

Ernst & Young

 **ERNST & YOUNG**

---

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
SAHARA PETROCHEMICAL COMPANY (SAUDI JOINT STOCK COMPANY)****Scope of audit:**

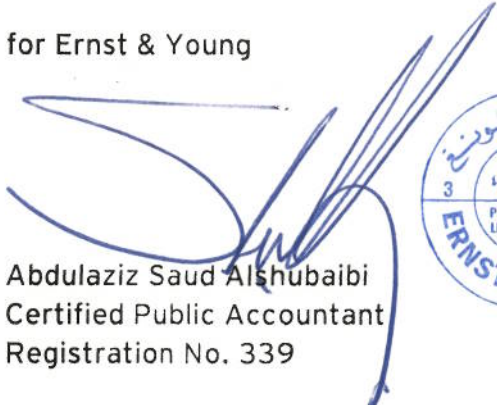
We have audited the accompanying consolidated balance sheet of Sahara Petrochemical Company (Saudi Joint Stock Company) and its subsidiary as at 31 December 2009 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated 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.

**Audit 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 2009 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 articles of association 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



9 Rabi' I 1431H  
23 February 2010

Alkhobar

Abdulaziz A. Alsowailim 277  
Fahad M. Al-Toaimi 354

Sami E. Farah 168  
Abdulhamid M. Bushnaq 155

Abdulaziz Alshubaibi 339  
Ahmed I. Reda 356

# Sahara Petrochemical Company (Saudi Joint Stock Company)

## CONSOLIDATED BALANCE SHEET

As At 31 December 2009

	<i>Note</i>	<i>2009</i> <i>SR 000</i>	<i>2008</i> <i>SR 000</i>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	555,869	453,036
Accounts receivable, other receivables, and prepayments	5	154,425	3,322
Inventories	6	104,425	-
<b>TOTAL CURRENT ASSETS</b>		<b>814,719</b>	<b>456,358</b>
<b>NON-CURRENT ASSETS</b>			
Investment in associates	7	1,006,754	732,949
Projects under development	8	35,338	22,839
Construction work in progress	9	4,083,219	3,503,224
Motor vehicles and equipment	10	15,558	5,482
<b>TOTAL NON-CURRENT ASSETS</b>		<b>5,140,869</b>	<b>4,264,494</b>
<b>TOTAL ASSETS</b>		<b>5,955,588</b>	<b>4,720,852</b>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals	12	183,871	93,636
Retentions payable		64,098	130,925
Short term loans	13	-	589,032
Advances against Islamic facilities-current portion	14	15,573	15,560
Zakat provision	16	1,200	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>264,742</b>	<b>829,153</b>
<b>NON-CURRENT LIABILITIES</b>			
Advances against Islamic facilities	14	922,387	659,620
Term loans	15	1,337,990	957,670
Fair value of interest rate swaps	14	85,723	148,547
Employees' terminal benefits		13,503	7,606
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>2,359,603</b>	<b>1,773,443</b>
<b>TOTAL LIABILITIES</b>		<b>2,624,345</b>	<b>2,602,596</b>
<b>SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>			
Share capital	1	2,925,300	1,875,000
Statutory reserve		7,715	69
Retained earnings		130,919	62,102
Change in fair value of interest rate swaps	14	(125,545)	(167,987)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>2,938,389</b>	<b>1,769,184</b>
<b>Minority interest</b>	17	<b>392,854</b>	<b>349,072</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>		<b>3,331,243</b>	<b>2,118,256</b>
<b>TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>		<b>5,955,588</b>	<b>4,720,852</b>

The attached notes 1 to 22 form part of these consolidated financial statements.



# Sahara Petrochemical Company (Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2009

	<i>Note</i>	<b>2009</b> <b>SR 000</b>	<b>2008</b> <b>SR 000</b>
General and administration expenses	18	<b>39,428</b>	40,168
<b>LOSS FROM MAIN OPERATIONS</b>		<b>(39,428)</b>	(40,168)
Murabaha income		<b>1,269</b>	65
Right issue cost		<b>(38,334)</b>	-
Other income		<b>525</b>	-
Preoperating expenses, net		<b>-</b>	(3,776)
<b>LOSS BEFORE SHARE IN RESULTS OF AN ASSOCIATE</b>		<b>(75,968)</b>	(43,879)
Share in results of an associate		<b>153,666</b>	3,323
<b>INCOME/(LOSS) BEFORE MINORITY INTEREST AND ZAKAT</b>		<b>77,698</b>	(40,556)
Minority interest		<b>(35)</b>	944
Zakat	16	<b>(1,200)</b>	(1,534)
<b>NET INCOME/(LOSS) FOR THE YEAR</b>		<b>76,463</b>	(41,146)
<b>Earnings (loss) per share (From net income)</b>		<b>0.35</b>	(0.22)
<b>(Loss) per share (From main operations)</b>		<b>(0.18)</b>	(0.22)
<b>Weighted average number of shares outstanding</b>		<b>219,152,877</b>	187,500,000

The attached notes 1 to 22 form part of these consolidated financial statements.

# Sahara Petrochemical Company (Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	<i>Note</i>	<b>2009</b> <b>SR 000</b>	<b>2008</b> <b>SR 000</b>
<b>OPERATING ACTIVITIES</b>			
Income/(loss) before zakat and minority interest		77,698	(40,556)
Adjustments for:			
Depreciation		3,827	1,033
Employees' terminal benefits, net		5,897	3,918
Share in results of associates		153,666	(3,323)
Loss on sale of property and equipment		412	38
Right issue costs paid		38,334	-
		<u>279,834</u>	<u>(38,890)</u>
Changes in operating assets and liabilities			
Receivable		(151,103)	(1,376)
Inventories		(104,425)	-
Accounts payable and accruals		23,408	60,767
		<u>47,714</u>	<u>20,501</u>
Cash from operations		47,714	20,501
Right issue costs paid		(38,334)	-
Zakat and income tax paid		-	(401)
		<u>9,380</u>	<u>20,100</u>
<b>Net cash from operating activities</b>		<b>9,380</b>	<b>20,100</b>
<b>INVESTING ACTIVITIES</b>			
Additions to property and equipment		(9,527)	(5,152)
Additions to cost of project under development		(12,499)	(11,613)
Proceeds from sale of property and equipment		-	66
Additions to capital work in progress		(584,783)	(1,311,994)
Additions to investment in associates		(124,815)	-
		<u>(731,624)</u>	<u>(1,328,693)</u>
<b>Net cash used in investing activities</b>		<b>(731,624)</b>	<b>(1,328,693)</b>
<b>FINANCING ACTIVITIES</b>			
Change in short term loans, net		(589,032)	360,032
Proceeds from long term loans		380,320	757,670
Proceeds from advances against Islamic facilities		262,780	562,650
Reimbursement of income tax from minority shareholder		-	115
Minority interest		(279,291)	-
Issue of share capital		1,050,300	-
		<u>825,077</u>	<u>1,680,467</u>
<b>Net cash from financing activities</b>		<b>825,077</b>	<b>1,680,467</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>102,833</b>	<b>371,874</b>
Cash and cash equivalents at the beginning of the year		453,036	81,162
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>4</b>	<b>555,869</b>	<b>453,036</b>

The attached notes 1 to 22 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 2009

	<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 2007	1,875,000	69	103,248	(28,074)	1,950,243
Net loss for the year	-	-	(41,146)	-	(41,146)
Change in fair value of interest rate swaps	-	-	-	(139,913)	(139,913)
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
<b>Balance at 31 December 2009</b>	<b>2,925,300</b>	<b>7,715</b>	<b>130,919</b>	<b>(125,545)</b>	<b>2,938,389</b>

The attached notes 1 to 22 form part of these consolidated financial statements.



# Sahara Petrochemical Company (Saudi Joint Stock Company)

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 1 ACTIVITIES

Sahara Petrochemical Company (“the parent company”) is a Saudi Joint Stock Company registered under commercial registration number 1010199710 dated 19 Jumada’I 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 legal formalities in respect of the share capital increase are still in progress.

The principal activities of the parent company and its subsidiary (“the Group”) are to invest in industrial projects, specially 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 is still in the commissioning phase as at 31 December 2009.

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 the year, 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, and 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 2009

### 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 2009

### 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.



# Sahara Petrochemical Company (Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2009

### 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 (loss) per share from net income (loss) is calculated by dividing the net results 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>2009</i>	<i>2008</i>
	<i>SR 000</i>	<i>SR 000</i>
Bank balances and cash	<b>555,869</b>	25,036
Short term Murabaha investments	-	428,000
	<b>555,869</b>	<b>453,036</b>

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 2009

### 5 ACCOUNTS RECEIVABLE, OTHER RECEIVABLES, AND PREPAYMENTS

	2009 SR 000	2008 SR 000
Amount due from an affiliate (note 11)	117,273	145
Trade receivables	12,319	173
Prepayments	373	2,176
Other receivables	24,460	828
	<u>154,425</u>	<u>3,322</u>

### 6 INVENTORIES

	2009 SR 000	2008 SR 000
Raw materials	46,371	-
Spare parts and consumables	58,054	-
	<u>104,425</u>	<u>-</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.

### 7 INVESTMENT IN ASSOCIATES

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

	<i>Tasnee and Sahara Olefins Company</i> SR 000	<i>Saudi Acrylic Acid Company</i> SR 000	<i>Total</i> SR 000
Balance at 1 January	732,949	-	732,949
Additions during the year	42,315	82,500	124,815
Share of change in fair value of interest rate swaps	(4,676)	-	(4,676)
Share in results of associates	153,666	-	153,666
Balance at 31 December	<u>924,254</u>	<u>82,500</u>	<u>1,006,754</u>

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



## Sahara Petrochemical Company (Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2009

#### 8 PROJECTS UNDER DEVELOPMENT

	<i>2009</i> <i>SR 000</i>	<i>2008</i> <i>SR 000</i>
Beginning of the year	22,839	11,226
Incurred during the year	12,499	11,613
At the end of the year	<u>35,338</u>	<u>22,839</u>

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

#### 9 CONSTRUCTION WORK IN PROGRESS

	<i>2009</i> <i>SR 000</i>	<i>2008</i> <i>SR 000</i>
At the beginning of the year	3,503,224	2,191,230
Additions	584,783	1,311,994
Transfers to motor vehicles and equipment	(4,788)	-
At the end of the year	<u>4,083,219</u>	<u>3,503,224</u>

Construction work in progress mainly represents the costs incurred by the subsidiary for the construction of a Propane Dehydrogenation and Polypropylene Plants at Jubail Industrial City, Kingdom of Saudi Arabia. The cost of the project is currently estimated at approximately SR 4,300 million of which approximately 40 % is financed by equity and the remaining by debt finance from SIDF, Public Investment Fund (PIF) and commercial borrowings.

Construction related costs at 31 December 2009 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 101 million (2008: SR 88.44 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.

# Sahara Petrochemical Company (Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2009

### 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 office equipment</i> <i>SR 000</i>	<b>Total 2009</b> <i>SR 000</i>	<i>Total 2008</i> <i>SR 000</i>
Cost:				
At the beginning of the year	3,831	3,186	<b>7,017</b>	2,029
Additions	390	9,137	<b>9,527</b>	5,152
Transfers form construction work in progress	-	4,788	<b>4,788</b>	-
Disposals	(537)	-	<b>(537)</b>	(164)
At the end of the year	<u>3,684</u>	<u>17,111</u>	<u><b>20,795</b></u>	<u>7,017</u>
Depreciation:				
At the beginning of the year	697	838	<b>1,535</b>	562
Charge for the year	899	2,928	<b>3,827</b>	1,033
Disposals	(125)	-	<b>(125)</b>	(60)
At the end of the year	<u>1,471</u>	<u>3,766</u>	<u><b>5,237</b></u>	<u>1,535</u>
Net book amounts:				
<b>At 31 December 2009</b>	<u><b>2,213</b></u>	<u><b>13,345</b></u>	<u><b>15,558</b></u>	
At 31 December 2008	<u>3,134</u>	<u>2,348</u>		<u>5,482</u>

### 11 RELATED PARTY TRANSACTIONS

The following are major related party transactions during the year:

- Sahara Petrochemical Company ("the Company") has rented its admin building in Jubail city from an affiliate. Total charges to the group in this regard amounted to SR 1.4 million (2008: Nil).
- Total purchases of raw material from one of the affiliates during the year amounted to SR 52 million (2008: Nil).
- The company has sold part of its testing products during the year to one of the related parties, which amounted to SR 117.3 million (2008: Nil)

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

Amounts due from affiliates are disclosed in Note 5 to the consolidated financial statements.



# Sahara Petrochemical Company (Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2009

### 12 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2009</i>	<i>2008</i>
	<i>SR 000</i>	<i>SR 000</i>
Trade accounts payable	111,829	58,118
Accrued expenses and other liabilities	72,042	35,518
	<u>183,871</u>	<u>93,636</u>

### 13 SHORT TERM LOANS

These represents the short term financing facilities received from two banks and are utilized to bridge finance the project costs incurred by the subsidiary until the disbursement of remaining loan facility from Saudi Industrial Development Fund (notes 15) and until the right issue to increase the share capital (note 1).

The facilities were carrying financial cost at commercial rates.

As the parent company has received the remaining facility from the Saudi Industrial Development Fund, and has also increased its share capital through right issue shares, the parent company has paid the short term loans in full during the year.

### 14 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 2009, the subsidiary has drawn down US\$ 246 million (2008: US\$ 160 million) from the total available facility. One installment of SR 15.6 million due in 2010 is 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.

### 15 TERM LOANS

	<i>2009</i>	<i>2008</i>
	<i>SR 000</i>	<i>SR 000</i>
Saudi Industrial Development Fund loan ("SIDF")	400,000	320,000
Public Investment Fund loan ("PIF")	937,990	637,670
	<u>1,337,990</u>	<u>957,670</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 2009, the Subsidiary has drawn down SR 400 million (2008 - SR 320 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 2009, the subsidiary has drawn down US\$ 250 million (2008 - US\$ 170 million) from the total available facility.

# Sahara Petrochemical Company (Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2009

### 16 ZAKAT

#### Charge for the year

The zakat charge consists of:

	<i>2009</i> <i>SR 000</i>	<i>2008</i> <i>SR 000</i>
Current provision	1,200	-
Adjustment for previous years	-	1,225
Charge for the	<u>1,200</u>	<u>1,225</u>

#### Movements in provision:

The movement in the zakat provision was as follows:

	<i>2009</i> <i>SR 000</i>	<i>2008</i> <i>SR 000</i>
At the beginning of the	-	(1,133)
Provided during the	1,200	1,534
Payments during the	-	(401)
At the end of the	<u>1,200</u>	<u>-</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 in front of the preliminary appeal committee.

The zakat assessments for the parent company and the zakat and tax assessments for the subsidiary for the years from 2006 up to 2008, have not been raised yet.

### 17 MINORITY INTEREST

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

### 18 GENERAL AND ADMINISTRATION EXPENSES

	<i>2009</i> <i>SR 000</i>	<i>2008</i> <i>SR 000</i>
Employee costs	29,490	30,972
Rent	793	1,153
Subscription	76	396
Advertising and public relations	482	1,910
Others	8,587	5,737
	<u>39,428</u>	<u>40,168</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2009

**19 CAPITAL COMMITMENTS**

The group has future capital expenditures amounting to SR 75.7 million (2008 - SR 251 million ).

**20 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.

**21 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, account 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.

**22 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](http://www.ey.com/me)

© Ernst & Young  
All rights reserved.

