

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

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 2011 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the parent company and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion:

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

- i) present fairly, in all material respects, the consolidated financial position of the company and its subsidiary as at 31 December 2011 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the parent company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339

21 Rabi' I 1433H
13 February 2012

Alkhobar



Sahara Petrochemical Company (Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As At 31 December 2011

	<i>Note</i>	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	997,591	164,064
Accounts receivable and prepayments	5	524,449	454,651
Inventories	6	218,487	114,567
TOTAL CURRENT ASSETS		1,740,527	733,282
NON-CURRENT ASSETS			
Projects development costs	7	12,929	135,480
Investment in associates	8	2,641,353	1,538,316
Capital work in progress	9	43,722	4,156,789
Property, plant and equipment	10	3,877,483	20,437
Intangible assets	11	55,479	-
TOTAL NON-CURRENT ASSETS		6,630,966	5,851,022
TOTAL ASSETS		8,371,493	6,584,304
LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST			
CURRENT LIABILITIES			
Accounts payable and accruals	13	339,987	288,863
Retentions payable		-	56,187
Current portion of advances against Islamic facilities	14	41,527	31,145
Current portion of term loans	15	158,850	108,850
Zakat provision	16	24,581	2,400
TOTAL CURRENT LIABILITIES		564,945	487,445
NON-CURRENT LIABILITIES			
Advances against Islamic facilities, non-current portion	14	949,384	990,911
Term loans	15	1,070,290	1,229,140
Fair value of interest rate swaps	14	78,226	90,006
Employees' terminal benefits		25,434	19,884
TOTAL NON-CURRENT LIABILITIES		2,123,334	2,329,941
TOTAL LIABILITIES		2,688,279	2,817,386
SHAREHOLDERS' EQUITY AND MINORITY INTEREST			
Share capital	1	4,387,950	2,925,300
Statutory reserve		81,790	40,631
Retained earnings		797,590	427,162
Change in fair value of interest rate swaps	14	(71,129)	(88,272)
TOTAL SHAREHOLDERS' EQUITY		5,196,201	3,304,821
Minority interest	17	487,013	462,097
TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTEREST		5,683,214	3,766,918
TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST		8,371,493	6,584,304

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 2011

	<i>Note</i>	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
Sales	12	1,525,894	-
Cost of sales		(1,285,603)	-
GROSS PROFIT		240,291	-
EXPENSES			
Selling and distribution	18	(58,001)	-
General and administration	19	(15,323)	(10,966)
INCOME/(LOSS) FROM MAIN OPERATIONS		166,967	(10,966)
Other (expenses) income, net		(8,880)	1,799
Financial charges		(61,472)	-
Right issue costs		(30,029)	-
INCOME/(LOSS) BEFORE SHARE IN RESULTS OF ASSOCIATES		66,586	(9,167)
Share in results of associates	8	398,987	339,526
INCOME BEFORE MINORITY INTEREST AND ZAKAT		465,573	330,359
Minority interest		(27,214)	-
Zakat	16	(26,772)	(1,200)
NET INCOME FOR THE YEAR		411,587	329,159
Earnings per share from net income		1.35	1.13
Earnings (loss) per share from main operations		0.55	(0.04)
Weighted average number of shares outstanding (in thousands)		305,754	292,530

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 2011

	<i>Note</i>	2011 SR 000	2010 SR 000
OPERATING ACTIVITIES			
Income before minority interest and zakat		465,573	330,359
Adjustments for:			
Depreciation and amortization		154,354	5,796
Employees' terminal benefits, net		5,550	6,381
Financial charges		61,472	-
Share in results of associates		(398,987)	(339,526)
Loss on disposal of property, plant and equipment		3,266	565
Right issue costs		30,029	-
Murabaha income		(629)	(2,306)
		<u>320,628</u>	<u>1,269</u>
Changes in operating assets and liabilities			
Receivable		(69,798)	(300,226)
Inventories		(47,266)	(32,956)
Payables		92,029	97,081
		<u>295,593</u>	<u>(234,832)</u>
Cash from (used in) operations			
Financial charges paid		(61,472)	-
Right issue costs paid		(30,029)	-
Zakat paid		(4,591)	-
		<u>199,501</u>	<u>(234,832)</u>
Net cash from (used in) operating activities			
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(5,366)	(10,375)
Additions to capital work in progress		(101,090)	(51,062)
Additions to projects development costs		(144,438)	(100,891)
Proceeds from disposal of property, plant and equipment		144	190
Murabaha income		629	2,306
Additions to investment in associates		(438,508)	(151,550)
		<u>(688,629)</u>	<u>(311,382)</u>
Net cash used in investing activities			
FINANCING ACTIVITIES			
Increase in share capital		1,462,650	-
Advances against Islamic facilities, net		(31,145)	84,096
Repayment of term loan		(108,850)	-
Minority interest		-	70,313
		<u>1,322,655</u>	<u>154,409</u>
Net cash from financing activities			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		833,527	(391,805)
Cash and cash equivalents at the beginning of the year		164,064	555,869
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	<u><u>997,591</u></u>	<u><u>164,064</u></u>

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 (continued)

Year ended 31 December 2011

SUPPLEMENTARY CASH FLOW INFORMATION:

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
Non-cash transactions are as follows:		
Transfer from the capital work in progress to the inventory	56,654	-
Transfer from projects development costs to property, plant and equipment	9,755	-
Transfer from projects development costs to investments in associates	257,234	-
Reversal of accruals from the capital work in progress	102,335	-
Transfer from the capital work in progress to intangible assets	60,000	-
Transfer of plant and equipment from the capital work in progress to the plant and equipment	<u>3,995,168</u>	<u>-</u>

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 SHAREHOLDERS' EQUITY

Year ended 31 December 2011

	Share capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Change in fair value of interest rate swaps SR 000	Total SR 000
Balance at 31 December 2009	2,925,300	7,715	130,919	(125,545)	2,938,389
Net income for the year	-	-	329,159	-	329,159
Transfer to statutory reserve	-	32,916	(32,916)	-	-
Change in fair value of interest rate swaps	-	-	-	37,273	37,273
Balance at 31 December 2010	2,925,300	40,631	427,162	(88,272)	3,304,821
Increase of share capital (note 1)	1,462,650	-	-	-	1,462,650
Net income for the year	-	-	411,587	-	411,587
Transfer to statutory reserve	-	41,159	(41,159)	-	-
Change in fair value of interest rate swaps	-	-	-	17,143	17,143
Balance at 31 December 2011	4,387,950	81,790	797,590	(71,129)	5,196,201

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 2011

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 was SR 2,925,300,000 divided into 292,530,000 shares of SR 10 each.

The board of directors of the parent company has recommended applying for the Capital Market Authority (CMA) and the Ministry of Commerce and Industry and the Extraordinary General Assembly (EGM) to increase the share capital of the parent company by way of a right issue amounting to SR 1,462,650,000 to finance expansions and future projects of the parent company which was approved in EGM in 29 November 2011. Number of shares issued in the rights offering was 146,265,000 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 increased to SR 4,387,950,000 divided into 438,795,000 shares of SR 10 each.

The principal activities of the parent company and its subsidiary (“the Group”) are to invest in industrial projects, especially in the petrochemical and chemical fields and to own and execute projects necessary to supply raw materials and utilities. The parent company 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 parent company 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. The performance testing of the plant has been completed successfully during March 2011, and the subsidiary’s commercial operations have commenced on 1 April 2011.

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). The Associate owns 75% share of Saudi Ethylene and Polyethylene Company which has commenced its commercial production effective 1 June 2009.

The parent company has 22% share in Saudi Acrylic Acid Company, a Saudi limited liability company, with direct contribution in the company of SR 382.1 million. The parent company owns indirect share through Tasnee and Sahara Olefins Company (the “Associate”) referred to above, which has a stake in this company of 65%. The company has not started its commercial operations yet.

The parent company has 50% share in Sahara and Maaden Petrochemical Company, a Saudi limited liability company, with direct contribution in the company of SR 450 million. 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 financial statements of 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 2011

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 consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting year.

Cash and cash equivalents

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

Inventories are stated at the lower of cost and market value, with due allowance for obsolete or slow moving items. Cost is determined as follows:

Raw materials, consumables and spare parts	-	purchase cost on a weighted average basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Projects development costs

Projects development costs 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.

Investment in associates

Investment in associates are accounted for using the equity method.

Capital work in progress

Capital work in progress are recognized 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 capitalized borrowing costs. The cost of capital work in progress is reduced by the net proceeds from sale of products during the testing 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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 the consolidated statement of income. Improvements that increase the value or materially extend the useful life of the related assets are capitalised.

Intangibles assets

Intangibles assets mainly comprise upfront fees related to the loan from Saudi Industrial Development Fund ("SIDF") and loan acquisition and arrangement fees relating to the Islamic facilities.

These costs are being amortized over the remaining period of the related loans facilities.

Impairment of non-current assets

At the end of each fiscal year, the Group reviews the carrying values of property, plant and equipment and other non-current assets to determine whether there is any indication that those assets have suffered impairment. If such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The carrying value of the asset (or generating unit) is reduced to the recoverable value when the recoverable value is below the carrying value. Impairment loss is recognized as expense when incurred.

Where an impairment loss subsequently reverses, the carrying value of the asset (generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash generating unit) in prior years. The reversal of impairment loss is recognized as other income once identified.

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 consolidated 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.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unrecognised 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.

Revenue recognition

The Group markets its products through marketers. Sales are made directly to final customers and also to the Marketers' distribution platforms. The sales through the distribution platforms are recorded at provisional prices at the time of shipments, which are later adjusted based on actual selling prices received by the Marketers from their final customers. Adjustments are made as they become known to the Group. Local and export sales are recognized at the time of delivery of the product at the loading terminals located at the plant of the subsidiary and at the King Fahd Industrial Port in Jubail Industrial City.

Expenses

Selling and distribution expenses are those that relate to shipping as well as allowance for doubtful debts. All the period expenses except for production costs and financial charges are classified as general and administration expenses.

Lease contracts

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

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

Earning (loss) per share

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

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

Segmental Analysis

A segment is a distinguishable component of the Group 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.

Sahara Petrochemical Company (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2011

4 CASH AND CASH EQUIVALENTS

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
Bank balances and cash	126,736	70,913
Murabaha investments	870,855	93,151
	<u>997,591</u>	<u>164,064</u>

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

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
Trade receivables from related parties (note 12)	419,321	421,488
Trade receivables from others	15,953	4,219
Other amounts due from related parties (note 12)	61,132	-
Prepaid expenses	3,067	1,386
Other receivables and advances	24,976	27,558
	<u>524,449</u>	<u>454,651</u>

6 INVENTORIES

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
Finished goods	76,506	-
Raw materials	37,271	23,114
Spare parts and consumables	104,710	91,453
	<u>218,487</u>	<u>114,567</u>

Spare parts inventories, are primarily related to plant and equipment, and accordingly expected to be utilised over more than one year.

7 PROJECTS DEVELOPMENT COSTS

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
At the beginning of the year	135,480	35,338
Cost incurred during the year	144,438	100,891
Transfer to property, plant and equipment	(9,755)	(749)
Transfer to investment in associates	(257,234)	-
At the end of the year	<u>12,929</u>	<u>135,480</u>

Sahara Petrochemical Company (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2011

8 INVESTMENT IN ASSOCIATES

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

	<i>Sahara and Maaden Petrochemical Company</i>	<i>Saudi Acrylic Acid Company</i>	<i>Tasnee and Sahara Olefins Company</i>	<i>Total 2011 SR 000</i>
	<i>SR 000</i>	<i>SR 000</i>	<i>SR 000</i>	
Balance at 1 January	-	136,400	1,401,916	1,538,316
Additions during the year	192,766	245,742	-	438,508
Transfer from projects under development	257,234	-	-	257,234
Share of change in fair value of interest rate swaps	-	-	8,308	8,308
Share in results of associates	(1,846)	(1,633)	402,466	398,987
Balance at 31 December	<u>448,154</u>	<u>380,509</u>	<u>1,812,690</u>	<u>2,641,353</u>

9 CAPITAL WORK IN PROGRESS

	<i>2011 SR 000</i>	<i>2010 SR 000</i>
At the beginning of the year	4,156,789	4,106,033
Additions	101,090	51,062
Discount from contractors	(102,335)	-
Transfer to property, plant and equipment	(3,995,168)	(306)
Transfer to intangible assets	(60,000)	-
Transfer to inventories	(56,654)	-
At the end of the year	<u>43,722</u>	<u>4,156,789</u>

Financial charges capitalized by the subsidiary during the year amounted to SR 19 million (2010: SR 36.6 million).

Total sale proceeds credited to the capital work in progress during the year amounted to approximately SR 395 million (2010: 1,177.5 million). Also, total direct production cost debited to the construction work in progress during the year amounted to approximately SR 365.6 million (2010: 1,038 million).

Sahara Petrochemical Company (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2011

10 PROPERTY, PLANT AND EQUIPMENT

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

	Buildings SR 000	Plant and equipment SR 000	Motor vehicles, furniture and office equipment SR 000	Total 2011 SR 000	Total 2010 SR 000
Cost:					
At the beginning of the year	-	-	30,692	30,692	20,795
Additions	1,428	671	3,267	5,366	10,375
Transfers from capital work in progress	88,836	3,897,816	8,516	3,995,168	306
Transfers from projects development costs	-	-	9,755	9,755	749
Disposals	-	(3,415)	(722)	(4,137)	(1,533)
At the end of the year	90,264	3,895,072	51,508	4,036,844	30,692
Depreciation:					
At the beginning of the year	-	-	10,255	10,255	5,237
Charge for the year	2,811	140,494	6,528	149,833	5,796
Disposals	-	(67)	(660)	(727)	(778)
At the end of the year	2,811	140,427	16,123	159,361	10,255
Net book amounts:					
At 31 December 2011	87,453	3,754,645	35,385	3,877,483	
At 31 December 2010	-	-	20,437	-	20,437

The property, plant and equipment are constructed over a land in Jubail Industrial City leased from the Royal Commission for Jubail and Yanbu' for 30 years commenced in 2006. The lease agreements are renewable upon the agreement between the two parties.

Sahara Petrochemical Company (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2011

11 INTANGIBLE ASSETS

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
Costs:		
Transfer from capital work in progress	<u>60,000</u>	-
Balance at the end of the year	<u>60,000</u>	-
Amortisation :		
Provide during the year	<u>4,521</u>	-
Balance at the end of the year	<u>4,521</u>	-
Net book value at the end of the year	<u>55,479</u>	-

12 RELATED PARTY TRANSACTIONS

The following are major related party transactions during the year:

- Affiliates of the Group has provided construction and other services to the Group. Total amounts charged in that respect amounted to SR 3 million (2010: 9.5 million).

- Total purchases of raw material from one of the affiliates during the year amounted to SR 78 million (2010: SR 80.8 million).

- The majority of the Group products are sold through Basell and its affiliates in accordance with long term marketing agreements. During the year, sales through Basell and its affiliates amounted to approximately SR 1,738 million (2010: 1,177.5 million).

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

Amounts due from/due to relate parties are disclosed in notes 5 and 13 to the consolidated financial statements, respectively.

13 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
Trade accounts payable	104,779	105,337
Amounts due to related parties (note 12)	-	31,585
Accrued expenses	225,521	146,943
Other payables	<u>9,687</u>	<u>4,998</u>
	<u>339,987</u>	<u>288,863</u>

Sahara Petrochemical Company (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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14 ADVANCES AGAINST ISLAMIC FACILITIES

During 2006, the subsidiary signed an Islamic Facility Agreement (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 2011, the subsidiary has drawn down US\$ 276.6 million (2010: US\$ 276.6 million) from the total available facility. Two installments totaling SR 41.5 million due in 2012 (2011: two installments of SR 31.1 million) are shown as current liability in the consolidated balance sheet.

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

15 TERM LOANS

	<i>2011</i>	<i>2010</i>
	<i>SR 000</i>	<i>SR 000</i>
Saudi Industrial Development Fund loan ("SIDF")	385,000	400,000
Public Investment Fund loan ("PIF")	844,140	937,990
	1,229,140	1,337,990
Less: current portion of term loans	(158,850)	(108,850)
	1,070,290	1,229,140

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 (17 July 2011). The loan agreement includes covenants to maintain financial ratios during the loan period. At 31 December 2011, the subsidiary has drawn SR 400 million (2010: SR 400 million). Three installments totaling SR 65 million due in 2012 (2011: one installment of SR 15 million) are shown as current liability in the consolidated balance sheet.

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 2011, the subsidiary has drawn down US\$ 250 million (2010: US\$ 250 million) from the total available facility. Two installments totaling SR 93.85 million due in 2012 (2011: two installments of SR 93.85 million) are shown as current liability in the consolidated balance sheet.

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16 ZAKAT

Charge for the year

The zakat charge consists of:

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
Current year provision and charge for the year	<u>26,772</u>	<u>1,200</u>

Movements in provision:

The movement in the zakat provision was as follows:

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
At the beginning of the year	2,400	1,200
Provided during the year	26,772	1,200
Payments during the year	(4,591)	-
At the end of the year	<u>24,581</u>	<u>2,400</u>

Status of assessments

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

The zakat assessments for the parent company for the years from 2006 up to 2010, have not been raised yet. The zakat and tax assessments for the subsidiary for the years from 2007 up to 2010, have not been raised yet.

17 MINORITY INTEREST

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

18 SELLING AND DISTRIBUTION EXPENSES

	<i>2011</i> <i>SR 000</i>	<i>2010</i> <i>SR 000</i>
Freight charges	55,077	-
Others	2,924	-
	<u>58,001</u>	<u>-</u>

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31 December 2011

19 GENERAL AND ADMINISTRATION EXPENSES

	<i>2011</i>	<i>2010</i>
	<i>SR 000</i>	<i>SR 000</i>
Employee costs	13,171	9,351
Rent	179	223
Subscription	3	10
Advertising and public relations	73	66
Others	1,897	1,316
	<u>15,323</u>	<u>10,966</u>

20 CAPITAL COMMITMENTS

At the consolidated balance sheet date, the Group has future capital expenditures amounting to SR 0.9 million (2010: SR 219 million).

21 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 Murabaha investments and commission bearing liabilities including term loans and advances against Islamic facilities. The Group has an interest rate swap contract to hedge against the variability of the commission on 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. In general most of the Group's sales are made through marketers who are the partners of the subsidiary or their affiliates. Cash is placed with national banks with sound credit ratings.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages its liquidity risk by ensuring that bank facilities are available.

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. At the consolidated balance sheet date, the Group is exposed to currency rate risk only on balances denominated in Euros.

22 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 and accounts receivable; its financial liabilities consist of accounts payable and accruals, term loans and advances against Islamic facilities. Derivative financial instruments consist of interest rate swap.

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