**ALUJAIN CORPORATION**
**(A Saudi Joint Stock Company)**

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
AND INDEPENDENT AUDITORS' REPORT

**ALUJAIN CORPORATION**
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**FOR THE YEAR ENDED DECEMBER 31, 2012**

pwc

**INDEPENDENT AUDITORS' REPORT** February 23, 2013

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, 2012 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, 2012 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:

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Licence Number 383

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

| | Note | As at December 31, 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | **59,219** | 86,302 |
| Investments in Murabaha Funds | | **8,035** | 3,513 |
| Accounts receivable | 5 | **262,407** | 97,389 |
| Prepayments and other receivables | 6 | **35,489** | 32,802 |
| Due from related parties | 7 | **30,019** | 4,825 |
| Inventories | 8 | **283,373** | 298,005 |
| | | **678,542** | 522,836 |
| **Non-current assets** | | | |
| Security deposit | 24 | **-** | 31,529 |
| Investments | 9 | **44,428** | 13,181 |
| Projects under study | 10 | **11,662** | 11,586 |
| Advance against investment | 9 | **-** | 11,646 |
| Intangible assets | 11 | **39,346** | 48,738 |
| Property, plant and equipment | 12 | **2,585,816** | 2,715,788 |
| | | **2,681,252** | 2,832,468 |
| **Total assets** | | **3,359,794** | 3,355,304 |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Short-term loans | 13 | **120,000** | - |
| Current portion of long-term loans | 13 | **140,000** | 278,280 |
| Accounts payable | | **136,875** | 170,921 |
| Accruals and other liabilities | 14 | **200,840** | 181,546 |
| Due to related parties | 7 | **4,832** | 9,045 |
| Zakat provision | 15 | **8,483** | 8,541 |
| | | **611,030** | 648,333 |
| **Non-current liabilities** | | | |
| Long-term loans | 13 | **1,600,359** | 1,654,063 |
| Derivative financial instruments | 16 | **79,944** | 106,998 |
| Employees' termination benefits | 17 | **15,792** | 12,643 |
| | | **1,696,095** | 1,773,704 |
| **Total liabilities** | | **2,307,125** | 2,422,037 |
| **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 | 18 | **17,316** | 17,316 |
| Cumulative changes in fair values of derivates | | **(37,763)** | (49,997) |
| Accumulated deficit | | **(50,433)** | (102,111) |
| **Total shareholders' equity** | | **621,120** | 557,208 |
| Minority interest | | **431,549** | 376,059 |
| **Total equity** | | **1,052,669** | 933,267 |
| **Total liabilities and equity** | | **3,359,794** | 3,355,304 |

The attached notes on pages 7 to 23 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, 2012 | 2011 |
|---|---|---|---|
| Sales | | **2,111,941** | 1,471,866 |
| Cost of sales | | **(1,819,521)** | (1,313,054) |
| Gross profits | | **292,420** | 158,812 |
| **Operating expenses** | | | |
| General and administrative expenses | 20 | **(53,696)** | (44,292) |
| Selling and distribution expenses | 21 | **(23,710)** | (20,001) |
| Income from operations | | **215,014** | 94,519 |
| **Other income (expenses)** | | | |
| Financial charges | 13 | **(100,163)** | (95,094) |
| Advance against investment written-off | | **(1,040)** | - |
| Project under study written-off | 10 | **(5,600)** | (5,110) |
| Project development cost | | **(2,189)** | - |
| Foreign currency exchange (loss) gain | | **(2,828)** | 3,426 |
| Derivative financial instruments | 16 | **5,740** | 3,157 |
| Amortization of intangible assets | 11 | **(9,392)** | (9,394) |
| Other income | | **862** | 1,134 |
| Provision against available for sale investment | 9 | **(753)** | (304) |
| Income (loss) before zakat and minority interest | | **99,651** | (7,666) |
| Zakat | 15 | **(1,564)** | (1,557) |
| **Income (loss) before minority interest** | | **98,087** | (9,223) |
| Minority interest | | **(46,409)** | (729) |
| **Net income (loss) for the year** | | **51,678** | (9,952) |

**Earnings (loss) per share:**

| | Note | (Saudi Riyals) 2012 | 2011 |
|---|---|---|---|
| Income from operations | 19 | **3.11** | 1.37 |
| Net income (loss) for the year | 19 | **0.75** | (0.14) |

The attached notes on pages 7 to 23 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, 2012 | 2011 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net income (loss) for the year | | **51,678** | (9,952) |
| Adjustments for non-cash items | | | |
| Depreciation | 12 | **176,920** | 143,592 |
| Amortization of intangible assets | 11 | **9,392** | 9,394 |
| Impairment provision against available for sale investment | 9 | **753** | 304 |
| Project under study written-off | 10 | **5,600** | 5,110 |
| Advance against investments written-off | | **1,040** | - |
| Zakat provision | 15 | **1,564** | 1,557 |
| Derivative financial instruments | | **(5,740)** | (3,157) |
| Gain on sale of property and equipment | | **-** | (21) |
| Income from investments in Murabaha Funds | | **(50)** | (35) |
| Income attributable to minority interest | | **46,409** | 729 |
| Employees' termination benefits provision | 17 | **4,828** | 3,106 |
| Financial charges | | **100,163** | 95,094 |
| Provision for slow moving inventories | | **-** | 275 |
| Changes in working capital: | | | |
| Accounts receivable | | **(165,018)** | 21,096 |
| Prepayments and other receivables | | **(2,687)** | 43,313 |
| Due from related parties | | **(25,194)** | 347 |
| Inventories | | **14,632** | (83,539) |
| Accounts payable | | **(43,126)** | 43,364 |
| Accruals and other liabilities | | **19,294** | (11,511) |
| Due to related parties | | **(4,213)** | 6,557 |
| Employees' termination benefits paid | 17 | **(1,679)** | (1,087) |
| Zakat paid | 15 | **(1,622)** | (7,532) |
| Net cash generated from operating activities | | **182,944** | 257,004 |
| | | | |
| **Cash flow from investing activities** | | | |
| Movement of short-term investments in Murabaha Funds | | **(4,472)** | 4,045 |
| Security deposit | | **31,529** | (252) |
| Additions to projects under study | | **(5,676)** | (11,217) |
| Advance against investments paid | | **-** | (11,646) |
| Investment in joint venture | | **(21,394)** | - |
| Purchase of property and equipment | 12 | **(46,948)** | (142,328) |
| Proceed from sale of property and equipment | | **-** | 47 |
| Net cash utilized in investing activities | | **(46,961)** | (161,351) |
| | | | |
| **Cash flow from financing activities** | | | |
| Short-term loans | | **120,000** | - |
| Repayment of long-term loans | 13 | **(191,984)** | (235,846) |
| Changes in minority interest | | **9,081** | 9,645 |
| Financial charges paid | | **(100,163)** | (95,094) |
| Net cash utilized in financing activities | | **(163,066)** | (321,295) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(27,083)** | (225,642) |
| Cash and cash equivalents - beginning of the year | | **86,302** | 311,944 |
| **Cash and cash equivalents - end of the year** | | **59,219** | 86,302 |
| **Supplementary information for non-cash transactions** | | | |
| Advance against investment transferred to investment in joint venture | | **10,606** | - |

The attached notes on pages 7 to 23 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, 2012** | | 692,000 | 17,316 | (49,997) | (102,111) | 557,208 | 376,059 | **933,267** |
| Net income for the year | | - | - | - | 51,678 | 51,678 | - | **51,678** |
| Net income for the year attributable to minority interest | | - | - | - | - | - | 46,409 | **46,409** |
| Net change during the year | | - | - | - | - | - | 9,081 | **9,081** |
| Fair value adjustments | 2 | - | - | 12,234 | - | 12,234 | - | **12,234** |
| **December 31, 2012** | | **692,000** | **17,316** | **(37,763)** | **(50,433)** | **621,120** | **431,549** | **1,052,669** |
| **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 |

The attached notes on pages 7 to 23 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 (2011: 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.

## 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 and joint venture

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 and joint venture are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates and joint venture includes goodwill identified on acquisition, net of any accumulated amortization and impairment losses, if any.

The Group's share of its associates and joint venture's 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 joint venture are eliminated to the extent of the Group's interest in the associates and joint venture. 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
(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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 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 |
| • Buildings | 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.

Provision is made for the inventory considered by management to be slow moving or obsolete.

### 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 2011 consolidated financial statements to conform with 2012 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, 2012.

### 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.

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 calculated 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 22% of outstanding trade accounts receivable at December 31, 2012 (2011: 74%). 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

### 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'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

| | 2012 | 2011 |
|---|---|---|
| Cash in hand | 187 | 203 |
| Cash at banks | 59,032 | 86,099 |
| | 59,219 | 86,302 |

Cash at banks include short term deposit amounting to SR 74.5 thousands as at December 31, 2012 ( 2011 : SR 3.8 million )

## 5 Accounts receivable

| | 2012 | 2011 |
|---|---|---|
| Trade receivables | 271,847 | 129,264 |
| (Less): Net back adjustments | (9,440) | (31,875) |
| | 262,407 | 97,389 |

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

| | 2012 | 2011 |
|---|---|---|
| Prepayments | 20,783 | 15,391 |
| Security deposit | 8,420 | 8,491 |
| Advance to supplier | 2,493 | 4,450 |
| Employees advance | 1,692 | 1,524 |
| Other receivables | 2,101 | 2,946 |
| | 35,489 | 32,802 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 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 | 2012 | 2011 |
|---|---|---|---|
| Board of Directors of the Company | Remunerations | **815** | 711 |
| Board of Directors of the Subsidiary | Remunerations | **2,485** | 750 |
| Hidada Company Limited | Joint expenses charged by the Group | **1,115** | 90 |
| Saudi Cable Company | Joint expenses charged by the Group | **47** | 67 |
| Saudi Cable Company | Joint expenses charged to the Group | **144** | 144 |
| Xenel Industries Company Limited | Joint expenses charged to the Group | **5,575** | 10,310 |
| Safra Company Limited | Joint expenses charged to the Group | **5,995** | 4,847 |
| Safra Company Limited | Joint expenses charged by the Group | **2** | 15 |
| Xeca International for Information Technology | Joint expenses charged to the Group | **291** | 527 |
| Zain Industries Company (Zain) | Advance provided by the Group | **624** | 318 |
| Bonar Natpet Company | Joint expenses charged by the Group | **25,054** | - |

### 7.2 Related party balances

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

| | 2012 | 2011 |
|---|---|---|
| **Due from related parties** | | |
| Bonar Natpet Company | **25,054** | - |
| Zain Industries Company (Zain) (associate) | **4,965** | 4,341 |
| Hidada Company Limited (affiliate) | **-** | 484 |
| | **30,019** | 4,825 |
| **Due to related parties** | | |
| Chemglobal Corporation (affiliate) | **1,364** | 1,364 |
| Saudi Cable Company (affiliate) | **971** | 874 |
| Hidada Company Limited (affiliate) | **820** | - |
| Safra Company Limited (affiliate) | **1,277** | 4,077 |
| Xenel Industries Company Limited (affiliate) | **400** | 2,730 |
| | **4,832** | 9,045 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 8 Inventories

| | 2012 | 2011 |
|---|---|---|
| Finished goods | **98,418** | 129,522 |
| Raw materials | **47,699** | 35,422 |
| Work in progress | **4,140** | 4,731 |
| Spare parts and supplies, not held for sale | **137,031** | 132,245 |
| | **287,288** | 301,920 |
| Less: provision for slow moving inventories | **(3,915)** | (3,915) |
| | **283,373** | 298,005 |

Movement in provision for slow moving inventories:

| | 2012 | 2011 |
|---|---|---|
| January 1 | **(3,915)** | (3,640) |
| Additions | **-** | (275) |
| December 31 | **(3,915)** | (3,915) |

## 9 Investments

| | 2012 | 2011 |
|---|---|---|
| Investment in joint venture - see (a) below | **32,000** | - |
| Investment in an associate - see (b) below | **9,816** | 9,816 |
| Available for sale investments - see (c) below | **2,612** | 3,365 |
| | **44,428** | 13,181 |

(a) Investment in joint venture

The subsidiary has signed a Joint Venture agreement with an entity based in the Netherland 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. The subsidiary owns a 50% stake in the Joint Venture. (Advance against investment of Saudi Riyals 11.6 million at December 31, 2011). The joint venture obtained its commercial registration in October 2012 and is expected to commence commercial operation in May 2013

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

| | 2012 | 2011 |
|---|---|---|
| Cost of investment | **36,059** | 36,059 |
| Provision for impairment | **(26,243)** | (26,243) |
| | **9,816** | 9,816 |

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

| | 2012 | 2011 |
|---|---|---|
| January 1 | **9,816** | 9,816 |
| Additions during the year | **-** | - |
| December 31 | **9,816** | 9,816 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

The Company's investment in an associate represents its equity ownership in Zain Industries Company (Zain) (formerly Arab Pesticides Industries Company Limited (MOBEED)), an associated 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 and upto December 31, 2012. 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.

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

| | **2012** | 2011 |
|---|---|---|
| January 1 | **3,365** | 3,669 |
| Provision for impairment | **(753)** | (304) |
| December 31 | **2,612** | 3,365 |

Available for sale investment at December 31, 2012 and 2011, principally represent the Company's investment in a Saudi Closed Joint Stock Company.

## 10 Projects under study

| | **2012** | 2011 |
|---|---|---|
| January 1 | **11,586** | 5,479 |
| Additions | **5,676** | 11,217 |
| Written off | **(5,600)** | (5,110) |
| December 31 | **11,662** | 11,586 |

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 Intangible assets

| | **2012** | 2011 |
|---|---|---|
| Deferred financial charges | **10,713** | 13,859 |
| Other deferred charges | **28,633** | 34,879 |
| | **39,346** | 48,738 |

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 is as follows:

| | **2012** | 2011 |
|---|---|---|
| January 1 | **13,859** | 17,005 |
| Amortization during the year charged to income statement | **(3,146)** | (3,146) |
| December 31 | **10,713** | 13,859 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

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 is as follows:

| | **2012** | 2011 |
|---|---|---|
| January 1 | **34,879** | 41,127 |
| Amortization during the year | **(6,246)** | (6,248) |
| December 31 | **28,633** | 34,879 |

## 12 Property, plant and equipment

| | January 1, 2012 | Additions | Disposals | Transfer | December 31, 2012 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Plant and equipment | 2,898,265 | 45,240 | - | (34,146) | **2,909,359** |
| Building | - | - | - | 34,146 | **34,146** |
| Computers | 17,316 | 1,218 | (22) | - | **18,512** |
| Furniture and fixtures | 4,178 | 115 | - | - | **4,293** |
| Leasehold improvements | 2,650 | 113 | - | - | **2,763** |
| Motor vehicles | 3,620 | 210 | (233) | - | **3,597** |
| Office equipment | 2,671 | 52 | (25) | - | **2,698** |
| Laboratory and safety tools | 16 | - | - | - | **16** |
| **Total** | 2,928,716 | 46,948 | (280) | - | **2,975,384** |
| | | | | | |
| **Accumulated depreciation** | | | | | |
| Plant and equipment | 194,676 | 171,676 | - | (3,810) | **362,542** |
| Building | - | 452 | - | 3,810 | **4,262** |
| Computers | 8,893 | 3,005 | (22) | - | **11,876** |
| Furniture and fixtures | 2,925 | 667 | - | - | **3,592** |
| Leasehold improvements | 1,841 | 207 | - | - | **2,048** |
| Motor vehicles | 2,442 | 535 | (233) | - | **2,744** |
| Office equipment | 2,143 | 374 | (25) | - | **2,492** |
| Laboratory and safety tools | 8 | 4 | - | - | **12** |
| **Total** | 212,928 | 176,920 | (280) | - | **389,568** |
| **Net book value** | 2,715,788 | | | | **2,585,816** |

(All amounts in Saudi Riyals thousands unless otherwise stated)

| | 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** |

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.

## 13 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:

| | 2012 | 2011 |
|---|---|---|
| Islamic Bridge / Commercial Banks' syndication | **853,714** | 890,698 |
| Public Investment Fund loan | **600,000** | 675,000 |
| SIDF Loan | **265,000** | 345,000 |
| Others | **21,645** | 21,645 |
| | **1,740,359** | 1,932,343 |
| Less: Current portion of long-term loans | **(140,000)** | (278,280) |
| Non-current portion of long term loans | **1,600,359** | 1,654,063 |

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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

The Subsidiary has signed a loan agreement with SIDF in August 2006 for an amount of Saudi Riyals 400 million which was fully drawn. The SIDF loan carries project evaluation fees amounting to Saudi Riyals 30 million, which was recorded as deferred financial charges (note 11). The balance of Saudi Riyals 10.7 million as at December 31, 2012 (2011: Saudi Riyals 13.9 million), (note 11) 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 16).

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.

On September 26, 2012 the subsidiary company signed an Islamic Bridge Facility Agreement for Saudi Riyals 974 million with Banque Saudi Fransi and SAMBA Financial Group. The proceeds of this Facility were used to fully repay the remaining balance of Saudi Riyals 854 million of its term loan with Commercial Banks and use Saudi Riyals 120 million for other needs. This bridge facility is convertible for a long term facility by mutual agreement between the subsidiary company and its lenders, in a maximum period of nine month and the loan carries borrowing cost at commercial rates.

## 14 Accruals and other liabilities

| | 2012 | 2011 |
|---|---|---|
| Accrued expenses | **185,408** | 178,316 |
| Advances from customers | **15,432** | 3,230 |
| | **200,840** | 181,546 |

## 15 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:

| | 2012 | 2011 |
|---|---|---|
| Beginning balance | **8,541** | 14,516 |
| Provided during the year | **1,564** | 1,557 |
| Paid during the year | **(1,622)** | (7,532) |
| Ending balance | **8,483** | 8,541 |

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 filed the final Zakat returns for the years ended December 31, 2003 to 2007. The DZIT issued its assessment for the said years and claimed additional Zakat differences of Saudi Riyals 5.4 million. The Company objected against the said assessments, which is still under review by the DZIT till todate.

The Company filed its Zakat returns for the years ended December 31, 2008 to 2010. The DZIT issued the final assessments for the said years and claimed additional Zakat differences of Saudi Riyals 16.87 million. The Company objected against the said assessments, which is still under review by the DZIT till todate.

The Company filed its Zakat return for the year ended December 31, 2011 and obtained the restricted Zakat certificate. The DZIT issued the preliminary Zakat assessment for the said year and claimed additional Zakat differences of Saudi Riyals 1.3 million. The Company objected against the said assessment, which is still under review by the DZIT till todate.

**National Petrochemical Industrial Company (the Subsidiary Company):**

The Subsidiary Company filed its Zakat returns for the period/years ended December 31, 1999 to 2005. 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 Company objected against the said assessment which has been transferred to preliminary objection committee for review and decision. The preliminary objection committee issued its decision by which Zakat and withholding tax differences were reduced to Saudi Riyals 7.4 million. The Subsidiary Company filed an appeal against the preliminary objection committee's decision with the Higher Appeal Committee. The Higher Appeal Committee issued its decision regarding the Subsidiary Company's appeal for the period/years ended December 31, 1999 to 2005 by which Zakat and withholding tax differences were reduced to Saudi Riyals 7 million. The Subsidiary Company filed a petition with the BOG against the said HAC decision, which is still under study by the BOG.

The Subsidiary Company filed its Zakat returns for the years ended December 31, 2006 to 2008 and obtained restricted Zakat certificate for the year 2008. The DZIT issued the Zakat assessment for the years from 2006 to 2008 based on the field audit and claimed additional Zakat differences and withholding tax of Saudi Riyals 12 million. The Subsidiary Company objected against the said assessment and settled the withholding tax and delay fine of Saudi Riyals 9 million, under protest, which was transferred to the Preliminary Objection Committee. The First Preliminary Objection Committee (FPOC) issued its decision by which Zakat were reduced to Saudi Riyals 112 thousands. The Subsidiary Company filed an appeal against the preliminary objection committee's decision with the Higher Appeal Committee, which is still under review by the Higher Appeal Committee.

The Subsidiary Company filed its Zakat returns for the years ended December 31, 2009 to 2011 and obtained unrestricted Zakat certificate for the year 2011. The DZIT did not issue the final assessment for the said years till to date.

## 16 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

The notional amount of the Swap Contracts at December 31, 2012 is Saudi Riyals 802 million (2011: Saudi Riyals 943 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, 2012, the Swap Contracts had a negative fair value of Saudi Riyals 80 million (2011: Saudi Riyals 107 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 5.7 million as a gain (2011: Saudi Riyals 3.16 million) to the income statement, being the ineffective portion of the interest rate swap.

## 17 Employees' termination benefits

| | **2012** | 2011 |
|---|---|---|
| January 1 | **12,643** | 10,624 |
| Addition | **4,828** | 3,106 |
| Payments | **(1,679)** | (1,087) |
| December 31 | **15,792** | 12,643 |

## 18 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, 2012. This reserve is not available for distribution to the shareholders of the Group.

## 19 Earnings (loss) per share

Earnings (loss) per share for the years ended December 31, 2012 and 2011 have been computed by dividing the operating income and net (loss) income for each years by the weighted average number of shares outstanding during such years.

## 20 General and administrative expenses

| | **2012** | 2011 |
|---|---|---|
| Salaries and wages | **28,625** | 25,121 |
| Legal and professional fees | **5,302** | 2,252 |
| Depreciation | **3,477** | 4,284 |
| Directors' compensation | **3,300** | 1,461 |
| Information technology | **2,752** | 1,621 |
| Public relation and publicity | **2,359** | 2,512 |
| Rent | **2,153** | 2,304 |
| Travel and accommodation | **1,664** | 1,436 |
| Utilities and services | **1,340** | 1,078 |
| Engineering and technical assistance | **609** | 490 |
| Repairs and maintenance | **519** | 325 |
| Meetings, seminars and conferences | **465** | 599 |
| Subscriptions and office supplies | **332** | 412 |
| Other expenses | **799** | 397 |
| | **53,696** | 44,292 |

## 21 Selling, distribution expenses

| | 2012 | 2011 |
|---|---|---|
| Salaries and wages | **8,901** | 6,931 |
| Warehouse management | **8,648** | 6,842 |
| Public relation and publicity | **1,424** | 2,787 |
| Travel and accommodation | **1,398** | 1,639 |
| Legal and professional fees | **493** | 821 |
| Utilities and services | **323** | 260 |
| Engineering and technical assistance | **266** | 45 |
| Subscriptions and office supplies | **81** | 300 |
| Depreciation | **71** | 68 |
| Repairs and maintenance | **33** | 50 |
| Meetings, seminars and conferences | **23** | 220 |
| Information technology | **1** | 11 |
| Other expenses | **2,048** | 27 |
| | **23,710** | 20,001 |

## 22 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.

## 23 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, 2012 amounted to Saudi Riyals 2.9 million (2011 - Saudi Riyals 3.7 million). Future rental commitments at December 31, 2012 under these operating leases are as follows:

**Years ending December 31:**

| | 2012 | 2011 |
|---|---|---|
| 2012 | **3,672** | - |
| 2013 | **1,512** | 3,054 |
| 2014 | **691** | 1,361 |
| 2015 | **242** | 559 |
| | **6,117** | 4,974 |

## 24 Contingencies

The Group had contingent liabilities through a subsidiary company related to a purchase contract to purchase material from a supplier. During 2011, the supplier sent a notice to the subsidiary demanding Saudi Riyals 30 million for a purported shortfall in the purchases as per the contract. During the year ended December 31, 2012, the subsidiary company and the supplier has agreed to enter into an arbitration agreement, the terms of such agreement are currently under negotiations. The subsidiary's management and its legal counsel believe that its premature to access the outcome of the claim. Accordingly, no provision has been made in these interim consolidated financial statements.

Also, at December 31, 2011, the Group had an outstanding letter of credit on behalf of its Subsidiary amounting to Saudi Riyals 31.76 million of which Saudi Riyals 31.5 million is secured by a long-term bank deposit and is included under non-current assets as security deposit.

For Zakat contingencies see note 15.