THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
CONVERTED INTO UNITED STATES DOLLARS
FOR THE YEAR ENDED DECEMBER 31, 2012

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(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
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THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Consolidated balance sheet
(All amounts in United States dollars thousands unless otherwise stated)

	Note	As at December 31, 2012	2011
Assets			
Current assets			
Cash and cash equivalents	5	**33,959**	104,180
Short-term bank deposits	6	**13**	355
Accounts receivable	7	**539,495**	466,102
Inventories	8	**395,184**	279,906
Prepayments and other receivables		**33,943**	33,354
		1,002,594	883,897
Non-current assets			
Investment in associates	9	**54,603**	60,991
Property, plant and equipment	10,13	**216,487**	209,254
Intangible assets	11	**3,396**	2,899
Deferred income tax assets	17	**2,626**	3,116
Other non-current assets		**6,296**	15,153
		283,408	291,413
Total assets		**1,286,002**	1,175,310
Liabilities			
Current liabilities			
Short-term borrowings	12	**435,504**	301,011
Current maturity of long-term borrowings	13	**25,701**	21,601
Current maturity of liabilities against capital leases	14	**-**	3,250
Accounts payable	15	**173,514**	151,810
Accrued and other liabilities	16	**81,447**	77,101
Zakat and taxes payable	17	**29,158**	39,572
		745,324	594,345
Non-current liabilities			
Long-term borrowings	13	**45,439**	59,867
Employee termination benefits	18	**24,614**	23,974
Warranty provisions	19	**14,070**	12,954
Other non-current liabilities		**3,113**	2,704
		87,236	99,499
Total liabilities		**832,560**	693,844
Equity			
Equity attributable to shareholders of the Company:			
Share capital	21	**308,000**	308,000
Statutory reserve	22	**42,617**	39,647
Retained earnings		**80,806**	93,065
Employees shares program and reserve	18	**(9,986)**	-
Currency translation adjustments		**(3,327)**	(4,581)
Total shareholders' equity		**418,110**	436,131
Non-controlling interests		**35,332**	45,335
Total equity		**453,442**	481,466
Total liabilities and equity		**1,286,002**	1,175,310
Contingencies and commitments	29		

The notes on pages from 6 to 25 form an integral part of these consolidated financial statements.

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Consolidated income statement
(All amounts in United States dollars thousands unless otherwise stated)

		Year ended December 31,	
	Note	**2012**	**2011**
Sales	4,20	**921,279**	950,035
Cost of sales	20	**(772,856)**	(778,598)
Gross profit		**148,423**	171,437
Operating expenses			
Selling and marketing	23	**(20,585)**	(23,358)
General and administrative	24	**(57,622)**	(61,605)
Income from operations		**70,216**	86,474
Other income (expenses)			
Share in net loss of associates	9	**(10,488)**	(3,029)
Financial charges, net	5,6,12,13,14,28	**(22,930)**	(19,277)
Other, net	25	**569**	(2,962)
Income before foreign income taxes, zakat and non-controlling interests		**37,367**	61,206
Foreign income taxes	17	**(2,576)**	(4,884)
Zakat	17	**(9,371)**	(13,664)
Income before non-controlling interests		**25,420**	42,658
Non-controlling interests		**4,270**	(2,325)
Net income for the year		**29,690**	40,333
Earnings per share (United States dollars):	27		
• Operating income		**0.62**	0.75
• Net income for the year		**0.26**	0.35

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THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Consolidated cash flow statement
(All amounts in United States dollars thousands unless otherwise stated)

	Note	Year ended December 31, 2012	2011
Cash flow from operating activities			
Net income for the year		**29,690**	40,333
Adjustments for non-cash items			
Share in net loss of associates	9	**10,488**	3,029
Gain from sale of investments	25	**-**	(3,456)
Depreciation, amortization and provisions		**30,366**	40,317
Deferred income tax	17	**868**	(295)
(Loss) income applicable to non-controlling interests		**(4,270)**	2,325
Changes in working capital			
Accounts receivable		**(73,954)**	(104,321)
Inventories		**(116,960)**	(46,659)
Prepayments and other receivables		**(107)**	(6,498)
Accounts payable		**20,035**	46,117
Accrued and other liabilities		**(10,196)**	(15,983)
Employee termination benefits		**567**	(564)
Net cash utilized in operating activities		**(113,473)**	(45,655)
Cash flow from investing activities			
Short-term bank deposits	6	**342**	35,147
Investments		**(3,660)**	(1,238)
Proceeds from disposal of investments		**-**	9,093
Dividends received from associates		**-**	274
Purchase of property, plant and equipment		**(30,743)**	(21,406)
Intangible assets and other		**8,178**	(7,998)
Net cash (utilized in) generated from investing activities		**(25,883)**	13,872
Cash flow from financing activities			
Increase in short-term borrowings		**132,373**	77,995
Proceeds from long-term borrowings		**60,106**	57,475
Repayments of long-term borrowings		**(69,385)**	(11,592)
Repayments of liabilities against capital leases		**(3,250)**	(3,250)
Dividends paid	26	**(37,484)**	(46,200)
Dividends paid by subsidiaries to non-controlling interests		**(1,018)**	(4,084)
Board of Directors' fee paid		**(480)**	(413)
Purchase of shares for employees shares program	18	**(11,135)**	-
Changes in non-controlling interests and other		**(592)**	1,612
Net cash generated from financing activities		**69,135**	71,543
Net change in cash and cash equivalents		**(70,221)**	39,760
Cash and cash equivalents at beginning of the year		**104,180**	64,420
Cash and cash equivalents at end of the year	5	**33,959**	104,180

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THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Consolidated statement of changes in shareholders' equity
(All amounts in United States dollars thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Employees shares program and reserve	Currency translation adjustments	Total
January 1, 2012		308,000	39,647	93,065	-	(4,581)	**436,131**
Net income for the year		-	-	29,690	-	-	**29,690**
Transfer to statutory reserve	22	-	2,970	(2,970)	-	-	**-**
Dividends	26	-	-	(38,500)	-	-	**(38,500)**
Board of Directors' fee		-	-	(479)	-	-	**(479)**
Purchase of shares for employees shares program	18	-	-	-	(11,135)	-	**(11,135)**
Charge for employees shares program	18	-	-	-	1,149	-	**1,149**
Currency translation adjustments		-	-	-	-	1,254	**1,254**
December 31, 2012		**308,000**	**42,617**	**80,806**	**(9,986)**	**(3,327)**	**418,110**
January 1, 2011		308,000	35,614	103,378	-	2,030	449,022
Net income for the year		-	-	40,333	-	-	40,333
Transfer to statutory reserve	22	-	4,033	(4,033)	-	-	-
Dividends	26	-	-	(46,200)	-	-	(46,200)
Board of Directors' fee		-	-	(413)	-	-	(413)
Currency translation adjustments		-	-	-	-	(6,611)	(6,611)
December 31, 2011		308,000	39,647	93,065	-	(4,581)	436,131

The notes on pages from 6 to 25 form an integral part of these consolidated financial statements.

(All amounts in United States dollars thousands unless otherwise stated)

1 General information

The Saudi Arabian Amiantit Company (the "Company" or "SAAC") and subsidiaries (collectively the "Group") consist of the Company and its various Saudi Arabian and foreign subsidiaries. The Group is principally engaged in manufacturing and selling various types of pipes and related products, licensing of related technologies, supply of pipe manufacturing machines, and water management services including related consultancy, engineering and operations.

The Company is a joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 2050002103 issued in Dammam on 17 Rabi'I 1388 H (June 13, 1968). The registered address of the Company is P.O. Box 589, First Industrial Area, Dammam 31421, Kingdom of Saudi Arabia.

Following is the list of principal operating subsidiaries included in the Group:

Subsidiary	Country of incorporation	Effective ownership percentage at December 31,	
		2012	**2011**
Amiantit Fiberglass Industries Limited (AFIL)	Saudi Arabia	**100**	100
Saudi Arabian Ductile Iron Pipe Co. Ltd. (SADIP)	Saudi Arabia	**100**	100
International Infrastructure Management and Operations Company Limited (AMIWATER)	Saudi Arabia	**100**	100
Amiantit Rubber Industries Limited (ARIL)	Saudi Arabia	**80**	80
Ameron Saudi Arabia Ltd. (ASAL)	Saudi Arabia	**69.70**	69.70
Bondstrand Limited (BSL)	Saudi Arabia	**60**	60
Saudi Arabia Concrete Products Ltd. (SACOP)	Saudi Arabia	**58.80**	58.80
Fiberglass Pipes Company Ltd. (FPC)	Saudi Arabia	**51**	51
Flowtite Technology Bahrain WLL (Ftech)	Bahrain	**100**	100
Amitech Germany GmbH	Germany	**100**	100
Jos Hansen & Soehne GmbH (Jos)	Germany	**70.25**	70.25
JR International Bau GmbH (JRI)	Germany	**70.25**	70.25
PWT Wasser- und Abwassertechnik GmbH (PWT)	Germany	**80**	80
Flowtite Technology A.S.	Norway	**100**	100
Subor Boru San. Tic. A.S.	Turkey	**50**	50
Amitech Poland Sp.z o.o.	Poland	**100**	100
Amitech Spain S.A.	Spain	**100**	100
Amitech Industrial Spain S.A.	Spain	**100**	100
Amiantit Fiberglass Industries (India) Pvt. Ltd.	India	**70**	70
Amitech Astana LLC	Kazakhstan	**51**	51
APS France S.A.S.	France	**100**	100
APS Romania SRL	Romania	**100**	100
APS Norway A.S.	Norway	**100**	100

Ownership interests in the subsidiaries are generally registered in the name of SAAC or in the name of certain intermediate holding companies.

The original consolidated financial statements in Saudi Riyal were authorized for issue by the Board of Directors on February 3rd, 2013.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

2.2 Critical accounting estimates and judgments

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

2.3 Investments

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

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

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated.

(b) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, which is adjusted subsequently for impairment loss, if any.

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

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

2.4 Segment reporting

(a) Business segment

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

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

(b) Geographical segment

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

2.5 Foreign currencies

(a) Reporting currency

The Company's principal reporting and functional currency is Saudi Riyals. Functional currencies of Group's subsidiaries located outside Saudi Arabia are generally the currencies of the respective country of domicile. The accompanying consolidated financial statement in US dollar have been prepared for the convenience of readers outside Saudi Arabia, using a conversion rate of US dollars 1 = Saudi riyals 3.75 which approximates the exchange rate prevailing during all periods presented. Such transaction from Saudi Riyals to US dollars did not result in any significant translation adjustment. The accompanying consolidated financial statements expressed in US dollars are not intended for filling with any regulatory agencies.

(b) Transactions and balances

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

(c) Group companies

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

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

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

Dividends received from subsidiaries and associates are translated at the exchange rate in effect at the transaction date.

When investment in foreign subsidiaries and associates is disposed off or sold, currency translation adjustments that were recorded in equity are recognized in the income statement as part of gain or loss on disposal or sale.

2.6 Cash and cash equivalents and short-term deposits

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date. Short-term deposits represent time deposits with commercial banks with maturities of more than three months and less than one year.

2.7 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income

statement and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the income statement.

2.8 Inventories

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

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

2.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, except construction in progress which is stated at cost. Land is not depreciated. Depreciation is charged to the income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Buildings and land improvements	3 - 35
• Plant, machinery and equipment	4 - 20
• Furniture, fixtures and office equipment	3 - 8

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

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

2.10 Deferred charges

Costs that are not of benefit beyond the current period are charged to the income statement, while costs that will benefit future periods are capitalized.

2.11 Patents, trademarks and licenses

Expenditure to acquire patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives, but not exceeding twenty years. Patents, trademarks and licenses are carried at costs less accumulated amortization.

2.12 Impairment of non-current assets

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

2.13 Borrowings

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

2.14 Capital leases

The Group accounts for property, plant and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to the income statement by applying the straight-line method at the rates applicable to the related assets.

2.15 Accounts payable and accruals

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

2.16 Provisions

Warranty provisions - The Group offers warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Warranty provisions are charged to "Cost of sales" in the income statement.

Onerous contracts - Provision against onerous contracts are recognized when the Group expects that the costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Such provisions are charged to "Cost of sales" in the income statement.

2.17 Zakat and taxes

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Taxes (the "DZIT"). Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income taxes. Income tax provisions related to the foreign shareholders in such subsidiaries are charged to the non-controlling interests. Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the income statement. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

The Company and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders of the Saudi Arabian subsidiaries, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile which are charged to the income statement.

Deferred income taxes are recognized on carry-forward tax losses and all major temporary differences between financial income and taxable income to the extent that it is probable that future taxable income will be available against which such carry-forward tax losses and the temporary differences can be utilized. Deferred income taxes are determined using tax rates which have been enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2.18 Employee benefits

(i) Employee termination benefits

Employee termination benefits required by the Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the income statement. The liability is calculated as the current value of the vested benefits to which the employee is entitled should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

The foreign subsidiaries provide for employee termination and other benefits as required under the laws of their respective countries of domicile. There are no funded or unfunded benefit plans established by the foreign subsidiaries, except for APS Norway A.S and Flowtite Technology A.S., which fund a defined benefit plan through an outside insurance company, and Jos Hansen & Soehne GmbH which funds a defined benefit pension plan.

(ii) Employee share ownership plan

The Company operates share based plan under which the employees' service cost of share options granted to them is measured as fair value of the options on the date on which the options are granted. This cost is recognized as an expense over the period in which service conditions are fulfilled by the employees, ending on the date on which the relevant employees become fully entitled to the shares (the "vesting date"). The cumulative expense recognized, for the equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Company's best estimate of the number of options that will ultimately vest. The charge for a period recorded in the income statement represents the movement in cumulative expense recognized as at the beginning and end of that period.

2.19 Employees share option shares

Shares purchased by SAAC for employee share ownership plan are recorded at cost and presented as a deduction from equity as adjusted for any transaction costs, dividends and gains or losses on sale of such shares. Subsequent to the purchase, these shares are carried at the amount equal to the consideration paid.

These shares are acquired by the SAAC with the approval of the Capital Market Authority ("CMA") in Saudi Arabia, primarily for discharging its obligation under its employee share ownership plan.

2.20 Revenues

Sales are recognized upon delivery of products or on the performance of services. Revenues are shown net of expenses primarily related to discounts and transportation expenses, and after eliminating sales within the Group.

Revenues on long-term contracts are recognized on the percentage of completion basis. Percentage of completion is determined by comparison of contract costs incurred to date with estimated total costs. Changes in cost estimates and provisions for estimated losses on uncompleted contracts, if any, are recognized in the period they are determined.

2.21 Selling, marketing and general and administrative expenses

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

2.22 Dividends

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

2.23 Derivative financial instruments

Derivative financial instruments are initially recorded at cost, if any, and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the income statement as they arise and the resulting positive and negative fair values are reported under current assets and liabilities, respectively, in the balance sheet.

2.24 Operating leases

Rental expenses under operating leases are charged to the income statement over the period of the respective lease. Rental income is recognized on the accrual basis in accordance with the terms of the contracts.

2.25 Reclassifications

Certain amounts in the accompanying 2011 financial statements have been reclassified to conform with 2012 presentation.

3 Financial instruments and risk management

Financial instruments carried on the balance sheet include cash and cash equivalents, short-term deposits, accounts and other receivable, investments, short-term and long-term borrowings, liabilities against capital leases, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

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

Risk management is carried out by senior management. The most important types of risks are currency risk, fair value and cash flow interest rate risks and credit risk.

3.1 Currency risk

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

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group also has investments in foreign subsidiaries and associates whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between Saudi Riyals against Euros, Egyptian pounds and certain other currencies and are recorded as a separate component of shareholders' equity in the accompanying consolidated financial statements. The Group's management monitors such exposures and considers the use of forward exchange contracts and borrowings denominated in the relevant foreign currency to hedge the foreign currency exposures. However, there were no material forward exchange contracts or other currency hedging instruments outstanding at December 31, 2012 and 2011.

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group's interest rate risks arise mainly from the time deposits and bank borrowings, which are at floating rate of interest and are subject to re-pricing on a regular basis. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps the Group agrees with other parties to exchange, at specified intervals (generally on quarterly basis), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. Management monitors the changes in interest rates and believes that fair value and cash flow interest rate risks to the Group are not significant.

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3.3 Price risk

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

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful accounts.

3.5 Liquidity risk

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

3.6 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group financial instruments are compiled under the historical cost convention, except for derivative financial instruments which are carried at fair values, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

4 Segment information

The Group operates principally in the following business segments:

(i) Manufacturing and selling various types of pipes;
(ii) Development and licensing of technologies related to production of various types of pipes, construction and supply of related pipe manufacturing machines; and
(iii) Water management and related consultancy, engineering and operations.

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

	Pipe manufacturing	Technology	Water management	Total
2012				
Sales	**820,101**	**5,947**	**95,231**	**921,279**
Net income (loss)	**37,139**	**(5,322)**	**(2,127)**	**29,690**
Financial charges	**(20,821)**	**(3)**	**(2,106)**	**(22,930)**
Depreciation, amortization and impairment	**(22,530)**	**(438)**	**(836)**	**(23,804)**
Property, plant and equipment	**200,876**	**5,699**	**9,912**	**216,487**
Total assets	**1,161,462**	**30,410**	**94,130**	**1,286,002**

(All amounts in United States dollars thousands unless otherwise stated)

2011				
Sales	821,570	6,535	121,930	950,035
Net income (loss)	39,211	(2,830)	3,952	40,333
Financial charges	(17,655)	11	(1,633)	(19,277)
Depreciation, amortization and impairment	(28,675)	(344)	(549)	(29,568)
Property, plant and equipment	194,398	4,562	10,294	209,254
Total assets	1,061,230	20,943	93,137	1,175,310

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

	Saudi Arabia	**Europe and other countries**	**Total**
2012			
Sales	**626,034**	**295,245**	**921,279**
Non-current assets:			
• Property, plant and equipment	**139,511**	**76,976**	**216,487**
• Other non-current assets	**48,045**	**18,876**	**66,921**
2011			
Sales	572,496	377,539	950,035
Non-current assets:			
• Property, plant and equipment	127,657	81,597	209,254
• Other non-current assets	62,622	19,537	82,159

5 Cash and cash equivalents

	2012	**2011**
Cash in hand	**617**	395
Cash at bank	**31,086**	47,535
Time deposits	**2,256**	56,250
	33,959	104,180

Time deposits are held by commercial banks and yield financial income at prevailing market rates.

6 Short-term bank deposits

This represents deposits held with a commercial bank and yields financial income at prevailing market rates.

7 Accounts Receivable

	2012	**2011**
Trade	**552,860**	477,935
Related parties	**16,793**	18,314
	569,653	496,249
Less: provision for doubtful debts	**(30,158)**	(30,147)
	539,495	466,102

At December 31, 2012, trade accounts receivable includes retention receivable amounting to US dollars 9.8 million (2011: US dollars 8.4 million) principally related to Saudi Arabian subsidiaries which are collectable upon completion of certain contractual milestones and presentation of final zakat and income tax certificates for certain years by the Saudi Arabian subsidiaries.

(All amounts in United States dollars thousands unless otherwise stated)

Movement in provision for doubtful debts is as follows:

	2012	2011
January 1	**30,147**	28,945
Additions	**1,358**	2,215
Adjustments	**644**	671
Write-offs	**(2,137)**	(924)
Currency translation adjustments	**146**	(760)
December 31	**30,158**	30,147

8 Inventories

	2012	2011
Raw materials	**186,303**	153,086
Work in process	**29,519**	15,329
Spare parts and supplies, held not for sale	**25,833**	22,855
Finished products	**148,885**	93,976
Goods in transit	**23,389**	14,122
	413,929	299,368
Less: provision for inventory obsolescence	**(18,745)**	(19,462)
	395,184	279,906

Inventories at December 31, 2012 have been written-down by approximately US dollars 1.5 million (2011: US dollars 1.6 million) to their net realizable value.

Movement in provision for inventory obsolescence is as follows:

	2012	2011
January 1	**19,462**	21,642
(Reversals) additions	**(654)**	2,138
Write-offs	**(61)**	(3,601)
Adjustments	**-**	(492)
Currency translation adjustments	**(2)**	(225)
December 31	**18,745**	19,462

(All amounts in United States dollars thousands unless otherwise stated)

9 Investment in associates

	2012	**2011**
Amiantit Fiberglass Egypt Co. (AFEC)	**11,415**	13,517
Chongqing Polycom Int'l Corporation (CPIC)	**24,897**	27,468
Ameron Egypt (AE)	**8,849**	9,902
Amitech Maroc (AM)	**1,594**	3,358
Amiantit Qatar Pipe Co. Ltd. (AQAP)	**5,357**	5,487
International Water Distribution Company (TAWZEA)	**7,027**	5,566
Other	**12,865**	12,616
	72,004	77,914
Accumulated impairment losses	**(17,401)**	(16,923)
	54,603	60,991

Movement in investment in associates is as follows:

	2012	**2011**
January 1	**60,991**	78,732
Additions	**3,660**	74
Disposals	**(147)**	(5,700)
Adjustments	**2,078**	16
Share in net (loss)	**(10,488)**	(3,029)
Dividends	**-**	(606)
Currency translation adjustments	**(1,014)**	666
Impairment losses recognized during the year	**(477)**	(9,162)
December 31	**54,603**	60,991

During 2012 and 2011, management recognized impairment losses due to expected decline in their economic performance of certain associates resulting in their carrying values being higher than recoverable amounts.

The summarized financial information of the principal associates, based on their most recent available financial information is as follows:

Name	**County of incorporation**	**Assets**	**Liabilities**	**Revenues**	**Net income (loss)**	**Group's ownership interest**
<u>2012</u>						
AFEC	Egypt	**45,123**	**23,752**	**9,950**	**(1,400)**	**50%**
CPIC	China	**1,323,186**	**824,296**	**251,148**	**(22,632)**	**5.5%**
AE	Egypt	**17,139**	**9,134**	**377**	**(1,110)**	**49%**
AM	Morocco	**46,080**	**41,208**	**28,291**	**(1,095)**	**50%**
AQAP	Qatar	**33,134**	**17,713**	**17,483**	**1,537**	**40%**
TAWZEA	Saudi Arabia	**65,663**	**49,426**	**16,202**	**(6,414)**	**50%**

(All amounts in United States dollars thousands unless otherwise stated)

2011

AFEC	Egypt	52,544	28,646	20,878	(2,538)	50%
CPIC	China	1,297,709	777,046	487,557	6,646	5.5%
AE	Egypt	19,535	10,023	955	(1,510)	49%
AM	Morocco	36,081	26,927	11,186	(2,666)	50%
AQAP	Qatar	30,121	16,404	12,563	1,228	40%
TAWZEA	Saudi Arabia	60,432	49,426	8,188	(2,642)	50%

The Group has made certain adjustments to the above financial information for the intervening period to December 31, 2012 to account for its equity share for the year ended December 31, 2012 and 2011.

10 Property, plant and equipment

	January 1, 2012	Additions	Disposals / transfers	Currency translation adjustments	December 31, 2012
2012					
Cost					
Land	22,564	3,543	-	161	**26,268**
Buildings and land improvements	122,749	4,866	(19)	1,297	**128,893**
Plant, machinery and equipment	380,032	17,031	(7,235)	2,555	**392,383**
Furniture, fixtures and office equipment	31,187	2,539	(720)	427	**33,433**
Construction in progress	8,228	16,135	(12,169)	23	**12,217**
	564,760	44,114	(20,143)	4,463	**593,194**
Accumulated depreciation and impairment					
Buildings and land improvements	(61,347)	(4,698)	18	(477)	**(66,504)**
Plant, machinery and equipment	(270,078)	(18,470)	6,178	(1,844)	**(284,214)**
Furniture, fixtures and office equipment	(24,081)	(2,194)	573	(287)	**(25,989)**
	(355,506)	(25,362)	6,769	(2,608)	**(376,707)**
	209,254				**216,487**

(All amounts in United States dollars thousands unless otherwise stated)

	January 1, 2011	Additions	Disposals / transfers	Currency translation adjustments	December 31, 2011
2011					
Cost					
Land	18,644	4,665	-	(745)	22,564
Buildings and land improvements	125,427	6,003	(3,277)	(5,404)	122,749
Plant, machinery and equipment	389,676	13,683	(12,217)	(11,110)	380,032
Furniture, fixtures and office equipment	30,724	3,382	(1,921)	(998)	31,187
Construction in progress	14,869	3,870	(10,196)	(315)	8,228
	579,340	31,603	(27,611)	(18,572)	564,760
Accumulated depreciation and impairment					
Buildings and land improvements	(60,571)	(4,531)	2,276	1,479	(61,347)
Plant, machinery and equipment	(270,914)	(18,938)	12,296	7,478	(270,078)
Furniture, fixtures and office equipment	(24,404)	(2,040)	1,673	690	(24,081)
	(355,889)	(25,509)	16,245	9,647	(355,506)
	223,451				209,254

Buildings and plant, machinery and equipment of the Company and certain of its Saudi Arabian subsidiaries are constructed on land parcels leased under various operating lease agreements at nominal annual rents from the Saudi Arabian government for 25 Hijra years under renewable operating leases.

11 Intangible assets

	Goodwill	Patents, trademarks and licenses	Other deferred charges and pre-operating costs	Total
January 1, 2012	2,587	84	228	**2,899**
Additions	-	-	574	**574**
Amortization	-	(42)	(65)	**(107)**
Currency translation adjustments	30	-	-	**30**
December 31, 2012	**2,617**	**42**	**737**	**3,396**
January 1, 2011	1,402	139	342	1,883
Additions	1,187	-	-	1,187
Amortization	(1)	(55)	(65)	(121)
Impairment losses	-	-	(49)	(49)
Currency translation adjustments	**(1)**	**-**	**-**	(1)
December 31, 2011	**2,587**	**84**	**228**	2,899

12 Short-term borrowings

	2012	2011
Bank overdrafts	**7,065**	3,719
Short-term bank loans	**428,439**	297,292
	435,504	301,011

These represent borrowing facilities obtained from various commercial banks and bear financial charges at prevailing market rates which are based on inter-bank offer rate.

(All amounts in United States dollars thousands unless otherwise stated)

Total unused short-term bank credit facilities available to the Group at December 31, 2012 were approximately US dollars 0.3 million (2011: US dollars 0.3 million).

At December 31, 2012 approximately 5.2% (2011: 9.2%) of the short-term bank borrowings were collateralized by assignment of trade accounts receivable and pledge of inventories.

12.1 Currency denomination

The carrying values of the short-term borrowings are denominated in following currencies:

	2012	**2011**
Saudi Riyals	**402,973**	287,169
Euros	**6,972**	5,673
US dollars	**3,985**	-
Indian rupees	**5,183**	5,776
Other	**16,391**	2,393
	435,504	301,011

13 Long-term borrowings

	Note	**2012**	**2011**
Saudi Industrial Development Fund (“SIDF”) loans	13.1	**3,573**	5,093
Commercial bank loans	13.2	**64,956**	73,647
Loans from non-controlling interest	13.3	**2,611**	2,728
		71,140	81,468
Current maturity shown under current liabilities		**(25,701)**	(21,601)
		45,439	59,867

13.1 SIDF loans

These represent loans obtained by a Saudi Arabian subsidiary from SIDF. The covenants of the loans agreements require the subsidiary to maintain certain levels of financial condition, place limitations on dividend distributions and on annual capital and rental expenditures. These loans do not bear financial charges and are secured by a mortgage on property, plant and equipment of the subsidiary.

13.2 Commercial bank loans

The Company and certain subsidiaries have obtained loan facilities from various commercial banks. These loans are mainly denominated in Saudi Riyals, US dollars, Euros and Indian rupees. These loans generally bear financial charges based on prevailing market rates. The aggregate maturities of these loans, based on their respective repayment schedules, are spread in 2012 through 2018. Certain of these loans are secured by mortgage on the property, plant and equipment.

The covenants of some of the short-term and long-term borrowing facilities require the Group to maintain certain level of financial conditions, require lenders’ prior approval for dividends distribution above a certain amount and limit the amount of annual capital expenditure and certain other requirements.

13.3 Loans from non-controlling interest

These represent US dollars denominated loans from non-controlling interest of a foreign subsidiary. Such loans do not carry any financial charges and are payable in unequal quarterly installments ending in 2017.

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13.3 Currency denomination

The carrying values of the long-term borrowings are denominated in following currencies:

	2012	2011
Saudi Riyals	**58,573**	53,299
Euros	**6,640**	11,743
US dollars	**2,822**	1,590
Indian rupees	**3,105**	4,079
Other	**-**	10,758
	71,140	81,469

13.4 Maturity profile of long-term borrowings

Years ending December 31:	2012	2011
2012	**-**	21,602
2013	**25,701**	34,337
2014	**23,968**	20,604
2015	**17,049**	2,835
2016	**1,773**	1,281
2017	**2,091**	682
Thereafter	**558**	128
	71,140	81,469

14 Liabilities against capital leases

During 2008, a Saudi Arabian subsidiary sold and leased back certain plant and machinery under a capital lease agreement with a financial institution. The lease payments under such agreement were due in semi-annual installments which were completed during 2012.

15 Accounts payable

	2012	2011
Trade	**173,514**	151,560
Related parties	**-**	250
	173,514	151,810

(All amounts in United States dollars thousands unless otherwise stated)

16 Accrued and other liabilities

	Note	2012	2011
Salaries, wages and benefits		**12,174**	12,093
Advances from customers		**25,758**	24,076
Provisions against claims and onerous contracts		**4,960**	5,377
Derivative financial instruments (negative fair values)	28	**116**	513
Sales agency fees		**4,595**	4,529
Financial charges		**4,523**	2,268
Accrued expenses and other		**29,321**	28,245
		81,447	77,101

17 Zakat and taxes matter

17.1 Components of zakat base

The Group's Saudi Arabian subsidiaries file separate zakat and income tax declarations on unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulation are principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less deduction for the net book value of property, plant and equipment, investments and certain other items.

17.2 Provision for zakat and taxes at December 31

	2012	2011
Zakat for SAAC	**9,599**	8,702
Zakat and income taxes for Saudi Arabian subsidiaries	**13,988**	19,061
Income taxes and other taxes for foreign subsidiaries	**5,571**	11,809
	29,158	39,572

17.3 Income taxes related to foreign subsidiaries charged to the income statement

	2012	2011
Current income tax charges	**1,708**	5,179
Deferred income tax charges (credits)	**868**	(295)
	2,576	4,884

Movements in deferred income tax assets for the years ended December 31, were as follows:

	2012	2011
January 1	**3,116**	3,004
(Charges) credits	**(868)**	295
Currency translation adjustments	**378**	(183)
December 31	**2,626**	3,116

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17.4 Provision for zakat charged to the income statement

	2012	2011
Zakat for SAAC	**2,796**	4,992
Share of SAAC in zakat of subsidiaries	**6,575**	8,672
	9,371	13,664

17.5 Status of assessments

The Company and the Saudi Arabian subsidiaries have received final or restricted zakat and income tax certificates for the years through 2011.

18 Employee benefits

18.1 Employee termination benefits

	2012	2011
January 1	**23,974**	24,765
Provisions	**3,240**	2,518
Payments	**(2,672)**	(3,359)
Adjustments	**-**	256
Currency translation adjustments	**72**	(206)
December 31	**24,614**	23,974

18.2 Employee share ownership plan and reserve

The Company has implemented an Employee Share Ownership Plan ("ESOP"), which provides an award for 3 year service to certain levels of employees effective January 1, 2012. These employees, subject to their subscription to ESOP, completing employment with the Group for a period of three years and maintaining required level of performance, will be given the Company's shares at no cost.

The fair value of such options is measured on the basis of the market-price of the Company's shares on the date of grant of Saudi Riyals 15.75 per share (US dollars 4.20 per share). The Company has recorded expense amounting to US dollars 1.1 million related to such options for 2012.

Following is the movement in share options during the year ended December 31, 2012:

Outstanding at January 1	**-**
Subscribed during the year	**881,500**
Forfeited during the year	**(60,500)**
Outstanding at December 31	**821,000**

The remaining contractual life of these options at December 31, 2012 is 2 years.

The Company has purchased 2.5 million of its shares, through a financial institution, for the purpose of ESOP which have been recorded under "Employees shares program and reserve" in the statement of changes in shareholders' equity in the accompanying consolidated financial statements. Employees shares program and reserve included cost of shares purchased and proportionate fair value of the options granted during 2012 and outstanding at December 31, 2012 as follow:

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Cost of the share purchases for employees share program	**11,135**
Employees shares option program reserve	**(1,149)**
	9,986

19 Warranty provisions

	2012	2011
January 1	**12,954**	13,453
Additions, net	**1,474**	973
Utilizations and adjustments	**(394)**	(1,301)
Currency translation adjustments	**36**	(171)
December 31	**14,070**	12,954

These represent long-term provisions for expected future claims against warranties provided primarily by the pipe manufacturing segment of the Group.

20 Related party matters

The Group has transactions with their respective non-controlling interests, other companies affiliated with such shareholders and other associates (collectively the “related parties”).

Significant transactions with related parties in the normal course of business included in the consolidated financial statements are summarized below:

	2012	2011
Sales	**2,712**	7,031
Purchases	**3,033**	3,645
Costs and expenses charged	**187**	514

21 Share capital

The share capital of the Company as of December 31, 2012 and 2011 was comprised of 115.5 million ordinary shares stated at Saudi Riyals 10 (US dollars 2.7) per share.

22 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve is currently not available for distribution to the shareholders of the Company.

(All amounts in United States dollars thousands unless otherwise stated)

23 Selling and marketing expenses

	2012	2011
Salaries and benefits	**11,653**	13,378
Traveling	**2,956**	3,209
Sales promotion	**3,052**	3,497
Information technology and communication	**388**	516
Depreciation	**124**	141
Other	**2,412**	2,617
	20,585	23,358

24 General and administrative expenses

	2012	2011
Salaries, wages and benefits	**31,968**	33,045
Provision for doubtful debts	**1,358**	2,215
Maintenance	**606**	435
Traveling	**2,653**	2,643
Professional services	**7,267**	8,619
Depreciation and amortization	**2,341**	2,373
Information technology and communication	**4,501**	4,032
Other	**6,928**	8,243
	57,622	61,605

25 Other incomes (expenses)

	Note	2012	2011
Impairment losses against investments, plant and machinery and intangible assets	9,10,11	**(778)**	(9,856)
Gain from sale of investments		**-**	2,614
Provision for settlement of claims against foreign subsidiaries		**-**	733
Foreign exchange differences		**47**	(1,991)
Miscellaneous income		**1,300**	5,538
		569	(2,962)

26 Dividends

The shareholders of the Company approved dividends of Saudi Riyals 1.25 (US dollars 0.33) per share for the year 2011, amounting to US dollars 38.5 million, during their annual General Assembly meeting held on February 29, 2012. Such dividends were fully paid during the year.

27 Earnings per share

Earnings per share for the years ended December 31, 2012 and 2011 have been computed by dividing the operating income and net income for each years by weighted average number of 112,984,309 shares outstanding at December 31, 2012 (2011: 115,500,000 shares), after considering the effect of purchase of shares as mentioned in Note 18.

28 Derivative financial instruments

At December 31, 2012, the Company had outstanding interest rate swap agreements with a commercial bank with negative fair values of US dollars 0.1 million (2011: US dollars 0.5 million). The reversal in negative fair values has been recorded in the income statement and included in “Financial charges” with a corresponding reduction in liability recorded under “Accrued and other liabilities”. The interest rate swap arrangements will mature during 2013.

29 Contingencies and commitments

(i) The Group was contingently liable for bank guarantees issued in the normal course of the business amounting to US dollars 185.2 million at December 31, 2012 (2011: US dollars 133.4 million). SAAC, collectively with other shareholder of an associate, is also contingently liable for a corporate guarantee amounting to US dollars 77.7 million (2011: US dollars 69.3 million) in relation to borrowing facilities of the associate.

(ii) The capital expenditure contracted by the Group but not yet incurred till December 31, 2012 was approximately US dollars 5.7 million (2011: US dollars 6.4 million).