

**Saudi Industrial Investment Group and Its  
Subsidiaries  
(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

SAUDI INDUSTRIAL INVESTMENT GROUP AND ITS SUBSIDIARIES  
(A Saudi Joint Stock Company)

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CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
SAUDI INDUSTRIAL INVESTMENT GROUP  
(A Saudi Joint Stock Company)**

**Scope of Audit**

We have audited the accompanying consolidated balance sheet of Saudi Industrial Investment Group (the "Company") and its subsidiaries (the "Group") as of 31 December 2010 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. 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 the Kingdom of 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 degree of assurance to enable us to express an opinion on the consolidated financial statements.

**Unqualified Opinion**

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

- i) present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2010 and its consolidated results of operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) Comply with the requirements of the Regulations for Companies and the Company's By-Laws, in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young



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Certified Public Accountant  
Registration No. 354



Riyadh: 19 Rabi Awal 1432H  
(22 February 2011)

Saudi Industrial Investment Group and Its Subsidiaries  
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

(Amounts in SR '000)

	Note	2010	2009
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	3,769,195	4,585,789
Accounts receivable, prepayments and other assets	5	573,588	611,847
Inventories	6	255,814	204,019
<b>TOTAL CURRENT ASSETS</b>		<b>4,598,597</b>	<b>5,401,655</b>
<b>NON-CURRENT ASSETS</b>			
Deferred charges	8	241,020	146,277
Projects under construction	9	16,196,300	11,289,523
Property, plant and equipment	10	2,638,381	2,861,595
<b>TOTAL NON-CURRENT ASSETS</b>		<b>19,075,701</b>	<b>14,297,395</b>
<b>TOTAL ASSETS</b>		<b>23,674,298</b>	<b>19,699,050</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable, accruals and other liabilities	11	704,444	549,414
Current portion of long term loans	12	161,740	114,445
<b>TOTAL CURRENT LIABILITIES</b>		<b>866,184</b>	<b>663,859</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term payables	13	288,598	990,355
Term loans	12	12,762,944	9,023,265
Subordinated loan from a non-controlling partner	14	14,859	1,036,719
Employees' terminal benefits		26,959	20,237
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,093,360</b>	<b>11,070,576</b>
<b>TOTAL LIABILITIES</b>		<b>13,959,544</b>	<b>11,734,435</b>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	4,500,000	4,500,000
Statutory reserve		255,527	215,066
Retained earnings		925,519	788,170
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>5,681,046</b>	<b>5,503,236</b>
Non-controlling interests		4,033,708	2,461,379
<b>TOTAL EQUITY</b>		<b>9,714,754</b>	<b>7,964,615</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>23,674,298</b>	<b>19,699,050</b>

The accompanying notes from 1 to 27 form part of these consolidated financial statements.



Saudi Industrial Investment Group and Its Subsidiaries  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2010

(Amounts in SR '000)

	Note	2010	2009
Sales		4,951,881	3,760,411
Cost of sales		(4,307,870)	(3,240,373)
<b>GROSS PROFIT</b>		<b>644,011</b>	<b>520,038</b>
<b>EXPENSES</b>			
Selling and distribution	16	(63,002)	(48,931)
General and administration	17	(80,352)	(105,314)
		<b>(143,354)</b>	<b>(154,245)</b>
<b>INCOME FROM MAIN OPERATIONS</b>		<b>500,657</b>	<b>365,793</b>
Other income	18	21,134	38,768
Financial charges		(21,397)	(40,540)
<b>INCOME BEFORE NON-CONTROLLING INTERESTS AND ZAKAT</b>		<b>500,394</b>	<b>364,021</b>
Non-controlling interests share in net loss of subsidiaries		13,906	32,018
<b>INCOME BEFORE ZAKAT</b>		<b>514,300</b>	<b>396,039</b>
Zakat	19	(109,690)	(90,031)
<b>NET INCOME FOR THE YEAR</b>		<b>404,610</b>	<b>306,008</b>
<b>EARNINGS PER SHARE (SR)</b>	20		
Attributable to income from main operations		1.11	0.81
Attributable to net income		0.90	0.68

The accompanying notes from 1 to 27 form part of these consolidated financial statements.

Saudi Industrial Investment Group and Its Subsidiaries  
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**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2010

(Amounts in SR '000)

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Income before zakat	514,300	396,039
Adjustments for:		
Depreciation and amortization	200,011	189,401
Financial charges	17,783	30,683
Employees' terminal benefits, net	6,722	3,607
Gain on sale of property, plant and equipment	(154)	(266)
Non-controlling interests share in net loss of subsidiaries	(13,906)	(32,018)
	<u>724,756</u>	<u>587,446</u>
Changes in operating assets and liabilities:		
Accounts receivable, prepayments and other current assets	5,227	(383,009)
Inventories	(51,795)	(62,443)
Accounts payable, accrued liabilities and other payables	(571,957)	736,717
Zakat paid	(90,419)	(21,651)
	<u>15,812</u>	<u>857,060</u>
<b>Net cash from operating activities</b>		
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(5,778)	(34,178)
Proceeds from sale of property, plant and equipment	49,914	323
Proceeds from matured governmental bonds	33,032	221,676
Deferred charges, paid	(144,915)	(15,000)
Projects under construction	(4,783,777)	(8,877,972)
	<u>(4,851,524)</u>	<u>(8,705,151)</u>
<b>Net cash used in investing activities</b>		
<b>FINANCING ACTIVITIES</b>		
Proceeds from term loans	3,786,974	6,406,529
Proceeds from a subordinated loan from a non-controlling partner	564,375	1,036,719
Non-controlling interests	-	2,493,397
Financial charges, paid	(111,390)	(205,838)
Dividends paid	(220,841)	-
	<u>4,019,118</u>	<u>9,730,807</u>
<b>Net cash from financing activities</b>		
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(816,594)</u>	<u>1,882,716</u>
Cash and cash equivalents at the beginning of the year	4,585,789	2,703,073
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u><u>3,769,195</u></u>	<u><u>4,585,789</u></u>
<b>NON CASH TRANSACTION</b>		
Subordinated loan from a non-controlling partner transferred to a proposed capital increase of Petrochem's subsidiary (note 2)	<u>1,586,235</u>	<u>-</u>

The accompanying notes from 1 to 27 form part of these consolidated financial statements.

Saudi Industrial Investment Group and Its Subsidiaries  
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010  
(Amounts in SR '000)

	Attributable to the shareholders' equity					Non- controlling interest	Total
	Share capital	Statutory reserve	Retained earnings	Shareholders' equity total			
Balance as at 1 January 2009	4,500,000	184,465	512,763	5,197,228	-		5,197,228
Non-controlling interest	-	-	-	-	2,493,397		2,493,397
Net income for the year	-	-	306,008	306,008	(32,018)		273,990
Transferred to statutory reserve	-	30,601	(30,601)	-	-		-
Balance as at 31 December 2009	4,500,000	215,066	788,170	5,503,236	2,461,379		7,964,615
Non-controlling interest resulted from proposed capital increase of Petrochem's subsidiary	-	-	-	-	1,586,235		1,586,235
Declared dividends (note 26)	-	-	(225,000)	(225,000)	-		(225,000)
Net income for the year	-	-	404,610	404,610	(13,906)		390,704
Transferred to statutory reserve	-	40,461	(40,461)	-	-		-
Remuneration of board of directors (note 26)	-	-	(1,800)	(1,800)	-		(1,800)
Balance as at 31 December 2010	4,500,000	255,527	925,519	5,681,046	4,033,708		9,714,754

The accompanying notes from 1 to 27 form part of these consolidated financial statements.



# Saudi Industrial Investment Group and Its Subsidiaries (A Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued) 31 December 2010

### 1. ORGANIZATION AND ACTIVITIES

Saudi Industrial Investment Group ("the Company") is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration numbered 1010139946 dated 10 Shabaan 1416H (corresponding to 1 January 1996). The Company was formed pursuant to the Ministry of Commerce and Industrial's resolution numbered 291 dated 29 Jumad Thani 1416 H (corresponding to 23 November 1995).

The Company is engaged in enhancing the growth and development of the industrial base of the Kingdom, mainly the petrochemicals industry, opening more channels for the exportation of the products and more ways for private sector in the Kingdom to enter into other industries by using petrochemical products after obtaining the required licenses the relevant authorities.

### 2. BASIS OF CONSOLIDATION

These consolidated financial statements include the financial statements of the Company and its subsidiaries and joint ventures (the "Group"), as adjusted by the elimination of significant inter-company balances and transactions.

A subsidiary is an entity in which the Company has a direct or indirect equity investment of more than 50% or over which it exercise effective management control.

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity which is subject to joint control.

The financial statements of the subsidiaries and joint ventures are prepared using accounting policies which are consistent with those of the Company.

The subsidiary and joint controlled companies included in these financial statements are as follows:

		Direct and indirect shareholding %		Country of Incorporation
		2010	2009	
National Petrochemical Company ("Petrochem")	Subsidiary	50	50	Saudi Arabia
Saudi Chevron Phillips ("SCP")	Joint venture	50	50	Saudi Arabia
Jubail Chevron Phillips ("JCP")	Joint venture	50	50	Saudi Arabia
Other local entities ("Local Entities")	Subsidiaries	100	100	Saudi Arabia

The subsidiaries' financial statements are consolidated from the date on which the Company is able to exercise effective management control over the subsidiaries.

In this consolidated financial statements, the Company reports its interests in jointly controlled entities using proportionate consolidation, whereby the Company's share in the assets, liabilities, income and expenses of jointly controlled entities is consolidated on a line-by-line basis with the equivalent items in the Company's financial statements.



Saudi Industrial Investment Group and Its Subsidiaries  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
31 December 2010

2. BASIS OF CONSOLIDATION (Continued)

**NATIONAL PETROCHEMICAL COMPANY (“PETROCHEM”)**

National Petrochemical Company (“Petrochem”) is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010246363 dated 8 Rabi Awal 1429 H (corresponding to 16 March 2008), and was formed pursuant to the ministry of commerce and industry’s resolutions numbered 53Q dated 16 Safar 1429H, (corresponding to 24 February 2008).

Petrochem is engaged in the development, establishment, operation, management and maintenance of petrochemical, gas, petroleum and other industrial plants, wholesale and retail trading in petrochemical materials and products, owning land, real estate and buildings for its benefits.

During second quarter in 2010, the Local Entities transferred their investment in the capital of Petrochem to the Company at par value (i.e. SR 110 million) against their debit balances with the Company. Accordingly, the direct investment of the Company in Petrochem increased from 47.7% to 50%.

Saudi Polymers Company (“Subsidiary of Petrochem”) is a mixed and limited liability company, registered in Jubail in the Kingdom of Saudi Arabia under registration numbered 2055008886 dated 29 Dhul-Qadah (corresponding to 9 December 2007).

The Subsidiary of Petrochem is engaged in production and sale of engine fuel, fuel oil, ethylene, propylene, hexane, gasoline, high and low density polyethylene, polypropylene and polystyrene. Currently, the Subsidiary of Petrochem is in pre-operations stage and the expected commencement of its commercial operations is at the end of 2011.

During the last quarter of 2010, the partners of Petrochem’s subsidiary have resolved the following:

- On 19 December 2010, Petrochem and Arabian Chevron Phillips Petrochemical Company Limited (the “non-controlling partner”) have resolved to increase the Subsidiary’s capital by SR 1,138 million from SR 268 million to SR 1,406 million by transferring it from the partners’ subordinated loan. The legal formalities to affect such increase in the capital are still in progress.
- On 29 December 2010, Petrochem and Arabian Chevron Phillips Petrochemical Company Limited (the “non-controlling partner”) have resolved to increase the Subsidiary’s capital by SR 3,394 million from SR 1,406 million to SR 4,800 million by transferring it from the partners’ subordinated loan. The legal formalities to affect such increase in the capital are still in progress.

**SAUDI CHEVRON PHILLIPS COMPANY LIMITED (“SCP”)**

A limited liability company registered in Jubail in the Kingdom of Saudi Arabia under commercial registration numbered 2055003839 dated 22 Safar 1417 H (corresponding to 8 July 1996) with a branch in Jubail under commercial registration number 2055003839. SCP was established to develop, construct and operate petrochemical plants in Jubail, Saudi Arabia, to produce and sell aromatics, solvents and cyclohexane.

**JUBAIL CHEVRON PHILLIPS COMPANY LIMITED (“JCP”)**

A limited liability company registered in Jubail in the Kingdom of Saudi Arabia under commercial registration numbered 2055005901 dated 25 Jumada Thani 1424H (corresponding to 23 August 2003). JCP is engaged in manufacturing and selling styrene, mogas blendstock, aromatic benzene, fuel oil, ethyl benzene, ethylene, propylene, liquefied petroleum gas and aromax feed.

**THE LOCAL ENTITIES**

Represent each of Saudi Nylon Company, Saudi Paraxylene Company, Saudi Cyclohexane Company and Saudi Benzene Company. Those companies are registered under commercial registrations numbered 1010237076 dated 5 Sha’aban 1428H (corresponding to 18 August 2007), 1010237075 dated 5 Sha’aban 1428H (corresponding to 18 August 2007), 1010237078 dated 5 Sha’aban 1428H (corresponding to 18 August 2007) and 1010237077 dated 5 Sha’aban 1428H (corresponding to 18 August 2007), respectively.

During the year, the Company has resolved to liquidate the Local Entities, having their purpose been achieved, i.e. incorporation of Petrochem. Legal formalities of liquidation are still in process.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows. The figures in these consolidated financial statements are rounded to nearest thousand.

*Accounting convention*

The consolidated financial statements are prepared under the historical cost convention.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of 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 period.

*Cash and cash equivalents*

Cash and cash equivalents consists of bank balances, cash on hand, and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when placed.

*Accounts receivable*

Accounts receivable are stated at the invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when the collection of the receivable amount is considered doubtful. Bad debts are written off as incurred.

*Inventories*

Inventories are stated at the lower of cost and market value. Cost is determined as follows:

- Raw materials, spares and catalysts - purchase cost on a weighted average basis.
- Finished goods - cost of direct materials and labour plus attributable overheads based on a normal level of activity.

*Property, plant and equipment / depreciation*

Property, plant and equipment are stated at cost net of accumulated depreciation except for Platinum (precious metal) which is stated at cost. Expenditure for maintenance and repairs is expensed, while expenditure for improvement is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight- line method. Leasehold improvements are depreciated over the shorter of the estimated useful life or the term of the lease. The estimated useful lives for the calculation of depreciation are as follows:

	Years
Plant and equipments	5- 20
Buildings	20
Office equipment and furniture	3.33-10
Vehicles	4
Leasehold improvements	5

*Projects under construction*

Projects under construction appear at cost until the asset is ready for their intended use, thereafter; they are re-classified to be as property, plant and equipment. Project under construction include the cost of contractors, materials, services, borrowing, salaries and other overhead allocated on systematic basis.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Deferred charges/amortization*

Deferred charges comprise agency and upfront fees and are amortized over the period of the related loans. The amortization is capitalized in the cost of the plant under construction.

Included in deferred charges turnaround costs, which are deferred and amortised over the period (15 to 30 months) until the date of the next planned turnaround. Should unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortised deferred costs are immediately expensed and new turnaround costs are deferred and amortised over the period likely to benefit from such costs.

*Borrowing costs*

Borrowing costs that are directly attributable to the construction of an asset are capitalised up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income.

*Impairment of financial assets*

The Group periodically reviews the carrying amounts of its long term tangible assets to determine whether there is any indication that those assets have suffered an impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment is recognised in the consolidated statement of income.

Where an impairment subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset or cash generating unit in prior years. A reversal of impairment is recognised as income immediately in the consolidated statement of income.

*Accounts payable and accruals*

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

*Provisions*

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle these obligation are both probable and may be measured reliably.

*Zakat and income tax*

Zakat is provided in accordance with the Regulations of the Directorate of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final Zakat assessments are adjusted in the year of their finalization. The foreign partner in subsidiaries is subject to income tax which is included in non-controlling interest in the consolidated financial statements.

*Employees' terminal benefits*

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date.

*Fair value*

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Statutory reserve*

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income in each year. The Company may resolve to discontinue such transfers when it builds up a reserve equal to one half of the capital. The reserve is not available for distribution.

*Revenue recognition*

Sales represent the invoiced value of goods supplied by the Group during the year and is recognized when the significant risks and rewards of the ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably normally on the delivery to the customer.

Earnings on bank deposits are recognized on an accrual basis.

*Expenses*

Selling and distribution expenses are those expenses that specifically relate to the delivery and marketing of products. All other expenses, other than cost of sales, capitalized costs and financial charges, are classified as general and administration expenses.

*Operating leases*

Operating leases payments are recognised as expense in the consolidated statement of income on a straight line basis over the lease term.

*Foreign currencies*

Transactions in foreign currencies are translated into Saudi Riyals at the rate prevailing at the date of those transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rate prevailing at that date. All differences are taken to the consolidated statement of income.

*Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments

4. CASH AND CASH EQUIVALENTS

Amounts in SR '000	2010	2009
Time deposits	2,809,735	2,727,814
Bank balances and cash in hand	959,460	1,857,975
	<u>3,769,195</u>	<u>4,585,789</u>

Included in cash and cash equivalents balances assigned as securities and restricted cash balances amounting to SR 1 billion and SR 852.1 million, respectively, (2009: SR 895.4 million and SR 1.9 billion, respectively) according to the agreements of loan facilities (note 12) and agreements of bankers' letters of guarantee (note 21), respectively.



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31 December 2010

5. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

Amounts in SR '000	2010	2009
Trade receivables	445,594	482,315
Employees loans	43,658	33,953
Prepayments	27,070	22,690
Accrued interest on bank deposits	6,452	6,210
Investment in governmental bonds	-	33,032
Other assets	50,814	33,647
	<u>573,588</u>	<u>611,847</u>

Employees loans are interest free housing loans for eligible Saudi employees in the subsidiary companies to purchase or construct their own residential units and are secured by mortgage over property purchased under employees home ownership program. Such loans are repayable in monthly installments over a maximum period of 15 years.

6. INVENTORIES

Amounts in SR '000	2010	2009
Finished goods	191,633	126,840
Raw material	30,602	37,120
Catalyst	20,201	26,411
Spare parts	13,378	13,648
	<u>255,814</u>	<u>204,019</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
31 December 2010

7. RELATED PARTY TRANSACTIONS

The following are the details of major related party transactions during the years:

*Amounts in SR '000*

Related party	Nature of transactions	Amount of transactions	
		2010	2009
Non-controlling partner' affiliated company	Sales	1,604,211	1,232,944
	Purchases	170,546	154,615
	Marketing fees (note 16)	49,557	40,829
	Other costs	23,128	27,859
Non-controlling partner	Proceeds of subordinated loan	564,375	1,036,719
Executive management	Salaries, benefits and bonus	3,099	4,782
Board of directors	Remuneration and expenses of board of directors of the company and subsidiaries	3,107	1,857

A substantial portion of sales of both SCP and JCP were made through an affiliated company of the non-controlling partner (the Marketer") under a marketing agreement. Upon delivery of the product to the Marketer, sales are recorded at provisional prices. The provisional prices are subsequently adjusted to actual selling prices as received by the Marketer from its customers. Adjustments are recorded on a quarterly basis as they are reported by the Marketer. The prices and terms of the transactions are approved by the management of SCP and JCP.

8. DEFERRED CHARGES

Amounts in SR '000	2010	2009
<i>Cost</i>		
At the beginning of the year	221,201	206,201
Additions	144,915	15,000
At the end of the year	366,116	221,201
<i>Amortization</i>		
At the beginning of the year	74,924	54,365
For the year	50,172	20,559
At the end of the year	125,096	74,924
Net book value	241,020	146,277

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
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9. PROJECTS UNDER CONSTRUCTION

Amounts in SR '000	2010	2009
Construction of polymers plant	16,007,140	11,169,548
Studies and construction of Nylon plant	69,061	56,931
Other projects	120,099	63,044
	<u>16,196,300</u>	<u>11,289,523</u>

Projects under construction comprises cost of construction works under progress related to the polymers plant which is expected to be more than SR 20 Billion. It is anticipated that the construction works will be completed and commissioning works will start at the end of 2011.

The polymers plant is constructed on land leased from the Royal Commission for Jubail and Yanbu. The lease is initially for a period of 30 years commencing from 29 Dhu Al Qedah 1428H (corresponding to 9 December 2007) and is renewable for further periods thereafter.

The machinery and equipment of the polymers plant are pledged as a part of collaterals against loan facilities (note 12).

Capitalised financial charges for the year amounting to SR 123 million (2009: SR 176 million) are included in the cost of construction of polymers plant.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
31 December 2010

10. PROPERTY, PLANT AND EQUIPMENT

Amounts in SR '000	Plant & equipment	Platinum	Building	Furniture and office equipment	Vehicle	Leasehold improvement	Total 2010	Total 2009
Cost:								
At the beginning of the year	3,481,138	48,987	66,906	12,355	9,111	1,033	3,619,530	3,586,443
Additions	3,064	-	1,302	352	1,044	16	5,778	34,178
Disposals	(58,513)	-	-	-	(98)	-	(58,611)	(1,091)
At the end of the year	3,425,689	48,987	68,208	12,707	10,057	1,049	3,566,697	3,619,530
Depreciation:								
At the beginning of the year	721,075	-	21,359	9,962	5,047	492	757,935	579,425
Charge for the year	173,417	-	3,577	509	1,521	208	179,232	179,544
Disposals	(8,815)	-	-	-	(36)	-	(8,851)	(1,034)
At the end of the year	885,677	-	24,936	10,471	6,532	700	928,316	757,935
Net book amounts:								
At 31 December 2010	2,540,012	48,987	43,272	2,236	3,525	349	2,638,381	
At 31 December 2009	2,760,063	48,987	45,547	2,393	4,064	541		2,861,595

The building, plants and equipment are situated on two lands leased from the Royal Commission for Jubail and Yanbu. The leases are initially for a period of 30 years. The first lease period commenced from 20 Rajab 1417H (corresponding to 1 December 1996) and the second one from 18 Ramadan 1424H (corresponding to 12 November 2003), and are renewable for further periods thereafter.



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**11. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES**

Amounts in SR '000	2010	2009
Accrued expenses	315,060	263,314
Trade payables	250,288	150,998
Zakat (note 19)	109,302	90,031
Dividends	6,483	2,324
Compensation for priority rights subscription	3,187	3,187
Other liabilities	20,124	39,560
	<u>704,444</u>	<u>549,414</u>

**12. TERM LOANS**

Term loans represent the drawn portion out of loan facilities obtained by the Subsidiary of Petrochem and JCP ("Borrowing Companies") to finance their projects. The drawn portion is analyzed as follows:

Amounts in SR '000	<u>Current portion</u>		<u>Non-current portion</u>	
	2010	2009	2010	2009
Commercial banks syndication	32,215	26,145	8,513,387	5,993,768
Public Investment Fund	84,525	48,300	3,006,154	2,699,497
Saudi Industrial Development Fund	45,000	40,000	1,243,403	330,000
	<u>161,740</u>	<u>114,445</u>	<u>12,762,944</u>	<u>9,023,265</u>

The securities of these loans include pledging equipments and assignment and charge of bank accounts of related projects. These loans carry commission at normal commercial rates loans with similar risks.

The Borrowing Companies are required to comply with certain covenants under all the loan facility agreements.

**13. LONG TERM PAYABLES**

Amounts in SR '000	2010	2009
Contractors payables	236,250	939,593
Retention payable	21,347	15,442
Other liabilities	31,001	35,320
	<u>288,598</u>	<u>990,355</u>

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**14. SUBORDINATED LOAN FROM A NON-CONTROLLING PARTNER**

Subordinated loan from a non-controlling partner is commission free loan granted to Petrochem's Subsidiary and is repayable subject to the minimum level required to be maintained by the terms of the loan facility arrangements (note 12). The movement of the subordinated loan during the year is analyzed as follows:

Amounts in SR '000	2010	2009
At the beginning of the year	1,036,719	-
Proceeds received	564,375	1,036,719
Transferred to capital (*)	(1,586,235)	-
	<u>14,859</u>	<u>1,036,719</u>

(\*) A portion of subordinated loan was transferred to the proposed capital increase of Petrochem's subsidiary. (note 2)

**15. SHARE CAPITAL**

Share capital is divided into 450 million shares of SR 10 each (2009: 450 million shares).

**16. SELLING AND DISTRIBUTION EXPENSES**

Amounts in SR '000	2010	2009
Marketing fees (note 7)	49,557	40,829
Employees costs	1,358	1,238
Others	12,087	6,864
	<u>63,002</u>	<u>48,931</u>

**17. GENERAL AND ADMINISTRATION EXPENSES**

Amounts in SR '000	2010	2009
Employees costs	44,610	43,145
Rent	23,220	14,171
Expenses of board of directors of subsidiaries	1,307	57
Initial public offering costs	-	14,154
Others	11,215	33,787
	<u>80,352</u>	<u>105,314</u>

**18. OTHER INCOME**

Amounts in SR '000	2010	2009
Interest income on bank deposits	19,387	36,833
Others	1,747	1,935
	<u>21,134</u>	<u>38,768</u>

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19 ZAKAT

Charge for the year

Zakat charge for the year amounting to SR 110 million (2009: SR 90 million) consists of provision for the current year and as follows:

Amounts in SR '000	2010	2009
For the Company	31,984	23,195
For the Subsidiaries	57,706	66,836
Provision for prior years	20,000	-
	<u>109,690</u>	<u>90,031</u>

The current year's provision is based on the following:

Amounts in SR '000	2010	2009
Equity	5,278,235	5,197,227
Opening provisions and other adjustments	273	1,381
Book value of long term assets	(4,000,483)	(4,283,481)
	<u>1,278,025</u>	<u>915,127</u>
Zakatable income for the year	<u>1,331</u>	<u>12,686</u>
Zakat base	<u>1,279,356</u>	<u>927,813</u>

The differences between the financial and the zakatable income are due mainly to provisions which are not allowed in the calculation of zakatable income.

Movements in provision during the year

The movement in the zakat provision for the year was as follows:

Amounts in SR '000	2010	2009
At the beginning of the year	90,031	21,651
Provided during the year	109,690	90,031
Paid during the year	(90,419)	(21,651)
At the end of the year (note 11)	<u>109,302</u>	<u>90,031</u>



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19. ZAKAT (continued)

Status of assessments

Zakat is provided for and charged to the consolidated statement of income on an estimated basis. Differences resulting from the final zakat calculation are adjusted at year end.

Zakat returns have been filed with the Department of Zakat and Income Tax ("DZIT") for all prior years up to 2009. The DZIT has raised the final zakat assessments up to 2006 and the company has agreed on DZIT's assessments up to 2001. The company has filed an appeal against disallowance of certain items included in the assessment for the years 2002 to 2006, which resulted in a difference of SR 41,938,103, the appeal is still pending. As per the management's assessment, the company has made provision of SR 20 million for items under appeal.

As for Petrochem (a subsidiary company), zakat returns have been filed with the DZIT for 2008 and 2009 and zakat due was settled accordingly. The DZIT has raised the zakat assessment for 2008, claiming a difference of SR 53,092,939. The company filed an appeal against this assessment before the Preliminary Zakat Appeal Committee, which is still pending. Based on the zakat consultant's advice; the management believes that the ultimate outcome of this issue will be in its favor.

As for SCP, DZIT raised assessments for the years from 1997 to 2004 with additional zakat, tax and delay fine liabilities of SR 5.3 million, SR 8.6 million and SR 2.2 million, respectively. SCP has filed an appeal against the DZIT's assessments. Management is confident that the committee's decision will be in its favor. Accordingly, no provision for the additional liabilities, as assessed by DZIT, has been made in the financial statements. The zakat and income tax assessments for the years 2005 – 2009 have not been raised yet by DZIT.

As for JCP, the assessments for the years 2004 – 2009 have not yet been raised by DZIT.

20. EARNINGS PER SHARE

Earnings per share are calculated by dividing income from main operations and net income by the number of outstanding shares amounting to 450 million shares (2009: 450 million shares).

21. CONTINGENT LIABILITIES

The Group's bankers have issued, on its behalf, bank guarantees as follows:

Amounts in SR '000	2010	2009
Related to nylon project	946,875	562,600
Cost overrun related to polymers project	734,600	734,600
Feed stock payment	481,500	481,500
At the end of the year	<u>2,162,975</u>	<u>1,778,700</u>

These contingent liabilities are secured partially against cash margin (note 4).



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22. SEGMENT INFORMATION

The Group's operations consist from the following organizational segments:

- SCP                      - Petrochem
- JCP                     - Head office

*For the year ended 31 December 2010*

Amounts in SR '000	SCP	JCP	Petrochem	Head office	Elimination and reconciliation of financial statements	Total
Sales	5,090,348	4,813,414	-	-	(4,951,881)	4,951,881
Gross margin	892,549	429,802	-	-	(678,340)	644,011
Net income (loss)	756,555	248,303	(42,633)	404,610	(962,225)	404,610
Total assets	3,916,992	5,274,338	18,319,552	5,776,949	(9,613,533)	23,674,298
Total liabilities	879,595	4,222,023	11,928,202	95,904	(3,166,180)	13,959,544

*For the year ended 31 December 2009*

Amounts in SR '000	SCP	JCP	Petrochem	Head office	Elimination and reconciliation of financial statements	Total
Sales	3,859,734	3,661,088	-	-	(3,760,411)	3,760,411
Gross margin	844,647	172,881	-	-	(497,490)	520,038
Net income (loss)	747,537	(28,031)	(60,591)	306,008	(658,915)	306,008
Total assets	3,798,681	5,315,486	14,581,070	5,547,326	(9,543,513)	19,699,050
Total liabilities	711,589	4,511,474	9,732,119	44,091	(3,264,838)	11,734,435

All of the operational assets of the Group are located in the Kingdom of Saudi Arabia. The sales of the Group are geographically distributed among local sales 25%, Asia 38%, Gulf 19.5% and Europe 17.5%.

23. CAPITAL COMMITMENTS

The balance of unused capital expenditure commitment approved by the board of directors of Saudi Polymers Company in connection with the construction of a petrochemical plant was SR 3.4 billion (2009: SR 6.6 billion).

The balance of unused capital expenditure commitment approved by the board of directors of Saudi Chevron Phillips Company and Jubail Chevron Phillips Company in connection with plants maintenance activities was SR 32.4 million (2009: SR 89.1 million in connection with construction of administrative complex)

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**24. RISK MANAGEMENT**

**Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Group is subject to interest rate risk on their interest bearing assets and liabilities, including time deposits and term loans.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyal and US Dollars during the year. As the Saudi Riyal is pegged to US Dollar, the Group is not exposed to currency risk.

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. Three customers represent 100% of trade receivable (2009: three customers). The Group seeks to manage their credit risk with respect to customers by monitoring outstanding receivables. With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to their carrying amounts.

**Liquidity risk**

Liquidity risk is the risk that the Group 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. The Group manages their liquidity risk by ensuring the availability of bank facilities and monitoring cash flows in a regular basis. The Group's terms of sales require amounts to be paid within 60 to 90 days of the date of sale. Trade payables are normally settled within 30 to 60 days of the date of purchase.

**25. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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. The Group's financial assets consist of cash and cash equivalents, trade receivables, accrued interest income on bank deposit, and its financial liabilities consist of trade payables, accrued expenses, other liabilities, term loans and subordinated loan from a non-controlling partner.

The fair values of financial instruments are not materially different from their carrying values.

**26. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS AND DISTRIBUTION OF NET INCOME**

On 9 Rabi Awal 1431 H (corresponding to 23 February 2010), the board of directors has proposed to the general assembly to distribute cash dividends at 5% of nominal value of share (SR 0.5 per share) for the year ended 2009 with total dividends of SR 225 million, and remuneration to the board of directors amounting to SR 1.8 million.

The shareholders have approved this proposal during the general assembly dated 8 Jumada Thani 1431 H (corresponding to 22 May 2010).

Also, on 5 Muharam 1432 H (corresponding to 11 December 2010) the board of directors recommended the general assembly to distribute cash dividends at 5% of nominal value of share (SR 0.5 per share) for the year ended 2010 with total dividends of SR 225 million.

In addition, on 19 Rabi Awal 1432H (corresponding to 22 February 2011) the board of directors recommended the general assembly to approve board's remuneration of SR 1.8 million for the year ended 2010.

The consolidated financial statements have been approved by the board of directors on 19 Rabi Awal 1432H (corresponding to 22 February 2011).

**27. COMPARATIVE FIGURES**

Certain of the prior year figures have been re-classified to conform with the current year's presentation.