

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

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED  
SEPTEMBER 30, 2012  
AND INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT

**ALUJAIN CORPORATION**  
**(A Saudi Joint Stock Company)**  
**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012**

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## INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

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

### Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of **Alujain Corporation** (A Saudi Joint Stock Company) (the "Company") and its subsidiary (collectively referred to as the "Group") as of September 30, 2012 and the related interim consolidated statement of income for the three-month and nine-month periods then ended and the interim consolidated statements of cash flows and changes in shareholders' equity for the nine-month period ended September 30, 2012 and the related notes which form an integral part of these financial statements. These interim consolidated financial statements are the responsibility of the Group's management.

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

### Conclusion

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

PricewaterhouseCoopers

By: \_\_\_\_\_  
Ibrahim R. Habib  
License Number 383



October 17, 2012

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

	Note	As at September 30,	
		2012 (Unaudited)	2011 (Unaudited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		118,317	151,863
Investments in Murabaha Funds		10,023	3,506
Accounts receivable		167,032	173,708
Prepayments and other receivables		39,246	41,684
Due from related parties		5,468	17,238
Inventories		<u>304,169</u>	<u>239,559</u>
		<u>644,255</u>	<u>627,558</u>
<b>Non-current assets</b>			
Security deposit		19,100	31,528
Investments	1,3	12,428	13,181
Projects under study	4	16,629	9,631
Advance against investment	5	13,200	10,166
Intangible assets	6	41,694	51,087
Property, plant and equipment		<u>2,621,894</u>	<u>2,743,210</u>
		<u>2,724,945</u>	<u>2,858,803</u>
<b>Total assets</b>		<u><b>3,369,200</b></u>	<u><b>3,486,361</b></u>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Current portion of long-term loans	7	307,592	198,968
Accounts payable		125,802	151,541
Accruals and other liabilities		299,559	219,372
Due to related parties		9,545	4,794
Zakat provision		<u>10,126</u>	<u>10,080</u>
		<u>752,624</u>	<u>584,755</u>
<b>Non-current liabilities</b>			
Long-term loans	7	1,500,267	1,807,859
Change in fair value of derivatives		92,867	124,631
Employees' termination benefits		<u>15,080</u>	<u>11,852</u>
		<u>1,608,214</u>	<u>1,944,342</u>
<b>Total liabilities</b>		<u><b>2,360,838</b></u>	<u><b>2,529,097</b></u>
<b>Equity</b>			
Equity attributable to shareholders of the Company:			
Share capital (69,200,000 shares of SR 10 per share)		692,000	692,000
Statutory reserve	8	17,316	17,316
Cumulative changes in fair values of derivatives		(45,203)	(59,858)
Accumulated deficit		<u>(67,552)</u>	<u>(77,294)</u>
<b>Total shareholders' equity</b>		<u>596,561</u>	<u>572,164</u>
Minority interest		<u>411,801</u>	<u>385,100</u>
<b>Total equity</b>		<u><b>1,008,362</b></u>	<u><b>957,264</b></u>
<b>Total liabilities and equity</b>		<u><b>3,369,200</b></u>	<u><b>3,486,361</b></u>

The accompanying notes on pages 7 to 15 form an integral part of these interim consolidated financial statements.

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

	Note	Three-month period ended September 30,		Beginning of the year to September 30,	
		2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Sales		522,580	477,438	1,574,887	1,156,919
Cost of sales		(458,106)	(393,098)	(1,369,140)	(1,000,303)
<b>Gross profit</b>		<b>64,474</b>	<b>84,340</b>	<b>205,747</b>	<b>156,616</b>
<b>Operating expenses</b>					
General and administrative expenses		(12,018)	(9,874)	(37,656)	(34,142)
Selling and distributions expenses		(6,079)	(7,111)	(17,956)	(17,174)
<b>Income from operations</b>		<b>46,377</b>	<b>67,355</b>	<b>150,135</b>	<b>105,300</b>
<b>Other income (expenses)</b>					
Financial charges	7	(24,518)	(22,654)	(74,528)	(71,315)
Foreign currency exchange (loss) gain		(405)	(972)	(4,179)	4,741
Change in fair value of derivatives financial instruments	2.19	2,764	1,536	5,781	2,703
Amortization of deferred financial charges		(786)	(786)	(2,359)	(2,359)
Amortization of other deferred charges	6	(1,561)	(1,562)	(4,685)	(4,686)
Other income		148	549	537	970
Provision against available for sale investments		(422)	-	(753)	(304)
<b>Income before zakat and minority interest</b>		<b>21,597</b>	<b>43,466</b>	<b>69,949</b>	<b>35,050</b>
Zakat		(1,220)	(2,090)	(3,206)	(3,096)
<b>Income before minority interest</b>		<b>20,377</b>	<b>41,376</b>	<b>66,743</b>	<b>31,954</b>
Minority interest		(9,772)	(18,574)	(32,184)	(17,089)
<b>Net income for the period</b>		<b>10,605</b>	<b>22,802</b>	<b>34,559</b>	<b>14,865</b>
<b>Earnings per share:</b>					
Income from operation	9	0.67	0.97	2.17	1.52
Net income for the period	9	0.15	0.33	0.50	0.21

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

	<b>Nine-month period ended September 30,</b>	
	<b>2012 (Unaudited)</b>	<b>2011 (Unaudited)</b>
<b>Cash flow from operating activities</b>		
Net income for the period	34,559	14,865
<u>Adjustments for non-cash items</u>		
Depreciation	107,211	107,803
Amortization of intangible assets	7,044	7,045
Provision against available for sale investments	753	304
Zakat provision	3,206	3,096
Change in fair value of derivative financial instruments	(5,781)	(2,703)
Income from investments in Murabaha Funds	(32)	(24)
Minority interest	32,184	17,089
Employees' termination benefits provision	2,437	1,228
Financial charges	74,528	71,315
<u>Changes in working capital:</u>		
Accounts receivable	(69,648)	(57,382)
Prepayments and other receivables	(6,444)	12,898
Due from related parties	(638)	(12,066)
Inventories	(6,164)	(24,818)
Accounts payable	(48,675)	31,302
Accruals and other liabilities	118,013	26,315
Due to related parties	500	2,306
Zakat paid	(1,621)	(7,532)
Net cash generated from operating activities	<u>241,432</u>	<u>191,041</u>
<b>Cash flow from investing activities</b>		
Movement of short-term investments in Murabaha Funds	(6,478)	4,041
Advance against investments	(1,554)	(10,166)
Security deposit	12,429	23,441
Projects under study	(5,043)	(4,152)
Purchase of property and equipment	(13,317)	(133,935)
Net cash utilized in investing activities	<u>(13,963)</u>	<u>(120,771)</u>
<b>Cash flow from financing activities</b>		
Repayment of long-term loans	(124,484)	(161,362)
Change in minority interest	3,558	2,326
Financial charges paid	(74,528)	(71,315)
Net cash utilized in financing activities	<u>(195,454)</u>	<u>(230,351)</u>
<b>Net change in cash and cash equivalents</b>	<b>32,015</b>	<b>(160,081)</b>
Cash and cash equivalents - beginning of the period	<u>86,302</u>	<u>311,944</u>
<b>Cash and cash equivalents - end of the period</b>	<u><b>118,317</b></u>	<u><b>151,863</b></u>

The accompanying notes on pages 7 to 15 form an integral part of these interim consolidated financial statements.

**ALUJAIN CORPORATION**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated statement of changes in shareholders' equity**  
(All amounts in Thousand Saudi Riyals unless otherwise stated)

	<b>Nine-month period</b>	
	<b>ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital</b>	<u>692,000</u>	<u>692,000</u>
<b>Statutory reserve</b>	<u>17,316</u>	<u>17,316</u>
<b>Cumulative changes in fair values</b>		
Beginning balance	(49,997)	(62,993)
Fair value adjustments	<u>4,794</u>	<u>3,135</u>
Ending balance	<u>(45,203)</u>	<u>(59,858)</u>
<b>Accumulated deficit</b>		
Beginning balance	(102,111)	(92,159)
Income for the period	<u>34,559</u>	<u>14,865</u>
Ending balance	<u>(67,552)</u>	<u>(77,294)</u>
<b>Total shareholders' equity</b>	<u>596,561</u>	<u>572,164</u>
<b>Minority interest</b>		
Beginning balance	376,059	365,685
Net income for the period attributable to minority interest	32,184	17,089
Fair value adjustments	<u>3,558</u>	<u>2,326</u>
Ending balance	<u>411,801</u>	<u>385,100</u>
<b>Total equity</b>	<u>1,008,362</u>	<u>957,264</u>

The accompanying notes on pages 7 to 15 form an integral part of these interim consolidated financial statements.

**ALUJAIN CORPORATION**  
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**Notes to the interim consolidated financial statements**  
**For the three-month and nine-month periods ended September 30, 2012 (Unaudited)**  
**(All amounts in Thousand Saudi Riyals 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 interim 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.

At September 30, 2012, the Group's current liabilities exceeded its current assets. Management believes that the Group has adequate liquidity from its subsidiary's operations and adequate financing facilities will remain available to the Group in the foreseeable future in order to meet its obligations as they become due.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1 Basis of preparation**

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

**2.2 Period of the financial statements**

The interim financial statements for the three-month period ended September 30, 2012 have been prepared in accordance with SOCPA's Standard of Review of Interim Financial Reporting, on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period. The accompanying interim consolidated financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the management to present fair statements of financial position, results of operations and cash flows. The interim financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the company's audited financial statements for the year ended December 31, 2011.

**2.3 Critical accounting estimates and judgments**

The preparation of interim consolidated financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.



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**2.4 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. Goodwill arising from acquisition of subsidiaries is reported under "intangible assets" in the accompanying balance sheet. Goodwill is tested annually for impairment and carried at cost, net of any accumulated amortization and impairment losses, if any.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(b) Associates**

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

The Group's share of its associates' post-acquisition income or losses is recognized in the interim consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the interim 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 interim consolidated income statement.

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(d) Available-for sale investments

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

- (i) Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and
- (ii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows.

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

## **2.5 Foreign currency translations**

(a) Reporting currency

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

(b) Transactions and balances

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

## **2.6 Accounts receivable**

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated income statement and reported under "General and administrative expenses". When accounts receivable are uncollectible, they are written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited in the interim consolidated income statement.

## **2.7 Cash and cash equivalents**

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

## **2.8 Property, plant and equipment**

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

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

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

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

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

## **2.9 Deferred charges**

Costs that are not of benefit beyond the current period are charged to the interim consolidated income statement, while costs that will benefit future periods are capitalized. Deferred charges, reported under "Intangible assets" in the accompanying interim 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.

## **2.10 Inventories**

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

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

## **2.11 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 periods. A reversal of an impairment loss is recognized as income immediately in the interim consolidated income statement. Impairment losses recognized on intangible assets are not reversible.

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**2.12 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.

**2.13 Borrowings**

Borrowings are recognized equivalent to the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the interim consolidated income statement.

**2.14 Accounts payable and accruals**

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

**2.15 Provisions**

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

**2.16 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 interim 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.

**2.17 Operating leases**

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

**2.18 Employee termination benefits**

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Group and charged to the interim consolidated income statement. The liability is calculated; as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative periods of service, as stated in the laws of Saudi Arabia.

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**2.19 Derivative financial instruments and hedging**

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group 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 periods for which they were designated.

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

*Cash flow hedges*

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

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

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

**2.20 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.

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**2.21 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.

**2.22 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.

**2.23 Reclassifications**

Certain reclassifications have been made in the comparative September 30, 2011 interim financial statements to conform with September 30, 2012 presentation.

**3 INVESTMENTS**

	<b>2012</b>	2011
Investment in an associate	<b>9,816</b>	9,816
Available for sale investments	<u><b>2,612</b></u>	<u>3,365</u>
	<u><b>12,428</b></u>	<u>13,181</u>

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 September 30, 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.

**4 PROJECTS UNDER STUDY**

	<b>2012</b>	2011
January 1	<b>11,586</b>	5,479
Additions	<u><b>5,043</b></u>	<u>4,152</u>
September 30	<u><b>16,629</b></u>	<u>9,631</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.

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**5 ADVANCE AGAINST INVESTMENT IN JOINT VENTURE**

The subsidiary has signed a Joint Venture agreement with an entity based in the Netherland to set up a manufacturing plant in Yanbu to produce staple fiber and non-woven geotextiles. The total cost of the project is expected to be Saudi Riyals 160 million of which 40% will be funded through equity and the remaining through debts. The subsidiary will own a 50% stake in the Joint Venture. Advance against investment of Saudi Riyals 13.2 million at September 30, 2012 relate to the payments made by the subsidiary for certain machinery and equipment for purpose of joint venture. The subsidiary expects to adjust such payment against share of capital. The legal formalities for forming and registering the Joint Venture in Saudi Arabia are currently in progress.

**6 INTANGIBLE ASSETS**

	<b>2012</b>	<b>2011</b>
Deferred financial charges, net of amortization	<b>11,500</b>	14,646
Other deferred charges, net of amortization	<u><b>30,194</b></u>	<u>36,441</u>
	<u><b>41,694</b></u>	<u>51,087</u>

Deferred charges principally relate to front end fees paid to the SIDF and are being amortized over the period of the loan.

Other deferred charges principally relate to certain indirect construction costs incurred by the subsidiary during the setting up of the plant.

**7 LONG-TERM LOANS**

The subsidiary (NATPET) has signed loan agreements with a syndication of commercial banks, Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF) in order to finance the construction of its project. The loan balance is comprised of the following as of September 30:

	<b>2012</b>	<b>2011</b>
Commercial Banks' syndication	<b>853,714</b>	927,682
Public Investment Fund loan	<b>637,500</b>	712,500
SIDF Loan	<b>295,000</b>	345,000
Others	<u><b>21,645</b></u>	<u>21,645</u>
	<b>1,807,859</b>	2,006,827
Less: Current portion of long-term loans	<u><b>(307,592)</b></u>	<u>(198,968)</u>
Non-current portion of long-term loans	<u><b>1,500,267</b></u>	<u>1,807,859</u>

The above loans carry several covenants. As at September 30, 2012 and 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 the Group believe that the current ratio will improve in future period and 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 will be used to fully repay the remaining balance of Saudi Riyals 854 million of its existing term loan with Commercial Banks and use Saudi Riyals 120 million for working capital needs and equity investments. 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 months. The loan carries borrowing cost at commercial rates and the subsidiary company is in the process of completing the legal formalities in order to draw down.

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**8 STATUTORY RESERVE**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to allocate 10% of its net income each year to a statutory reserve, after any accumulated deficit is absorbed, until such reserve equals 50% of its share capital. This reserve is not currently available for distribution to the shareholders. No allocations were made to the statutory reserve since the Company has an accumulated deficit.

**9 EARNINGS (LOSS) PER SHARE**

Earnings (loss) per share for the period ended September 30, 2012 have been computed by dividing the operating income and net income for such periods by the number of shares outstanding during the periods.

**10 SEGMENT INFORMATION**

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

**11 CONTINGENCIES**

At September 30, 2012, the Group has an outstanding letter of credit on behalf of its Subsidiary amounting to Saudi Riyals 31.76 million of which Saudi Riyals 19.1 million (2011: Saudi Riyals 31.5 million) is secured by a long-term bank deposit and is included under non-current assets as security deposit.

Also, 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 three-month period ended September 30, 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.