ALUJAIN CORPORATION
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
AND INDEPENDENT AUDITORS' REPORT

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alujain Corporation
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying consolidated balance sheet of **Alujain Corporation** (a Saudi Joint Stock Company) (the "Company") and its subsidiary (collectively "The Group") as of December 31, 2011 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company to comply with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and

- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's bylaws with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By:
Sami Farah
Licence Number 168

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICE WATER HOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

February 25, 2012

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Consolidated balance sheet
(All amounts in Saudi Riyals thousand unless otherwise stated)

	Note	As at December 31, 2011	2010
ASSETS			
Current assets			
Cash and cash equivalents	4	**86,302**	311,944
Investments in Murabaha Funds		**3,513**	7,523
Accounts receivable	5	**97,384**	118,485
Prepayments and other receivables	6	**32,802**	76,115
Due from related parties	7	**4,830**	5,172
Inventories	8	**298,005**	214,741
		522,836	733,980
Non-current assets			
Security deposit	25	**31,529**	31,277
Investments	9	**13,181**	13,485
Projects under study	10	**11,586**	5,479
Advance against investment	11	**11,646**	-
Intangible assets	12	**48,738**	58,132
Property, plant and equipment	13	**2,715,788**	2,717,078
		2,832,468	2,825,451
Total assets		**3,355,304**	3,559,431
Liabilities and shareholders' equity			
Current liabilities			
Current portion of long-term loans	14	**278,280**	188,968
Accounts payable		**170,921**	117,912
Accruals and other liabilities	15	**181,546**	193,057
Due to related parties	7	**9,045**	2,488
Zakat provision	16	**8,541**	14,516
		648,333	516,941
Non-current liabilities			
Long-term loans	14	**1,654,063**	1,979,221
Derivative financial instruments	17	**106,998**	132,796
Employees' termination benefits	18	**12,643**	10,624
		1,773,704	2,122,641
Total liabilities		**2,422,037**	2,639,582
Equity			
Equity attributable to shareholders of the Company:			
Share capital (69,200,000 shares of SR 10 per share)		**692,000**	692,000
Statutory reserve	19	**17,316**	17,316
Cumulative changes in fair values		**(49,997)**	(62,993)
Accumulated deficit		**(102,111)**	(92,159)
Total shareholders' equity		**557,208**	554,164
Minority interest		**376,059**	365,685
Total equity		**933,267**	919,849
Total liabilities and equity		**3,355,304**	3,559,431

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Consolidated income statement
(All amounts in Saudi Riyals thousand unless otherwise stated)

	Note	Year ended December 31, 2011	2010
Sales		**1,471,866**	852,133
Cost of sales		**(1,313,054)**	(673,116)
Gross profits		**158,812**	179,017
Operating expenses			
Selling, distribution and general and administrative expenses	21	**(64,293)**	(73,569)
Income from operations		**94,519**	105,448
Other income (expenses)			
Financial charges	14	**(95,094)**	(36,900)
Project under study written-off	10	**(5,110)**	-
Capital gain on sale of shares	22	**-**	11,301
Foreign currency exchange gain		**3,426**	6,079
Derivative financial instruments	17	**3,157**	(758)
Amortization of intangible assets	12	**(9,394)**	(3,870)
Impairment loss on delay of plant start-up	13	**-**	(177,750)
Insurance compensations on delay of plant start-up	13	**-**	46,500
Contractor's compensations on delay of plant start-up	13	**-**	131,250
Other income		**1,134**	663
Impairment provision against available for sale investment	9	**(304)**	(631)
(Loss) income before zakat and minority interest		**(7,666)**	81,332
Zakat	16	**(1,557)**	(7,532)
(Loss) income before minority interest		**(9,223)**	73,800
Minority interest		**(729)**	(31,618)
Net (loss) income for the year		**(9,952)**	42,182
(Loss) earnings per share:		(Saudi Riyals)	
Income from operations	20	**1.37**	1.52
Non operating loss	20	**(1.48)**	(0.35)
Net (loss) income for the year	20	**(0.14)**	0.61

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Consolidated cash flow statement
(All amounts in Saudi Riyals thousand unless otherwise stated)

	Note	Year ended December 31, 2011	2010
Cash flow from operating activities			
Net (loss) income for the year		**(9,952)**	42,182
Adjustments for non-cash items			
Depreciation	13	**143,592**	60,563
Amortization of intangible assets	12	**9,394**	3,870
Impairment provision against available for sale investment	9	**304**	631
Project under study written-off		**5,110**	-
Zakat provision	16	**1,557**	7,532
Derivative financial instruments		**(3,157)**	758
Capital gain on sale of shares	22	**-**	(11,301)
Gain on sale of property and equipment		**(21)**	-
Income from investments in Murabaha Funds		**(35)**	(67)
Gain applicable to minority interest		**729**	31,618
Employees' termination benefits provision	18	**3,106**	3,316
Financial charges		**95,094**	36,900
Provision for slow moving inventories		**275**	366
Changes in working capital:			
Accounts receivable		**21,101**	(59,945)
Prepayments and other receivables		**43,313**	(15,111)
Due from related parties		**342**	(3,449)
Inventories		**(83,539)**	(47,426)
Accounts payable		**43,364**	34,755
Accruals and other liabilities		**(11,511)**	(69,522)
Due to related parties		**6,557**	(8,927)
Employees' termination benefits paid	18	**(1,087)**	(1,227)
Zakat paid	16	**(7,532)**	(1,288)
Net cash generated from operating activities		**257,004**	4,228
Cash flow from investing activities			
Capital work in progress, net		**-**	185,477
Movement of short-term investments in Murabaha Funds		**4,045**	(7,456)
Security deposit paid		**(252)**	(1,159)
Additions to projects under study		**(11,217)**	(2,432)
Advance against investments paid		**(11,646)**	-
Purchase of property and equipment	13	**(142,328)**	(5,769)
Proceed from sale of property and equipment		**47**	-
Payments for additional shares	22	**-**	(16,143)
Proceed from sale of shares	22	**-**	27,444
Additional investments in an associate		**-**	(1,288)
Net cash (utilized in) generated from investing activities		**(161,351)**	178,674
Cash flow from financing activities			
Movement in long-term loans	14	**(235,846)**	101,724
Changes in minority interest		**9,645**	12,062
Financial charges paid		**(95,094)**	(36,900)
Net cash (utilized in) generated from financing activities		**(321,295)**	76,886
Net change in cash and cash equivalents		**(225,642)**	259,788
Cash and cash equivalents - beginning of the year		**311,944**	52,156
Cash and cash equivalents - end of the year		**86,302**	311,944

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Consolidated cash flow statement
(All amounts in Saudi Riyals thousand unless otherwise stated)

	Note	Year ended December 31, 2011	2010
Supplementary information for non-cash transactions			
Impairment loss on delay of plant start-up recovered through insurance compensations	13	-	177,750
Amortization of deferred financial charges transferred to work-in-progress	12	-	1,879
Work-in-progress transferred to property, plant and equipment	13	-	2,761,234

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Consolidated statement of changes in shareholders' equity
(All amounts in Saudi Riyals thousand unless otherwise stated)

	Note	Share capital	Statutory reserve	Cumulative changes in fair values	Accumulated deficit	Total shareholders' equity	Minority interest	Total equity
January 1, 2011		692,000	17,316	(62,993)	(92,159)	554,164	365,685	**919,849**
Net loss for the year		-	-	-	(9,952)	(9,952)	-	**(9,952)**
Net income for the year attributable to minority interest		-	-	-	-	-	729	**729**
Net change during the year		-	-	-	-	-	9,645	**9,645**
Fair value adjustments	2	-	-	12,996	-	12,996	-	**12,996**
December 31, 2011		**692,000**	**17,316**	**(49,997)**	**(102,111)**	**557,208**	**376,059**	**933,267**
January 1, 2010		692,000	17,316	(56,424)	(134,341)	518,551	322,005	840,556
Net income for the year		-	-	-	42,182	42,182	-	42,182
Net income for the year attributable to minority interest		-	-	-	-	-	31,618	31,618
Net change during the year		-	-	-	-	-	12,062	12,062
Fair value adjustments	2	-	-	(6,569)	-	(6,569)	-	(6,569)
December 31, 2010		692,000	17,316	(62,993)	(92,159)	554,164	365,685	919,849

The attached notes on pages 8 to 25 form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Alujain Corporation (the "Company") and its subsidiary (collectively the Group) consist of the Company and its Subsidiary National Petrochemical Industrial Company (NATPET) and is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia under Ministerial Decision No. 694, dated Jamad Thani 15, 1412H (corresponding to December 21, 1991). The Company obtained its Commercial Registration on Rajab 3, 1412H (corresponding to January 7, 1992).

The objectives of the Company are to promote and invest in metal and petrochemical industries and other industrial projects.

The accompanying consolidated financial statements include the accounts of the Company and its Subsidiary, (NATPET) in which the Company owns 57.4 % ownership interest (2010 : 57.4%). NATPET is in the business of manufacturing and selling Polypropylene. NATPET's Polypropylene (PP) Complex in Yanbu Industrial City commenced commercial production on August 6, 2010.

At December 31, 2011, the Group's current liabilities exceeded its current assets. Management believes that the Group has adequate liquidity from its Subsidiary's operations and adequate financing facilities will remain available to the Group in the foreseeable future in order to meet its obligations as they become due.

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, unless otherwise stated.

2.1 Basis of preparation

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

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 date of the financial statements and the reported amounts of revenues and expenses during the reporting year. 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. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

2.3 Investments

a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Also, subsidiaries are not consolidated if the control is temporary. Such subsidiaries are accounted for using the equity method of accounting.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill and is tested annually for impairment and carried at cost, net of any accumulated amortization and impairment losses, if any.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of the Subsidiary has been changed where necessary to ensure consistency with the policies adopted by the Group. Subsidiaries over which the Company has temporary control or where they are under restructuring, are not consolidated and accounted for as associates.

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, net of any accumulated amortization and impairment losses, if any.

The Group's share of its associates' post-acquisition income or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the 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 consolidated income statement.

c) Short-term investments in Murabaha funds

Short-term investments in Murabaha funds are carried at fair value and included under current assets. Changes in fair values are included in the consolidated income statement.

d) Available-for sale investments

Available-for-sale investments principally consist of less than 20% equity investments in certain quoted/unquoted investments. These investments are included in non-current assets unless management intends to sell such investments within twelve months from the balance sheet date. These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

(i) Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and

(All amounts in Saudi Riyals thousands unless otherwise stated)

(ii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows.

Cumulative adjustments arising from revaluation of these investments are reported as separate component of equity as fair value reserve until the investment is disposed.

2.4 Foreign currency translations

(a) Reporting currency

The financial statements of the Group are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

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

2.5 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 accounts receivable are uncollectible, they are written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited in the consolidated income statement.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date, if any.

2.7 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation except construction in progress which is carried at cost. Depreciation is charged to the consolidated income statement, using straight-line method to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Plant and equipment	10 – 20
• Computers	3 – 4
• Furniture and fixtures	5 – 10
• Leasehold improvements	3 – 10 (or the period of the lease)
• Vehicles	4
• Office equipment	5 – 10
• Laboratory and safety tools	5 – 10

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

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

The cost of planned turnaround are deferred and amortized over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such cost.

2.8 Deferred charges

Costs that are not of benefit beyond the current period are charged to the consolidated income statement, while costs that will benefit future periods are capitalized. Deferred charges, reported under "Intangible assets" in the accompanying consolidated balance sheet, include certain indirect construction costs which are amortized over periods which do not exceed seven years. Deferred charges also include front-end fee paid on a loan from Saudi Industrial Development Fund ("SIDF"). Such charges are amortized over the term of the loan.

2.9 Inventories

Inventories are carried 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.

2.10 Impairment of non-current assets

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

2.11 Projects under study

Projects under study are stated at cost and are provided for to the extent that they may not be recoverable on the basis of a review of each project and an assessment of the outcome. Project costs are written off when a project is no longer considered viable.

2.12 Borrowings

Borrowings are recognized equivalent to 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 consolidated income statement.

2.13 Accounts payable and accruals

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

2.14 Provisions

Provisions are recognized, when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

2.15 Zakat

The Company and its Saudi Arabian subsidiary is subject to zakat in accordance with the regulations of the Department of Zakat and Income Taxes (DZIT). Provision for zakat for the company and its Saudi Arabian subsidiary is charged to the consolidated income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company and its Saudi Arabian subsidiary withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income tax law.

2.16 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Group and charged to the consolidated 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 laws of Saudi Arabia.

2.17 Derivative financial instruments

The Group uses derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the statement of income.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documents include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting years for which they were designated.

Cash flows hedge which meet the strict criteria for hedge accounting are accounted for by taking the gain or loss of the effective portion of the hedging instrument directly in equity, while any ineffective portion is recognized immediately in the consolidated income statement.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

2.18 Segment reporting

(a) Business segment

A business segment is a group of assets and operations:

(i) engaged in revenue producing activities;

(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and

(iii) financial information is separately available.

(b) Geographical segment

A geographical segment is a group of assets and operations 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.

2.19 Revenue recognition

Revenues are recognized upon delivery of products and customer acceptance, if any. Revenues are shown net of discounts and transportation expenses, and after eliminating sales within the Group.

Revenue from sale made through the off-taker and marketer are recognized upon delivery and are recorded at provisional sales prices that are later adjusted based upon actual selling prices received by the off-taker and marketer from third parties net off actual selling and distribution costs incurred by the marketers as the marketing fee to cover all other marketing expenses. Adjustments are made, as they became known to the Group.

Dividend income is recognized when the right to receive payment is established.

2.20 Selling, distribution and general and administrative expenses

Selling, distribution 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, distribution and general and administrative expenses and production costs, when required, are made on a consistent basis.

2.21 Operating leases

Rental expenses under operating leases are charged to the consolidated income statement over the period of the respective lease.

2.22 Reclassification

Certain reclassifications have been made in the comparative 2010 consolidated financial statements to conform with 2011 presentation

3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by senior management under policies approved by the board of directors. The most important types of risk are credit risk, currency risk, interest rate risk, price risk, liquidity risk and fair value and cash flow interest rate risks.

Financial instruments carried on the balance sheet include cash and cash equivalents, short-term investments in Murabaha Funds, due from related parties, security deposit, investments in associates and available for sale investment, advance against investment, short-term and long-term borrowings, due to related parties, Zakat, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each significant item.

Financial asset and liability are offset and net amounts 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.

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 is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group does not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and to a lesser extent Euros. Management monitors such exposures on a regular basis. However, there were no significant foreign exchange contracts outstanding at December 31, 2011.

3.2 Fair value and cash flows interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of the financial instruments. The Group is subject to interest rate risk on its interest bearing assets and liabilities including security deposits, long term loans and derivative financial instrument.

(All amounts in Saudi Riyals thousands unless otherwise stated)

The management limits the Group's interest rate risk by monitoring the changes in interest rate in the currencies in which its interest bearing assets and liabilities are denominated and through interest rate swaps, in which the Group agrees to exchange, at specified interval, the difference between fixed and variable rate interest amounts calcul ated by reference to an agreed-upon notional principal amount.

3.3 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the balance sheet as available for sale investment and investments in Murabaha Funds. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Cash is placed with banks with sound credit ratings.

The largest receivable balance (one off-taker) accounts for 74% of outstanding trade accounts receivable at December 31, 2011 (2010: 55%). Credit risk is managed by monitoring the off-taker balance and ensuring timely collection of the due balance.

Accounts receivable are carried net of provision for doubtful debts.

3.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. Also see note (1).

3.6 Fair value

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

4 CASH AND CASH EQUIVALENTS

	2011	2010
Cash in hand	**203**	155
Cash at banks	**86,099**	311,789
	86,302	311,944

Cash at banks include short term deposit amounting to SR 3.8 million as at December 31, 2011 (2010 : SR 3.5 million)

(All amounts in Saudi Riyals thousands unless otherwise stated)

5 ACCOUNTS RECEIVABLE

	2011	2010
Trade receivables	**129,259**	116,326
(Less) add: Net back adjustments	**(31,875)**	2,159
	97,384	118,485

Net back adjustments represent the variance between the actual sale price to end customers compared to the off-taker provisional prices.

6 PREPAYMENTS AND OTHER RECEIVABLES

	2011	2010
Prepayments	**15,391**	6,844
Security deposit	**8,491**	35,559
Advance to supplier	**4,450**	27,786
Employees advance	**1,524**	1,383
Other receivables	**2,946**	4,543
	32,802	76,115

7 RELATED PARTY MATTERS

7.1 Related party transactions

A portion of the Company's general and administrative expenses and project - related costs are charged by affiliates. Prices and terms of payment are approved by management.

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

Related parties	Nature of transactions	2011	2010
Board of Directors	Remunerations	**1,461**	742
Hidada Company Limited	Joint expenses charged by the Group	**90**	154
Saudi Cable Company	Joint expenses charged by the Group	**67**	103
Saudi Cable Company	Joint expenses charged to the Group	**144**	144
Xenel Industries Company Limited	Joint expenses charged to the Group	**10,310**	13,828
Safra Company Limited	Joint expenses charged to the Group	**4,847**	-
Safra Company Limited	Joint expenses charged by the Group	**15**	489
Safra Company Limited	Investment sold by the Group	**-**	27,444
Xeca International for Information Technology	Joint expenses charged to the Group	**527**	1,458
Chemglobal Limited	Joint expenses charged to the Group	**-**	135
Zain Industries Company (Zain)	Advance provided by the Group	**318**	3,315
Alireza Travel and Tourism	Joint expenses charged to the Group	**1,795**	-

(All amounts in Saudi Riyals thousands unless otherwise stated)

7.2 Related party balances

Significant year end balances arising from transactions with related parties are as follows:

	2011	2010
Due from related parties		
Zain Industries Company (Zain) (associate)	**4,341**	4,023
Hidada Company Limited (affiliate)	**484**	394
Alireza Travel and Tourism (affiliate)	**5**	-
Safra Company Limited (shareholder)	**-**	755
	4,830	5,172
Due to related parties		
Chemglobal Corporation (affiliate)	**1,364**	1,364
Saudi Cable Company (affiliate)	**874**	796
Safra Company Limited (affiliate)	**4,077**	-
Xenel Industries Company Limited (affiliate)	**2,730**	256
Xeca International for Information Technology (affiliate)	**-**	72
	9,045	2,488

8 INVENTORIES

	2011	2010
Finished goods	**129,522**	63,507
Raw materials	**35,422**	27,924
Work in progress	**4,731**	5,160
Spare parts and supplies, not held for sale	**132,245**	121,790
	301,920	218,381
Less: provision for slow moving inventories	**(3,915)**	(3,640)
	298,005	214,741

Movement in provision for slow moving inventories:

January 1	**(3,640)**	(3,274)
Additions	**(275)**	(366)
December 31	**(3,915)**	(3,640)

9 INVESTMENTS

	2011	2010
Investment in an associate - see (a) below	**9,816**	9,816
Available for sale investments - see (b) below	**3,365**	3,669
	13,181	13,485

(a) Investment in an associate as at December 31 is comprised of the following:

	2011	2010
Cost of investment	**36,059**	36,059
Provision for impairment	**(26,243)**	(26,243)
	9,816	9,816

(All amounts in Saudi Riyals thousands unless otherwise stated)

The movement in the investment in an associate for the years ended December 31 is as follows:

	2011	2010
January 1	**9,816**	8,528
Additions during the year	**-**	1,288
December 31	**9,816**	9,816

The Company's investment in an associate represents its equity ownership in Zain Industries Company (Zain) (Formerly Arab Pesticide Industries Company). During 2008, Alujain acquired additional shares that increased its ownership from 25% to 93.08% and during 2009 it sold half of its ownership (46.54%) to a related party. The Company acquired further shares during 2010, increasing its ownership to 52.21% as of December 31, 2010 and 2011. Zain started commercial operations during late 2010 and is currently under a restructuring and stabilising period. The Company intends to share control with its related party subsequent to the stabilisation of operations in Zain. Since, Zain is currently under a restructuring phase and the control is temporary, the Company did not consolidate its investment in Zain.

(b) The movement in the available for sale investments for the years ended December 31 is as follows:

	2011	2010
January 1	**3,669**	4,300
Provision for impairment	**(304)**	(631)
December 31	**3,365**	3,669

Available for sale investment at December 31, 2011 and 2010, principally represent the Company's investment in a Saudi Closed Joint Stock Company.

10 PROJECTS UNDER STUDY

	2011	2010
January 1	**5,479**	3,047
Additions	**11,217**	2,432
Written off	**(5,110)**	-
December 31	**11,586**	5,479

Projects under study principally relate to the costs of new petrochemical projects at the initial stages, such as feasibility studies, market researches and other related expenses.

11 ADVANCE AGAINST INVESTMENT

The Subsidiary has signed a Joint Venture agreement with an entity based in the Netherlands to set up a manufacturing plant in Yanbu to produce staple fiber and non-woven geotextiles. The total cost of the project is expected to be Saudi Riyals 160 million of which 40% will be funded through equity and the remaining through debts. The Subsidiary will own a 50% stake in the Joint Venture. Advance against investment of Saudi Riyals 11.64 million at December 31, 2011 relate to the payments made by the Subsidiary for certain machinery and equipment for purpose of joint venture. The Subsidiary expects to adjust such payment against its share of capital. The legal formalities for forming and registering the Joint Venture in Saudi Arabia are currently in progress.

(All amounts in Saudi Riyals thousands unless otherwise stated)

12 INTANGIBLE ASSETS

	2011	2010
Deferred financial charges	**13,859**	17,005
Other deferred charges	**34,879**	41,127
	48,738	58,132

Deferred financial charges principally relate to front end fees paid to the SIDF and are being amortized over the period of the loan. The movement of deferred financial charges are as follows:

	2011	2010
January 1	**17,005**	20,151
Amortization during the year charged to income statement	**(3,146)**	(1,267)
Amortization capitalized during the year	**-**	(1,879)
December 31	**13,859**	17,005

Other deferred charges principally relate to certain indirect construction costs incurred by the Group during the setting up of the plant. The movement of other deferred charges are as follows:

	2011	2010
January 1	**41,127**	43,730
Amortization during the year	**(6,248)**	(2,603)
December 31	**34,879**	41,127

13 PROPERTY, PLANT AND EQUIPMENT

	January 1, 2011	**Additions**	**Disposals**	**December 31, 2011**
Cost				
Plant and equipment	2,761,334	136,969	(38)	2,898,265
Computers	13,146	4,201	(31)	17,316
Furniture and fixtures	4,171	7	-	4,178
Leasehold improvements	2,266	384	-	2,650
Motor vehicles	2,939	744	(63)	3,620
Office equipment	2,953	23	(305)	2,671
Laboratory and safety tools	16	-	-	16
Total	**2,786,825**	**142,328**	**(437)**	**2,928,716**
Accumulated depreciation				
Plant and equipment	56,588	138,101	(13)	194,676
Computers	5,552	3,371	(30)	8,893
Furniture and fixtures	2,133	792	-	2,925
Leasehold improvements	1,592	249	-	1,841
Motor vehicles	1,943	562	(63)	2,442
Office equipment	1,935	513	(305)	2,143
Laboratory and safety tools	4	4	-	8
Total	**69,747**	**143,592**	**(411)**	**212,928**
Net book value	**2,717,078**			**2,715,788**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	January 1, 2010	Additions	Disposals	Impairment loss	Transfer from work in progress	December 31, 2010
Cost						
Plant and equipment	-	100	-	-	2,761,234	2,761,334
Computers	8,477	4,819	(150)	-	-	13,146
Furniture and fixtures	4,068	103	-	-	-	4,171
Leasehold improvements	2,151	115	-	-	-	2,266
Motor vehicles	2,496	443	-	-	-	2,939
Office equipment	2,844	173	(64)	-	-	2,953
Laboratory and safety tools	-	16	-	-	-	16
Capital work in progress	2,944,832	130,675	(136,523)	(177,750)	(2,761,234)	-
Total	**2,964,868**	**136,444**	**(136,737)**	**(177,750)**	-	**2,786,825**
Accumulated depreciation						
Plant and equipment	-	56,588	-	-	-	56,588
Computers	3,827	1,875	(150)	-	-	5,552
Furniture and fixtures	1,357	776	-	-	-	2,133
Leasehold improvements	1,234	358	-	-	-	1,592
Motor vehicles	1,495	448	-	-	-	1,943
Office equipment	1,485	514	(64)	-	-	1,935
Laboratory and safety tools	-	4	-	-	-	4
Total	**9,398**	**60,563**	**(214)**	-	-	**69,747**
Net book value	**2,955,470**					**2,717,078**

The Group's plant and equipment are mortgaged with the Saudi Industrial Development Fund (SIDF) and a second charge by other commercial banks as security against the term loan received from them.

During the construction phase of the Subsidiary's plant, several instances occurred based on which the Subsidiary booked an impairment loss of Saudi Riyals 177.7 million against capital work in progress and charged it to the income statement for the year ended December 31, 2010.

The above mentioned impairment loss was covered under an insurance policy and certain penalty clauses in the contract with the project main contractor based on which, the Subsidiary received compensations under the insurance policy amounting to Saudi Riyals 46.5 million and compensation from the contractor amounting Saudi Riyals 131.25 million which were recognized in the income statement for the year ended December 31, 2010 as contractors' compensation.

(All amounts in Saudi Riyals thousands unless otherwise stated)

14 LONG TERM LOANS

The Subsidiary has signed loan agreements with syndication of commercial banks, Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF) in order to finance the construction of its project. The loan balance is comprised of the following as of December 31:

	2011	2010
Commercial Banks' syndication	**890,698**	1,011,544
Public Investment Fund loan	**675,000**	750,000
SIDF Loan	**345,000**	385,000
Others	**21,645**	21,645
	1,932,343	2,168,189
Less: Current portion of long-term loans	**(278,280)**	(188,968)
Non-current portion of long term loans	**1,654,063**	1,979,221

The Subsidiary has signed a loan agreement with the Commercial Banks' syndication in February 2006. The term loan is secured by a second charge on the Subsidiary's assets. These loans carry borrowing costs at commercial rates and are repayable in 17 bi-annual installments commencing from the end of December 31, 2009. The installments due in the next 12 months are shown as a current liability.

The Subsidiary has signed a loan agreement with Public Investment Fund (PIF) in June 2008 for a loan of USD 125 million (Saudi Riyals 468.75 million) which was fully drawn in 2008. The Subsidiary signed an additional loan agreement with PIF in January 2010 for an amount of USD 75 million (Saudi Riyals 281.25 million) which was fully drawn during 2010. The term loan is repayable in 20 bi-annual installments starting on June 30, 2011. The installments due in the next 12 months are shown as a current liability.

The Subsidiary has signed a loan agreement with SIDF in August 2006 for an amount of Saudi Riyals 400 million which was fully drawn as at December 31, 2011 (2010: Saudi Riyals 400 million). The SIDF loan carries project evaluation fees amounting to Saudi Riyals 30 million, which was recorded as deferred financial charges (note 12). The balance of Saudi Riyals 13.9 million as at December 31, 2011 (2010: Saudi Riyals 17 million), (note 12) is being amortized over the term of the loan on a straight line basis. The SIDF term loan is repayable in 13 bi-annual installments starting in July 2010 and is secured by a mortgage over the fixed assets of the project and corporate guarantees and a comfort letter as follows:

	Security type	**%**
Xenel Industries Company Limited.	Corporate guarantee	25.9
Safra Company Limited	Corporate guarantee	5.0
Alujain Corporation	Corporate guarantee	57.4
GOSI	Comfort letter	11.7

The SIDF loan installments due in the next 12 months are shown as a current liability.

The purpose of the above loans is to finance the construction of the plant. Also, the Subsidiary has entered into a concurrent interest rate swap contract with local commercial banks to hedge the variable interest rate cash flows on the loan (see note 17).

The above loans carry several covenants. As at December 31,2011, the current ratio of the Subsidiary fell below the required covenanted level under one of the loan agreements and the Subsidiary has advised the lender, accordingly. The Subsidiary and Group's management believes that the lender will continue with the existing repayment schedule.

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 ACCRUALS AND OTHER LIABILITIES

	2011	2010
Accrued expenses	**178,316**	184,954
Advances from customers	**3,230**	7,995
Other liabilities	**-**	108
	181,546	193,057

16 ZAKAT MATTERS

Zakat computation for the years ended December 31, was based on the standalone financial statements for the Company and its Subsidiary.

a) Movement of Zakat provision during the years ended December 31 was as follows:

	2011	2010
Beginning balance	**14,516**	8,272
Provided during the year	**1,557**	7,532
Paid during the year	**(7,532)**	(1,288)
Ending balance	**8,541**	14,516

b) Zakat status

- Alujain Corporation (the parent company):

The Company finalized its Zakat status for the year ended December 31, 2002 and obtained the final Zakat certificate. The Company has filed the final Zakat returns for the years ended December 31, 2003 to 2010. During the subsequent period (February 2012), the DZIT issued its assessment for years ended December 31, 2003 to 2007 and claimed additional zakat difference of Saudi Riyals 5.4 million. The Company is in the process of objecting against this assessment and is confident of a favorable outcome. Accordingly, no provision was made against this assessment. The DZIT did not issue its assessment for the years 2008 to 2010 till date.

- National Petrochemical Industrial Company (the Subsidiary Company):

The Subsidiary filed its Zakat returns for the period/years ended December 31, 1999 to 2005 and obtained the restricted Zakat certificate. The DZIT issued the final Zakat assessment for the period/years ended December 31, 1999 to 2005 and claimed additional Zakat differences, withholding tax and penalties of Saudi Riyals 8.6 million. The Subsidiary objected against the said assessment to the preliminary objection committee who reduced the assessment to Saudi Riyals 7.4 million. The Subsidiary filed an appeal against the preliminary objection committee's decision with the Higher Appeal Committee, which is still under review. The Subsidiary filed its Zakat returns for the years ended December 31, 2006 to 2008 and obtained restricted Zakat certificate. The DZIT issued the Zakat assessment for the years from 2006 to 2008 and claimed additional Zakat differences, delay fines and withholding tax of Saudi Riyals 12 million. The Subsidiary objected against the said assessment and settled the withholding tax and delay fine of Saudi Riyals 9 million under protest, which is still under review by DZIT. The Subsidiary filed its Zakat return for the years ended December 31, 2009 and 2010 and obtained restricted Zakat certificate.

(All amounts in Saudi Riyals thousands unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS

In prior years, the Subsidiary entered into an interest rate swap (the "Swap Contract"), with local commercial banks to hedge future adverse fluctuation in interest rates on its long term borrowings. The Subsidiary designated the Swap Contracts, at its outset, as a cash flow hedge.

The notional amount of the Swap Contracts at December 31, 2011 is Saudi Riyals 943 million (2010: Saudi Riyals 1,063 million). The Swap Contract is intended to effectively convert the interest rate cash flow on the long term loans from a floating rate based on LIBOR to a fixed rate, during the entire tenor of the loan agreements.

At December 31, 2011, the Swap Contracts had a negative fair value of Saudi Riyals 107 million (2010: negative fair value of Saudi Riyals 132.8 million), based on the valuation determined by a model and confirmed by the Subsidiary's bankers. Such negative fair value is included in non-current liabilities in the balance sheet with a corresponding debit to the changes in fair value of derivatives in the shareholders' equity accounts. The Subsidiary charged an amount of Saudi Riyals 3.18 million as a gain (2010: loss of Saudi Riyals 0.8 million) to the income statement, being the ineffective portion of the interest rate swap.

18 EMPLOYEES' TERMINATION BENEFITS

	2011	2010
January 1	**10,624**	8,535
Addition	**3,106**	3,316
Payments	**(1,087)**	(1,227)
December 31	**12,643**	10,624

19 STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Group transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. No such transfer to the statutory reserve was made as the Group has accumulated losses during the year ended December 31, 2011. This reserve is not available for distribution to the shareholders of the Group.

20 (LOSS) EARNINGS PER SHARE

(Loss) earnings per share for the years ended December 31, 2011 and 2010 have been computed by dividing the operating income (loss), non-operating loss and net (loss) income for each years by the weighted average number of shares outstanding during such years.

(All amounts in Saudi Riyals thousands unless otherwise stated)

21 SELLING, DISTRIBUTION AND GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Salaries and wages	**32,050**	39,546
Public relation and publicity	**6,317**	3,340
Depreciation	**4,352**	3,995
Travel and accommodation	**3,158**	4,069
Legal and professional fees	**3,074**	7,814
Rents	**2,379**	3,504
Information technology	**1,632**	2,079
Directors' compensation	**1,461**	742
Subscriptions and supplies	**1,203**	1,908
Utilities and services	**1,201**	1,375
Meetings, seminars and conferences	**819**	891
Engineering and technical assistance	**535**	771
Repairs and maintenance	**166**	110
Other	**5,946**	3,425
	64,293	73,569

22 CAPITAL GAIN ON SALE OF SHARES

During the year ended December 31, 2010, the Company had subscribed for additional 10,367,787 shares in its Subsidiary at the par value of Saudi Riyals 10 per share, thus increasing its ownership in the Subsidiary from 57.4% to 58.9%. As the Company's intention is to keep its ownership in Natpet at 57.4%, so the excess shares of 1,614,370 shares were sold to an affiliate at Saudi Riyals 17 per share. Accordingly, the Company realized a capital gain on sale of shares amounting to Saudi Riyals 11.3 million, which was reflected in the consolidated income statement for the year.

23 SEGMENT INFORMATION

The Group conducts its business in Saudi Arabia and principally produces polypropylene for various industrial use. Accordingly, business or geographical segment information is not currently applicable.

24 OPERATING LEASES

The Group has various operating leases for its land on which the Subsidiary's plant has been built, offices and warehouses. Rental expenses for the year ended December 31, 2011 amounted to Saudi Riyals 3.7 million (2010 - Saudi Riyals 3.7 million). Future rental commitments at December 31, 2011 under these operating leases are as follows:

Years ending December 31:

	2011	2010
2011	**-**	3,672
2012	**3,054**	2,872
2013	**1,361**	1,226
2014	**559**	559
	4,974	8,329

25 CONTINGENCIES

At December 31, 2011 and 2010, the Company has an outstanding letter of credit on behalf of its Subsidiary amounting to Saudi Riyals 31.76 million of which Saudi Riyals 31.53 million (2010: Saudi Riyals 31.3 million) is secured by a bank deposit and is included under non-current assets as security deposit.

The Group had the following contingencies:

i) The Subsidiary terminated its agreement with one of its Trading Partner as their performance was not satisfactory. The Trading Partner has demanded Saudi Riyals 68 million as compensation for damages. The Subsidiary's management and its legal counsel believe that it is premature to assess the outcome of the claim and, accordingly, no provision has been made in these financial statements.

ii) The Subsidiary has a purchase contract to purchase material from a supplier. During 2011, the supplier sent a notice to the Company demanding Saudi Riyals 30 million for a purported shortfall in the purchases as per the contract. The Subsidiary's management and its legal counsel believe that there is no merit in such claim and accordingly no provision has been made in these financial statements.

iii) As at December 31, 2011, the Group has contingent liabilities related to letters of credit amounting to Saudi Riyals Nil million (2010: Saudi Riyals 19.9 million) on which a margin deposit of Saudi Riyals Nil million was paid (2010: Saudi Riyals 27,2 million), and letters of guarantee amounting to Saudi Riyals 384.1 million (2010: Saudi Riyals 40.4 million) on which a margin deposit of Saudi Riyals 8.3 million was paid (2010: Saudi Riyals 8.8 million).

iv) See note 16 for Zakat contingency.