

RABIGH REFINING AND PETROCHEMICAL COMPANY
(Saudi Joint Stock Company)

FINANCIAL STATEMENTS
31 December 2011
with
INDEPENDENT AUDITORS' REPORT

**KPMG Al Fozan & Al Sadhan**

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License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITORS' REPORT

The Shareholders
Rabigh Refining & Petrochemical Company
Rabigh, Kingdom of Saudi Arabia.

We have audited the accompanying financial statements of Rabigh Refining & Petrochemical Company ("the Company") which comprise the balance sheet as at December 31, 2011 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes 1 through 27 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and the Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

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

- 1) present fairly, in all material respects, the financial position of the Company as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For KPMG Al Fozan & Al Sadhan:

Ebrahim Oboud Baeshen
License No. 382



Jeddah, 26 Rabi Al-Awal 1433H
Corresponding to 18 February 2012

RABIGH REFINING AND PETROCHEMICAL COMPANY
(Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2011

(Expressed in Saudi Arabian Riyals '000)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	5	2,710,282	2,548,486
Trade receivables	6	9,059,849	6,452,386
Inventories	7	4,029,544	2,826,421
Current portion of long-term loan	12	173,117	158,642
Prepayments and other current assets	8	291,739	226,367
Total current assets		16,264,531	12,212,302
Non-current assets			
Property, plant and equipment	9	30,196,943	31,480,370
Leased assets	10	336,925	352,544
Intangible assets	11	317,779	291,914
Investment	12	8,556	8,556
Term loan	12	2,726,963	2,897,300
Total non-current assets		33,587,166	35,030,684
Total assets		49,851,697	47,242,986
<u>LIABILITIES AND EQUITY</u>			
Current liabilities			
Current portion of finance lease obligations	10	10,416	8,736
Current portion of long-term loans	15	1,606,432	1,278,496
Trade and other payables	13	15,401,808	11,510,036
Accrued Zakat	21	14,367	74,322
Accrued expenses and other current liabilities	14	726,679	767,658
Total current liabilities		17,759,702	13,639,248
Non-current liabilities			
Long-term loans	15	19,015,070	20,621,504
Loan from Founding Shareholders	15	4,575,000	4,575,000
Finance lease obligations	10	360,467	368,256
Provision for deferred employee service	17	23,799	18,346
Employees' end of service benefits		31,961	10,835
Total non-current liabilities		24,006,297	25,593,941
Total liabilities		41,765,999	39,233,189
Shareholders' equity			
Share capital	16	8,760,000	8,760,000
Statutory reserve	16	2,436,458	2,429,869
Employee Share Ownership Plan	17	(31,965)	(31,450)
Accumulated losses		(3,078,795)	(3,148,622)
Total shareholders' equity		8,085,698	8,009,797
Total liabilities and shareholders' equity		49,851,697	47,242,986

The accompanying notes 1 to 27 form
an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(Saudi Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2011

(Expressed in Saudi Arabian Riyals '000)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Sales	4 & 23	53,376,836	46,837,888
Cost of sales	4 & 23	(52,392,648)	(46,109,234)
Gross profit		984,188	728,654
General and administrative expenses	18	(797,391)	(752,614)
Marketing and selling expenses		(84,006)	(88,838)
Total expenses		(881,397)	(841,452)
Operating profit (loss)		102,791	(112,798)
Interest and other income	19	247,055	660,582
Financial charges	20	(283,953)	(339,094)
Net income for the year		65,893	208,690
Earnings per share	22	0.08	0.24

The accompanying notes 1 to 27 form
an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
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STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

(Expressed in Saudi Arabian Riyals '000)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities			
Net income for the year		65,893	208,690
<i>Adjustments to reconcile net income to net cash from operating activities</i>			
Allowance for doubtful debts	6	14,205	--
Depreciation	9 & 10	2,057,793	1,979,081
Amortization	11	49,041	39,866
Loss on retirement of property, plant and equipment	19	1,759	--
Gain on derecognition of leased assets / liabilities		--	(310,843)
Provision for deferred employee service awards and Employee Share Ownership Plan		4,938	6,301
Provision for employees' end of service benefits		24,917	5,928
Changes in operating assets and liabilities			
Increase in trade receivables		(2,621,668)	(1,770,247)
Increase in inventories		(1,203,123)	(155,966)
(Increase) / decrease in prepayments and other current assets		(65,372)	62,483
Increase in trade and other payables		3,437,477	2,184,676
(Decrease) / increase in accrued Zakat		(59,955)	74,322
Decrease in accrued expenses and other current liabilities		(40,980)	(80,272)
		1,664,925	2,244,019
Employee end of service benefits paid		(3,791)	(382)
Net cash from operating activities		1,661,134	2,243,637
Cash flows from investing activities			
Additions to property, plant and equipment		(367,066)	(245,823)
Net movement in term loan		155,863	147,640
Net cash used in investing activities		(211,203)	(98,183)
Cash flows from financing activities			
Net movement in short-term bank debts		--	(894,940)
Repayment of long-term loans		(1,278,498)	--
Repayment of finance lease obligations		(9,637)	(8,263)
Net cash used in financing activities		(1,288,135)	(903,203)
Net increase in cash and cash equivalents		161,796	1,242,251
Cash and cash equivalents as at 1 January	5	2,548,486	1,306,235
Cash and cash equivalents as at 31 December	5	2,710,282	2,548,486

The accompanying notes 1 to 27 form
an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2011

(Expressed in Saudi Arabian Riyals '000)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Employee Share Ownership Plan</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 1 January 2010	8,760,000	2,409,000	(31,467)	(3,306,715)	7,830,818
Vesting of shares under ESOP (note17)	--	--	17	--	17
Net income for the year	--	--	--	208,690	208,690
Transfer to statutory reserve	--	20,869	--	(20,869)	--
Zakat charge for the year (note 21)	--	--	--	(74,322)	(74,322)
Zakat reimbursable from shareholders	--	--	--	44,594	44,594
Balance at 31 December 2010	8,760,000	2,429,869	(31,450)	(3,148,622)	8,009,797
New ESOP shares	--	--	(572)	--	(572)
Vesting of shares under ESOP (note 17)	--	--	57	--	57
Net income for the year	--	--	--	65,893	65,893
Transfer to statutory reserves	--	6,589	--	(6,589)	--
Zakat charge for the year (note 21)	--	--	--	(14,367)	(14,367)
Zakat reimbursable from shareholders	--	--	--	24,890	24,890
Balance at 31 December 2011	<u>8,760,000</u>	<u>2,436,458</u>	<u>(31,965)</u>	<u>(3,078,795)</u>	<u>8,085,698</u>

The accompanying notes 1 to 27 form
an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY

(Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS

31 December 2011

(Expressed in Saudi Arabian Riyals '000)

1. REPORTING ENTITY AND OPERATIONS

Rabigh Refining and Petrochemical Company (“the Company” or “PetroRabigh”) is a company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4602002161 issued from the Ministry of Commerce, Jeddah, on 15 Shaaban 1426H (corresponding to 19 September 2005). The Founding Shareholders (see note 4) of the Company resolved on 28 Rabi Al Awal 1428H (corresponding to 16 April 2007) to change the legal status of the Company from a Limited Liability Company to a Joint Stock Company with an increased share capital of SR 6,570 million registered under the revised Commercial Registration issued by the Ministry of Commerce, Riyadh with effective date of 22 Shawal 1428H (corresponding to 3 November 2007).

The Company launched an Initial Public Offering (IPO) of 219 million shares, equivalent to 25% of its post-issue enlarged capital, at SR 21 per share from 5 to 12 January 2008, on approval of application for admission of the shares to the official list by the Capital Market Authority. Following the IPO, the total authorized capital was increased from 657 million to 876 million shares at a par value of SR 10 per share under the revised Commercial Registration issued by the Ministry of Commerce, Riyadh with effective date of 14 Muharram 1429H (corresponding to 23 January 2008).

The Company is engaged in the development, construction and operation of an integrated petroleum refining and petrochemical complex, including the manufacturing of refined petroleum products, petrochemical products and other hydrocarbon products.

The Company commenced its refined and petrochemical products operation effective 1 October 2008 and 1 July 2009 respectively.

The Company’s registered office is located at the following address:

Rabigh Refining and Petrochemical Company
P.O. Box 666
Rabigh 21911
Kingdom of Saudi Arabia

RABIGH REFINING AND PETROCHEMICAL COMPANY
(Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS

31 December 2011

(Expressed in Saudi Arabian Riyals '000)

2. BASIS OF PREPARATION

Statement of compliance

The accompanying financial statements have been prepared in accordance with the generally accepted accounting standards (the Standards) in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis of measurement

These financial statements have been prepared under the historical cost convention except for available for sale investment which is stated at fair value, using the accrual basis of accounting and the going concern concept.

Functional and presentation currency

The functional currency of the Company has been determined by the management as the United States Dollars (US Dollars). However, these financial statements are presented in Saudi Arabian Riyals (SR). All financial information presented in SR has been rounded to the nearest thousand, except where indicated.

Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, incomes and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas requiring significant management judgments and estimates are as follows:

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

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2. BASIS OF PREPARATION (continued)

Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the statement of income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Impairment of available for sale investments

The Company exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of the equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Company also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Impairment of non-financial assets

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market

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NOTES TO FINANCIAL STATEMENTS

31 December 2011

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2. BASIS OF PREPARATION (continued)

Impairment of non-financial assets (continued)

prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements:

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

Trade receivables

Trade receivables are carried at original amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is a significant doubt that the Company will be able to collect all amounts due according to the original terms of agreement.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in process, cost includes an appropriate share of production overheads based on normal operating capacity.

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

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition or construction of each asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the statement of income when incurred.

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NOTES TO FINANCIAL STATEMENTS

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(Expressed in Saudi Arabian Riyals '000)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Expenditure incurred on testing and inspection are capitalized and amortized over four years period.

Depreciation is calculated on a straight-line basis to write off the cost of property, plant and equipment over their estimated useful lives, which are as follows:

	<u>Years</u>
Buildings and infrastructure	8 – 25
Plant, machinery and operating equipment	6 – 23
Vehicles and related equipment	3 – 6
Furniture and IT equipment	3 – 14

Capital projects in progress are stated at cost.

Leases

Leased assets

Leases for which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and present value of the minimum lease payments. Subsequent to initial recognition, leased assets are depreciated over the shorter of the lease term and their following estimated useful lives:

	<u>Years</u>
Desalination and power plant	17
Marine terminal facilities	30
Medical equipment	3

Other leases classified as operating leases are not recognized in the balance sheet.

Lease payments

Minimum lease payments made under the finance leases are apportioned between the finance expense and the reduction of outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognized in statement of income on a straight line basis over the term of the lease.

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(Expressed in Saudi Arabian Riyals '000)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets are non-monetary assets which have no physical existence but are independently identifiable and capable of production or supply of future economic benefits and the Company has earned the right due to events which have occurred in the past. They are acquired for cash and measured at the purchase price and all other directly attributable costs. Intangible assets are stated at cost less accumulated amortization and impairment loss, if any.

Amortization is recognized in the statement of income on a straight line basis over the estimated period of benefits associated with intangible assets, from the date that they are available for use.

The estimated period of benefits associated with intangible assets are as follows:

	<u>Years</u>
Software	5
Licenses	15 - 22.5

Investment

The Company has an investment in equity securities which is not for trading purposes and the Company does not have significant influence or control and accordingly is classified as available for sale. The investment is initially recognized at cost, being the fair value of the consideration given including associated acquisition charges.

Subsequent to initial recognition, it is measured at fair value and net unrealized gains or losses other than impairment losses, are recognized in the shareholders' equity. In case fair value of equity securities is not readily available, the cost is taken as reliable basis for subsequent measurement of fair value of securities.

Impairment losses are recognised through the statement of income. Impairment is not reversed through the statement of income and subsequent gains are recognized in shareholders' equity.

Trade and other payables

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

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31 December 2011

(Expressed in Saudi Arabian Riyals '000)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognized if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. Zakat is debited to the Saudi founding shareholders and the general public, while income tax is debited to the foreign founding shareholders' equity account.

Employees' end of service benefits

The Company provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employee's length of service and the completion of a minimum service period. Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date. The charge for the period is transferred to the statement of income on an actual basis.

Employee Share Ownership Plan

The employee service cost of share options granted to employees under the Employee Share Ownership Plan (ESOP) is measured by reference to the fair value of the Company's shares on the date on which the options are granted. This cost is recognized as an employee expense, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of shares that will ultimately vest. The statement of income charge for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Shares purchased in the IPO by the bank acting as trustee for the ESOP are carried at cost as a deduction from shareholders' equity until the options vest and the underlying shares are transferred to the employee.

On the vesting date of an individual option, the difference between the employee service cost and the purchase cost of the shares is taken directly to retained earnings as an equity adjustment.

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31 December 2011

(Expressed in Saudi Arabian Riyals '000)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from sale of products is recognized upon delivery or shipment of products.

Revenue from port services is recognized when services are rendered.

Expenses

Selling and marketing expenses are those arising from the Company's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding direct costs and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

Foreign currency translation

Transactions denominated in foreign currencies are translated to the functional currency of the Company (US Dollars) at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the statement of income.

For the purpose of preparation of these financial statements in Saudi Riyals, the Company uses the conversion rate from US Dollars to Saudi Arabian Riyals at a fixed exchange rate of SR 3.75 / US Dollar 1.

Segment reporting

A segment is a distinguishable component of the Company that is engaged either 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.

4. ARRANGEMENTS WITH FOUNDING SHAREHOLDERS

The Founding Shareholders of the Company are Saudi Arabian Oil Company ("Saudi Aramco") and Sumitomo Chemical Company Limited ("Sumitomo Chemical"), which each controlled 50% of the Company prior to the IPO in January 2008.

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31 December 2011

(Expressed in Saudi Arabian Riyals '000)

4. ARRANGEMENTS WITH FOUNDING SHAREHOLDERS (continued)

The Company has entered into various agreements with Founding Shareholders including, among others:

(a) Crude Oil Feedstock Supply Agreement

On 28 January 2006, the Company entered into a Crude Oil Feedstock Supply Agreement (COSA) with Saudi Aramco for the supply to the Company of its crude oil feedstock requirements, up to a maximum supply of 400,000 bpd, solely for use in the Rabigh Project. The price at which Saudi Aramco sells the crude feedstock to the Company is based, amongst other variable market factors, on the international crude oil prices. The COSA is valid for 30 years commencing from 1 October 2008.

(b) Refined Products Lifting and Marketing Agreement

On 2 March 2006, the Company signed a Refined Products Lifting & Marketing Agreement (RPLMA) with Saudi Aramco as sole "Marketer" of refined products from the Rabigh Refinery. The RPLMA is valid for 10 years from 1 October 2008, and is further extendable for another 5 years. Pursuant to this agreement, Saudi Aramco will lift and market globally, on behalf of the Company as "Seller", the refined products from the Rabigh Complex.

(c) Petrochemical Products Lifting and Marketing Agreement

On 11 March 2006, the Company signed a Petrochemical Products Lifting & Marketing Agreement (PPLMA) with Sumitomo Chemical as "Marketer" of petrochemical products from the Rabigh Refinery. The PPLMA is valid for 10 years from accumulated production date, and is further extendable for another 5 years. Pursuant to this agreement, Sumitomo Chemical will lift and market globally, on behalf of the Company as "Seller", the petrochemical products from the Rabigh Complex. An Assignment and Assumption Agreement dated 23 February, 2009 assigns Sumitomo Chemical Asia as the "Marketer".

(d) Credit Facility Agreement

On 18 March 2006, the Company entered into a Credit Facility Agreement (CFA) with both of its Founding Shareholders. Under the provisions of this agreement, the Founding Shareholders agreed to grant to the Company a loan facility up to a maximum aggregate amount of SR 6,206 thousands for the development, design, construction and operation of the integrated petroleum refining and petrochemical project. The commitment of founding shareholders in respect of this facility expire on 1 July 2011.

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(Expressed in Saudi Arabian Riyals '000)

4. ARRANGEMENTS WITH FOUNDING SHAREHOLDERS (continued)

(e) Terminal Lease Agreement

The Company entered into a Terminal Lease Agreement with Saudi Aramco on 2 March 2006 in respect of the existing Rabigh Marine Terminal. Under this agreement, the Company has been granted certain exclusive rights by Saudi Aramco to use and operate the Rabigh Terminal Facilities and the Rabigh Terminal Site for a term of 30 years effective from 1 October 2008.

(f) Secondment Agreements

The Company has entered into Secondment Agreements with each of its Founding Shareholders that with Saudi Aramco dated 12 June 2006, and with Sumitomo Chemical dated 1 July 2006. Each of these agreements has a continuous term to apply until the date on which a Founding Shareholder ceases to be a shareholder of the Company. These agreements cover the requirement of the Company from time to time for the secondment of certain personnel to assist in the conduct of business and operations.

(g) Services Agreements

The Company has entered into Services Agreements with Founding Shareholders with effect from 1 August 2005 covering various operational and logistics support services. Each of these agreements has an initial term of 5 years and are renewable thereafter for consecutive additional periods of one year each.

These agreements cover the provision of various support services to the Company during the plant construction and initial operations phase of the Rabigh Project – such as Accounting & Finance, Human Resources, Engineering, Procurement and Construction, Legal, Information Technology, General Management, Technical Support and Pre-marketing Support. These agreements also cover the ongoing technical support needed for continuous operations and ongoing enhancements such as refining and petrochemical process know-how provided by Saudi Aramco and Sumitomo Chemical respectively and marketing technical services, engineering and safety best practices and training provided by both Founding Shareholders. The Company shall pay for these services at prices specified in each service authorization for the services to be provided.

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4. ARRANGEMENTS WITH FOUNDING SHAREHOLDERS (continued)

(h) Rabigh Refinery Complex Lease Agreement

The Company has entered into Rabigh Refinery Complex Lease Agreement with Saudi Aramco dated 1 November 2005 for the lease of approximately 11.8 million square meters for a period of 99 years, with effect from 1 November 2005, and may be renewed thereafter for consecutive additional periods as agreed. The Company shall pay to Saudi Aramco rent in an amount equal to SR 1 per square meter per annum starting from 1 October 2008.

(i) Rabigh Community Lease Agreement

The Company has entered into Rabigh Community Lease Agreement with Saudi Aramco dated 1 October 2008. This agreement has an initial term of 5 years with effect from 1 October 2008, and may be renewed thereafter for consecutive additional periods as agreed. The Company shall pay to Saudi Aramco rent of SR 28.5 million per annum starting from 1 October 2008.

5. CASH AND CASH EQUIVALENTS

	<u>2011</u>	<u>2010</u>
Cash in hand	582	128
Cash at banks:		
– current accounts	227,200	111,005
– short-term deposits	2,482,500	2,437,353
	<u>2,710,282</u>	<u>2,548,486</u>

6. TRADE RECEIVABLES

	<u>2011</u>	<u>2010</u>
Saudi Aramco - (see note 4 (b))	7,122,433	5,330,698
Sumitomo Chemical Asia - (see note 4 (c))	1,568,367	812,264
Others	383,254	309,424
	<u>9,074,054</u>	<u>6,452,386</u>
Allowance for doubtful debts	(14,205)	--
	<u>9,059,849</u>	<u>6,452,386</u>

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7. INVENTORIES

	<u>2011</u>	<u>2010</u>
Raw materials	332,106	299,524
Work-in-process	1,004,690	809,842
Finished goods	1,896,739	1,088,142
Goods in-transit	22,015	17,478
Spare parts and consumables	773,994	611,435
	<u>4,029,544</u>	<u>2,826,421</u>

8. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>2011</u>	<u>2010</u>
Advances to suppliers	41,643	12,091
Deposits	114,414	119,499
Prepayments	79,192	56,301
Other receivables	56,490	38,476
	<u>291,739</u>	<u>226,367</u>

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9. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings and infrastructure</u>	<u>Plant, machinery and operating equipment</u>	<u>Vehicles and related equipment</u>	<u>Furniture and IT equipment</u>	<u>Capital projects in progress</u>	<u>Total</u>
<u>Cost</u>						
At 1 January 2011	4,721,879	29,103,867	62,310	306,668	35,602	34,230,326
Additions / transfers, net (note 9.3)	8,554	732,272	--	9,179	6,973	756,978
Retirement	--	(1,955)	--	--	--	(1,955)
At 31 December 2011	<u>4,730,433</u>	<u>29,834,184</u>	<u>62,310</u>	<u>315,847</u>	<u>42,575</u>	<u>34,985,349</u>
<u>Depreciation</u>						
At 1 January 2011	440,426	2,222,212	42,890	44,428	--	2,749,956
Charge for the year	279,522	1,715,027	14,125	29,972	--	2,038,646
Retirement	--	(196)	--	--	--	(196)
At 31 December 2011	<u>719,948</u>	<u>3,937,043</u>	<u>57,015</u>	<u>74,400</u>	<u>--</u>	<u>4,788,406</u>
<u>Carrying value</u>						
At 31 December 2011	<u>4,010,485</u>	<u>25,897,141</u>	<u>5,295</u>	<u>241,447</u>	<u>42,575</u>	<u>30,196,943</u>
At 31 December 2010	<u>4,281,453</u>	<u>26,881,655</u>	<u>19,420</u>	<u>262,240</u>	<u>35,602</u>	<u>31,480,370</u>

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9. PROPERTY, PLANT AND EQUIPMENT (continued)

9.1 Plant, machinery and operating equipment includes assets held with a third party amounting to SR 204.835 million.

9.2 Depreciation charge for the year has been allocated as follows:

	<u>2011</u>	<u>2010</u>
Cost of sales	1,941,398	1,859,666
General and administrative expenses	97,248	100,622
	<u>2,038,646</u>	<u>1,960,288</u>

9.3 This includes an amount of SR 74.906 million transferred to intangible assets.

9.4 The land used for the Refining and Petrochemical plant is on an operating lease for annual rental of SR 11.8 million from one of the Founding Shareholders for a period of 99 years (see note 4(h) & 23).

10. LEASES

10.1 Finance leases

10.1.1 Leased assets at 31 December 2011 acquired under finance lease are detailed as under:

	<u>Desalination and power plant</u>	<u>Marine terminal facilities</u>	<u>Medical equipment</u>	<u>Total</u>
<u>Cost</u>				
At 1 January 2011	106,015	288,820	--	394,835
Additions during the year	--	--	3,528	3,528
At 31 December 2011	<u>106,015</u>	<u>288,820</u>	<u>3,528</u>	<u>398,363</u>
<u>Depreciation</u>				
At 1 January 2011	14,038	28,253	--	42,291
Charge for the year	<u>6,236</u>	<u>12,557</u>	<u>354</u>	<u>19,147</u>
At 31 December 2011	<u>20,274</u>	<u>40,810</u>	<u>354</u>	<u>61,438</u>
<u>Carrying value</u>				
At 31 December 2011	<u>85,741</u>	<u>248,010</u>	<u>3,174</u>	<u>336,925</u>
At 31 December 2010	<u>91,977</u>	<u>260,567</u>	<u>--</u>	<u>352,544</u>

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10. LEASES (continued)

10.1.2 Finance lease obligations are payable as follows:

	2011		2010	
	<u>Future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum lease payments</u>	<u>Present value of minimum lease payments</u>
Desalination and power plant	511,555	236,050	275,505	279,904
Marine terminal facilities	133,585	40,834	92,751	97,088
Medical equipment	3,360	733	2,627	--
	648,500	277,617	370,883	376,992

At 31 December, the finance lease obligations are presented in the balance sheet as follows:

	<u>2011</u>	<u>2010</u>
Payable within one year shown under current liabilities	10,416	8,736
Non-current portion shown under non-current liabilities	360,467	368,256
	370,883	376,992

10.1.3 The future minimum lease payments as of 31 December are as follows:

<u>Year</u>	<u>2011</u>	<u>2010</u>
2011	--	28,834
2012	30,541	28,861
2013	30,514	28,834
2014	28,834	28,834
2015	28,834	28,834
2016	28,834	28,834
2017 and thereafter	500,943	500,943
	648,500	673,974

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10. LEASES (continued)

10.1.4 The Company has taken over the interest and obligations of Saudi Aramco in respect of the Desalination plant for the Refinery Complex, with a remaining term of 17 years. The aggregate present value of this leased asset was estimated to be SR 106 million which has also been capitalized as leased assets cost. The total undiscounted minimum lease payments will be SR 133.6 million (2010: SR 143.3 million).

10.1.5 Marine terminal facilities were acquired under a finance lease agreement from Saudi Aramco over a period of 30 years (see note 4(e)). The total undiscounted minimum lease payments will be SR 511.5 million (2010: SR 530.6 million).

10.1.6 Medical equipments under a finance lease agreement from International Medical Center are acquired over a period of 3 years. The total undiscounted minimum lease payments will be SR 3.4 million.

10.2 Operating leases

10.2.1 Non-cancellable operating lease rentals are as follows:

	<u>2011</u>	<u>2010</u>
Less than one year	574,489	595,999
Between one to five years	2,121,074	2,169,325
More than five years	<u>9,035,023</u>	<u>9,555,275</u>
	<u>11,730,586</u>	<u>12,320,599</u>

10.2.2 The Company has entered into operating leases for land, and site facilities, with options to renew the leases on expiry of relevant lease periods. Operating lease rental charged to the statement of income for the year ended 31 December 2011 amounts to SR 593.8 million (2010: SR 589.3 million).

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10. LEASES (continued)

10.2.3 Leased assets at 31 December, 2009 included the major desalination and water plant (the Plant) operated by Rabigh Arabian Water and Electricity Company (RAWEC) under a “build, own, operate and transfer” contract (the Contract) entered into between the Company and RAWEC. This original contract was assessed as containing a finance lease. During the year ended 31 December, 2010, the Company signed a “Memorandum of Understanding” (MOU) with RAWEC to revise the Contract. According to the revised contract, the Plant will continue to be utilized by the Company under an operating lease expiring on 1 June, 2033. Consequently, the leased asset amounting to SR 5.929 billion and related lease obligation amounting to of SR 6.24 billion were derecognized from the books of the Company, resulting in a gain of SR 311 million to the Company for the year ended 31 December 2010. The legal formalities relating to formal revisions to the contract are completed.

11. INTANGIBLE ASSETS

	<u>Software</u>	<u>Licenses</u>	<u>Total</u>
<u>Cost:</u>			
At 1 January 2011	151,292	203,208	354,500
Transfer from property, plant and equipments	<u>69,000</u>	<u>5,906</u>	<u>74,906</u>
At 31 December 2011	<u>220,292</u>	<u>209,114</u>	<u>429,406</u>
<u>Amortization:</u>			
At 1 January 2011	42,966	19,620	62,586
Amortization for the year	<u>38,308</u>	<u>10,733</u>	<u>49,041</u>
At 31 December 2011	<u>81,274</u>	<u>30,353</u>	<u>111,627</u>
<u>Carrying value:</u>			
At 31 December 2011	<u>139,018</u>	<u>178,761</u>	<u>317,779</u>
At 31 December 2010	<u>108,326</u>	<u>183,588</u>	<u>291,914</u>

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12. LONG-TERM INVESTMENT AND LOAN BALANCES WITH RAWEC

The Company has entered into various agreements namely Water and Energy Conversion Agreement (WECA), Facility Agreement and RAWEC Shareholders' Agreement (the agreements) with Rabigh Arabian Water and Electricity Company (RAWEC), a Saudi limited liability company (the Contractor) and other developers, to develop a build, own, operate and transfer basis, a plant that will utilise fuel oil, steam condensate and sea water to produce desalinated water, steam and electric power, to be supplied to the Company under WECA dated 7 August, 2005 (as amended subsequently (see note 10.2.3). Through these agreements, the Company provided a portion of project finance through drawdowns over the construction period of the project. The project achieved commercial closing date on 1 June 2008.

The investment in RAWEC and the loan outstanding at 31 December comprised the following:

	<u>2011</u>	<u>2010</u>
Long-term investment	<u>8,556</u>	<u>8,556</u>
Long-term loan:		
Current portion	173,117	158,642
Non-current portion	<u>2,726,963</u>	<u>2,897,300</u>
	<u>2,900,080</u>	<u>3,055,942</u>

The Company has provided a loan under a Facilities Agreement in the total amount of SR 3.9 billion which carries interest at 5.765% per annum and is being settled through offsetting of monthly utilities related payments to RAWEC from 30 June 2008 to 30 November 2023. The loan is secured by a charge over all the assets of the RAWEC.

13. TRADE AND OTHER PAYABLES

	<u>2011</u>	<u>2010</u>
Trade payable:		
- Related parties (see note 4 (a) and 23)	14,852,332	11,180,633
- Others	<u>517,370</u>	<u>329,403</u>
	<u>15,369,702</u>	<u>11,510,036</u>
Other payables related parties (see note 23)	<u>32,106</u>	<u>--</u>
	<u>15,401,808</u>	<u>11,510,036</u>

Other payables principally relates to payments made by Founding Shareholders on behalf of the Company in respect of seconded employees and other charges (see notes 4 (f) and 4(g)).

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14. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2011</u>	<u>2010</u>
Retentions	191,909	257,024
Withholding tax payable	13,171	12,900
Accrued interest on long-term loan (see notes 15.1 & 15.2)	359,271	273,699
Accrued deductible for petrochemicals	86,711	161,570
Others	75,617	62,465
	<u>726,679</u>	<u>767,658</u>

15. LONG-TERM LOANS

15.1 Loans from banks and financial institutions

	<u>2011</u>	<u>2010</u>
Japan Bank for International Cooperation	8,832,237	9,375,000
Other commercial banks	6,139,353	6,525,000
Public Investment Fund	3,532,894	3,750,000
Islamic financial institutions	2,117,018	2,250,000
	<u>20,621,502</u>	<u>21,900,000</u>

The Company has entered in a consortium loan agreement with various commercial banks and financial institutions for development, design, construction and operation of Rabigh development project. The facilities available under the loan agreement have been utilized in full and drawdowns made which finished in 1 July 2008.

Bi-annual repayments commenced from June 2011 till the year of maturity, as mentioned above. The consortium loan agreement include financial and operational covenants, which among other things, require certain financial ratios to be maintained.

The loan is secured by following:

- Cash and cash equivalents with a carrying value of SR 2,710 million (see note 5);
- Property, plant and equipment with a carrying value of SR 30,196 million (see note 9); and
- Guarantees from the Founding Shareholders.

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15. LONG-TERM LOANS (continued)

At December 31, the loan is presented in the financial statements as follows:

	<u>2011</u>	<u>2010</u>
Current portion	1,606,432	1,278,496
Non-current portion	19,015,070	20,621,504
	<u>20,621,502</u>	<u>21,900,000</u>

15.2 Loans from Founding Shareholders

Loan from Founding Shareholders, is availed by the Company as part of the Credit Facility Agreement (see note 4d). Repayments shall be made on demand, but not before the first repayment under the consortium loan agreement (see note 15.1) and achieving financial completion date.

	<u>2011</u>	<u>2010</u>
Saudi Arabian Oil Company	2,287,500	2,287,500
Sumitomo Chemical Company	2,287,500	2,287,500
	<u>4,575,000</u>	<u>4,575,000</u>

The loan is secured by promissory note issued by the Company in favour of each shareholder equivalent to drawdowns.

16. SHARE CAPITAL AND STATUTORY RESERVE

The Company's share capital of SR 8.76 billion at 31 December 2011 (2010: SR 8.76 billion) consists of 876 million fully paid and issued shares of SR 10 each (2010: 876 million shares of SR 10 each).

The net proceeds from the issuance of new shares during the IPO in January 2008 resulted in a share premium of SR 2,409 million, which has been transferred to statutory reserve in accordance with the Company's Articles of Association. In accordance with the Company's Articles of Association and the Regulation for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer each year 10% of its net income to a statutory reserve until such reserve equal 50% of its share capital. This reserve is not available for distribution.

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17. EMPLOYEE SHARE OWNERSHIP PLAN

During year ended December 31, 2008, the Board of Directors approved the implementation and operation of an Employee Share Ownership Plan ("ESOP"), which provides 5-year service awards to certain levels of staff.

The Company arranged with a commercial bank to subscribe for 1.5 million shares during the IPO at the offer price of SR 21 per share. These ESOP shares are held by the bank in trust for the staff that will become eligible for an award under the plan. Any of the ESOP shares that do not become issuable to eligible employees will be dealt with by the bank in accordance with the Company's instructions, and any disposal proceeds will be for the account of the Company. The Company recognized the liability through provision by amortizing the total cost of the ESOP shares on a straight line basis over a period of 5 years.

Until these ESOP shares become vested and are transferred to staff, they are accounted for as a deduction from shareholders' equity. During the year, the Company has vested 2,728 (2010: 800) shares to employees' beneficiaries due to accidental death.

18. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2011</u>	<u>2010</u>
Salaries and other staff benefits - (note 23)	395,235	298,191
Depreciation	110,158	113,179
Professional fees	10,398	7,829
Repair and maintenance	66,171	78,196
Communications	47,576	43,372
Rent	29,318	30,971
Recruitment, apprentice and training expenses - (note 23)	13,765	7,759
Services and secondment costs - (note 23)	3,154	5,360
Amortization	26,999	107,588
Bad debts	14,205	--
Travelling	12,265	12,103
Others	68,147	48,066
	<u>797,391</u>	<u>752,614</u>

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19. INTEREST AND OTHER INCOME

	<u>2011</u>	<u>2010</u>
Interest income	181,537	175,199
Port charges	33,077	38,117
Scrap sales	34,200	136,423
Loss on retirement of property, plant and equipment	(1,759)	--
Gain on derecognition of leased assets and related lease obligations – (note 10.2.3)	--	310,843
	<u>247,055</u>	<u>660,582</u>

20. FINANCIAL CHARGES

	<u>2011</u>	<u>2010</u>
Interest on loan from banks and financial institutions (note 15.1)	177,283	216,567
Interest on loans from Founding Shareholders (notes 15.2 & 23)	85,358	92,802
Interest on finance lease obligations (note 10.1.2)	20,877	20,571
Interest on bank loans – others	2,202	5,784
Other finance income (charges) - net	(1,767)	3,370
	<u>283,953</u>	<u>339,094</u>

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21. ZAKAT AND INCOME TAX

a) Zakat

The significant components of Zakat base are as follows:

	<u>2011</u>	<u>2010</u>
Capital (Saudi Share-62.5%) (2010: 62.5%)	5,475,000	5,475,000
Statutory reserve	1,518,668	1,505,625
Adjusted net loss	(1,944,105)	(2,955,908)
Saudi shareholder's loan and similar items	14,991,428	16,782,495
Deduction for property, plant & equipment	(12,103,206)	(15,489,561)
Deduction for investment	(5,348)	(5,348)
Deduction for inventories	(341,257)	(272,709)
Adjusted brought forward losses	(7,016,481)	(2,066,697)
	<u>574,699</u>	<u>2,972,897</u>

Zakat charge for the year ended December 31, 2011 is in the amount of SR 14.4 million (2010: 74.3 million)

b) Income tax

The Company has an adjusted tax loss relating to the Foreign Shareholder of SR 952 million for the year. Accordingly, no income tax has been accrued for the year.

c) Status of assessments

Following its review of the Company's Zakat declaration for 2006, the Department of Zakat and Income Tax (DZIT) issued a deficiency Zakat assessment on 4 December 2007 amounting to approximately SR 25 million. The Company is not in agreement with the DZIT assessment, and filed a preliminary objection with the DZIT on 2 February 2008. In response to the Company's objection, the DZIT requested additional documents to enable them to reconsider their assessment. The Company provided the DZIT with the additional information.

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21. ZAKAT AND INCOME TAX (continued)

However, the DZIT requested further information in relation to the 2006 tax year in addition to a request pertaining to the 2007 tax year. The Company provided the DZIT with this additional information. On 23 May 2010, the Company received a revised assessment from DZIT for the period 2006 increasing the amount to SR 32 million and new assessment for the year 2008 amounting to SR 2 million. The Company has filed an objection position paper and supporting documents regarding the assessment on 14 July 2010. The DZIT has also requested further additional information including supporting documentation for the years 2006 to 2008.

Management believes its position regarding the DZIT adjustment to be robust in the area of interpretation, and that it is too soon to be able to estimate a probable settlement amount. Any settlement amount eventually agreed with DZIT relating to pre - IPO period, will not impact on the future earnings of the Company, as it will be recoverable from a Founding Shareholder - Saudi Arabian Oil Company.

The declaration for 2009 and 2010 financial years were submitted with the DZIT within the due date and are under review.

22. EARNINGS PER SHARE

Earnings per share is computed by dividing the net income for the year by the weighted average number of ordinary shares outstanding of 876 million (2010: 876 million).

23. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions mainly represent purchase and sales of goods and services which are undertaken at mutually agreed terms and approved by management from the following entities:

<u>Name of entity</u>	<u>Relationship</u>
Saudi Arabian Oil Company	Founding Shareholder
Sumitomo Chemical Company Limited	Founding Shareholder
Sumitomo Chemical Engineering Company Limited	Associate of Founding Shareholder
Sumitomo Chemical Asia Pte Limited	Associate of Founding Shareholder
Rabigh Conversion Industry Management Services Co.	Associate of Founding Shareholder
Sumika Alchem Company Limited	Associate of Founding Shareholder
Sumika Chemical Analysis Service Limited	Associate of Founding Shareholder

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23. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant transactions with the Founding Shareholders and associates arise from the contracts and arrangements set out in note 4. In addition to the loan from Founding Shareholders, as set out in note 15.2, the above mentioned transactions result in receivables and payables balances with the related parties as set out in the balance sheet in trade and non-trade receivables, trade and other payables and accrued expenses and other current liabilities amounting to SR 8,765 million (2010: 6,150 million), SR 14,884 million (2010: 11,180 million) and SR 438 million (2010: 481 million) respectively. These transactions are summarized as follows:

<u>Nature of transaction</u>	<u>Amount of transactions</u>	
	<u>2011</u>	<u>2010</u>
<u>Saudi Aramco</u>		
Purchase of feedstock	49,139,340	42,106,585
Sale of refined products	45,265,312	39,057,796
Asset purchases	1,321	219
Interest expense	41,585	45,211
Secondes' and services costs	214,939	184,619
<u>Sumitomo Chemical and its Associates</u>		
Purchase of goods	121,936	76,419
Sale of petrochemical products	6,823,240	5,888,257
Interest expense	41,585	45,211
Secondes' and services costs	119,851	175,757

Transactions with key management personnel:

Key management personnel of the Company comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. Transactions with key management personnel on account of salaries and other short-term benefits amounts to SR 8.2 million (2010: SR 7.4 million), are included in secondes and services cost above.

The remuneration paid to the independent directors amounted to SR 324 thousand (2010: SR 324 thousand).

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24. SEGMENT REPORTING

The Company operates an integrated petroleum refining and petrochemical complex. The primary format for segment reporting is based on business segments (refined products and petrochemicals) is determined on the basis of management's internal reporting structure. The Company does not distinguish financial and non-financial information beyond gross profit or loss as the operating and financial accounting systems are structured to produce financial and operational information appropriate for an integrated petroleum refining and petrochemical complex. Accordingly, assets and liabilities are also not split into segments. In the opinion of management providing information beyond gross profit or loss levels will not affect the decisions of the users of the financial statements in view of its nature of operations. The segment information relating to year ended December 31 is as follows:

	<u>Refined products</u>	<u>Petrochemicals</u>	<u>Total</u>
<u>2011</u>			
Sales	45,265,312	8,111,524	53,376,836
Cost of sales	<u>(46,838,921)</u>	<u>(5,553,727)</u>	<u>(52,392,648)</u>
Gross (loss) profit	<u>(1,573,609)</u>	<u>2,557,797</u>	<u>984,188</u>
<u>2010</u>			
Sales	39,057,796	7,780,092	46,837,888
Cost of sales	<u>(40,816,408)</u>	<u>(5,292,826)</u>	<u>(46,109,234)</u>
Gross (loss) profit	<u>(1,758,612)</u>	<u>2,487,266</u>	<u>728,654</u>

RABIGH REFINING AND PETROCHEMICAL COMPANY
(Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS

31 December 2011

(Expressed in Saudi Arabian Riyals '000)

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet include cash and cash equivalents, trade and other receivables, investments, loans, trade and other payables, accruals and other liabilities and long-term debts.

The company is exposed to credit, liquidity and market risks.

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. It mainly comprises of cash and cash equivalents, trade and other receivables and term loan. Cash and cash equivalents are placed with national and international banks with sound credit ratings.

Trade and other receivables are mainly due from founding shareholders, managed by agreed credit terms (see note 4 b and c). Further during the year ended 31 December, 2011, the Company has entered into a Credit Insurance Policy with Islamic Corporation for the Insurance of Export Credits and Investment, which will cover Company's revenue from Middle East and related receivables. It is not the practice of the Company to obtain collateral over receivables. As at 31 December 2011, there were minimal overdue debts equivalent to 0.62% (2010: 0.01%) of the trade receivables balance of Company's allowed credit periods.

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risk arises mainly from long-term debts, which are at floating rates of interest. All debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company are not significant.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risks may result from the inability to realise a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments. The Company aims to maintain the level of its cash and cash equivalents in excess of expected cash outflows of financial liabilities. The Company has contractual commitments of cash outflows related to its financial liabilities, mainly related to trade and other payables (see note 13), finance lease obligations (see note 10) and long-term loans (see note 15)

RABIGH REFINING AND PETROCHEMICAL COMPANY
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25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Company's transactions are principally in United States Dollars and Saudi Arabian Riyals.

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. As the accompanying financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

26. CONTINGENCIES AND COMMITMENTS

26.1 Contingency

26.1.1 During the year, the Company has deposited an amount of SR 198 million in a bank - current account (see note 5) against claims relating to foreign contractors which were involved in the construction projects of the plant. The amount deposited will remain in the account until the payment or settlement of above-mentioned liabilities.

	<u>2011</u>	<u>2010</u>
Letter of Guarantee	--	104,775

26.2 Commitment

26.2.1 As at December 31, 2011, capital commitments contracted for but not incurred for the construction of the petrochemical plant and facilities amounts to SR 109.6 million (2010: SR 141.5 million).

27. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Directors of the Company in their meeting held on 26 Rabi Al-awal 1433H (corresponding to 18 February 2012).