

Ernst & Young

**Sahara Petrochemical Company
(Saudi Joint Stock Company)**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

AUDITORS' REPORT TO THE SHAREHOLDERS OF SAHARA PETROCHEMICAL COMPANY (SAUDI JOINT STOCK COMPANY)

Scope of audit:

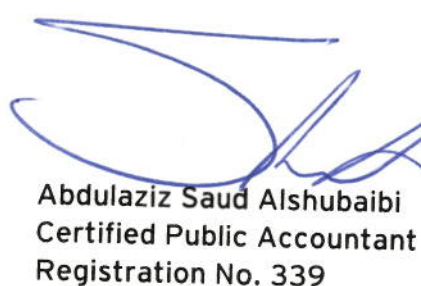
We have audited the accompanying consolidated balance sheet of Sahara Petrochemical Company (Saudi Joint Stock Company) and its subsidiary as at 31 December 2010 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the parent company 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 we 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 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 consolidated financial position of the company and its subsidiary as at 31 December 2010 and the consolidated results of its operations and its consolidated 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 parent company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young


Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339



18 Rabi' I 1432H
21 February 2011

Alkhobar

Sahara Petrochemical Company (Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As At 31 December 2010

	<i>Note</i>	<i>2010</i> <i>SR 000</i>	<i>2009</i> <i>SR 000</i>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	164,064	555,869
Inventories	5	114,567	81,611
Accounts receivable, other receivables, and prepayments	6	454,651	154,425
TOTAL CURRENT ASSETS		733,282	791,905
NON-CURRENT ASSETS			
Investment in associates	7	1,538,316	1,006,754
Projects under development	8	135,480	35,338
Construction work in progress	9	4,156,789	4,106,033
Motor vehicles and equipment	10	20,437	15,558
TOTAL NON-CURRENT ASSETS		5,851,022	5,163,683
TOTAL ASSETS		6,584,304	5,955,588
LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST			
CURRENT LIABILITIES			
Accounts payable and accruals	12	288,863	183,871
Retentions payable		56,187	64,098
Current portion of advances against Islamic facilities	13	31,145	15,573
Current portion of term loans	14	108,850	-
Zakat provision	15	2,400	1,200
TOTAL CURRENT LIABILITIES		487,445	264,742
NON-CURRENT LIABILITIES			
Advances against Islamic facilities	13	990,911	922,387
Term loans	14	1,229,140	1,337,990
Fair value of interest rate swaps	13	90,006	85,723
Employees' terminal benefits		19,884	13,503
TOTAL NON CURRENT LIABILITIES		2,329,941	2,359,603
TOTAL LIABILITIES		2,817,386	2,624,345
SHAREHOLDERS' EQUITY AND MINORITY INTEREST			
Share capital	1	2,925,300	2,925,300
Statutory reserve		40,631	7,715
Retained earnings		427,162	130,919
Change in fair value of interest rate swaps	13	(88,272)	(125,545)
TOTAL SHAREHOLDERS' EQUITY		3,304,821	2,938,389
Minority interest	16	462,097	392,854
TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTEREST		3,766,918	3,331,243
TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST		6,584,304	5,955,588

The attached notes 1 to 21 form part of these consolidated financial statements.

Sahara Petrochemical Company (Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2010

	<i>Note</i>	<i>2010</i> <i>SR 000</i>	<i>2009</i> <i>SR 000</i>
General and administration expenses	17	<u>10,966</u>	<u>39,428</u>
LOSS FROM MAIN OPERATIONS		(10,966)	(39,428)
Murabaha income		2,306	1,269
Other income		(507)	525
Right issue cost		-	(38,334)
LOSS BEFORE SHARE IN RESULTS OF AN ASSOCIATE		(9,167)	(75,968)
Share in results of an associate	7	<u>339,526</u>	<u>153,666</u>
INCOME BEFORE MINORITY INTEREST AND ZAKAT		330,359	77,698
Minority interest		-	(35)
Zakat	15	<u>(1,200)</u>	<u>(1,200)</u>
NET INCOME FOR THE YEAR		<u>329,159</u>	<u>76,463</u>
Earnings per share from net income		<u>1.13</u>	<u>0.35</u>
(Loss) per share from main operations		<u>(0.04)</u>	<u>(0.18)</u>
Weighted average number of shares outstanding (in thousands)		<u>292,530</u>	<u>219,153</u>

The attached notes 1 to 21 form part of these consolidated financial statements.

Sahara Petrochemical Company (Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	<i>Note</i>	2010 SR 000	2009 SR 000
OPERATING ACTIVITIES			
Income before zakat and minority interest		330,359	77,698
Adjustments for:			
Depreciation		5,796	3,827
Employees' terminal benefits, net		6,381	5,897
Share in results of associates		(339,526)	(153,666)
Loss on sale of motor vehicles and equipment		565	412
Right issue costs		-	38,334
Murabaha income		(2,306)	(1,269)
		<u>1,269</u>	<u>(28,767)</u>
Changes in operating assets and liabilities			
Receivable		(300,226)	(151,103)
Inventories		(32,956)	(81,611)
Payables		97,081	23,408
		<u>(234,832)</u>	<u>(238,073)</u>
Cash used in operations		(234,832)	(238,073)
Right issue costs paid		-	(38,334)
Net cash used in operating activities		<u>(234,832)</u>	<u>(276,407)</u>
INVESTING ACTIVITIES			
Additions to motor vehicles and equipment		(10,375)	(9,527)
Additions to cost of project under development		(100,891)	(12,499)
Proceeds from sale of motor vehicles and equipment		190	-
Additions to capital work in progress		(51,062)	(607,597)
Murabaha income		2,306	1,269
Additions to investment in associates		(151,550)	(124,815)
		<u>(311,382)</u>	<u>(753,169)</u>
Net cash used in investing activities		<u>(311,382)</u>	<u>(753,169)</u>
FINANCING ACTIVITIES			
Change in term loans, net		-	(208,712)
Proceeds from advances against Islamic facilities		84,096	262,780
Minority interest		70,313	28,041
Issue of share capital		-	1,050,300
		<u>154,409</u>	<u>1,132,409</u>
Net cash from financing activities		<u>154,409</u>	<u>1,132,409</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(391,805)	102,833
Cash and cash equivalents at the beginning of the year		<u>555,869</u>	<u>453,036</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	<u><u>164,064</u></u>	<u><u>555,869</u></u>

The attached notes 1 to 21 form part of these consolidated financial statements.

Sahara Petrochemical Company (Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Year ended 31 December 2010

	<i>Share capital</i> <i>SR 000</i>	<i>Statutory</i> <i>reserve</i> <i>SR 000</i>	<i>Retained</i> <i>earnings</i> <i>SR 000</i>	<i>Change in fair</i> <i>value of</i> <i>interest rate</i> <i>swaps</i> <i>SR 000</i>	<i>Total</i> <i>SR 000</i>
Balance at 31 December 2008	1,875,000	69	62,102	(167,987)	1,769,184
Increase of share capital (note 1)	1,050,300	-	-	-	1,050,300
Net income for the year	-	-	76,463	-	76,463
Transfer to statutory reserve	-	7,646	(7,646)	-	-
Change in fair value of interest rate swaps	-	-	-	42,442	42,442
Balance at 31 December 2009	2,925,300	7,715	130,919	(125,545)	2,938,389
Net income for the year	-	-	329,159	-	329,159
Transfer to statutory reserve	-	32,916	(32,916)	-	-
Change in fair value of interest rate swaps	-	-	-	37,273	37,273
Balance at 31 December 2010	2,925,300	40,631	427,162	(88,272)	3,304,821

The attached notes 1 to 21 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

1 ACTIVITIES

Sahara Petrochemical Company (“the parent company”) is a Saudi Joint Stock Company registered under commercial registration number 1010199710 dated 19 Jumada'l 1425H (corresponding to 7 July 2004). The authorized, issued and fully paid share capital of the parent company before the capital increase was SR 1,875,000,000 divided into 187,500,000 shares of SR 10 each.

On 1 Ramadan 1430H (corresponding to 22 August 2009) the shareholders of the parent company agreed in their extraordinary general assembly meeting held in Riyadh to increase the share capital of Sahara Petrochemical Company (“the parent company”) by way of a rights issue amounting to SR 1,050,300,000 limited to the existing shareholders registered in the records of the parent company at the end of trading on the day of meeting corresponding to 22 August 2009. Number of shares issued in the rights offering was 105,030,000 shares in the price of SR 10 each and without any premium. The subscription price for the additional shares was set at SR 10, SR 12, SR 14 and SR 16. Thus, the share capital of the parent company became SR 2,925,300,000 divided into 292,530,000 shares of SR 10 each.

The board of directors of Sahara Petrochemicals Company has recommended applying for the Capital Market Authority and the Ministry of Commerce and Industry and the General Assembly to increase the share capital of the company by way of a rights issue amounting to SR 1,584,600,000 to finance expansions and future projects of the company.

The principal activities of the parent company and its subsidiary (“the Group”) are to invest in industrial projects, especially in the petrochemical and chemical fields and to own and execute projects necessary to supply raw materials and utilities. The Group incurs costs on projects under development and subsequently establishes a separate company for each project that has its own commercial registration. Costs incurred by the Group will be transferred to separate companies when they are established.

Al Waha Petrochemical Company (“the subsidiary”), is a Saudi limited liability company registered under commercial registration number 2055007751, and is owned 75% by Sahara Petrochemical Company and 25% by Basell Arabia Investments, its contribution amounting to SR 1,161 million. The subsidiary company has not commenced its commercial operations as of 31 December 2010.

The parent company also owns a 32.55% share in Tasnee and Sahara Olefins Company (the “Associate”), a closed Saudi Joint Stock Company, (with initial contribution of SR 781.2 million). This associated company owns 75% share of Saudi Ethylene and Polyethylene Company which has commenced its commercial production effective 1 June 2009. During 2009, the parent company has invested in Saudi Acrylic Acid Company, a Saudi limited liability company, with a direct share of 15% of the capital, where the direct contribution amounted to SR 82.5 million. The parent company has increased its share in Saudi Acrylic Acid Company to 22% during the period, where its direct contribution in the company became SR 136,4 million. The parent company owns indirect share through Tasnee and Sahara Olefins Company (the “Associate”) referred to above, which has a stake in this company of 65%. The company has not started its commercial operations yet.

The parent company’s headquarters are located in Riyadh, where the branch and the industrial facilities are located at Jubail Industrial City, Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

The parent company and its subsidiary are consolidated from the date the parent company obtains control until such time as control ceases. The consolidated financial statements comprise the financial statements of Sahara Petrochemical Company and its subsidiary as explained in note 1. Acquisition of the subsidiary is 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. All intra-group balances, transactions, income and expenses and profit and loss resulting from intra-group transactions are eliminated in full.

31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES

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

Accounting convention

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of interest rate swaps contracts.

Use of estimates

The preparation of the 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 year.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consists of bank balances, cash on hand, short term murabahat and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision 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 when there is no possibility of recovery.

Inventories

Raw material and spare parts are stated at the lower of cost and market value.

Investment in associates

Investment in associates are accounted for using the equity method.

Projects under development

Projects under development represents mainly legal, feasibility studies, and other related costs incurred by the group for the development of industrial projects and are accounted for at cost. Upon successful incorporation of the new companies, costs associated with the projects are transferred to the respective companies. When certain projects are considered to be not feasible, the related costs are written off immediately.

Construction work in progress

Construction work in progress are recognised at cost of materials and services needed to fabricate the plant and equipment plus salaries and other costs that can be specifically identified as necessary costs to have the plant and equipment ready for its intended use and other overheads allocated on a systematic basis, as well as capitalised borrowing costs. The cost of construction work in progress is reduced by the net proceeds from sale of products during the commissioning phase.

Borrowing costs

Borrowing costs are recorded generally as period costs when incurred. Borrowing costs directly attributable to the construction of qualifying assets are capitalised. The capitalisation starts when the construction work is in progress and the expenses and borrowing costs are incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. In case portion of the loan are deposited in Murabahat investment or deposits, the financial income earned is credited to the capitalised borrowing costs.

31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Motor vehicles and equipment

Motor vehicles and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of motor vehicles and equipment are depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of motor vehicles 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.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Expenditure for repair and maintenance are charged to income. Improvements that increase the value or materially extend the useful life of the related assets are capitalised.

Accounts payable and accruals

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

Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The liability is charged to the consolidated statement of income. Additional amounts, if any, that may become due on finalisation of an assessment are accounted for at that time.

Employees' terminal benefits

Provision is made for amounts payable under the employments contract applicable to employees' accumulated periods of service at the consolidation balance sheet date.

Statutory reserve

As required by Saudi Arabian Regulations for Companies, the parent company must aside 10% of its consolidated net income until it has built up a reserve equal to one half of the capital. The reserve is not available for distribution.

Foreign currencies transactions

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 consolidation balance sheet date. All differences are taken to the consolidated statement of income.

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 adjust the recorded carrying amount of the acquired asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses

All the period expenses are classified as general and administration expenses.

Lease contracts

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All assets owned under capital lease agreements are recorded as an assets at the lower of the present value of the minimum lease payments or fair market value of the asset at the date of the commencement of the lease. The difference between the gross lease obligation and the lower of the present value of the minimum lease payments and the fair market value of the asset at the commencement of the lease are considered financial costs and charged to the consolidated statement of income during the lease term to achieve a consistent rate of allocation over the remaining lease obligation for each accounting period.

Rentals payable under operating leases are charged to the consolidated statement of income over the lease term on a straight-line basis.

Earning (loss) per share

Basic earnings per share from net income is calculated by dividing the net income for the year by the weighted average of number of shares outstanding during the year.

Basic earnings (loss) per share from main operations are calculated by dividing income (loss) from main operations for the year by the weighted average of number of shares outstanding during the year.

Segmental Analysis

A segment is a distinguishable component of the company that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Segmental analysis is not disclosed until the group of companies commence the commercial operations.

Fair values

The fair value of commission-bearing items is estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

4 CASH AND CASH EQUIVALENTS

	<i>2010</i>	<i>2009</i>
	<i>SR 000</i>	<i>SR 000</i>
Bank balances and cash	70,913	555,869
Short term Murabaha investments	93,151	-
	<u>164,064</u>	<u>555,869</u>

Murabaha investments are kept with local commercial banks and are maintained in Saudi Riyals and US Dollars. These investments have original maturities of less than 3 months.

Sahara Petrochemical Company (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

5 INVENTORIES

	<i>2010</i> <i>SR 000</i>	<i>2009</i> <i>SR 000</i>
Raw materials	23,114	23,558
Spare parts and consumbles	91,453	58,053
	<u>114,567</u>	<u>81,611</u>

Spare parts inventories, are primarily related to plant and equipment, which are still under construction and accordingly expected to be utilised after the commencement of production in the plants of the group, which will be over more than one year.

6 ACCOUNTS RECEIVABLE, OTHER RECEIVABLES, AND PREPAYMENTS

	<i>2010</i> <i>SR 000</i>	<i>2009</i> <i>SR 000</i>
Amounts due from an affiliate (note 11)	421,488	117,273
Trade receivables	4,219	12,319
Prepayments	1,386	373
Other receivables	27,558	24,460
	<u>454,651</u>	<u>154,425</u>

7 INVESTMENT IN ASSOCIATES

The movement in the investments in associated companies are as follows:

	<i>Tasnee and Sahara Olefins Company SR 000</i>	<i>Saudi Acrylic Acid Company SR 000</i>	<i>Total SR 000</i>
Balance at 1 January	924,254	82,500	1,006,754
Additions during the year	97,650	53,900	151,550
Share of change in fair value of interest rate swaps	40,486	-	40,486
Share in results of associates	339,526	-	339,526
Balance at 31 December	<u>1,401,916</u>	<u>136,400</u>	<u>1,538,316</u>

The company has not accounted for its share in results of Saudi Acrylic Acid Company as the company has not started commercial operations yet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

8 PROJECTS UNDER DEVELOPMENT

	<i>2010</i> <i>SR 000</i>	<i>2009</i> <i>SR 000</i>
Beginning of the year	35,338	22,839
Incurring during the year	100,891	12,499
Transfers to motor vehicles and equipment	(749)	-
At the end of the year	<u>135,480</u>	<u>35,338</u>

The cost of projects under development is mainly related to Chlor-Alkali and EDC projects.

9 CONSTRUCTION WORK IN PROGRESS

	<i>2010</i> <i>SR 000</i>	<i>2009</i> <i>SR 000</i>
At the beginning of the year	4,106,033	3,503,224
Additions	51,062	607,597
Transfers to motor vehicles and equipment	(306)	(4,788)
At the end of the year	<u>4,156,789</u>	<u>4,106,033</u>

Construction work in progress mainly represents the costs incurred by a subsidiary for the construction of a Propane Dehydrogenation and Polypropylene Plants at Jubail Industrial City, Kingdom of Saudi Arabia.

Construction related costs at 31 December 2010 comprise construction costs under various agreements and directly attributable costs to bring the asset to the location and working condition necessary for it to be capable of operating in a manner intended by the management. Directly attributable costs include employee benefits, site preparation costs, installation costs, licensing fees, professional fees and borrowing costs.

Finance costs capitalized by the subsidiary during the year amounted to SR 89.4 million (2009: SR 101 million).

The subsidiary's plant facilities are constructed on a plot of land allocated by the Royal Commission of Jubail and Yanbu to the parent company and sub-leased to the subsidiary. The lease term is for 30 years commenced in 2006 and is renewable by mutual agreement of the parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

10 MOTOR VEHICLES AND EQUIPMENT

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

Motor vehicles	4 years
Furniture and office equipment	2 to 10 years

	<i>Motor vehicles</i> <i>SR 000</i>	<i>Furniture and</i> <i>office equipment</i> <i>SR 000</i>	<i>Total</i> <i>2010</i> <i>SR 000</i>	<i>Total</i> <i>2009</i> <i>SR 000</i>
Cost:				
At the beginning of the year	3,843	16,952	20,795	7,017
Additions	962	9,413	10,375	9,527
Transfers form construction work in progress	-	-	-	4,788
Transfers form projects under development	-	1,055	1,055	-
Disposals	(330)	(1,203)	(1,533)	(537)
At the end of the year	<u>4,475</u>	<u>26,217</u>	<u>30,692</u>	<u>20,795</u>
Depreciation:				
At the beginning of the year	1,471	3,766	5,237	1,535
Charge for the year	1,015	4,781	5,796	3,827
Disposals	(221)	(557)	(778)	(125)
At the end of the year	<u>2,265</u>	<u>7,990</u>	<u>10,255</u>	<u>5,237</u>
Net book amounts:				
At 31 December 2010	<u>2,210</u>	<u>18,227</u>	<u>20,437</u>	
At 31 December 2009	<u>2,372</u>	<u>13,186</u>		<u>15,558</u>

11 RELATED PARTY TRANSACTIONS

The following are major related party transactions during the year:

- One of the affiliates of the company has provided construction services to the company. Total amounts charged in that respect amounted to SR 88.8 million (2009: Nil).
- Total purchases of raw material from one of the affiliates during the year amounted to SR 80.8 million (2009: SR 52 million).
- The company has sold part of its testing products during the year to one of the related parties, which amounted to SR 1,047 million (2009: SR 117.3 million).

Prices and terms of these transactions are approved by the management of the group.

Amounts due from an affiliate are disclosed in note 6 to the consolidated financial statements.

Sahara Petrochemical Company (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

12 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2010</i>	<i>2009</i>
	<i>SR 000</i>	<i>SR 000</i>
Trade accounts payable	108,299	111,829
Accrued expenses and other liabilities	180,564	72,042
	<u>288,863</u>	<u>183,871</u>

13 ADVANCES AGAINST ISLAMIC FACILITIES

During 2006, the subsidiary signed an IFA for US\$ 276.6 million (SR 1,037.3 million) through which the commercial banks will participate in the procurement of the Project assets on the basis of co-ownership. On the completion of the Project, the co-owned assets will be leased to the subsidiary at an annual rental calculated at LIBOR plus 1.95%. Under a separate Purchase Undertaking Agreement, the subsidiary will purchase the above assets from the banks over a period of 11 years starting six months after the completion of the Project. As of 31 December 2010, the subsidiary has drawn down US\$ 276.6 million (2009: US\$ 246 million) from the total available facility. Two installments of SR 31.1 million due in 2011 (2010: one installment of SR 15.6 million) are shown as current liability in the consolidated balance sheet.

The Subsidiary has entered into an interest rate swap contract with commercial banks to manage the exposure to volatility in interest rates for a notional amount ranging from US\$ 16.71 million (SR 62.68 million) to US\$ 503.79 million (SR 1,889.71 million) with no upfront premium. The option fixed rate is 5.105% per annum and is exercisable effective June 29, 2007 on a half yearly basis, up to December 31, 2016.

14 TERM LOANS

	<i>2010</i>	<i>2009</i>
	<i>SR 000</i>	<i>SR 000</i>
Saudi Industrial Development Fund loan ("SIDF")	400,000	400,000
Public Investment Fund loan ("PIF")	937,990	937,990
	<u>1,337,990</u>	<u>1,337,990</u>
Less: current portion of term loans	<u>(108,850)</u>	<u>-</u>
	<u>1,229,140</u>	<u>1,337,990</u>

Saudi Industrial Development Fund loan

On 18 June 2007, the subsidiary signed a term loan agreement of SR 400 million with SIDF. The loan is secured through mortgage of assets, assignment of insurance proceeds, technology rights and corporate guarantee of the partners to the extent of their ownership in the subsidiary. The loan is payable over 13 semi-annual installments starting from 15 Sha'aban, 1432H corresponding (July 17, 2011). The loan agreement includes covenants to maintain financial ratios during the loan period. At 31 December 2010, the Subsidiary has drawn down SR 400 million (2009 - SR 400 million).

Public Investment Fund loan

On 31 October 2007, the Subsidiary signed a term loan agreement of US\$ 250 million (SR 937.9 million) with PIF. This loan carries interest at London Inter Bank Offered Rate ("LIBOR") plus 0.5% and is repayable in twenty semi annual equal installments starting from May 2011. The loan is secured by mortgage over the assets of the subsidiary through an interparty deed with the commercial banks under Islamic Facilities Agreement ("IFA"). At 31 December 2010, the subsidiary has drawn down US\$ 250 million (2009 - US\$ 250 million) from the total available facility.

Sahara Petrochemical Company (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

15 ZAKAT

Charge for the year

The zakat charge consists of:

	<i>2010</i> <i>SR 000</i>	<i>2009</i> <i>SR 000</i>
Current year provision	1,200	1,200
Charge for the year	<u>1,200</u>	<u>1,200</u>

Movements in provision:

The movement in the zakat provision was as follows:

	<i>2010</i> <i>SR 000</i>	<i>2009</i> <i>SR 000</i>
At the beginning of the year	1,200	-
Provided during the year	1,200	1,200
At the end of the year	<u>2,400</u>	<u>1,200</u>

Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) for the parent company and its subsidiary for all years up to 2004. The zakat assessment of the parent company for the year 2005 has been raised with additional zakat liability of SR 4.69 million. The parent company has appealed against the DZIT assessment before the preliminary appeal committee.

The zakat assessments for the parent company for the years from 2006 up to 2009, have not been raised yet. The zakat and tax assessments for the subsidiary for the years from 2005 up to 2009, have not been raised yet.

16 MINORITY INTEREST

Minority interest represents Basel Arabia Investments share of 25% in Al Waha Petrochemical Company.

17 GENERAL AND ADMINISTRATION EXPENSES

	<i>2010</i> <i>SR 000</i>	<i>2009</i> <i>SR 000</i>
Employee costs	9,351	29,490
Rent	223	793
Subscription	10	76
Advertising and public relations	66	482
Others	1,316	8,587
	<u>10,966</u>	<u>39,428</u>

18 CAPITAL COMMITMENTS

The group has future capital expenditures amounting to SR 219 million (2009 - SR 75.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

19 RISK MANAGEMENT

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The group is exposed to commission rate risk on its commission bearing assets including bank deposits and its commission bearing liabilities including term loans and advances against islamic facilities.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The group has no significant credit risk as it has not commenced its commercial operations. Cash is placed with national banks with sound credit ratings.

Liquidity risk

Liquidity risk is the risk that the company 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.

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 exposed to the fluctuation in foreign exchange rates during its normal business activities. The group has not entered into significant transactions in currencies other than Saudi Riyals, US Dollars and Euro during the year.

20 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 cash and cash equivalents, account receivables, other receivables and prepayments; its financial liabilities consist of term loans, accounts payable and accruals.

Management believes that fair values of the group's financial instruments are not materially different from their carrying values at year end.

21 COMPARATIVE FIGURES

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

Ernst & Young

Assurance | Tax | Transactions | Advisory

www.ey.com/me

© Ernst & Young
All rights reserved.

