

ALUJAIN CORPORATION
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2009
TOGETHER WITH AUDITORS' REPORT

**AUDITORS' REPORT 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 ("the Group") as at 31 December 2009 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the Responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which are required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

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

- i) present fairly, in all material respects, the financial position of the Group as at 31 December 2009 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young



Ahmed I. Reda
Certified Public Accountant
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29 Safar 1431 H
14 February 2010
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Alujain Corporation (a Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As At 31 December 2009

	Note	2009 SR	2008 SR
ASSETS			
CURRENT ASSETS			
Bank balances and cash		52,156,294	113,359,681
Short-term investments in Murabaha Funds		-	36,984,655
Security deposits		45,824,383	45,824,383
Advances to suppliers		10,095,422	23,785,799
Prepaid expenses and other receivables		63,624,190	8,446,101
Amounts due from related parties	4	1,723,129	2,319,434
Inventories	5	<u>167,680,281</u>	<u>110,077,524</u>
TOTAL CURRENT ASSETS		<u>341,103,699</u>	<u>340,797,577</u>
NON-CURRENT ASSETS			
Security deposits	21	30,118,209	20,198,400
Investments, net	6	12,828,434	31,289,127
Projects under study, net	7	3,047,300	1,415,224
Work in progress	3&8	2,944,832,473	2,758,180,763
Pre-operating expenses	3&9	43,729,504	43,729,504
Deferred financial charges, net	13	20,151,107	23,297,044
Property and equipment, net	10	<u>10,637,518</u>	<u>9,808,293</u>
TOTAL NON-CURRENT ASSETS		<u>3,065,344,545</u>	<u>2,887,918,355</u>
TOTAL ASSETS		<u>3,406,448,244</u>	<u>3,228,715,932</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Amounts due to related parties	4	11,049,011	5,639,534
Accounts payables, accruals and other liabilities	11	350,975,861	105,158,260
Short-term loans	12	-	40,000,000
Current portion of long-term loans	13	175,588,315	122,831,228
Zakat provision	14	<u>8,272,394</u>	<u>9,030,278</u>
TOTAL CURRENT LIABILITIES		<u>545,885,581</u>	<u>282,659,300</u>
NON-CURRENT LIABILITIES			
Long-term loans	13	1,890,877,476	1,960,408,210
Other long-term liabilities	15	120,594,630	192,088,954
End of service benefits		<u>8,534,898</u>	<u>5,513,344</u>
TOTAL NON-CURRENT LIABILITIES		<u>2,020,007,004</u>	<u>2,158,010,508</u>
TOTAL LIABILITIES		<u>2,565,892,585</u>	<u>2,440,669,808</u>
SHAREHOLDERS' EQUITY			
Share Capital (69,200,000 shares of SR 10 per share)		692,000,000	692,000,000
Statutory reserve	16	17,316,057	17,316,057
Accumulated losses		(134,340,872)	(107,063,336)
Cumulative changes in fair values	17	<u>(56,424,365)</u>	<u>(86,829,845)</u>
TOTAL SHAREHOLDERS' EQUITY OF THE PARENT COMPANY		<u>518,550,820</u>	<u>515,422,876</u>
Minority interest		<u>322,004,839</u>	<u>272,623,248</u>
TOTAL SHAREHOLDERS' EQUITY		<u>840,555,659</u>	<u>788,046,124</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>3,406,448,244</u>	<u>3,228,715,932</u>

The attached notes 1 to 25 form part of these consolidated financial statements.

Alujain Corporation (a Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

Year Ended 31 December 2009

	<i>Note</i>	2009 SR	2008 SR
Income from bank deposits and dividends	18	1,153,362	2,876,194
Realized gain on investments		9,517,487	-
Revenue from investments in Murabaha Funds		379,596	1,847,761
Write back of provision for work in progress		-	1,739,822
Write back of provision for investments	6	2,875,147	-
Exchange (loss)/ gain		<u>(475,768)</u>	<u>109,627</u>
		<u>13,449,824</u>	<u>6,573,404</u>
General and administrative expenses	19	(67,778,605)	(61,862,447)
Impairment loss on value of investments	17	-	(9,945,378)
Changes in fair value of derivatives	2	7,576,660	(21,726,037)
Provision for investments and projects under study		-	(5,822,305)
		<u>(60,201,945)</u>	<u>(99,356,167)</u>
NET LOSS BEFORE ZAKAT		(46,752,121)	(92,782,763)
Zakat	14	<u>(809,651)</u>	<u>(5,003,160)</u>
NET LOSS BEFORE MINORITY INTEREST		(47,561,772)	(97,785,923)
Minority interest		<u>20,284,236</u>	<u>32,683,749</u>
NET LOSS		<u>(27,277,536)</u>	<u>(65,102,174)</u>
Loss per share on net loss before minority interest	20	<u>(0.69)</u>	<u>(1.41)</u>
Loss per share on net loss attributable to equity shareholders of the parent	20	<u>(0.39)</u>	<u>(0.94)</u>

The attached notes 1 to 25 form part of these consolidated financial statements.

Alujain Corporation (a Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2009

	2009 SR	2008 SR
OPERATING ACTIVITIES		
Net loss	(27,277,536)	(65,102,174)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,779,232	2,585,956
Write back of provision for investments	(2,875,147)	-
Write back of provision for work in progress	-	(1,739,822)
Zakat	809,651	5,003,160
Loss on sale of property and equipment	11,698	-
Changes in fair value of derivatives	(7,576,660)	21,726,037
Impairment loss on value of investments	-	9,945,378
Provision for investments and projects under study	-	5,822,305
Realized gain on investments	(9,517,487)	-
Revenue from investments in Murabaha Funds	(379,596)	(1,847,761)
Minority interest	(20,284,236)	(32,683,749)
Changes in assets and liabilities:		
Inventories	(57,602,757)	(46,120,656)
Prepaid expenses and other receivables	(55,178,089)	1,486,467
Amounts due from related parties	596,305	7,529,531
Advance to suppliers	13,690,377	(23,785,799)
Accounts payable and accruals	211,055,213	61,679,615
Amounts due to related parties	5,409,477	(4,700,525)
End of service benefits, net	3,021,554	1,844,269
Zakat paid	(1,567,535)	(4,274,856)
Net cash from/ (used in) operating activities	<u>56,114,464</u>	<u>(62,632,624)</u>
INVESTING ACTIVITIES		
Work in progress	(183,505,773)	(482,030,508)
Expenditure on projects under study	(1,632,076)	(849,694)
Movement of short-term investments in Murabaha Funds	37,364,251	(9,735,673)
Security deposit	(9,919,809)	(18,832,160)
Payments for purchase of property and equipment	(4,634,655)	(2,962,981)
Proceed from sale of property and equipment	14,500	-
Proceeds from sale of investments	32,341,031	-
Payment for purchase of investments	(237,501)	(22,197,695)
Net cash used in investing activities	<u>(130,210,032)</u>	<u>(536,608,711)</u>
FINANCING ACTIVITIES		
Long-term loans	(16,773,646)	471,645,220
Minority interest	69,665,827	-
Short-term loans	(40,000,000)	40,000,000
Net cash from financing activities	<u>12,892,181</u>	<u>511,645,220</u>
NET CHANGE IN CASH AND BANK BALANCES	(61,203,387)	(87,596,115)
Cash and Bank Balances - beginning of the year	<u>113,359,681</u>	<u>200,955,796</u>
CASH AND BANK BALANCES - END OF THE YEAR	<u>52,156,294</u>	<u>113,359,681</u>
SUPPLEMENTARY INFORMATION FOR NON-CASH TRANSACTIONS		
Amortisation of deferred financial charges transferred to work in progress	<u>3,145,937</u>	<u>3,146,301</u>

The attached notes 1 to 25 form part of these consolidated financial statements.

Alujain Corporation (a Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year Ended 31 December 2009

	<i>Note</i>	<i>2009</i> <i>SR</i>	<i>2008</i> <i>SR</i>
SHAREHOLDERS' EQUITY OF THE PARENT COMPANY			
CAPITAL		<u>692,000,000</u>	<u>692,000,000</u>
STATUTORY RESERVE	16	<u>17,316,057</u>	<u>17,316,057</u>
ACCUMULATED LOSSES			
Beginning balance		(107,063,336)	(41,961,162)
Loss for the year		<u>(27,277,536)</u>	<u>(65,102,174)</u>
Ending balance		<u>(134,340,872)</u>	<u>(107,063,336)</u>
CUMULATIVE CHANGES IN FAIR VALUES			
	17		
Beginning balance		(86,829,845)	(16,844,743)
Fair value adjustments		30,405,480	(79,930,480)
Provision for non-temporary decline in value of investments		<u>-</u>	<u>9,945,378</u>
Ending balance		<u>(56,424,365)</u>	<u>(86,829,845)</u>
TOTAL SHAREHOLDERS' EQUITY OF THE PARENT COMPANY			
		518,550,820	515,422,876
Minority interest		<u>322,004,839</u>	<u>272,623,248</u>
TOTAL SHAREHOLDERS' EQUITY			
		<u>840,555,659</u>	<u>788,046,124</u>

The attached notes 1 to 25 form part of these consolidated financial statements.

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

1. ACTIVITIES

Alujain Corporation is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia under Ministerial Decision No. 694, dated 15 Jamad Thani 1412H (corresponding to 21 December 1991). The Corporation obtained its Commercial Registration on 3 Rajab 1412H (corresponding to 7 January 1992).

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

The Corporation has a 57.4% share in National Petrochemical Industrial Company (NATPET), the subsidiary Company. In 2004, management of the subsidiary Company decided to form a joint venture company - Teldene, to operate the subsidiary Company's project. This decision was revised by the subsidiary's Board of Managers which resolved in its meeting on 19 September 2007 that the project will now be operated by the subsidiary Company, NATPET. Previously the net expenses of the project were to be recovered by NATPET from the proposed joint venture project company. Following the Board of Managers' above decision, these expenses were charged to the statement of income or reclassified to pre-operating expenses and work in progress during 2007. The current status of the project is detailed in notes 3 and 8.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies are as follows:

Basis of consolidation

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

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

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale investments, short-term investment in Murabaha funds and derivative financial instruments.

Use of estimate

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pre-operating expenses

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

Deferred financial charges

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

Investments

Short-term investments in Murabaha funds are carried at fair value and included under current assets. Changes in fair values are included in the statement of income.

Investments in trading securities are carried at market value and included under current assets. Unrealized holding gains and losses are included in the statement of income.

Investments in available for sale securities are carried at market value. Unrealized holding gains and losses are included in shareholders' equity. On derecognition or impairment the cumulative gain or loss previously reported in equity is included in the statement of income for the period. Realized gains and losses are taken to the statement of income.

Other investments are carried at cost with provisions for any permanent decline in value.

Inventories

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

Raw materials	- Purchase cost based on the weighted average method.
Spare parts	- Purchase cost based on the weighted average method.
Finished goods	- Cost of direct materials and labor plus manufacturing overheads.

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.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful life of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvements or the term of the lease.

Expenditure for repair and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Accounts payable, accruals and other liabilities

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

Borrowing costs

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

Provisions

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

Zakat

Zakat is provided for in accordance with Saudi Arabia fiscal regulations. The provision is charged to the statement of income.

End of service benefits

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

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The accompanying consolidated financial statements are denominated in Saudi Riyals. Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Fair values

For investments traded in organized markets, fair value is determined by reference to quoted market bid prices.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

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 consolidated statement of income.

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the 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 consolidated statement of income.

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.

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Cash flow hedges (continued)

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.

3. NET COST OF PROJECT UNDER PROGRESS

On 20 February 1991, Xenel Industries Limited (one of the investing companies in the project) signed a technology supply agreement with Himont, an American company, to establish a factory in the industrial city in Yanbu. The factory is to produce Polypropylene with a production capacity of 180 thousand tons yearly. In addition, it has been agreed to supply the project with Propylene as a raw material through Al-Fasel project that is related to one of the investing companies in the project.

On 31 March 1995, the ownership of Himont was transferred to Montell Technology - an American company, and the technology supply agreement was renewed with Montell Technology on 25 September 1995 where the capacity of Polypropylene production was increased to 240 thousand tons yearly, and also to supply the project with 250 thousand tons yearly of Propylene through Al-Fasel Project. In addition, it was agreed with Saudi Aramco Company to provide the project with Propane gas.

On 21 February 1997, Xenel Industries Limited signed the final technology supply agreement with Montell Technology Company. The agreement included the increasing of Polypropylene capacity to 280 thousand tons yearly.

During the year 2000, Montell Technology Company merged with BASF - a German Company, to form Basell Company, where Basell Company decided to break off the joint venture with the Company. The Company resumed negotiations with Basell Co. to renew the Technology Supply agreement which was signed on 24 April 2004.

The balance of net cost of project under progress up to 30 June 2007 was SR 120,333,690. During the three months ended 30 September 2007, following NATPET Board of Managers' decision that the project will now be operated by NATPET, out of the SR 120,333,690 net cost of project under progress incurred up to 30 June 2007, the subsidiary Company charged an amount of SR 20,524,180 to its statement of income and reclassified amounts of SR 56,080,006 and SR 43,729,504 to work in progress and pre-operating expenses, respectively. Previously it was intended that the net cost of the project would be recovered from the proposed joint venture project company, which will no longer be formed as per the decision of the NATPET Board of Managers' on 19 September 2007 (see note 1).

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

3. NET COST OF PROJECT UNDER PROGRESS (continued)

The breakdown of net cost of project under progress, as at 30 June 2007, which were either charged to the statement of income or reclassified to pre-operating expenses and work in progress, as mentioned above following the decision of the Board of Managers' on 19 September 2007 to retain the Teldene Polypropylene project in NATPET are as follow:

	SR
EXPENSES	
Salaries and wages	64,508,086
Travel and accommodation	16,360,092
Legal and professional fees	5,145,928
Engineering and technical assistance	16,110,422
Supply of technology	5,725,508
Rents	2,396,859
Postage, phones and electricity	1,502,583
Subscriptions	2,983,102
End of services benefits	2,118,283
Depreciation	874,936
Other	14,411,788
Expenses recovered from related companies	<u>(7,018,248)</u>
Total expenses	125,119,339
Interest income	<u>(12,086,944)</u>
Net cost before Zakat	113,032,395
Zakat	<u>7,301,295</u>
Net cost	<u>120,333,690</u>

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

4. 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.

The following are the details of major related party transactions during the year and the related balances at year end.

<u>Related party</u>	<u>Nature of transaction</u>	<u>2009</u> <u>SR</u>	<u>2008</u> <u>SR</u>
Board of Directors	Remunerations	403,000	350,000
Hidada Company Limited	Joint expenses charged by the Group	194,973	-
Saudi Cable Company	Joint expenses charged by the Group	13,174	-
Saudi Cable Company	Joint expenses charged to the Group	144,000	144,000
Xenel Industries Company Limited	Joint expenses charged to the Group	5,305,012	6,273,400
Xenel International Limited	Joint expenses charged to the Group	-	3,870,099
Safra Company Limited	Joint expenses charged to the Group	3,878,463	5,124,455
Safra Company Limited	Joint expenses charge by the Group	8,780,955	468,468
Chemglobal Corporation	Joint expenses charged to the Group	540,836	2,187,705

Related party balances as at 31 December are as follows:

	<u>2009</u> <u>SR</u>	<u>2008</u> <u>SR</u>
<i>Due from related parties</i>		
Saudi Cable Company (affiliate)	208,850	195,676
Xenel Industries Company Limited (shareholder)	536,158	101,504
Xenel International Limited (affiliate)	-	873,331
Arab Pesticide Industries Company (MOBEED) (affiliate)	707,930	246,458
Safra Company Limited (affiliate)	30,909	468,211
Hidada Company Limited (affiliate)	239,282	434,254
	<u>1,723,129</u>	<u>2,319,434</u>
<i>Due to related parties</i>		
Saudi Cable Company (affiliate)	964,018	820,021
Xenel Industries Company Limited (affiliate)	846,179	-
Safra Company Limited (affiliate)	6,510,273	2,631,809
Chemglobal Corporation (affiliate)	2,728,541	2,187,704
	<u>11,049,011</u>	<u>5,639,534</u>

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

5. INVENTORIES

Inventories are comprised of the following as at 31 December:

	2009	2008
	SR	SR
Finished goods	13,720,311	23,481,387
Raw materials	47,298,814	38,583,092
Spare parts	109,934,611	48,013,045
	<u>170,953,736</u>	<u>110,077,524</u>
Provision for slow moving inventories	<u>(3,273,455)</u>	<u>-</u>
	<u>167,680,281</u>	<u>110,077,524</u>

6. INVESTMENTS, NET

Investments are comprised of the following as at 31 December:

	2009	2008
	SR	SR
Investment in an associate - see (a) below	8,527,737	16,580,470
Available for sale securities - see (b) below	-	13,283,107
Other investments - see (c) below	4,300,697	1,425,550
	<u>12,828,434</u>	<u>31,289,127</u>

a) The movement in the investment in an associate during the year ended 31 December was as follows:

	2009	2008
	SR	SR
Beginning balance	16,580,470	-
Additions during the year	237,501	27,127,345
Disposed during the year	(8,290,234)	-
Loan to associate	-	15,695,796
Provision during the year	-	(26,242,671)
Ending balance	<u>8,527,737</u>	<u>16,580,470</u>

The balance of SR 8.5 million (2008: SR 16.6 million) represents an investment in Arabian Pesticides Manufacturing Company Limited (MOBEED), an associated company. During December 2008, the Company entered into a number of agreements with partners in MOBEED for the purchase of additional shares, thus increasing Alujain's ownership of MOBEED from 25% to 93.08% as at 31 December 2008. During the year ended 31 December 2009, the Company has sold 50% of its share to a related party at cost and purchased 80 additional shares of Mobeed. Alujain's ownership in MOBEED stands at 47.9% as at 31 December 2009. The legal formalities in respect of the amended Articles of Association and Commercial Registration have not been finalized yet.

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

6. INVESTMENTS, NET (continued)

- b) The movement in the available for sale securities during the years ended 31 December was as follows:

	2009 SR	2008 SR
Beginning balance	13,283,107	36,633,638
Cost of investment disposals during the year	(34,289,520)	-
Movement in unrealized loss on investments	1,250,206	(23,350,531)
Provision charged to statement of income in pervious years	<u>19,756,207</u>	<u>-</u>
Ending balance	<u>-</u>	<u>13,283,107</u>

- c) The movement in the other investments during the years ended 31 December was as follows:

	2009 SR	2008 SR
Beginning balance	1,425,550	1,425,550
Write back of provision during the year	<u>2,875,147</u>	<u>-</u>
Ending balance	<u>4,300,697</u>	<u>1,425,550</u>

7. PROJECTS UNDER STUDY, NET

The movement of the projects under study for the years ended 31 December was as follows:

	2009 SR	2008 SR
Beginning balance	1,415,224	770,610
Addition during the year	1,632,076	849,694
Provision during the year	<u>-</u>	<u>(205,080)</u>
Ending balance	<u>3,047,300</u>	<u>1,415,224</u>

8. WORK IN PROGRESS

Work in progress represents Teldene Polypropylene and AlFasel Propylene Projects which were combined as one integrated complex for strategic, economic and financial consideration.

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

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

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

8. WORK IN PROGRESS (continued)

Lurgi Company of Germany and Tecnimont Company of Italy (the Contractors) started the engineering, procurement and construction activities according to the early work agreement.

Currently, the overall progress of the plant exceeds 99%. The subsidiary company has signed a facility agreement on 28 February 2006 with a consortium of seven local and international banks. The consortium has agreed to lend the Company an amount of US\$ 411 million. Also, the subsidiary Company signed a loan agreement with the Saudi Industrial Development Fund (SIDF) for term loan amount of SR 400 million (for security see note 13). NATPET reached a 10 years marketing agreement with Noble Americas under which Noble will market about 50% of the Polypropylene production capacity of 400,000 tones per year. NATPET will have the option of increasing the quantity up to 100% of capacity. This off-take will be sold in South East Asia, Indian Subcontinent and China which are all promising markets. Noble has financed the subsidiary company with an amount of SR 21,645,220 (USD 5 million) in this project as shown in note 13.

Concurrently, the subsidiary company and SABIC Industrial Investments Company signed an agreement for marketing 50% of Polypropylene production.

The plant is expected to commence commercial production in near future, following the substantial completion of the test runs and commissioning.

The fixed assets of the plant, which are included under work in progress, are mortgaged to the Saudi Industrial Development Fund (SIDF) as security against the term loan received from the fund.

9. PRE-OPERATING EXPENSES

Pre-operating expenses represents the amount reclassified by the subsidiary Company from net cost of project under progress (note 3) and relates to project development expenditure incurred. These costs have been capitalized as pre-operating expenses following the NATPET Board of Managers decision on 19 September 2007 to retain the Teldene Polypropylene project in NATPET, as management believes that the future benefit associated with these costs is certain and evident.

Alujain Corporation (a Saudi Joint Stock Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2009

10. PROPERTY AND EQUIPMENT, NET

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	<i>Leasehold improvements</i> SR	<i>Furniture And fixtures</i> SR	<i>Office equipment</i> SR	<i>Computers</i> SR	<i>Vehicles</i> SR	<i>Total 2009</i> SR	<i>Total 2008</i> SR
Leasehold improvements	2,151,412	2,103,651	2,330,464	6,889,733	1,976,050	15,451,310	12,488,329
Furniture and fixtures							
3-10 years							
5-10 years							
Office equipment							
5-10 years							
3-4 years							
4 years							
Computers							
3-4 years							
4 years							
Vehicles							
3-4 years							
4 years							
Cost:							
At the beginning of the year	2,151,412	2,103,651	2,330,464	6,889,733	1,976,050	15,451,310	12,488,329
Additions	-	2,013,650	514,110	1,586,695	520,200	4,634,655	2,962,981
Disposals	-	(50,300)	-	-	-	(50,300)	-
At the end of the year	2,151,412	4,067,001	2,844,574	8,476,428	2,496,250	20,035,665	15,451,310
Depreciation:							
At the beginning of the year	865,692	552,793	965,021	2,157,466	1,102,045	5,643,017	3,057,061
Charge for the year	368,124	828,126	520,068	1,670,187	392,727	3,779,232	2,585,956
Disposals	-	(24,102)	-	-	-	(24,102)	-
At the end of the year	1,233,816	1,356,817	1,485,089	3,827,653	1,494,772	9,398,147	5,643,017
Net Book Value at 31 December 2009	917,596	2,710,184	1,359,485	4,648,775	1,001,478	10,637,518	
Net Book Value at 31 December 2008	1,285,720	1,550,858	1,365,443	4,732,267	874,005		9,808,293

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

11. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	2009	2008
	SR	SR
Accounts payable	88,384,666	32,087,657
Accrued expenses	118,202,632	72,698,984
Advances from customers	144,098,425	-
Other payables	290,138	371,619
	<u>350,975,861</u>	<u>105,158,260</u>

12. SHORT-TERM LOANS

Short term loans balance as at 31 December 2008 represents the bridge loans granted to the subsidiary company by a local bank on account of capital expenditure incurred in the construction of the plant. The interest rates used by the bank are the market rates prevailing at that time. The short-term loan has been repaid during the current year.

13. LONG-TERM LOANS

The subsidiary company has signed loan agreements with local banks, Public Investment Fund (PIF), SIDF and others in order to finance the construction of its project. The loan balance as at 31 December is comprised of the following:

	2009	2008
	SR	SR
Public Investment Fund loan	468,750,000	468,750,000
SIDF Loan	400,000,000	360,000,000
Commercial Banks' syndication	1,176,070,571	1,232,844,218
Others	21,645,220	21,645,220
	<u>2,066,465,791</u>	<u>2,083,239,438</u>
Less: Current portion of long term loans	<u>(175,588,315)</u>	<u>(122,831,228)</u>
	<u>1,890,877,476</u>	<u>1,960,408,210</u>

The subsidiary company signed an agreement with Public Investment Fund (PIF) on 23 June 2008 for a loan of SR 468.75 million which was fully drawn by 31 December 2008. The loan is repayable in 20 bi-annual installments starting in 2011. Subsequent to year end, on 5 January 2010, the subsidiary Company has signed an additional loan agreement with PIF, for an amount of SR 281.25 million

The subsidiary company signed an agreement with SIDF for a loan amount of SR 400 million which was fully drawn as at 31 December 2009 (2008: SR 360 million). The SIDF loan carries administration fees amounting to SR 30 million (deferred financial charges balance of SR 20,151,107 as at 31 December 2009 (2008: SR 23,297,044), appearing in the balance sheet) which is being amortized over the term of the loan on a straight line basis. The SIDF 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 guarantee and a comfort letter as follows:

<u>Security type</u>		<u>%</u>
Xenel Industries Co. Ltd.	Corporate guarantee	25.9
Safra Co. Ltd.	Corporate guarantee	5
Alujain Corporation	Corporate guarantee	57.4
GOSI	Comfort letter	11.7

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

13. LONG-TERM LOANS (continued)

The SIDF loan installments due in the next 12 months are shown as a current liability.

The Commercial Banks' syndication term loans are secured by a second charge on the subsidiary company's fixed assets. These loans carry borrowing costs at commercial rates and are repayable in 17 bi-annual installments commencing from the end of 31 December 2009. The installments due in the next 12 months, are shown as a current liability.

14. ZAKAT

- a) Zakat computation for the years ended 31 December 2009 and 2008 was based on the standalone financial statements for the parent company and the subsidiary company.
- b) Movement of Zakat provision during the years ended 31 December was as follows:

	2009 SR	2008 SR
Beginning balance	9,030,278	8,301,974
Provided during the year	809,651	5,003,160
Paid during the year	<u>(1,567,535)</u>	<u>(4,274,856)</u>
Ending balance	<u>8,272,394</u>	<u>9,030,278</u>

- c) Zakat status

Alujain Corporation (the parent company):

All years upto 31 December 2002 have been finalized and the final zakat certificates obtained. The Company filed the final Zakat returns for the years ended 31 December 2003, 2004, 2005, 2006, 2007 and 2008. The Department of Zakat and Income Tax (DZIT) has not yet raised its assessments for these years.

National Petrochemical Industrial Company (the subsidiary company):

The company has filed an appeal with the Higher Appeal committee against additional amount of SR7.5 million for the periods from 31 December 1999 through 2005. The company has lodged with DZIT a bank guarantee for the additional liability. The Company has also filed an appeal with the Preliminary Appeal Committee against the additional amount of SR 12 million for the period from 2006 through 2008. The management is of the view that their contention should prevail on a reasonable basis.

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

15. OTHER LONG-TERM LIABILITIES

	<i>2009</i> <i>SR</i>	<i>2008</i> <i>SR</i>
Change in fair value of derivatives	120,594,630	178,964,449
Other long-term payable	<u>-</u>	<u>13,124,505</u>
	<u>120,594,630</u>	<u>192,088,954</u>

16. STATUTORY RESERVE

As required by Saudi Arabian Regulations for Companies, 10% of the net income is required to be transferred to the statutory reserve until this reserve equals 50% of the capital. No such transfer to the reserve was made in 2009, as the Group has losses during the year.

17. CUMULATIVE CHANGES IN FAIR VALUES

Movement in cumulative changes in fair values for the years ended 31 December was as follows:

	<i>2009</i> <i>SR</i>	<i>2008</i> <i>SR</i>
Beginning balance	(86,829,845)	(16,844,743)
Unrealized gain / (loss) on revaluation of investments, net of amount realized on disposed investments	1,250,206	(23,350,531)
Unrealized loss relating to cash flow hedges (note 2)	29,155,274	(56,579,949)
Impairment loss on value of investments	<u>-</u>	<u>9,945,378</u>
Ending balance	<u>(56,424,365)</u>	<u>(86,829,845)</u>

18. INCOME FROM BANK DEPOSITS AND DIVIDENDS

	<i>2009</i> <i>SR</i>	<i>2008</i> <i>SR</i>
Income from bank deposits	268,530	2,401,015
Dividend income	<u>884,832</u>	<u>475,179</u>
	<u>1,153,362</u>	<u>2,876,194</u>

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
	SR	SR
Salaries and wages	34,993,637	30,426,728
Travel and accommodation	3,373,288	4,796,967
Meetings, seminars & conferences	635,454	395,677
Legal and professional fees	3,584,005	1,357,238
Public relation and publicity	3,292,752	1,356,440
Board of directors	767,520	664,000
Engineering and technical assistance	896,186	882,654
Rents	4,067,810	3,317,252
Postage, phones and electricity	1,433,508	4,304,709
Subscriptions	1,240,674	710,099
Depreciation	3,779,232	2,585,956
Information technology	971,860	115,232
Repairs and maintenance	1,433,608	100,447
Other	7,309,071	10,849,048
	<u>67,778,605</u>	<u>61,862,447</u>

20. LOSS PER SHARE

Loss per share on net loss before minority interest is calculated by dividing the net loss before minority interest by the weighted average number of shares in issue during the year.

Loss per share on net loss attributable to equity holders of the parent is calculated by dividing the net loss attributable to equity holders of the parent by the weighted average number of shares in issue during the year.

The weighted average number of ordinary shares outstanding during the year ended 31 December 2009 and 2008 was 69.2 million shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Group.

21. CONTINGENT LIABILITIES

The Parent Company has outstanding letters of credit amounting of SR 31,760,000 of which SR 30,118,209 is secured by bank deposit (2008: SR 31,760,000 of which SR 20,198,400 was secured by bank deposit) on behalf of the subsidiary company (NATPET), and included under non-current assets as security deposits.

As at 31 December 2009, the subsidiary company has contingent liabilities related to letters of credit amounting to SR 29,956,752 (2008: SR 34,816,178) against a margin deposit of SR 37,500,000 and letters of guarantee amounting to SR 174,371,705 (2008: SR 220,084,103) against a margin deposit of SR 8,169,383. The margin deposits of SR 45,669,383 are included under current assets as security deposits.

Alujain Corporation (a Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

22. RISK MANAGEMENT

Interest rate risk

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

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 intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages its liquidity risk by ensuring that bank facilities are available. Accounts payables are normally settled within 30-90 days of the date of purchase.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at 31 December 2009, based on contractual payment dates and current market interest rates:

<i>Year ended 31 December 2009</i>	<i>Less than 3 months SR</i>	<i>3 to 12 months SR</i>	<i>1 to 5Years SR</i>	<i>> 5 years SR</i>	<i>Total SR</i>
Due to related parties	7,116,339	3,932,672	-	-	11,049,011
Accounts payable, accruals & other liabilities	259,795,599	91,180,262	-	120,594,630	471,570,491
Term loans	-	175,588,315	1,013,748,051	877,129,425	2,066,465,791
Total	266,911,938	270,701,249	1,013,748,051	997,724,055	2,549,085,293

<i>Year ended 31 December 2008</i>	<i>Less than 3 months SR</i>	<i>3 to 12 months SR</i>	<i>1 to 5Years SR</i>	<i>> 5 years SR</i>	<i>Total SR</i>
Due to related parties	2,706,862	2,932,672	-	-	5,639,534
Accounts payable, accruals & other liabilities	45,776,418	74,051,654	112,149,805	65,269,337	297,247,214
Short-term loans	-	40,000,000	-	-	40,000,000
Term loans	-	122,831,228	1,086,408,020	874,000,190	2,083,239,438
Total	48,483,280	242,976,400	1,198,558,007	939,269,527	2,426,126,186

Currency risk

Currency risk is the risk that the value of financial instruments 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 did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and Euros, during the year. As the Saudi Riyals is pegged to US Dollars, the balances in US Dollars are not considered to represent significant currency risk.

Accounts payable include an amount of SR 42,999,897 due in Euros (2008: SR 17,938,406).

22. RISK MANAGEMENT (continued)

Currency risk (continued)

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the SR currency rate against the Euro, with all other variable held constant, on the statement of income (due to the fair value of currency sensitive monetary assets and liabilities).

	<i>Increase/decrease in Euro rate to the SR</i>	<i>Effect on income before zakat SR' 000</i>
2009	5%	2,149
2008	5%	896

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of bank balances and cash, security deposits, receivables, advances to suppliers and due from related parties, its financial liabilities consist of bank loans, payables and accrued expenses and due to related parties and its derivatives consist of interest rate swaps. The fair values of financial instruments are not materially different from their carrying values.

24. KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a allowance applied according to the inventory type and the degree of ageing or obsolescence, based on selling prices.

25. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the presentation in the current year.