Care Management System (RCMS) – an integrated health, safety, security and environmental management system – with accreditation planned by 2015 at the latest. Chemanol has a fully-automated plant, which provides environmentally clean, zero-effluent round-the-clock production to the strictest international standards. State-of-the-art production units are designed for full reliability and fail-safe operations, including packaging.

Paperless and Green Environment

Chemanol pays special attention to the protection of the environment through the development and implementation of programs designed to ensure continuous improvement in the Company's environmental performance. The practices and programs adopted by Chemanol, with the target of matching the regulatory requirements of the Royal Commission, have enabled the Company to obtain compliance certifications and accolades from different authorities. These programs are also designed to raise the environmental awareness among all Chemanol employees to guarantee a healthy operating environment. As a result of major SAP implementations to ensure compatibility with this new IT Platform, over 70 per cent of the Company's processes are now paperless. It is noteworthy that Chemanol is among a few select organizations in the MENA region to initiate and implement the 'total paperless office' concept, rendering it a 'green company'.

'Reach' Certification Compliance

The European Parliament and the Council of the European Union imposed a bylaw in 2008 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). The objective of REACH is to generate enough scientific data about all materials going into and circulating inside the European market, so as to impose control and protect the workers and the environment. Chemanol – having been timely alerted, and having taken proactive action – is fully REACH-compliant for all of its products in European countries.

Human Capital Development

Chemanol recognizes that its human capital is the Company's core strength. Given the challenges of developing human capital in the petrochemical industry, Chemanol has adopted stringent strategies to attract, retain and motivate competent employees. These include the transformation of the Company to a performance-driven organization through the introduction of competitive compensation schemes and objective-based incentive programs, with special emphasis on nurturing and promoting local talent.

Corporate Social Responsibility

Conscious of its core value of ethical business practices, Chemanol is committed to playing a pivotal role in society as a responsible and caring petrochemicals company. In order to promote community welfare, the Company actively participates in programs and initiatives directed towards the development of educational, health and environmental awareness.

Corporate Governance

Chemanol aspires to the highest standards of corporate governance. The Company has implemented the provisions adopted in the List of Corporate Governance in the Kingdom of Saudi Arabia issued by the Council of the Capital Market Authority – in accordance with Resolution No. 1-212-2006 dated 21/10/1421AH corresponding to 12/11/2006 and in compliance with the listing and inclusion regulations dated 22/01/2012 – and also in accordance with the Company's bylaws.

Rising to the Challenge

Feedstock Allocation

Considering the high demand for natural gas by the local energy sector, which is forecast to grow at a CAGR of 8 per cent (source: Saudi Energy), it is expected that allocation to the petrochemical sector will be linked to optimal use in the manufacture of high value downstream products, in line with the Government's long-term industrial strategy. Established as speciality chemicals company, Chemanol will always endeavour to identify niche products that will complement its current basket of products, and ensure competitiveness of its supply chain.

Access to the Right Technologies

A high-value product is always centred on "restricted/ exclusive" technologies. Chemanol will continue its efforts to establish long-term strategic alliances that will result in joint ventures or partnerships to ensure access to reliable technology. Existing technology agreements include Haldor Topsoe methanol synthesis technology and formaldehyde technology, Davy Process methylamine and dimethyl technology, and Perstop pentaerythritol technology. In addition, Chemanol's in-house research and development has facilitated the development of several speciality product grades which reside in the domain of technology.

Talent Management

The rapid growth of the regional petrochemical sector places substantial pressure on the availability of human talent. Chemanol is pursuing plans to tap the full potential of its people by transforming the Company into a performance-driven organization. With the aim of attracting and retaining the best talent, Chemanol plans to nurture its work force by aligning professional and career development with the organization's vision, mission and objectives. It is the Company's strong belief that the right talent ensures sustainability and long-term growth.

Competitiveness

The regional petrochemicals industry continues to be increasingly competitive. As illustrated by its accreditation to ISO 9001:2000, Chemanol strives for continuous improvement and excellence in all functions in order to maintain its edge in this dynamic and competitive industry. Constantly innovating processes to improve productivity, as well as consistency in performance and delivery, will bring Chemanol closer to meeting high-end customer requirements and shareholder expectations. Chemanol is distinguished as one of the most integrated and low-cost methanol and derivatives production facilities in the world; and one of the largest formaldehyde producers in a single location globally, and the largest in the GCC. The commissioning of the Company's own methanol plant in mid-2010 eliminates dependency on market-priced methanol feedstock and provides Chemanol with a significant cost advantage over non-integrated producers.

Marketing

Our primary objectives are to fulfill our customers' needs, exceed their expectations and achieve higher customer satisfaction levels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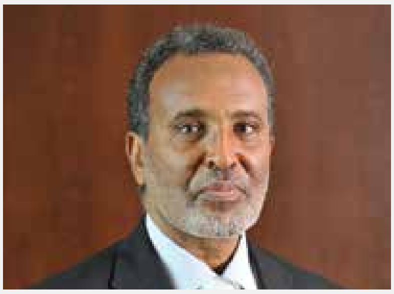
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1. Mr Khalid I. Al Rabiah

Chief Executive Officer

Mr Khalid Rabiah has over 28 years' experience, of which 18 have been spent in the areas of strategic and financial planning, and business development. Prior to joining Chemanol, he was Vice President-Finance at Saudi Arabian Amiantit Company. Mr Rabiah actively participated in executing Amiantit's ambitious growth strategy and geographic expansion. He holds a Bachelor's degree in Accounting from the University of Toledo, Ohio, USA.

2. Mr Mohammed Al Safadi

Vice President - Operations

Mr Mohammed Al Safadi has over 19 years' experience in the fields of petrochemical plant operations, pre-commissioning, commissioning, trouble-shooting and start-up. Prior to joining Chemanol, he was General Manager of the newly-established Bakri International Energy Group. Previously, Mr Al Safadi spent 19 years with SABIC, where he started his career at Petrokemya. He holds a BSc degree in Chemical Engineering from the King Saud University, Saudi Arabia; and has attended the Leadership Development Programme at London Business School, UK.

3. Dr Gasem Falattah

General Manager - Maintenance

Dr Gasem Falattah has over 19 years' experience in the petrochemical industry. Prior to joining Chemanol, he was Maintenance & Reliability Manager at the Advanced Petrochemical Company. Previously, he was with Saudi Aramco for 13 years, after starting his career as a Research Engineer at the King Fahd University of Petroleum & Minerals. Dr Falattah holds a PhD in Composite Engineering from the University of Newcastle, UK; an MSc in Mechanical Engineering and a BSc in Applied Mechanical Engineering from the King Fahd University of Petroleum & Minerals, Saudi Arabia; and has attended the Management Acceleration Programme at INSEAD. He has been a Member of the US National Association of Corrosion Engineers (NACE) since 1995.

4. Mr Khalid Moharrum

General Manager - Operations

Mr Khalid Moharrum has over 15 years' experience spent working for Chemanol. He started as a Shift Engineer and then progressed through various supervisory and management roles in production, operations, maintenance and project management, to his present position. Mr Moharrum has played an instrumental role in increasing formaldehyde capacity at Chemanol by 150,000 tons per year through the modification of two series reactors. He holds a BSc honours degree in Applied Chemical Engineering from the King Fahd University of Petroleum & Minerals, Saudi Arabia.

5. Mr Sanjeev Gokhale

General Manager - Marketing & Sales

Mr Sanjeev Gokhale has over 25 years' experience in petrochemicals, speciality and fine chemicals, agrochemicals, pharmaceuticals and fragrance chemicals. Prior to joining Chemanol, he was General Manager - Exports at SI Group India Limited. Previously, he worked with Lupin Agrochemicals (now Cheminova), Excel Industries, and Godrej & Boyce Manufacturing Company. Mr Gokhale holds a Master of Management Studies degree from SP Jain Institute of Management & Research, Mumbai, India; and a BTech degree in Chemical Engineering from the Institute of Technology, Banaras Hindu University, Varanasi, India.

6. Mr Khalil Afaghani

Chief Financial Officer

[Resigned October 2011]

7. Dr Mohamed Abdullahi

Manager - Business Development

Dr Mohamed Abdullahi has over 30 years' experience in chemicals and mining. Prior to joining Chemanol, he acted as a consultant for the development of several chemical and petrochemical projects in Saudi Arabia with international companies. Before this, he was Senior Vice President with APICORP, Project Development Manager with A. H. Algosaibi & Brothers Company, and a Research Scientist at King Fahd University of Petroleum & Minerals. Dr Abdullahi holds a PhD in Chemistry and a DIC in Physical Chemistry from Imperial College, University of London, UK; an MSc in Analytical Chemistry from Chelsea College, University of London, UK; and a BSc in Chemistry from Lafoole University, Somalia.

8. Mr Mohammed Al Ajmi

Manager - Human Resources

Mr Mohammed Al Ajmi has over 6 years' experience in the fields of human resources, employee relations, benefits and compensation, administration and general services, and government relations, gained with manufacturing and real estate companies. Prior to joining Chemanol, he was Human Resources & Administration Superintendent with ArcelorMittal. Previously, he was HR & Administration Manager with Al-Oula Real Estate Company, and Human Resources section head with Universal Metal Coating Company (UNICOIL). Mr Al Ajmi holds a Bachelor's degree in Education, and a Higher Studies Diploma in Management.

FINANCIAL STATEMENTS

For The Year Ended 31 December 2011

INDEPENDENT AUDITORS' REPORT

KPMG Al Fozan & Al Sadhan

Al Subeaei Towers
King Abdulaziz Road
P O Box 4803
Al Khobar 31952
Kingdom of Saudi Arabia

Tel +966 3 887 7241
Fax +966 1 887 7254
www.kpmg.com.sa
License No.
46/11/323 issued 11/3/1992

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, 2011 and the related statements of income, cash flows and changes in equity for the year then ended and the attached notes (1) through (24) 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, 2011, 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 18, 2012
Corresponding to: Rabi' Awal 26, 1433H

BALANCE SHEET

As at December 31, 2011
Expressed in Saudi Arabian Riyals

	Note	2011	2010
ASSETS			
Current assets			
Cash and cash equivalents	4	122,114,884	136,169,510
Margin deposits with bank		500,000	500,000
Trade receivables and prepayments	5	266,928,485	218,657,155
Inventories	6	117,460,295	83,242,482
Total current assets		507,003,664	438,569,147
Non-current assets			
Property, plant and equipment	7	2,465,144,620	2,598,882,383
Intangible assets	8	14,568,750	15,750,000
Deferred charges	9	4,741,092	7,696,356
Long term prepaid expenses	10	36,545,584	31,874,992
Total non-current assets		2,521,000,046	2,654,203,731
Total assets		3,028,003,710	3,092,772,878
LIABILITY AND EQUITY			
Current liabilities			
Trade payables and accruals	11	82,185,438	159,168,513
Short term loans	12	40,000,000	41,606,587
Current portion of long-term bank debts	12	124,790,000	449,283,766
Current portion of long term obligations	8	5,250,000	5,250,000
Zakat provision	18	3,996,440	4,579,858
Total current liabilities		256,221,878	659,888,724
Non-current liabilities			
Long-term bank debts	12	1,261,175,000	988,934,068
Long term obligations	8	3,087,500	7,900,000
Employees' end of service benefits		24,106,278	21,274,205
Total non-current liabilities		1,288,368,778	1,018,108,273
Total liabilities		1,544,590,656	1,677,996,997
EQUITY			
Share capital	13	1,206,000,000	1,206,000,000
Share premium	14	72,850,071	72,850,071
Statutory reserve		24,543,813	17,522,617
Retained earnings		180,019,170	118,403,193
Total equity		1,483,413,054	1,414,775,881
Total liabilities and equity		3,028,003,710	3,092,772,878

The accompanying notes 1 through 24 form an integral part of these financial statements.

STATEMENT OF INCOME

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

	Note	2011	2010
Sales		829,737,011	589,495,283
Cost of sales		(637,924,084)	(470,579,263)
Gross profit		191,812,927	118,916,020
Selling and distribution expenses	16	(59,994,571)	(57,516,506)
General and administrative expenses	17	(18,041,480)	(19,170,756)
Amortisation of deferred charges	9	(2,955,265)	(2,184,240)
Operating income		110,821,611	40,044,518
Other income, net		2,332,704	1,052,119
Financial charges		(39,942,354)	(29,007,407)
Income before Zakat		73,211,961	12,089,230
Zakat	18	(3,000,000)	(6,048,248)
Net income		70,211,961	6,040,982
Earnings per share	19	0.58	0.05

The accompanying notes 1 through 24 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

	Note	2011	2010
Cash flow operating activities			
Net income for the period		70,211,961	6,040,982
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation	7	151,433,588	95,317,423
Amortisation		10,009,558	7,184,248
Employees' end of service benefits, net		2,832,073	3,016,304
Zakat charge		3,000,000	6,048,248
Financial charges		13,004,198	26,324,751
Gain from disposal of property, plant and equipment		(756,306)	(8,379)
		249,735,072	143,923,577
Changes in operating assets and liabilities			
Trade receivable and prepayments		(48,271,330)	(75,674,007)
Inventories		(34,217,813)	(6,401,629)
Trade payable and accruals		(17,320,820)	14,957,057
Net movement in long term obligations		(4,812,500)	13,150,000
Financial charges paid		(21,065,113)	(182,656)
Zakat paid	18	(3,583,418)	(4,384,775)
Net cash provided by operating activities		120,464,078	85,387,567
Cash flow from investing activities			
Additions to property, plant and equipment		(17,996,957)	(204,505,145)
Deferred charges		-	(7,710,246)
Proceeds from disposal of property, plant and equipment		1,057,438	81,177
Additions to intangible assets		-	(2,600,000)
Net movement in amounts due to project contractors		(53,176,129)	(37,144,707)
Net movement in long term prepaid expenses		(10,543,635)	-
Net cash used in investing activities		(80,659,283)	(251,878,921)
Cash flow from financing activities			
Net movement in short term loans		(1,606,587)	(16,393,413)
Net movement in long term loans		(52,252,834)	48,613,621
Net cash (used in) / provided by financing activities		(53,859,421)	32,220,208
Net decrease in cash and cash equivalents		(14,054,626)	(134,271,146)
Cash and cash equivalents at the beginning of the period		136,169,510	270,440,656
Cash and cash equivalent at the end of the period	4	122,114,884	136,169,510
Non cash items			
Transfer of spares from assets under construction to inventory		-	19,817,728
Net transfer of intangible assets		-	13,150,000

The accompanying notes 1 through 24 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

	Share capital	Share premium	Statutory reserve	Retained earnings	Total
Balance at December 31, 2009	1,206,000,000	72,850,071	16,918,519	114,811,353	1,410,579,943
Net income for the year	-	-	-	6,040,982	6,040,982
Directors' remuneration	-	-	-	(1,845,044)	(1,845,044)
Transfer to statutory reserve	-	-	604,098	(604,098)	-
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**

The accompanying notes 1 through 24 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
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-mon-methylamine, di-methyl formamide, di-methyl carbon, penta aritheretol, 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 18, 2012.

(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 judgements

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.

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 note 5 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

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:

	Years
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.

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 ammortised 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 on hand and cash with banks which are 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

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.

4. CASH AND CASH EQUIVALENTS

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

	2011	2010
Cash in hand	6,760	26,423
Cash at bank on current accounts	122,108,124	107,305,887
Short term bank deposits	-	28,837,200
	122,114,884	136,169,510

5. TRADE RECEIVABLES AND PREPAYMENTS

Trade receivables and prepayments at December 31 comprise of the following:

	2011	2010
Trade accounts receivable	226,301,554	195,517,602
Advances to suppliers	31,833,048	16,853,994
Prepaid expenses	5,548,776	671,876
Other receivables	3,245,107	5,613,683
	266,928,485	218,657,155

6. INVENTORIES

Inventories at December 31 comprise of the following:

	2011	2010
Raw materials	23,732,299	9,546,561
Finished goods	16,357,239	13,502,842
Spare parts and supplies	77,370,757	60,193,079
	117,460,295	83,242,482

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

7. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the year ended December 31, 2011 is analyzed as under:

	Building and improvement on leasehold land	Furniture, fixtures and office equipment	Computers and software	Plant, equipwment, capital spares and motor vehicles	Capital work in progress (CWIP)	Catalyst	Total 2011	Total 2010
Cost								
Balance at January 1	356,403,817	15,619,857	10,058,653	2,494,876,432	33,205,778	23,270,342	2,933,434,879	2,748,956,517
Additions	231,510	149,034	1,982,973	4,457,271	7,802,839	3,373,330	17,996,957	204,505,145
Transfers from CWIP	-	248,883	2,272,040	30,655,373	(33,176,296)	-	-	-
Transfer to inventory	-	-	-	-	-	-	-	(19,817,729)
Disposals				(2,794,260)	-	-	(2,794,260)	(209,054)
Balance at December 31	356,635,327	16,017,774	14,313,666	2,527,194,816	7,832,321	26,643,672	2,948,637,576	2,933,434,879
Accumulated depreciation								
Balance at January 1	21,822,158	7,282,652	8,618,426	283,856,622	-	12,972,638	334,552,496	239,371,330
Charge for the year	10,802,162	1,761,867	1,024,834	127,436,484	-	10,408,241	151,433,588	95,317,423
Eliminated on disposals	-	-	-	(2,493,128)	-	-	(2,493,128)	(136,257)
Balance at December 31	32,624,320	9,044,519	9,643,260	408,799,978	-	23,380,879	483,492,956	334,552,496
Net book value								
At December 31, 2011	324,011,007	6,973,255	4,670,406	2,118,394,838	7,832,321	3,262,793	2,465,144,620	
At December 31, 2010	334,581,659	8,337,205	1,440,227	2,211,019,810	33,205,778	10,297,704		2,598,882,383

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 ll 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.

8. 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 management is amortising the intangible asset over twenty years, on the basis that this is the estimated useful life of the asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

9. DEFERRED CHARGES

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

	2011	2010
Cost		
At January 1	14,776,298	7,066,052
Additions during the year	-	7,710,246
At December 31	14,776,298	14,776,298
Accumulated amortization		
At January 1	7,079,942	4,895,702
Charge for the year	2,955,264	2,184,240
At December 31	10,035,206	7,079,942
Net book value at December 31	4,741,092	7,696,356

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

10. LONG TERM PREPAID EXPENSES

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

	2011	2010
Cost		
Cost		
At January 1	45,000,000	45,000,000
Additions during the year	10,543,635	-
At December 31	55,543,635	45,000,000
Accumulated amortization		
At January 1	13,125,008	8,125,000
Charge for the year	5,873,043	5,000,008
At December 31	18,998,051	13,125,008
Net book value at December 31	36,545,584	31,874,992

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

11. TRADE PAYABLES AND ACCRUALS

Trade payable and accruals as at December 31 comprise of the following:

	2011	2010
Trade accounts payable	46,500,384	51,408,652
Accrued expenses	34,496,379	52,795,883
Amount due to project contractor	227,036	9,083,495
Retention payable to project contractor	-	44,319,670
Amounts due to companies affiliated to shareholders	137,992	364,532
Advance from customers	823,647	1,196,281
	82,185,438	159,168,513

12. 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 are secured by promissory notes.

b. Long-term bank loans

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

	2011	2010
Saudi Industrial Development Fund (note a)	600,000,000	600,000,000
Murabaha facility from a syndicate of banks (note b)	635,965,000	512,217,834
Project cost overrun Murabaha Facility from a syndicate of banks (note b)	150,000,000	326,000,000
	1,385,965,000	1,438,217,834

Presented in the balance sheet as follows:

	2011	2010
Current portion shown under current liabilities	124,790,000	449,283,766
Non-current portion shown under non-current liabilities	1,261,175,000	988,934,068
	1,385,965,000	1,438,217,834

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

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 Overun 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.

13. SHARE CAPITAL

Share capital is divided into 120,600,000 shares (2010: 120,600,000 shares) of SR 10 each.

14. 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, 2011 (2010: SR 72,850,071).

15. 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.

16. SELLING AND DISTRIBUTION EXPENSES

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

	2011	2010
Employee costs	3,970,172	3,291,944
Freight	38,900,495	35,519,934
Sales commission	11,322,762	12,043,575
Advertisement and promotion	70,130	504,281
Others	5,731,012	6,156,772
	59,994,571	57,516,506

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

17. GENERAL AND ADMINISTRTIVE EXPENSES

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

	2011	2010
Employee costs	12,306,660	11,793,266
Depreciation	1,904,999	1,979,410
Travel and air fares	392,684	540,920
Professional fees	416,251	767,715
External services	839,118	1,250,008
Advertising	130,127	420,809
Utilities and common expenses	381,227	569,453
Rents	210,004	197,584
Spares and consumables	122,593	357,248
Others	1,337,817	1,294,343
	18,041,480	19,170,756

18. 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 2010 and paid Zakat accordingly and the assessment is awaited.

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

	2011	2010
For current year	3,916,249	4,579,858
For previous year	(916,249)	1,468,390
Balance at end of the year	3,000,000	6,048,248

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

	2011	2010
Capital	1,206,000,000	1,206,000,000
Adjusted equity and provision at the beginning of the year	1,476,914,645	1,487,236,908
Net adjusted income	(271,002,125)	(198,239,731)
Deductions	(2,255,262,563)	(2,311,802,858)
Zakat base	156,649,957	183,194,319

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

	2011	2010
Balance at beginning of the year	4,579,858	2,916,385
Charged during the year	3,000,000	6,048,248
Payment during the year	(3,583,418)	(4,384,775)
Balance at end of the year	3,996,440	4,579,858

NOTES TO THE FINANCIAL STATEMENTS

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19. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2011 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, 2011 of 120,600,000 shares.

20. CAPITAL COMMITMENTS

As at December 31, 2011, the Company had capital expenditure commitments of SR 4.77 million (2010: SR 23 million).

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

	2011	2010
Not later than 1 year	433,431	433,431
Later than 1 year but not later than 5 years	3,335,130	3,445,560
Later than 5 year till lease period	9,864,372	10,465,140
	13,632,933	14,344,131

21. 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 (2010: SR 8,238,977).

The cost of sales and expenses include amounts of SR 455,020 (2010: SR 3,497,080) in respect of purchase of inventories and services provided by companies affiliated to shareholders.

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

22. CONTINGENT LIABILITY

At December 31, 2011, the Company has a contingent liability of SR 43,978,168 (2010: SR 44,351,946) in respect of bank guarantees issued by the Company's banks in respect of bid bonds, contracts advance payments and performance bonds.

23. 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. Approximately SR 571 million of the sales are through export (2010: SR 384 million).

24. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011
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24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.