

NAMA CHEMICALS COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2010

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NAMA CHEMICALS COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2010

	Note	2010 SR 000	2009 SR 000
ASSETS			
Current assets			
Cash and cash equivalents	3	215,674	23,456
Time deposits		66,213	301,493
Trade receivables		157,662	91,604
Inventories	4	85,256	76,102
Prepayments and other debit balances		30,498	34,641
Total current assets		555,303	527,296
Non-current assets			
Investments in development and Islamic bonds		-	157,126
Available for sale investments		182,340	146,211
Cost of projects under development	5	340,728	1,253,383
Property, plant and equipment	6	1,300,234	294,008
Intangible assets	7	69,626	17,866
Total non-current assets		1,892,928	1,868,594
TOTAL ASSETS		2,448,231	2,395,890
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short term borrowings	8	64,126	40,005
Current portion of long term debts	9	118,391	94,093
Accounts payable		77,676	70,885
Accrued expenses and other payables		49,670	33,778
Total current liabilities		309,863	238,761
Non-current liabilities			
Long-term debts	9	477,459	567,850
End-of-service indemnities	10	16,658	12,451
Interest rate swap	9,15	14,313	11,616
Total non-current liabilities		508,430	591,917
Stockholders' equity			
Share capital	1	1,285,200	1,285,200
Statutory reserve	1,11	273,382	273,382
Revaluation surplus		94,773	58,644
Foreign currency translation adjustments		(3,498)	(324)
Changes in cash flow hedge position	15	(14,313)	(11,616)
Accumulated losses		(5,606)	(40,074)
Total stockholders' equity		1,629,938	1,565,212
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		2,448,231	2,395,890

The accompanying notes form an integral part of these consolidated financial statements

NAMA CHEMICALS COMPANY AND SUBSIDIARIES
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CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2010

	Note	2010 SR 000	2009 SR 000
Sales		628,245	397,658
Cost of sales		(516,109)	(385,965)
Gross profit		112,136	11,693
Selling and marketing expenses	13	(48,939)	(39,547)
General and administrative expenses	14	(18,420)	(16,641)
Profit (loss) from operations		44,777	(44,495)
Financial expenses	8,9	(5,351)	(5,311)
Investment income, net		3,157	19,767
Write-off of cost of projects under development		-	(15,309)
Write-off of property, plant and equipment		(1,687)	-
Other income, net		3,419	5,544
Net income (loss) before zakat		44,315	(39,804)
Zakat	12	(9,847)	(9,988)
NET INCOME (LOSS)		34,468	(49,792)
Earnings per share	18		
Earnings (loss) per share from net income (loss) (in SR)		0.27	(0.39)
Earnings (loss) per share from continuing main operations (in SR)		0.22	(0.58)
Earning per share from other operations (in SR)		0.05	0.19
Weighted average number of shares		128,520,000	128,520,000

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NAMA CHEMICALS COMPANY AND SUBSIDIARIES
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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2010

	Share capital SR 000	Statutory reserve SR 000	Revaluation surplus SR 000	Foreign currency translation adjustments SR 000	Changes in cash flow hedge position SR 000	(Accumulated losses) retained earnings SR 000	Total SR 000
January 1, 2009	1,285,200	273,382	9,703	604	(21,321)	9,718	1,557,286
Net loss for 2009	-	-	-	-	-	(49,792)	(49,792)
Net changes in cash flow hedge position	-	-	-	-	9,705	-	9,705
Unrealized gain on investments	-	-	48,941	-	-	-	48,941
Foreign currency translation adjustments	-	-	-	(928)	-	-	(928)
December 31, 2009	1,285,200	273,382	58,644	(324)	(11,616)	(40,074)	1,565,212
Net income for 2010	-	-	-	-	(2,697)	34,468	34,468
Net changes in cash flow hedge position	-	-	-	-	-	-	(2,697)
Unrealized gain on investments	-	-	36,129	-	-	-	36,129
Foreign currency translation adjustments	-	-	-	(3,174)	-	-	(3,174)
December 31, 2010	1,285,200	273,382	94,773	(3,498)	(14,313)	(5,606)	1,629,938

The accompanying notes form an integral part of these consolidated financial statements

NAMA CHEMICALS COMPANY AND SUBSIDIARIES
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CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

	2010 SR 000	2009 SR 000
OPERATING ACTIVITIES		
Net income (loss) before zakat	44,315	(39,804)
Adjustments for:		
Depreciation	14,202	13,764
Amortization	2,775	2,775
Gain on disposal of property, plant and equipment	(210)	(45)
End-of-service indemnities	5,132	2,696
Write-off of cost of projects under development	-	15,309
Write-off of property, plant and equipments	1,687	-
Changes in operating assets and liabilities:		
Trade receivables	(66,058)	16,689
Inventories	(9,154)	58,413
Prepayments and other debit balances	4,143	(5,370)
Accounts payable, accrued expenses and other payables	20,124	(61,487)
Cash from operations	16,956	2,940
End-of-service indemnities paid	(925)	(795)
Zakat paid	(7,288)	(220)
Net cash from operating activities	8,743	1,925
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(44,033)	(53,566)
Proceeds from disposal of property, plant and equipment	241	45
Additions to cost of projects under development	(117,743)	(184,642)
Change in time deposits	235,280	144,651
Proceeds from disposal of investment in development and Islamic bonds	157,126	172,598
Additions to intangible assets	(2,250)	(4)
Net cash from investing activities	228,621	79,082
FINANCING ACTIVITIES		
Change in short term borrowings	24,121	(18,741)
Drawdown of long term debts	72,725	25,909
Repayment of long term debts	(138,818)	(104,836)
Net cash used in financing activities	(41,972)	(97,668)
Net change in cash and cash equivalents	195,392	(16,661)
Foreign exchange differences on foreign operations	(3,174)	(928)
Cash and cash equivalents, January 1	23,456	41,045
CASH AND CASH EQUIVALENTS, DECEMBER 31	215,674	23,456
Non-cash transactions:		
Project under construction transferred to property, plant and equipment	978,113	-
Project under construction transferred to intangible assets	52,285	-

The accompanying notes form an integral part of these consolidated financial statements

NAMA CHEMICALS COMPANY AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

1. ORGANIZATION AND ACTIVITIES

NAMA Chemicals Company (“the Company”) (“NAMA”) is a Saudi Joint Stock Company registered in Al-Jubail Industrial City under the commercial registration number 2055007420.

During the second quarter of 2008, the CMA approved the issuance of the right shares for the total sum of SR 780 million. In September 2008, the Company completed allotment of 52,020,000 shares at a premium of SR 5 per share to the shareholders, thereby raising a sum of SR 780.3 million from the stockholders. The share capital of the Company was accordingly increased from SR 765 million to SR 1,285.2 million. Share premium of SR 258.59 million was transferred to statutory reserve in compliance with the Regulations for Companies.

The subsidiaries of NAMA are as follows:

Jubail Chemical Industries Co. (“JANA”), a limited liability company, a subsidiary company, owned 95% by NAMA and 5% by a subsidiary of NAMA.

Arabian Alkali Company (“SODA”), a limited liability company, with the Company’s shareholding is 90% and the remaining 10% are registered in the name of JANA.

NAMA Industrial Investment Company which is owned 95% by NAMA and 5% by SODA under the commercial registration number 2055008134.

NAMA Europa GMBH, a limited liability company incorporated in Switzerland. 99% of the shares of NAMA Europa are held by NAMA Industrial Investment Company and 1% by NAMA. The shareholding was notified in the commercial registry in Bern vide - CH-036.4.041.685-8.

During second quarter of 2009, the Board of Directors of NAMA resolved to increase the share capital of JANA by SR 150 million from SR 516 million to SR 666 million through converting the amount payable to NAMA into capital. The legal formalities associated with the increase in the share capital were also completed in first quarter of 2010.

The principal activities of NAMA and its subsidiaries (“the Group”), each of which operates under individual commercial registration, are to own, establish, operate and manage industrial projects in the petrochemical and chemical fields.

The Group incurs costs on projects under construction and development and subsequently establishes a separate company for each project that has its own commercial registration. Costs incurred by the Group are transferred to the separate company when it is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention, except for derivatives and investments in securities which are stated at fair value.

NAMA CHEMICALS COMPANY AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2010

Principle of consolidation

The consolidated financial statements include the accounts of NAMA and its subsidiaries which are owned above 50% after eliminating significant inter-company balances and transactions between the Company and its subsidiaries.

Investments

Investments in financial instruments are classified according to Group's intent with respect to these securities.

Investments in companies whose shares are not readily marketable and in which NAMA owns less than 20% of the share capital are accounted for at cost. Impairment in value is recorded in the period in which the impairment is determined and charged to the consolidated statement of operations. Dividends are recorded when received.

Investments in investments funds and marketable securities classified as available for sale are stated at market value. Changes in market value are credited or debited to the revaluation surplus included in stockholders' equity. The carrying amount of such investments is reduced to recognize any impairment in the value of the individual investment.

Investments in Saudi Government Development Bonds ("SGDB") are stated at amortized cost, which approximates market value.

Revenue recognition

Sales are recognized upon delivery of goods to customers. Investment income, principally commissions on term deposits, SGDB and development and Islamic bonds is recognized on an accruals basis.

Expenses

Selling and distribution expenses principally comprise of costs incurred in the sale and distribution of the Group's products and services. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under generally accepted accounting principles. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

Accounts receivable

Accounts receivable are carried at their original amount less provision made for doubtful accounts. An allowance for doubtful accounts is established when there is significant doubt that the Company will be able to collect all amounts due according to the original terms of account receivable.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined, for finished goods, on a weighted average cost basis and includes cost of materials, labor and an appropriate proportion of direct overheads. All other inventories are valued on a weighted average cost basis.

NAMA CHEMICALS COMPANY AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2010

Derivative financial instruments

Derivative financial instruments are initially recorded at cost and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the consolidated statement of income as they arise.

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the consolidated balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated statement of income. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which is also immediately recognized in the consolidated statement of income.

A cash flow hedge is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability, an unrecognized firm commitment or a forecasted transaction. To the extent that the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in equity. Subsequently, the amount is included in the consolidated statement of income in the same period or periods during which the hedged item affects net profit or loss. For hedges of forecasted transactions, the gain or loss on the hedging instrument will be recognized as an adjustment to recorded carrying amount of the acquired asset or liability.

Intangible assets

Intangible assets principally represent pre-operating costs, deferred charges, front-end fee and enterprise resource planning (ERP) solution program implementation costs. The pre-operating costs and ERP solution program implementation costs are amortized on the straight-line method over 5 to 7 years from date of commencement of commercial operations of the consolidated subsidiary. The front-end fee charged by Saudi Industrial Development Fund ("SIDF") is amortized over the term of the loan.

Deferred charges principally represent pre-operating costs incurred, prior to commencement of commercial operations of the projects. These charges are reduced by the revenue generated by the sale of products manufactured during the commissioning stage. Deferred charges are amortized on the straight line method over seven years from the dates of commencement of commercial operations of the projects.

Property, plant and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

The estimated useful lives of the principal classes of assets are as follows:

	<u>Years</u>
Buildings and improvements on lease land	20 - 40
Plant and machinery	5 - 30
Vehicles	4
Furniture, fixtures and office equipment	5 - 10

NAMA CHEMICALS COMPANY AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2010

Impairment

As of each balance sheet date, the Group reviews the carrying amounts of their property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

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 so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Borrowing costs

Borrowing costs directly attributable to cost of projects under development are added to the cost of the project until such time as the project is ready for its intended use. Investment income earned on temporary investments of specific borrowings pending their expenditure on the project under construction is deducted from the borrowing costs eligible for capitalization.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the balance sheet date. Exchange gains or losses are credited or charged to the consolidated statement of income.

The Company's books of accounts are maintained in Saudi Riyals. Assets and liabilities of foreign subsidiary are translated in Saudi Riyals at the exchange rate in effect at the date of consolidated balance sheet. The components of foreign subsidiary's equity accounts, except retained earnings are translated at the exchange rates in effect at the dates of the related items originated. The elements of foreign subsidiary's income statements are translated using the weighted average exchange rate for the period. Adjustments resulting from the translation of foreign subsidiary's financial statements into Saudi Riyals are reported as a separate component of equity attributable to the stockholders of the Company in the consolidated financial statements.

Provisions for obligation

A provision is recognized in the balance sheet when the Company and its subsidiaries has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

End-of-service indemnities

End-of-service indemnities, required by Saudi Arabian labor law, are provided in the consolidated financial statements based on the employees' length of service.