

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011
AND INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

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

Scope of Review


We have reviewed the accompanying interim consolidated balance sheet of **Alujain Corporation** (a Saudi Joint Stock Company) (the "Company") and its subsidiary (collectively referred to as the "Group") as of June 30, 2011 and the related interim consolidated statements of income, cash flows and changes in shareholders' equity for the six-month period then ended, and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management.

We conducted our limited review in accordance with the standard of review of interim financial reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial accounting matters. The scope of the limited review is substantially less than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements of the Group for them to be in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group.

PricewaterhouseCoopers

By: 
Sami Farah
Licence Number 168

July 17, 2011



ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Interim consolidated balance sheet (unaudited)
(All amounts in Thousand Saudi Riyals unless otherwise stated)

	Note	As at June 30,	
		2011	2010
ASSETS			
Current assets			
Cash and cash equivalents		126,076	166,681
Investments in Murabaha Funds		4,006	14,514
Security deposit		14,079	45,824
Accounts receivable		68,132	48,568
Prepayments and other receivables		27,530	19,524
Advances to suppliers		16,190	26,437
Due from related parties		26,360	9,170
Inventories, net		<u>255,439</u>	<u>271,298</u>
		<u>537,812</u>	<u>602,016</u>
Non-current assets			
Security deposit		31,402	29,709
Investments, net	1&9	13,181	12,997
Projects under study, net		8,062	3,797
Work in progress	4	-	2,870,287
Pre-operating expenses, net	5	38,003	43,730
Deferred financial charges, net	6	15,432	18,578
Property, plant and equipment, net		<u>2,720,603</u>	<u>11,656</u>
		<u>2,826,683</u>	<u>2,990,754</u>
Total assets		<u>3,364,495</u>	<u>3,592,770</u>
Liabilities and shareholders' equity			
Current liabilities			
Current portion of long-term loans	6	195,914	215,245
Accounts payable		44,942	108,308
Accruals and other liabilities		180,035	214,403
Due to related parties		4,334	7,448
Zakat provision		7,989	7,913
		<u>433,214</u>	<u>553,317</u>
Non-current liabilities			
Long-term loans	6	1,877,791	2,075,697
Change in fair values of derivatives		116,396	140,013
Employees' termination benefits		11,433	8,767
		<u>2,005,620</u>	<u>2,224,477</u>
Total liabilities		<u>2,438,834</u>	<u>2,777,794</u>
Shareholders' equity			
Share capital (69,200,000 shares of SR 10 per share)		692,000	692,000
Statutory reserve		17,316	17,316
Cumulative changes in fair values		(54,249)	(64,913)
Accumulated losses		<u>(100,096)</u>	<u>(148,289)</u>
Total shareholders' equity of the parent company		554,971	496,114
Minority interest		<u>370,690</u>	<u>318,862</u>
Total shareholders' equity		<u>925,661</u>	<u>814,976</u>
Total liabilities and shareholders' equity		<u>3,364,495</u>	<u>3,592,770</u>

The attached notes on pages 7 to 16 form an integral part of these interim consolidated financial statements.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Interim consolidated income statement (unaudited)**

(All amounts in Thousand Saudi Riyals unless otherwise stated)

	Interim period		Beginning of the year to	
	April 1, 2011 to June 30, 2011	April 1, 2010 to June 30, 2010	June 30, 2011	June 30, 2010
Sales	304,448	-	679,481	-
Cost of sales	(289,391)	-	(607,205)	-
Gross profits	15,057	-	72,276	-
Operating expenses				
General and administrative	(17,430)	(21,920)	(34,331)	(33,644)
(Loss) income from operations	(2,373)	(21,920)	37,945	(33,644)
Other income (expenses)				
Financial charges	(24,587)	-	(48,661)	-
Capital gain on sale of shares	-	11,301	-	11,301
Foreign currency exchange gain (loss)	1,212	-	5,713	(41)
Change in fair value of derivatives	(2,834)	(7,331)	1,167	(4,631)
Amortization of deferred financial charges	(787)	-	(1,573)	-
Amortization of pre-operating expenses	(1,562)	-	(3,124)	-
Other income	150	68	421	215
Provision for investments	(304)	-	(304)	-
Loss before zakat and minority interest	(31,085)	(17,882)	(8,416)	(26,800)
Zakat	(188)	(225)	(1,006)	(929)
Loss before minority interest	(31,273)	(18,107)	(9,422)	(27,729)
Minority interest	11,945	10,830	1,485	13,781
Loss for the period	(19,328)	(7,277)	(7,937)	(13,948)
(Loss) income per common share on (loss) income from operations	8 <u>(0.03)</u>	<u>(0.32)</u>	<u>0.55</u>	<u>(0.49)</u>
Loss per common share on net loss before minority interest	8 <u>(0.45)</u>	<u>(0.26)</u>	<u>(0.14)</u>	<u>(0.40)</u>
Loss per common share on net loss for the period	8 <u>(0.28)</u>	<u>(0.11)</u>	<u>(0.11)</u>	<u>(0.20)</u>

The attached notes on pages 7 to 16 form an integral part of these interim consolidated financial statements.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Interim consolidated cash flow statement (unaudited)
(All amounts in Thousand Saudi Riyals unless otherwise stated)

	Six-month period ended June 30,	
	2011	2010
Cash flow from operating activities		
Net loss for the period	(7,937)	(13,948)
<u>Adjustments for non-cash items</u>		
Depreciation	71,923	1,871
Amortization of deferred financial charges	1,573	-
Provision for investments	304	-
Amortization of pre-operating expenses	3,124	-
Zakat	1,006	929
Changes in fair value of derivatives	(1,167)	4,631
Capital gain on sale of shares	-	(11,301)
Income from investments in Murabaha Funds	(24)	(23)
Minority interest	(1,485)	(13,781)
Employees' termination benefits, net	809	232
<u>Changes in working capital:</u>		
Accounts receivable	48,194	9,972
Prepayments and other receivables	(12,601)	(14,440)
Advances to suppliers	11,596	(16,342)
Due from related parties	(21,188)	(7,447)
Inventories	(40,698)	(103,617)
Accounts payable	(79,459)	20,277
Accruals and other liabilities	(13,022)	(42,242)
Due to related parties	1,846	(3,601)
Zakat paid	(7,533)	(1,289)
Net cash utilized in operating activities	<u>(44,739)</u>	<u>(190,119)</u>
Cash flow from investing activities		
Movement of short-term investments in Murabaha Funds	3,541	(14,491)
Security deposit	21,355	409
Projects under study	(2,583)	(749)
Work in progress, net	-	76,119
Purchase of property and equipment	(75,448)	(2,890)
Capital gain on sale of shares	-	11,301
Additional investments in an associate	-	(169)
Net cash (utilized in) generated from investing activities	<u>(53,135)</u>	<u>69,530</u>
Cash flow from financing activities		
Long-term loans	(101,430)	224,476
Current portion of long-term loans	6,946	-
Minority interest	6,490	10,638
Net cash (utilized in) generated from financing activities	<u>(87,994)</u>	<u>235,114</u>
Net change in cash and cash equivalents	(185,868)	114,525
Cash and cash equivalents - beginning of the period	<u>311,944</u>	<u>52,156</u>
Cash and cash equivalents - end of the period	<u>126,076</u>	<u>166,681</u>
Supplementary information for non-cash transactions		
Amortization of deferred financial charges transferred to work-in-progress	<u>-</u>	<u>1,573</u>

The attached notes on pages 7 to 16 form an integral part of these interim consolidated financial statements.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Interim consolidated statement of changes in shareholders' equity (unaudited)**

(All amounts in Thousand Saudi Riyals unless otherwise stated)

	Interim period		Beginning of the year to	
	April 1, 2011 to June 30, 2011	April 1, 2010 to June 30, 2010	June 30, 2011	June 30, 2010
SHAREHOLDERS' EQUITY				
Capital	692,000	692,000	692,000	692,000
Statutory reserve	17,316	17,316	17,316	17,316
Cumulative changes in fair values of derivatives				
Beginning balance	(54,276)	(61,727)	(62,993)	(56,425)
Fair value adjustments	27	(3,186)	8,744	(8,488)
Ending balance	(54,249)	(64,913)	(54,249)	(64,913)
Accumulated losses				
Beginning balance	(80,768)	(141,012)	(92,159)	(134,341)
Loss for the period	(19,328)	(7,277)	(7,937)	(13,948)
Ending balance	(100,096)	(148,289)	(100,096)	(148,289)
Total shareholders' equity of the parent company	554,971	496,114	554,971	496,114
Minority interest	370,690	318,862	370,690	318,862
Total shareholders' equity	925,661	814,976	925,661	814,976

The attached notes on pages 7 to 16 form an integral part of these interim consolidated financial statements.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements (unaudited)
For the six-month period ended June 30, 2011
(All amounts in Thousand Saudi Riyals unless otherwise stated)

1 GENERAL INFORMATION

Alujain Corporation (the "Corporation") 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 Corporation obtained its Commercial Registration on Rajab 3, 1412H (corresponding to January 7, 1992).

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

The Corporation has a 57.4% share in National Petrochemical Industrial Company (NATPET), (the "subsidiary company"). In 2004, management of the subsidiary company decided to form a joint venture company - Teldene, to operate the subsidiary Company's project. This decision was revised by the subsidiary's Board of Directors which resolved in its meeting on September 19, 2007 that the project will now be operated by the subsidiary company, NATPET. Previously the net expenses of the project were to be recovered by NATPET from the proposed joint venture project company. Following the Board of Directors' above decision, these expenses were charged to the statement of income or reclassified to pre-operating expenses and work in progress during 2007. The current status of the project is detailed in note 4.

The subsidiary company's Polypropylene (PP) Complex in Yanbu Industrial City commenced commercial production on August 6, 2010, which is the date the subsidiary company started to recognize the sales and the related cost of sales in its income statement.

The accompanying financial statements include the accounts of the Corporation and its subsidiary, National Petrochemical Industrial Company (NATPET) (the "subsidiary company"). The Company's effective ownership in NATPET as of December 31, 2010 is 57.4%. During December 2009, NATPET decided to increase its capital from SR 917 million to SR 1,070 million through conversion of shareholders' loans into equity and a rights issue. As Alujain Corporation held a substantial portion of shareholders' loans in NATPET, a full subscription to the rights issue resulted in Alujain Corporation owning more than 57.4% of NATPET. Alujain Corporation decided to maintain its 57.4% ownership due to a variety of commercial and banking reasons and subsequently disposed off the extra shares it acquired during the process.

The subsidiary Company's Propylene & Polypropylene Complex in Yanbu Industrial City was shut down during May and June 2011 for a period of forty nine (49) days for a full turnaround procedure (major maintenance), as well as implementing the production and equipment enhancements. Management believes that this planned shutdown is in accordance with the industry practices and engineering specifications. In addition, the turnaround activity was planned and accounted for as part of 2011 operating budget.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying interim 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.

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(A Saudi Joint Stock Company)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.1 Basis of consolidation

The interim consolidated financial statements comprise the accounts of Alujain Corporation (the parent company) and its subsidiary (National Petrochemical Industrial Company), collectively "the Group". All material intercompany transactions and balances are eliminated on consolidation.

The subsidiary is consolidated from the date the parent company obtains control until such time control ceases. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The interim financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. The attributable equity interests of third parties in the Group are included under the minority interest caption in these interim consolidated financial statements.

2.2 Revenue recognition

Revenue from sales of goods through the Group is recognized upon delivery or shipment of products to customers, and invoices are issued.

Revenue from sales 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. Adjustments are made, as they became known to the Group.

2.3 Critical accounting estimates and judgments

The preparation of interim consolidated 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 interim consolidated 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.

2.4 Investments

(a) 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 interim consolidated income statement.

(b) Associates

Associates are entities over which the Company has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Investments (continued)

(c) Available-for sale investments

Available-for-sale investments principally consist of less than 20% equity investments in certain quoted/unquoted investments including investments in mutual funds. 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.

2.5 Foreign currency translations

(a) Reporting currency

The interim consolidated financial statements of the Company 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 interim consolidated income statement.

2.6 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 Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated 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 interim consolidated income statement.

2.7 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.

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(A Saudi Joint Stock Company)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 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 interim consolidated income statement, using the straight-line method to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Furniture and fixtures	5 – 10
• Office equipment	5 – 10
• Vehicles	4
• Computers	3 – 4
• Plant & equipment	10 – 20
• Leasehold improvements	3 – 10

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

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim 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.

2.9 Inventories

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

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

2.10 Deferred financial charges

Deferred financial charges represent project evaluation fees related to long-term borrowings, and are amortized over the term of the loan on a straight-line basis. Amortization charges are capitalized and charged to work in progress during the construction period.

After commencement of commercial production, the amount is being charged to the interim consolidated income statement.

2.11 Pre-operating expenses

Pre-operating expenses are charged to the interim consolidated income statement unless their future benefits have been determined in which case they will be amortized using the straight line basis over 7 years or their estimated period of benefit, whichever is shorter, from the commencement of operations.

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(A Saudi Joint Stock Company)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of non-current assets

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

2.13 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.

2.14 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 interim consolidated income statement.

2.15 Accounts payable and accruals

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

2.16 Provisions

Provisions are recognized, when the Company 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.

2.17 Zakat

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the interim 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.

2.19 Derivative financial instruments and hedging

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.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

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.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the interim 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.

2.20 Reclassifications

Certain reclassifications have been made in the comparative June 30, 2010 interim financial statements to conform with June 30, 2011 presentation.

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3 INTERIM FINANCIAL RESULTS

The results presented in the interim financial statements may not be an accurate indicator of the annual operating results.

4 WORK IN PROGRESS

The work in progress balance as at June 30, 2010 represented Teldene Polypropylene and AlFasel Propylene Projects which were combined as one integrated complex for strategic, economic and financial consideration.

During the year ended December 31, 2006, the Company added to its work in progress an amount of SR 360 million which represents Alujain Corporation's total spending on Alfasel propylene project, which was transferred from Alujain Corporation to the Company.

On March 3, 2004, the Company and Tecnimont - an Italian Company, signed the Engineering, Procurement and Construction (EPC) Contract. The Company asked to convert this EPC contract to Lump Sum Turn Key Contract which was signed on February 7, 2005 where the capacity of polypropylene production was increased to 400 thousand tons yearly. Also, during 2005, the Company and Lurgi - a German Company, signed a lump sum Turn Key contract.

The land and utilities agreements of the Royal Commission in Yanbu, Saudi Arabia, have been signed on a conditional basis.

Lurgi Company of Germany and Technimont Company of Italy (the contractors) started the engineering, procurement and construction activities according to the early work agreement. NATPET reached a 10 years marketing agreement with Noble Americas ("Noble") under which Noble will market about 50% of the polypropylene production capacity of 400,000 tons per year. NATPET will have the option of increasing the quantity up to 100% of capacity. This off-take will sold in South East Asia, the Indian subcontinent and China. Noble has invested up to US\$ 5 million in the project.

In addition, NATPET and SABIC Industrial Investments Company signed an agreement for marketing 50% of polypropylene production.

The assets of the project (which were transferred to property, plant and equipment) are mortgaged to the Saudi Industrial Development Fund (SIDF) as security against the term loan received from the fund.

As mentioned in note 1, the commercial production of the subsidiary commenced on August 6, 2010, accordingly the balance of Work in Progress as of that date was transferred to Property, Plant and Equipment.

The following is the movement of the work In progress during the six months ended June 30:

	2011	2010
Beginning balance	-	2,944,832
Additions	-	27,334
Deferred financial charges capitalized	-	1,573
	-	2,973,739
Less: Performance testing production sold net of direct cost	-	(103,452)
Ending balance	-	2,870,287

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For the six-month period ended June 30, 2011
(All amounts in Thousand Saudi Riyals unless otherwise stated)

5 PRE-OPERATING EXPENSE, NET

Pre-operating expense represents the amount reclassified by the subsidiary company from net cost of project under progress and relates to project development expenditure incurred before 2002. These costs have been capitalized as pre-operating expenses following the NATPET Board of directors decision on September 19, 2007 to retain the Teldene Polypropylene project in NATPET, as management believes that the future benefits associated with these costs is certain and evident.

6 LONG-TERM LOANS

The subsidiary company has signed loan agreements with a 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 June 30:

	2011	2010
Commercial Banks' syndication	974,560	1,119,297
Public Investment Fund loan	712,500	750,000
SIDF Loan	365,000	400,000
Others	21,645	21,645
	2,073,705	2,290,942
Less: Current portion of long-term loans	(195,914)	(215,245)
Non-current portion of long-term loans	<u>1,877,791</u>	<u>2,075,697</u>

The subsidiary company has signed a loan agreement with the Commercial Banks' syndication in February 2006. The term loan is secured by a second charge on the Company'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 company has signed a loan agreement with Public Investment Fund (PIF) on June 23, 2008 for a loan of USD 125 million (SR 468.75 million) which was fully drawn in 2008. The Company signed an additional loan agreement with PIF on January 5, 2010 for an amount of USD 75 million (SR 281.25 million) which was fully drawn until December 31, 2010. The term loan is repayable in 20 bi-annual installments starting on June 30, 2011. The installments are due in the next 12 months and are shown as a current liability.

The subsidiary company has signed a loan agreement with SIDF in August 2006 for an amount of SR 400 million which was fully drawn as of December 31, 2010 (June 30, 2010: SR 400 million). The SIDF loan carries project evaluation fees amounting to SR 30 million, which was recorded as deferred financial charges. The balance of SR 15,432 thousand as of June 30, 2011 (June 30, 2010: SR 18,578 thousand), 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:

	<u>Security type</u>	<u>%</u>
Xenel Industries Company Limited	Corporate guarantee	25.9
Safra Company Limited	Corporate guarantee	5
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.

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7 GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Salaries and wages	19,279	18,421
Legal and professional fees	1,890	2,817
Depreciation	2,368	1,871
Rents	1,144	1,589
Travel and accommodation	1,553	1,760
Public relation and publicity	2,348	1,956
Subscriptions and supplies	575	481
Meetings, seminars and conferences	344	326
Directors' compensation	435	350
Engineering and technical assistance	68	317
Utilities and services	586	600
Information technology	872	874
Repairs and maintenance	126	562
Other	2,743	1,720
	<u>34,331</u>	<u>33,644</u>

8 INCOME (LOSS) PER COMMON SHARE

Income (loss) per common share on income (loss) from operations is calculated by dividing the income (loss) from operations by the weighted average number of common shares in issue during the period.

Income (loss) per common share on income (loss) before zakat and minority interest is calculated by dividing the income (loss) before zakat and minority interest by the weighted average number of common shares in issue during the period.

Income (loss) per common share on net income (loss) is calculated by dividing the net income (loss) for the period by the weighted average number of common shares in issue during the period.

The weighted average number of ordinary shares outstanding during the period ended June 30, 2011 and 2010 was 69.2 million shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Group.

9 INVESTMENTS, NET

Included in investments is an amount of SR 9.8 million representing investments in Arab Pesticides Industries Company Limited (MOBEED), an associate. During December 2008, the Group entered into a number of agreements with partners in MOBEED for the purchase of additional shares, thus increasing Alujain's ownership of MOBEED from 25% to 93.08% as of December 31, 2008. During the year ended December 31, 2009, the Company agreed to sell 46.54% of its share to a related party. With additional share acquisitions during 2010, Alujain's ownership in MOBEED stands at 52.21% as at December 31, 2010. The legal formalities in respect of the Ministerial approval, the amended Articles of Association and Commercial Registration have not been finalized yet.

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10 INVESTMENT IN JOINT VENTURE

The subsidiary (National Petrochemical Industrial Company) (Natpet) signed a Joint Venture Agreement with Low & Bonar PLC of the United Kingdom on January 31, 2011 with the aim of implementing one of the subsidiary's downstream projects. The Joint Venture partners agreed to set up a manufacturing plant in Yanbu.

The total cost of the Joint Venture Project is estimated to be SAR 160 million, 40% of which will be funded through equity and the remaining through debts from commercial banks and financial institutions. The subsidiary will own a 50% stake in the Joint Venture. The legal formalities for forming the Joint Venture are under process.