

ALUJAIN CORPORATION

(A Saudi Joint Stock Company)

BOARD OF DIRECTORS' REPORT FOR THE YEAR 2012

The Board of Directors is pleased to present its annual report together with the audited financial statements for the year ended December 31, 2012.

Alujain Corporation's (Alujain) objective is to identify, evaluate, promote, develop and invest in major industrial projects in the petrochemicals, mining, metals and energy sectors in the Kingdom of Saudi Arabia by taking advantage of the Kingdom's natural resources. Pursuant to these objectives the Company acquired majority (57.4%) equity ownership in National Petrochemical Industrial Company (Natpet) which operates a 400,000 tons per year Propylene & Polypropylene Complex (PP Complex) in Yanbu Industrial City, on the west coast of Saudi Arabia. Alujain, Xenel and GOSI are the major shareholders. Natpet is using UOP's Oleflex technology to convert propane gas into propylene to produce polypropylene using the prestigious Spheripol technology from LyondellBasell, a world leader in polypropylene business and industry.

During 2012 Alujain reported a net profit of SR 51.68 million, as compared to a loss of SR 9.95 million during 2011. This increase in profit is attributed mainly to higher operational efficiencies and increase in production quantities with consequential higher sales volume allowing for lower cost per ton. The sales quantities during 2011 were low due to the scheduled turnaround and crash shutdowns of the subsidiary's plant.

The Net Profit of Natpet for the fiscal year 2012 was SR 108.94 million, as compared to Net Profit of SR 1.71 million during 2011. This increase in profit is mainly due to the explanation provided in above paragraph. The production during 2012 was 397K metric tons which is 99% of design capacity, as compared to 277K metric tons during 2011. Natpet's sales in 2012 were SR 2,111.94 million (404K metric tons) compared to SR 1,471.87 million (264K metric tons) in 2011.

NATPET has acquired certifications for ISO 9001:2008 - Quality, ISO 14001:2004 - Environment, ISO 22000:2005 - Product Safety, OHSAS 1800:2007 - Occupational Health and Safety and ISO 17025:2005 - Laboratory Test Reliability and Calibration. The ISO 17025:2005 certification is accredited by the United Kingdom Accreditation Service (UKAS) UK, Swiss Accreditation, Switzerland and Dubai Accreditation.

Natpet has also been awarded second place at the 2012 King Khaled Awards for Responsible Competitiveness and this is the third time consecutively that Natpet is winning this prestigious award. The award was presented by HRH Late Crown Prince Naif Bin Abdulaziz Al Saud, Deputy Premier & Interior Minister and received by the Chairman of Natpet.

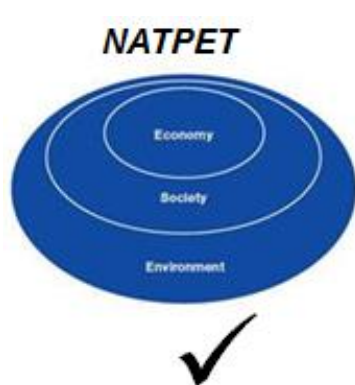


In addition, Natpet has won the Marafiq Sustainability Award for 2012 which was received by the Chairman of Natpet from the Jeddah Governor His Royal Highness Prince Mishaal bin Majed during the official inauguration ceremony of Saudi Water & Power Forum & Exhibition (SWPF) in December 2012.



Optimizing Ecological Footprint:

NATPET is leading the way by taking decisive action to fight climate change and increase resource efficiency.



To help reduce global CO₂ emissions, NATPET focuses on its own operations, by reducing energy and material consumption and making products more ecologically efficient.



The key performance indicators of Natpet's EcoVision program reflect its holistic approach to sustainability. Two key areas Natpet is focusing to optimize its ecological footprint are 'energy efficiency' and 'materials'.

NATPET has marketed its products worldwide including GCC, MENA, Asia and Europe, the exports comprise of 99% of its sales as explained under Section I-D of this report.

Alujain along with a related party has achieved 98.75% co-ownership in Zain Industries Company Ltd. (Zain). Zain owns and operates its plant in Jubail Industrial City. The sales for the period January-December 2012 stands at SR 15.99 million, with a net loss of SR 3.09 million from certain FMCG products. Alujain's investment in Zain is not consolidated in the accompanying consolidated financial statements because Alujain's control is temporary.

In compliance with the standards issued by the Saudi Organization of Certified Public Accountants (SOCPA), the financial statements of Alujain are consolidated to include Natpet as a subsidiary.

I. FINANCIAL HIGHLIGHTS

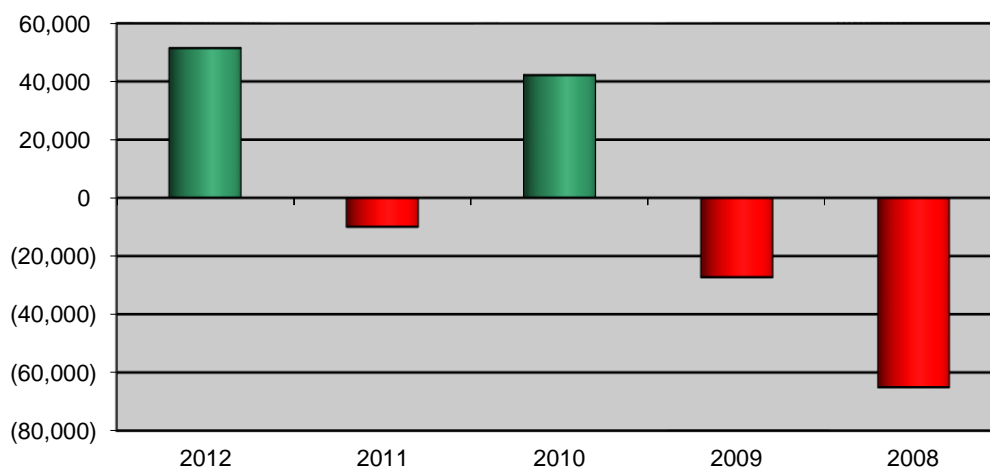
The current year's Profit and Loss (P&L) Summary reflects consolidated results with sales of SR2,111.94 million (403,874 metric tons of polypropylene products) and a gross profit of SR292.42 million with a net profit of SR51.68 million.

A. Five-Years Profit and (Loss) Summary

	Year ended December 31				
	2012 (SR '000)	2011 (SR '000)	2010 (SR '000)	2009 (SR '000)	2008 (SR '000)
Sales	2,111,941	1,471,866	852,133	0	0
Cost of sales	(1,819,521)	(1,313,054)	(673,116)	0	0
Gross profit	292,420	158,812	179,017	0	0
Operating expenses	(77,406)	(64,293)	(73,569)	(67,779)	(61,863)
Net operating income (loss)	215,014	94,519	105,448	(67,779)	(61,863)
Impairment loss on delay of plant start-up	0	0	(177,750)	0	0
Insurance & contractor's compensations	0	0	177,750	0	0
Financial charges	(100,163)	(95,094)	(36,900)	0	0
Net other income (expenses)	(15,200)	(7,091)	12,784	21,027	(30,920)
Profit (Loss) before Zakat	99,651	(7,666)	81,332	(46,752)	(92,783)
Zakat	(1,564)	(1,557)	(7,532)	(810)	(5,003)
Profit (Loss) Before Minority Interest	98,087	(9,223)	73,800	(47,562)	(97,786)
Minority Interest*	(46,409)	(729)	(31,618)	20,284	32,684
Net Profit (Loss)	51,678	(9,952)	42,182	(27,278)	(65,102)

* Minority interest represents 42.6% share of other shareholders in NATPET.

**Five-Years Net Profit / (Loss) Chart
(Amounts in SR '000)**



B. Comparative Operating Results (2 years):

The group achieved a consolidated net profit of SR 51.68 million during 2012 as compared to a consolidated net loss of SR 9.95 million during 2011. This increase in profit is attributed mainly to higher operational efficiencies and increase in production quantities with consequential higher sales volume allowing for lower cost per ton. The sales quantities during 2011 were low due to the scheduled turnaround and crash shutdowns of the subsidiary's propylene/polypropylene complex during 2nd quarter of 2011 for a period of Forty Nine (49) days for implementing production and equipment enhancements. During 2012, corresponding to the higher sales volume, the Sales & Marketing expenses

also increased by SR 3.7 million due mainly to higher warehouse management cost. Also, the general & administrative expenses increased by SR 9.4 million mainly due to the increase in Fees and Legal expenses for the re-financing activities, manpower cost and IT related expenses.

The 2012 net income before Zakat and minority interest is SR99.65 million as compared to 2011 loss of SR7.67 million.

Two years comparative operating results
(Consolidated figures)

	Year ended on December 31		
	2012 (SR '000)	2011 (SR '000)	Net Changes (SR '000)
Sales	2,111,941	1,471,866	640,075
Cost of sales	(1,819,521)	(1,313,054)	(506,467)
Gross profit	292,420	158,812	133,608
Operating expenses	(77,406)	(64,293)	(13,113)
Net operating income (loss)	215,014	94,519	120,495
Financial charges	(100,163)	(95,094)	(5,069)
Net other income	(15,200)	(7,091)	(8,109)
Profit (Loss) before Zakat	99,651	(7,666)	107,317
Zakat	(1,564)	(1,557)	(7)
Profit (Loss) Before Minority Interest	98,087	(9,223)	107,310
Minority Interest*	(46,409)	(729)	(45,680)
Net Profit (Loss)	51,678	(9,952)	61,630

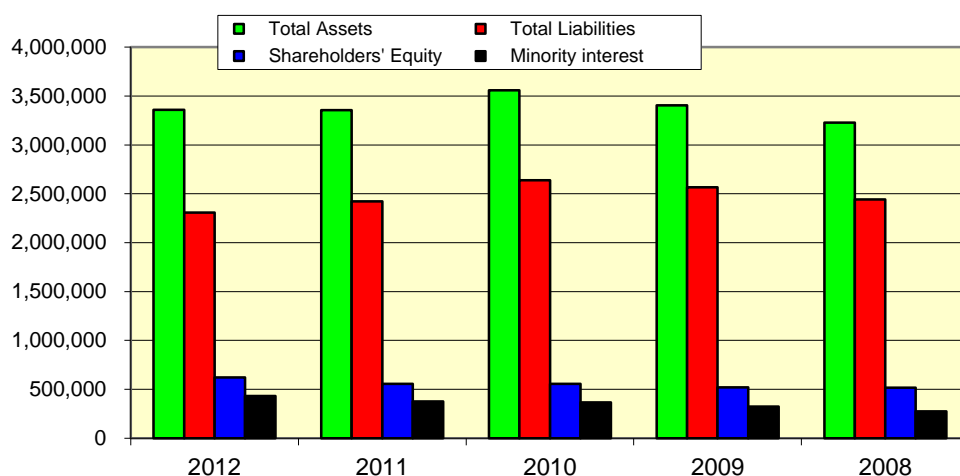
* Minority interest represents 42.6% share of other shareholders in NATPET.

C. Summary of Financial Position

	As at December 31				
	2012 (SR '000)	2011 (SR '000)	2010 (SR '000)	2009 (SR '000)	2008 (SR '000)
ASSETS					
Current assets	678,542	522,836	733,980	340,328	340,798
Non-current assets	2,681,252	2,832,468	2,825,451	3,065,344	2,887,918
Total Assets	3,359,794	3,355,304	3,559,431	3,405,672	3,228,716
LIABILITIES AND EQUITY					
Current liabilities	611,030	648,333	516,941	545,109	282,659
Non-current liabilities	1,696,095	1,773,704	2,122,641	2,020,007	2,158,011
Total Liabilities	2,307,125	2,422,037	2,639,582	2,565,116	2,440,670
Shareholders' Equity	621,120	557,208	554,164	518,551	515,423
Minority interest *	431,549	376,059	365,685	322,005	272,623
Total Liabilities & Shareholders' Equity	3,359,794	3,355,304	3,559,431	3,405,672	3,228,716

*Minority interest represents 42.6% share of other shareholders in NATPET.

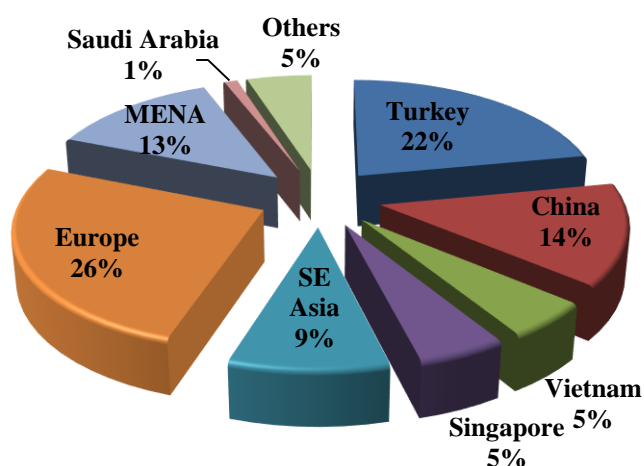
Five-Year Balance Sheet Chart
(Amounts in SR '000)



D. Geographical Analysis of Consolidated Revenue:

Essentially, the company's revenue comes from its subsidiary selling its products in and out of Saudi Arabia, as presented in the following table and chart:

Geographical Analysis of Sales Quantities		
Country	Qty. (MT)	%age
<u>Noble Resources S.A. (Off Taker)</u>		
Turkey	87,740	22%
China	56,331	14%
Vietnam	19,795	5%
Singapore	19,478	5%
Other Asian countries	37,966	9%
<u>NATPET (Direct Marketing)</u>		
Europe	107,228	26%
MENA	54,625	13%
Saudi Arabia	2,458	1%
Others	18,254	5%
Total	403,874	100%



II. MAJOR EVENTS IN 2012

- (a) The appointment of Mr. Abdullah Muhammed N. Rehaimi as member of the Board of Directors was presented and ratified at the shareholders meeting # 23 dated 23rd April 2012.

- (b) Alujain's subsidiary, National Petrochemical Industrial Company (Natpet), has entered in to a joint venture agreement with Low & Bonar PLC of the United Kingdom to build a new manufacturing plant near Natpet's polypropylene facility in Yanbu, for the design, manufacture and sale of geotextile products for the fast growing civil engineering markets in the Middle East and the Indian subcontinent. The plant will cost SR 160 million approximately and will be funded through equity (40%) and the remainder through debts from sources such as Saudi Industrial Development Fund (SIDF) and other local banks. The plant will have a capacity of 17,300 tons/year of staple fiber and 9,600 tons/year of nonwoven Geotextiles. Natpet will have a 50% stake in the joint venture while the remaining will be held by the partner. The venture will develop value-added products for the local market, create employment opportunities for Saudis, and bring new technology to the Kingdom realizing the strategic objective of the Saudi government's cluster initiative.

Low & Bonar PLC, a listed company on the London Stock Exchange (LSE), is an international group manufacturing and supplying a wide range of performance products to the global technical textiles industry. It has a leading position in geotextiles through its Technical Fabrics business which has plants in Belgium, Hungary and China.

- (c) Alujain's subsidiary Natpet entered into a joint venture agreement with A. Schulman Inc. of the U.S.A on 19th Rajab 1433 H (corresponding to 9th June 2012) to build a 100,000 MT per annum polypropylene compounding plant adjacent to Natpet's Yanbu facility in two phases. The plant will be a 50-50 joint venture. The first phase of the project will be funded 40% through equity and the remainder through debt and is expected to be on stream in the last quarter of 2014. The estimated cost of the first phase is SR 266 million. The joint venture will serve a broad range of customers globally and capitalize on the growing demand for durable goods such as appliances and automotives in the Middle East, Africa and India.

A. Schulman Inc. is headquartered in Akron, Ohio, USA and is a leading global supplier of high performance plastics, master-batches, specialty powders, and distribution services.

- (d) Natpet signed an Islamic Bridging Facility Agreement for SR 974 million with Banque Saudi Fransi and SAMBA Financial Group. The proceeds of this Facility will be used to fully prepay the remaining balance of SR 854 million of its Existing Term Loan and use SR120 million for working capital needs and equity investments in the previously announced downstream projects. This bridge facility is convertible for a long term facility by mutual agreement between Natpet and its lenders, in a maximum period of nine months, thus offering the company lower cost of funds than its existing facility and the benefit of better terms for its future financing requirements.
- (e) Natpet also signed a US\$ 20 million three (3) year Revolving Credit Facility Agreement with The Saudi Fund for Development under the Saudi Export Program. The purpose of this Facility is to support Natpet's worldwide exports and provide usual corporate guarantees as detailed below against the Facility:

1. Corporate Guarantee that Natpet is committed to pay all the dues on time.
2. Natpet commits to cover the associated political and commercial risks for its exports.
3. Natpet signs Promissory Notes to effect payment on the due date as stipulated on each promissory note.

III. ZAKAT AND OTHER AMOUNTS PAID TO THE GOVERNMENT

On a standalone basis, Alujain has made total provision of SR 1.33 million during 2012 estimated Zakat expenses.

The Company has filed final Zakat returns for 2003 through 2011 and obtained restricted Zakat certificates from the DZIT. An appeal was submitted to DZIT against its initial assessment of SR 5.4 million for the Zakat years 2003 to 2007. The DZIT also issued its initial assessments for the years 2008 to 2010 requiring Alujain to pay SR16.9 million. Alujain had also filed appeal against these assessments and the management is of the view that both the appeals are based on sufficient grounds and will be settled in Alujain's favor.

Following is a summary of amounts paid by Alujain to the Government:

	2012 (SR '000)	2011 (SR '000)
Zakat	1,566	838
General Organization for Social Insurance	258	246
Tadawul	447	452
Registration, visas and other expenses	29	39
Total amounts paid to the Government	2,300	1,575

IV. SUBSIDIARY COMPANY

National Petrochemical Industrial Company (Natpet):

Natpet is a closed joint stock company incorporated in the Kingdom of Saudi Arabia with its head office in Jeddah and PP Complex in Yanbu Industrial City. The authorized and paid up capital comprised 107 million shares of SR10 per share as at 31 December 2012.

Alujain currently holds 57.4% of the total equity of Natpet.

Natpet signed Islamic bridge loan agreements with local banks during 2012 and has loans from Public investment Fund (PIF) and Saudi Industrial Development Fund (SIDF). Following are the details of its loans (*all amounts are in thousand Saudi Riyals*):

Description of loan	Terms of loans	Original loans	Loan repayments		Outstanding balances
			Prior years	Current year	
Islamic Bridge/ Commercial banks	Islamic Bridge loan, 6-9 Months	1,232,841	342,143	36,984	853,714
Public Investment Fund loan	Term loan, 10 yrs	750,000	75,000	75,000	600,000
SIDF Loan	Interest free, 7 yrs	400,000	55,000	80,000	265,000
Others	No fixed repayment period	21,645	0	0	21,645
Total			472,143	191,984	1,740,359

The SIDF loan is secured by a mortgage over the fixed assets of the PP Complex and corporate guarantees from its shareholders wherein Alujain's guarantee is 57.4%.

SAFETY RECORD:

Natpet has an excellent record for Health, Safety and the Environment with 4.21 million man hours until December 2012 and it received below mentioned awards:

1. "2012 Silver Award" from the Royal Society for the Prevention of Accidents (RoSPA, UK), annual Achievement Award granted to Natpet based on good health and safety management system and process as assessed against the RoSPA judging criteria.
2. Natpet became a member of "British Safety Council" & "The Royal Society for the Prevention of Accidents (RoSPA)".
3. "Perfect Record Award" from the National Safety Council, USA.

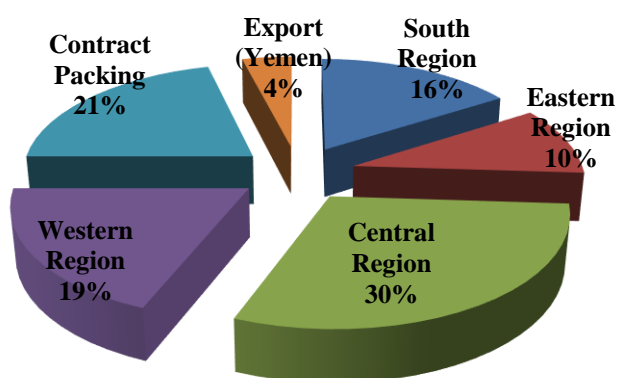
V. ASSOCIATE COMPANY

Zain Industries Company Ltd (formerly MOBEED):

Zain Industries is a limited liability company incorporated in the Kingdom of Saudi Arabia with its head office in Jeddah and plant in Jubail Industrial City. Zain currently produces certain select FMCG products. The sales for the period January-December 2012 stands at SR 15.99 million. In addition, Zain already has some agrochemicals and public health products registered and it envisions to launch some new products during 2013. Alujain along with a related party continuously seeks to fully acquire Zain Industries and 98.75% co-ownership of Zain has already been achieved.

Zain Industries sold its products in and out of Saudi Arabia, as shown in below table and chart:

Geographical Sales		
Region	SR '000	%age
Central Region	4,838	30%
Western Region	3,060	19%
South Region	2,531	16%
Eastern Region	1,611	10%
Export (Yemen)	541	4%
Contract Packing	3,409	21%
Total	15,990	100%



VI. BOARD OF DIRECTORS

A. Constitution of the Board of Directors:

During 2012 the Board of Directors consisted of nine directors as follows:

Names	Executive	Non-executive	Independent
Khalid A. Y. Zainal Alireza	✓		
Matouq Hassan Jannah		✓	
Khalid Ibrahim Zagzoog	✓		
Abdallah Sadiq Dahlan			✓
Ali Abdulla Kanoo			✓
Adnan Kamel Salah			✓
Omar Hashim Khalifati			✓
Mohammad Ali Al-Naki			✓
Abdullah Muhammed N. Rehaime			✓

B. Meetings:

During 2012 the Board of Directors held 4 meetings as follows:

Directors	Mtg# 76		Mtg# 77		Mtg# 78		Mtg# 79		Total Present	Total Proxy	Attendance Percentage
	15/4/12		17/6/12		16/10/12		23/12/12				
	Present	Proxy	Present	Proxy	Present	Proxy	Present	Proxy			
Khalid A.Y. Zainal Alireza	✓		✓		✓		✓		4		100%
Matouq Hassan Jannah	✓			✓	✓		✓		3	1	75%
Khalid Ibrahim Zagzoog	✓			✓	✓		✓		3	1	75%
Abdallah Sadiq Dahlan	✓			✓				✓	1	2	25%
Ali Abdulla Kanoo	✓			✓		✓	✓		2	2	50%
Adnan Kamel Salah	✓		✓		✓		✓		4		100%
Omar Hashim Khalifati	✓		✓		✓		✓		4		100%
Mohammad Ali Al-Naki		✓	✓		✓		✓		3	1	75%
Abdullah M. N. Rehaime	✓		✓			✓	✓		3	1	75%

C. Directorships in other Joint Stock Companies (only listed and traded):

Director	Company
Khalid A.Y. Zainal Alireza	Saudi Cable Company
Matouq Hassan Jannah	—
Khalid Ibrahim Zagzoog	—
Abdallah Sadiq Dahlan	—
Ali Abdulla Kanoo	—
Adnan Kamel Salah	—
Omar Hashim Khalifati	—
Mohammad Ali Al-Naki	—
Abdullah M. N. Rehaimi	The Savola Group

D. Board Committees:

Audit Committee:

i) Mandate:

The main objectives of the committee include ensuring the adequacy and soundness of the internal control structure, financial accounting and reporting policies and procedures as well as ensuring effectiveness of the internal and external audit function. It also reviews the Company's financial statements.

ii) Audit Committee Members:

Members	Non-executive	Shareholder	Position
Omar Hashim Khalifati		✓	Chairman
Ali Abdulla Kanoo		✓	Member
Asad Hameed (Finance Specialist)		✓	Member
Mohammad Uzair Afzal (Finance Specialist)			Member
Adnan Kamel Salah		✓	Member

iii) Meetings:

The committee held four meetings during 2012 as follows:

	Mtg # 44	Mtg # 45	Mtg # 46	Mtg # 47	Total Attendance	Attendance Percentage
	15/4/12	15/6/12	16/10/12	22/12/12		
Omar Hashim Khalifati	✓	✓	✓	✓	4	100%
Ali Abdulla Kanoo	✓			✓	2	50%
Asad Hameed	✓	✓	✓		3	75%
Mohammad Uzair Afzal	✓	✓	✓	✓	4	100%
Adnan Kamel Salah	✓	✓	✓	✓	4	100%

Nomination and Remuneration Committee:

The Board of Directors in their meeting # 74 appointed Nomination and Remuneration Committee. However, the composition of the Committee was subsequently changed by the Board in their meeting # 79. The tenure of the new committee will be for a period of the existing Board of directors', as per the rules approved by the shareholders.

i) Summary of functions and responsibilities:

The main objectives of the Committee include review of the structure of Board of Directors and recommending suitable candidates for appointment to membership of the Board, ensuring their integrity and adequate competency as required by law and drawing clear policies regarding indemnities and remuneration of the Board members and top executives of the company.

ii) The Old Nomination and Remuneration Committee Members:

Members	Position
Khalid A.Y. Zainal Alireza	Chairman of the Committee
Abdullah M. Noor Rehaimi	Board Member
Abdallah Sadiq Dahlan	Board Member

The New Nomination and Remuneration Committee Members:

Members	Position
Khalid Ibrahim Zagzoog	Chairman of the Committee
Ahmed Saad Gabbani	Expert
Matouq Hassan Jannah	Board Member

iii) Meetings:

The old committee had two meetings during the year 2012 as per the following attendance. There is no remuneration paid to any of the committee members including its Chairman.

Members	Mtg #1 16/10	Mtg #2 23/12	Total Attendance	Attendance Percentage
Khalid A.Y. Zainal Alireza	✓	✓	2	100%
Abdullah M. Noor Rehaimi	-	✓	1	50%
Abdallah Sadiq Dahlan	-	-	-	00%

E. Movement in Shares Owned By Directors and Their Immediate Family Members

The following table includes a description of any interest related to the members of the Board of Directors, including their wives and minor children, in the stocks or credit instruments of the company:

Name	At start of the year		Net changes		At end of the year	
	Quantity	%	Quantity	%	Quantity	%
Khalid A.Y. Zainal Alireza	857,216	1.239%	-	-	857,216	1.239%
Matouq Hassan Jannah	1,200	0.002%	-	-	1,200	0.002%
Khalid Ibrahim Zagzoog	3,500	0.005%	(600)	(0.001%)	2,900	0.004%
Abdallah Sadiq Dahlan	1,000	0.001%	-	-	1,000	0.001%
Ali Abdulla Kanoo	4520	0.007%	-	-	4520	0.007%
Adnan Kamel Salah	2,000	0.003%	-	-	2,000	0.003%
Omar Hashim Khalifati	22,060	0.032%	-	-	22,060	0.032%
Mohammad Ali Al-Naki	1,000	0.001%	-	-	1,000	0.001%
Abdullah M. N. Rehaimi	3,700	0.005%	-	-	3,700	0.005%

F. Movement in Shares Owned By Senior Executives and Their Immediate Family Members

The following table includes a description of any interest related to the members of the Senior Executives, including their wives and minor children, in the stocks or credit instruments of the Company:

Name	At start of the year		Net changes		At end of the year	
	Quantity	%	Quantity	%	Quantity	%
Marwan N. Nusair President & COO	2,400	0.003%	650	0.001%	3,050	0.004%
Rajiv Thakur VP – Business Development	Nil	Nil	Nil	Nil	Nil	Nil
Saleem Akhtar VP - Finance	Nil	Nil	Nil	Nil	Nil	Nil

VII. REMUNERATION OF CHAIRMAN, BOARD OF DIRECTORS, AND TOP EXECUTIVES

	Board Members		Highest paid senior executives including COO & VP-Finance*
	Executive (2 persons)	Non-executive/ Independent (7 persons)	
Salaries and compensation	690,000	-	1,209,263
Allowances	21,000	57,000	408,752
Periodic and annual bonuses	-	-	
Incentive plans	-	-	
Other Compensations	-	6,000	441,300
Total	711,000	63,000	2,059,315

* Remuneration for 3 executives including COO, VP – Finance and VP – Business Development. Alujain has less than 5 executives.

REMUNERATION OF AUDIT COMMITTEE

Position	Meeting Fees
Chairman	12,000
Members	26,000
Total	38,000

VIII. TRANSACTIONS WITH RELATED PARTIES

A portion of the Company's general and administrative expenses and shared services including project-related costs are charged by affiliates by way of sharing the cost of some common services. Prices and terms of payment are approved by management.

(a) Summary and nature of transactions:

Party	Board Member	Contract Period	Nature of dealing	Amount (SR '000)
Board of Directors of the Company			Chairman's compensation and directors' meeting attendance fees	815
Board of Directors of the Subsidiary			Chairman's compensation and directors' meeting attendance fees	2,485
Hidada Company Limited	Khalid A.Y. Zainal Alireza	One year (perpetual)	Joint expenses charged by the group	1,115
Saudi Cable Company	Khalid A.Y. Zainal Alireza	One year (perpetual)	Joint expenses charged by the group	46
Saudi Cable Company	Khalid A.Y. Zainal Alireza	One year (perpetual)	Shared services charged to the group	144
Xenel Industries Co. Ltd.	Khalid A.Y. Zainal Alireza	One year (perpetual)	Shared services charged to the group	5,575
Safra Company Limited	Khalid A.Y. Zainal Alireza Khalid Ibrahim Zagzoog Matouq Hassan Jannah	One year (perpetual)	Joint expenses charged to the group	5,995
Safra Company Limited	Khalid A.Y. Zainal Alireza Khalid Ibrahim Zagzoog Matouq Hassan Jannah	One year (perpetual)	Joint expenses charged by the group	2
Xeca International for Information Technology	Yusuf A.Y. Zainal Alireza	Job Specific	SAP Implementation Contract	291
Zain Industries Co.	Marwan Nusair Matouq Hassan Jannah		Advances provided by the group	624
Bonar Natpet	Matouq Hassan Jannah	One year (perpetual)	Joint expenses charged by the group	13,053
Bonar Natpet	Matouq Hassan Jannah		Loan from the group	12,000

(b) There were no transactions entered into during the year 2012 between the Company and its senior managers except for the remunerations as presented in section VII.

IX. PROFIT DISTRIBUTION POLICY

The annual net profits achieved – after deducting all general expenses & other costs – shall be distributed as follows:

10% of the net profits shall be set aside to form a statutory reserve, and the ordinary general assembly may stop such a procedure when the said reserve amounts to half of the Company capital.

From the balance, a first payment not less than 5% of the paid capital, shall be distributed as dividends to the shareholders.

A percent of not more than 10% of the net profits shall be allocated, after that, as a remuneration for the members of the board of directors, provided, however, that the member remuneration shall not exceed the amount determined by the instructions issued by the Ministry of Commerce to this effect.

Then, the balance shall be distributed among the shareholders as an additional share of the profits, or it may be carried forward to the following years, in the way agreed upon by the general assembly.

The dividends to be distributed among shareholders shall be paid in the place and at the time determined by the board of directors, taking into consideration the instructions issued by the Ministry of Commerce in this regards.

X. POTENTIAL BUSINESS RISKS

The Group's activities expose it to a variety of potential business risks including financial risks, (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk, market 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. The Risk management is carried out by senior management under policies approved by the board of directors.

- **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.

- **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.

- **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.

- **Credit risk**

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

The largest receivable balance (one off-taker) accounts for 74% of outstanding trade accounts receivable at December 31, 2012 (2011: 55%). Credit risk is managed by monitoring the off-taker balance and ensuring timely collection of the due balance.

- **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.

- **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.

XI. CORPORATE GOVERNANCE

The Company is committed to apply all rules listed in Corporate Governance Regulations. It is following all the provisions of Corporate Governance regulations except as detailed below:

Corporate Governance Rules	Reasons
Article 5: Shareholders Rights related to the General Assembly	Implemented Except Para "f" covering shareholders participation in preparing OGA Agenda.
Article: 6 Voting Rights	
Article 6 - b) In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.	The Company is abiding by its Articles of Association and proposed amendment to its Articles of Association in its Extra-ordinary General Assembly meeting No.5 held on 23rd April 2012 to introduce the accumulative voting method, but the shareholders have rejected the proposal.

Article 6 - d) Investors who are judicial persons and who act on behalf of others - e.g. investment funds - shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.	No judicial persons or representatives of investment funds attended the last Ordinary General Assembly and hence no reports or updates.
Article 7: Dividends Rights of Shareholders	Implemented. No dividends are proposed for the year. Whenever dividends are determined the rules as well as the Companies' Law and Articles of Association apply.

XII. BOARD DECLARATIONS

1. The Company's financial statements were prepared in accordance with the accounting principles generally accepted in the Kingdom of Saudi Arabia and such accounting principles are applied on consistent basis.
2. The Company maintains proper books of accounts.
3. The external auditor has given an unqualified opinion on the financial statements.
4. The Company's Internal Control has been developed on sound basis and is effectively being carried out. The Company has an adequate audit committee and internal audit function which ensure that satisfactory internal controls are in place. The audit committee believes that there are no misstatements of accounting information that could have material effect on the judgment of the users of the attached financial statements.
5. There is absolutely no trace of doubt that the Company is a going concern and that Alujain and its subsidiaries are not planning to discontinue any of their operations.
6. There were no penalties or preventive restrictions imposed on the Company during 2012, except for SR 50,000 under CMA's resolution No. (2012-32-1) dated 30/09/2012 for not mentioning the summary of functions and responsibilities of the nomination and remuneration committee and the number of meetings convened by the committee in 2011 Board of Directors report.
7. The Company has not issued nor redeemed any debt or financial instruments such as stock options or stock rights that may be converted into shares.
8. There was no material contracts awarded to any related parties during the year. Related party transactions are detailed in section VIII of this report.
9. There were no outstanding loans during the year, except the loans taken by the subsidiary, as mentioned in section IV of this report.
10. There were no loans given to any of its directors.
11. The Company has not made any deals relating to its own stocks.
12. No waiver of compensation has been received from any member of the Board.
13. There were no share dealings entered by the Company with any of its directors or immediate members of their families.
14. No waiver of rights has been received from any shareholder.
15. The Company has not made any investments or created reserves for its employees, except for, as is required by Saudi Labor Law and company policies.

XIII. BOARD OF DIRECTORS' RECOMMENDATIONS TO THE SHAREHOLDERS

1. Approval of the Board of Directors' Report for 2012.
2. Approval of the 2012 year-end financial statements and external auditors' report.
3. Approval of the appointment of external auditors for the year 2013 from amongst the firms nominated by the Audit Committee.
4. Absolving the Board of Directors of their responsibilities for the financial year ended 31/12/2012.
5. Approval of the businesses and agreements made between the company and related parties contained in Section VIII and in the notes to the accompanying financial statements.

The Board of Directors wishes to express its appreciation and gratitude to the Custodian of the two Holy Mosques, King Abdullah Bin Abdul Aziz Al Saud, HRH Crown Prince, Deputy Prime Minister & Minister of Defense Salman Bin Abdul Aziz Al Saud, and the Government, for their continued support.

The Board would also like to thank the shareholders for their support and the management and staff of Alujain for their efforts which helped to make 2012 a successful year.

BOARD OF DIRECTORS

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)

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

ALUJAIN CORPORATION
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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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.

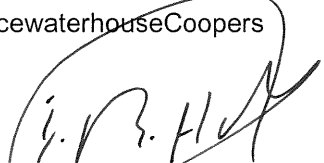
Unqualified opinion

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:


Ibrahim R. Habib
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)

		As at December 31,	
	Note	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
		<u>678,542</u>	<u>522,836</u>
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
		<u>2,681,252</u>	<u>2,832,468</u>
Total assets		<u><u>3,359,794</u></u>	<u><u>3,355,304</u></u>
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
		<u>611,030</u>	<u>648,333</u>
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
		<u>1,696,095</u>	<u>1,773,704</u>
Total liabilities		<u><u>2,307,125</u></u>	<u><u>2,422,037</u></u>
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 derivatives		(37,763)	(49,997)
Accumulated deficit		(50,433)	(102,111)
Total shareholders' equity		<u>621,120</u>	<u>557,208</u>
Minority interest		<u>431,549</u>	<u>376,059</u>
Total equity		<u><u>1,052,669</u></u>	<u><u>933,267</u></u>
Total liabilities and equity		<u><u>3,359,794</u></u>	<u><u>3,355,304</u></u>

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)

		<u>Year ended December 31,</u>	
	Note	2012	2011
Sales		2,111,941	1,471,866
Cost of sales		<u>(1,819,521)</u>	<u>(1,313,054)</u>
Gross profits		292,420	158,812
Operating expenses			
General and administrative expenses	20	(53,696)	(44,292)
Selling and distribution expenses	21	<u>(23,710)</u>	<u>(20,001)</u>
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	<u>(753)</u>	<u>(304)</u>
Income (loss) before zakat and minority interest		99,651	(7,666)
Zakat	15	<u>(1,564)</u>	<u>(1,557)</u>
Income (loss) before minority interest		98,087	(9,223)
Minority interest		<u>(46,409)</u>	<u>(729)</u>
Net income (loss) for the year		<u>51,678</u>	<u>(9,952)</u>
Earnings (loss) per share:			
		<u>(Saudi Riyals)</u>	
Income from operations	19	<u>3.11</u>	<u>1.37</u>
Net income (loss) for the year	19	<u>0.75</u>	<u>(0.14)</u>

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)
<u>Adjustments for non-cash items</u>			
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
<u>Changes in working capital:</u>			
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		<u>182,944</u>	<u>257,004</u>
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		<u>(46,961)</u>	<u>(161,351)</u>
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		<u>(163,066)</u>	<u>(321,295)</u>
Net decrease in cash and cash equivalents		(27,083)	(225,642)
Cash and cash equivalents - beginning of the year		<u>86,302</u>	<u>311,944</u>
Cash and cash equivalents - end of the year		<u>59,219</u>	<u>86,302</u>
Supplementary information for non-cash transactions			
Advance against investment transferred to investment in joint venture		<u>10,606</u>	<u>-</u>

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		<u>692,000</u>	<u>17,316</u>	<u>(37,763)</u>	<u>(50,433)</u>	<u>621,120</u>	<u>431,549</u>	<u>1,052,669</u>
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		<u>692,000</u>	<u>17,316</u>	<u>(49,997)</u>	<u>(102,111)</u>	<u>557,208</u>	<u>376,059</u>	<u>933,267</u>

The attached notes on pages 7 to 23 form an integral part of these consolidated financial statements.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012**

(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.

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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.

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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.

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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.

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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.

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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	<u>59,032</u>	<u>86,099</u>
	<u>59,219</u>	<u>86,302</u>

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	<u>(9,440)</u>	<u>(31,875)</u>
	<u>262,407</u>	<u>97,389</u>

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	<u>2,101</u>	<u>2,946</u>
	<u>35,489</u>	<u>32,802</u>

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012**

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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
	<u>30,019</u>	<u>4,825</u>
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
	<u>4,832</u>	<u>9,045</u>

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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	<u>137,031</u>	<u>132,245</u>
	287,288	301,920
Less: provision for slow moving inventories	<u>(3,915)</u>	<u>(3,915)</u>
	<u>283,373</u>	<u>298,005</u>

Movement in provision for slow moving inventories:

	2012	2011
January 1	(3,915)	(3,640)
Additions	<u>-</u>	<u>(275)</u>
December 31	<u>(3,915)</u>	<u>(3,915)</u>

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	<u>2,612</u>	<u>3,365</u>
	<u>44,428</u>	<u>13,181</u>

(a) Investment in joint venture

The subsidiary has signed a Joint Venture agreement with an entity based in the Netherlands to set up a manufacturing plant in Yanbu to produce staple fiber and non-woven geotextiles. The total cost of the project is expected to be Saudi Riyals 160 million of which 40% will be funded through equity. 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	<u>(26,243)</u>	<u>(26,243)</u>
	<u>9,816</u>	<u>9,816</u>

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	<u>-</u>	<u>-</u>
December 31	<u>9,816</u>	<u>9,816</u>

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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	<u>2,612</u>	<u>3,365</u>

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	<u>11,662</u>	<u>11,586</u>

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	<u>28,633</u>	<u>34,879</u>
	<u>39,346</u>	<u>48,738</u>

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	<u>10,713</u>	<u>13,859</u>

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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	<u>(6,246)</u>	<u>(6,248)</u>
December 31	<u><u>28,633</u></u>	<u><u>34,879</u></u>

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	<u>2,928,716</u>	<u>46,948</u>	<u>(280)</u>	<u>-</u>	<u>2,975,384</u>
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	<u>212,928</u>	<u>176,920</u>	<u>(280)</u>	<u>-</u>	<u>389,568</u>
Net book value	<u>2,715,788</u>				<u>2,585,816</u>

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	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
	<u>1,740,359</u>	<u>1,932,343</u>
Less: Current portion of long-term loans	(140,000)	(278,280)
Non-current portion of long term loans	<u>1,600,359</u>	<u>1,654,063</u>

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.

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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:

	<u>Security type</u>	<u>%</u>
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
	<u>200,840</u>	<u>181,546</u>

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	<u>8,483</u>	<u>8,541</u>

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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 today.

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 today.

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 today.

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.

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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	<u>15,792</u>	<u>12,643</u>

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
	<u>53,696</u>	<u>44,292</u>

ALUJAIN CORPORATION**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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
	<u>23,710</u>	<u>20,001</u>

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
	<u>6,117</u>	<u>4,974</u>

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.