

**YANBU NATIONAL PETROCHEMICAL  
COMPANY (YANSAB)  
(A SAUDI JOINT STOCK COMPANY)**

**INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**PERIOD ENDED 30 JUNE 2010**

**REVIEW REPORT TO THE SHAREHOLDERS OF  
YANBU NATIONAL PETROCHEMICAL COMPANY - YANSAB  
(A SAUDI JOINT STOCK COMPANY)  
ON THE INTERIM CONDENSED FINANCIAL STATEMENTS**

**Scope of review**

We have reviewed the accompanying interim balance sheet of Yanbu National Petrochemical Company (YANSAB) ("the Company") - A Saudi Joint Stock Company - as at 30 June 2010 and the related interim statement of income for the three month and six month periods then ended, cash flows and changes in shareholders' equity for the six months then ended which have been prepared by the company's management and submitted to us together with all the information and explanations which we required. Our review was conducted in accordance with Saudi Organization for Certified Public Accountants (SOCPA) standard on interim financial information. A review is limited primarily to analytical procedures applied to financial data and inquiries of company personnel on financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the interim condensed financial statements in order for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young



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12 July 2010

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Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UNAUDITED)

As at 30 June 2010

	Note	30 June 2010 SR'000	30 June 2009 SR'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	188,670	927,790
Advances to suppliers and other receivables	4	1,845,329	184,337
Inventories	5	921,732	259,072
<b>TOTAL CURRENT ASSETS</b>		<b>2,955,731</b>	<b>1,371,199</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	18,522,797	18,003,930
Pre-operating expenses	7	190,476	200,000
Deferred charges	8	103,827	115,364
Other non-current assets		26,560	31,282
<b>TOTAL NON-CURRENT ASSETS</b>		<b>18,843,660</b>	<b>18,350,576</b>
<b>TOTAL ASSETS</b>		<b>21,799,391</b>	<b>19,721,775</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	9	296,890	41,589
Accruals and provisions	10	811,268	561,222
Current portion of term loans	11	915,664	892,281
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,023,822</b>	<b>1,495,092</b>
<b>NON-CURRENT LIABILITIES</b>			
Term loans	11	11,082,721	11,998,359
Term loan from majority shareholder	14	2,176,070	465,000
Employees' end of service benefits		87,251	81,292
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,346,042</b>	<b>12,544,651</b>
<b>TOTAL LIABILITIES</b>		<b>15,369,864</b>	<b>14,039,743</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	12	5,625,000	5,625,000
Statutory reserve	13	90,212	14,030
Retained earnings		714,315	43,002
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>6,429,527</b>	<b>5,682,032</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>21,799,391</b>	<b>19,721,775</b>

The attached notes 1 to 14 form part of these unaudited interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

INTERIM INCOME STATEMENT (UNAUDITED)

For the period ended 30 June 2010

	Note	Three month period ended		Six month period ended	
		30 June 2010 SR'000	30 June 2009 SR'000	30 June 2010 SR'000	30 June 2009 SR'000
Sales		1,638,222	-	2,326,813	-
Cost of sales		(1,006,091)	-	(1,369,252)	-
<b>Gross Profit</b>		<b>632,131</b>	<b>-</b>	<b>957,561</b>	<b>-</b>
General and administration expenses		(36,095)	(6,654)	(51,140)	(14,891)
<b>INCOME FROM MAIN OPERATIONS/ (LOSS) FROM PRE-OPERATION</b>		<b>596,036</b>	<b>(6,654)</b>	<b>906,421</b>	<b>(14,891)</b>
Finance cost		(110,959)	-	(148,474)	-
Other Income		33,391	-	33,798	-
<b>INCOME / (LOSS) BEFORE ZAKAT</b>		<b>518,468</b>	<b>(6,654)</b>	<b>791,745</b>	<b>(14,891)</b>
Zakat		(16,086)	-	(29,929)	-
<b>NET INCOME / (LOSS) FOR THE PERIOD</b>		<b>502,382</b>	<b>(6,654)</b>	<b>761,816</b>	<b>(14,891)</b>
Weighted number of shares Outstanding (in thousands)	12	562,500	562,500	562,500	562,500
<b>Earning / (loss) per share</b>					
Earning per share on income from main operations / (loss) from pre-operation - SR		1.06	(0.01)	1.61	(0.03)
Earning per share on net income /(loss) for the period – SR		0.89	(0.01)	1.35	(0.03)

The attached notes 1 to 14 form part of these unaudited interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)  
For the period ended 30 June 2010

	Note	2010 SR'000	2009 SR'000
<b>OPERATING ACTIVITIES</b>			
Income / (loss) before zakat		791,745	(14,891)
Adjustments for:			
Depreciation		312,960	-
Amortisation		15,292	-
Provision for employees' terminal benefits		13,291	5,928
		<u>1,133,288</u>	<u>(8,963)</u>
Changes in working capital:			
Inventories		(183,915)	(251,265)
Receivables		(980,397)	(8,482)
Payables		314,488	(499,475)
		<u>283,464</u>	<u>(768,185)</u>
Cash from / (used in) operations		(7,146)	(5,468)
Employees' terminal benefits paid			
		<u>276,318</u>	<u>(773,653)</u>
<b>Net cash from / (used in) operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Capital work in progress		(259,922)	(892,910)
Other non-current assets		3,605	2,730
		<u>(256,317)</u>	<u>(890,180)</u>
<b>Net cash used in investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
(Repayments of) / proceeds from term loans		(457,832)	1,093,594
Loan from a shareholder		20,870	465,000
		<u>(436,962)</u>	<u>1,558,594</u>
<b>Net cash (used in) / from financing activities</b>			
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(416,961)</u>	<u>(105,239)</u>
Cash and cash equivalents at the beginning of the period		605,631	1,033,029
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	3	<u>188,670</u>	<u>927,790</u>

The attached notes 1 to 14 form part of these unaudited interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)  
For the period ended 30 June 2010

	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Retained earnings SR'000</i>	<i>Total SR'000</i>
Balance at 31 December 2009	5,625,000	14,030	28,681	5,667,711
Net income for the period	-	-	761,816	761,816
Transfer to statutory reserve	-	76,182	(76,182)	-
<b>Balance at 30 June 2010</b>	<b>5,625,000</b>	<b>90,212</b>	<b>714,315</b>	<b>6,429,527</b>
Balance at 31 December 2008	5,625,000	14,030	57,893	5,696,923
Loss for the period	-	-	(14,891)	(14,891)
<b>Balance at 30 June 2009</b>	<b>5,625,000</b>	<b>14,030</b>	<b>43,002</b>	<b>5,682,032</b>

The attached notes 1 to 14 form part of these unaudited interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

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NOTES TO THE INTERIM FINANCIAL STATEMENTS  
For the period ended 30 June 2010

**1 ACTIVITIES**

Yanbu National Petrochemical Company (YANSAB) ("the company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4700009432 dated 14 Muharram 1427H (corresponding to 13 February 2006) in accordance with the Ministerial Resolution declaring the incorporation of the company dated 12 Muharram 1427H (corresponding to 11 February 2006). The company has obtained Industrial License number S/1367 dated 18 Rajab 1426H (corresponding to 1 September 2005). The company is 51% owned by Saudi Basic Industries Corporation (SABIC), (the majority shareholder), and 49% are owned and publically traded by other shareholders.

The company is engaged in the manufacturing of petrochemical products in accordance with the Company's Article of Association and other Saudi Arabian applicable regulations. The Company commenced its commercial operations on 1 March 2010.

**2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

These interim condensed financial statements have been prepared in accordance with Saudi Arabian Organisation of Certified Public Accountants (SOCPA) standards on interim financial statements. The accounting policies adopted for the preparation of these interim condensed financial statements are consistent with those used for the preparation of annual financial statements.

The interim condensed financial statements do not cover all the information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. In addition, the results presented in these interim condensed financial statements may not be a fair indicator of the results for the full financial year ending 31 December 2010.

The significant accounting policies adopted are as follows:-

***Accounting convention***

The interim condensed financial statements have been prepared under the historical cost convention.

***Cash and cash equivalents***

Cash and cash equivalents comprise bank balances, cash on hand, murabaha commodity placements and time deposits with an original maturity of three months or less. Murabaha commodity placements and time deposits with original maturity of three months or less are stated at cost, with accrued income being captioned under other receivables until realized. Income from murabaha placements or time deposits is accrued on time apportionment basis over the period from disbursement of funds to redemption date.

***Accounts receivable***

Accounts receivable are stated at original invoice amount less allowance 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 as incurred.

***Inventory***

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials, consumables, spare parts and finished goods are determined on a weighted average basis. Cost of inventory under process and finished goods including the cost of raw materials, labour and a reasonable portion of manufacturing overhead expenses.

***Property, plant and equipment / depreciation***

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repair and maintenance are charged to income. Betterments that increase the value or materially extend the life of the related assets are capitalized.

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2010

**2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Property, plant and equipment (continued)*

*Capital Work in Progress*

Capital work in progress, representing plants under construction, is recorded at cost. Included in such costs are the costs of equipment, material, testing cost during test runs and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

*Capitalisation of borrowing costs*

Borrowing costs attributable to the construction of plant and purchase of machinery and equipment during the construction period are capitalized.

*Pre-operating expenses*

Pre-operating expenses are charged to income statement unless attributable future benefits are determined in which case these will be amortised at straight installment method over the shorter of seven years or estimated useful lives commencing the beginning of commercial operations of 1 March 2010.

*Deferred charges*

Deferred charges relate to financial, legal advisory and arrangement fees for obtaining long term financing arrangements which are being used to partially finance the construction of the company's plants. These fees are amortised over the period of long term financing arrangements. The amortization portion that falls within the construction period is capitalised as part of capital work in progress, the amortization is charged to statement of income when the Company starts its operations.

*Accounts payable and accruals*

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

*Provisions*

Provisions are recognized when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

*Employees' end of service benefits*

Provision is made for amounts payable under the Saudi Arabian labour law and company's policy applicable to employees' accumulated periods of service at the balance sheet date.

*Revenue recognition*

Sales represent the invoiced value of goods shipped by the Company during the period, net of any trade and quantity discounts. Generally sales are reported net of marketing and distribution expenses incurred in accordance with executed marketing and off-take agreements.

*Expenses*

Production costs and direct expenses are classified as cost of sales. All other expenses are classified as general and administrative expenses.

*Zakat*

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the interim income statement and is calculated at year end.

*Foreign currencies*

Transactions in foreign currencies are recorded in Saudi Riyals at the rate 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 balance sheet date. All differences are taken to the income statement.

*Leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease period.



Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2010

**3 CASH AND CASH EQUIVALENTS**

	<i>2010</i> <i>SR'000</i>	<i>2009</i> <i>SR'000</i>
Murabaha commodity placements	150,000	867,500
Current accounts	38,670	60,290
	<u>188,670</u>	<u>927,790</u>

Murabaha commodity placements are maintained with local and foreign banks.

**4 ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES**

	<i>2010</i> <i>SR'000</i>	<i>2009</i> <i>SR'000</i>
Amounts due from a shareholder and related parties (see note below)	1,738,102	95,709
Advances to suppliers and contractors	6,016	50,460
Other receivables	101,211	38,168
	<u>1,845,329</u>	<u>184,337</u>

In addition to the balances arising from commercial transactions, included in this balance are the sale amount of products and advances for the purchase of operating materials (see note 14)

**5 INVENTORIES**

	<i>2010</i> <i>SR'000</i>	<i>2009</i> <i>SR'000</i>
Finished goods	548,865	-
Raw materials	103,158	115,585
Spare parts	269,709	143,487
	<u>921,732</u>	<u>259,072</u>

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2010

6 PROPERTY, PLANT AND EQUIPMENT

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

Building & Leasehold improvements	33 years
Plant & equipment	20 years
Furniture	10 years
Vehicles	4 years
Computers & software	5 years
Laboratory & safety equipment	5 years

	Buildings & leasehold improvements SR '000	Machinery & equipment SR '000	Furniture SR '000	Vehicles SR '000	Computers & software SR '000	Laboratories & safety equipment SR '000	Capital work in progress SR '000	Total SR '000
Cost								
At the beginning of the period	-	-	-	-	-	-	18,575,835	18,575,835
Additions	-	-	-	-	-	-	259,922	259,922
Transfers	170,674	18,219,475	11,364	25,240	58,288	41,389	(18,526,430)	-
At the end of the period	170,674	18,219,475	11,364	25,240	58,288	41,389	309,327	18,835,757
Depreciation								
At the beginning of the period	-	-	-	-	-	-	-	-
Charge for the period	(1,724)	(303,100)	(379)	(1,112)	(3,886)	(2,759)	-	(312,960)
At the end of the period	(1,724)	(303,100)	(379)	(1,112)	(3,886)	(2,759)	-	(312,960)
Net book amounts:								
At 30 June 2010	168,950	17,916,375	10,985	24,128	54,402	38,630	309,327	18,522,797

a) Capital work in progress includes work of SR 309 million represents auxiliary new projects and staff home ownership plan.

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2010

**6 PROPERTY, PLANT AND EQUIPMENT (continued)**

- b) The plants are situated on land leased from the Royal Commission in Yanbu for 35 Hijra years commencing 1 Dhul Al-Hija 1426 H (corresponding to 1 January 2006). The lease is renewable for further similar periods at the option of the parties.

**7 PRE-OPERATING EXPENSES**

These represent a contribution of SR 200 million to the Centennial Fund and Higher Plastic Institute that will financially support small and medium sized projects in the related industry and was conditional for the company to secure the gas and feedstock required to manufacture its products. Pre-operating expenses will be amortized using the straight line basis over the shorter of 7 years or their estimated period of benefit, from the commencement of commercial operations. The amortization of pre-operating expenses started on 1 March 2010.

**8 DEFERRED CHARGES**

These represent financial legal advisory and arrangement fees totaling SR 143.2 million, relating to long term financing arrangements to finance the partial construction of the company's plant. These fees were included in the initial recognition of the related financing arrangements and are being amortized, using the effective interest rate, over the period of long term financing agreements. The amortized portion that occurred during the construction period amounting to SR 35.6 million as at 28 February 2010 has been capitalized. Amortization after 1 March 2010 is charged to the interim income statement.

**9 ACCOUNTS PAYABLE**

	<i>30 June 2010 SR'000</i>	<i>30 June 2009 SR'000</i>
Suppliers and contractors	246,102	33,292
Amount due to a shareholder and a related party (note 14)	50,788	8,297
	<u>296,890</u>	<u>41,589</u>

**10 ACCRUALS AND PROVISIONS**

	<i>30 June 2010 SR'000</i>	<i>30 June 2009 SR'000</i>
Accrued expenses	361,707	436,344
Amounts due to a shareholder and related parties (note 14)	412,305	121,075
Zakat payable	29,929	-
Other payables	7,327	3,803
	<u>811,268</u>	<u>561,222</u>

**Yanbu National Petrochemical Company (YANSAB)**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)**

For the period ended 30 June 2010

**11 TERM LOANS**

Term loans comprise of:

	<i>30 June 2010 SR'000</i>	<i>30 June 2009 SR'000</i>
Public Investment Fund (PIF) (see note (a) below)	3,601,125	4,001,250
The Commercial, ECA, SACE and ECGD loans (see note (b) below)	5,517,082	5,809,155
Islamic financing facilities (see note (c) below)	2,880,178	3,080,235
	<u>11,998,385</u>	<u>12,890,640</u>
Less:		
Current portion for long term loans (see notes (a), (b) and (c) below)	(915,664)	(892,281)
	<u>11,082,721</u>	<u>11,998,359</u>
Financial legal advisory, legal and arrangement fees, net of amortisation (see note 8)	(103,827)	(115,364)
	<u><u>10,978,894</u></u>	<u><u>11,882,995</u></u>

- a) The PIF term loan obtained in 2007 to finance the partial construction of the plants is limited to SR 4,001 million. The term loan carries charges at commercial rates and is repayable in equal semi-annual installments of SR 200 million. The first installment is paid on 31 December 2009, and the last installment is payable on 30 June 2019.
- b) During 2007, the above loans obtained from a consortium of banks in three loans, of which two loans were limited to SR 5,948 million and guaranteed by Export Credit Agencies (ECA), Servizi Assicurativi Del Commercio Estero and Export Credits Guarantee Department (ECGD) to finance the partial construction of plants and working capital. The loans which carry commission at commercial rates are repayable in semi-annual variable installments. The first installment paid on 30 June 2009 and the last installment payable on 30 June 2018.
- c) The Islamic financing facilities represent advance payments received by the company from a consortium of banks ("Original Islamic Facility Participants") to finance the partial construction of the plants. The company has entered into financing agreement with the Original Participants of Islamic Financing Facility up to the maximum of SR 3,176 million. Under the financing agreement, the undivided 18% of the cost of the project will be delivered to the Original Islamic Facility Participants and then leased back (under Ijara agreement) to the company. The first installment for the lease payments is paid on 30 June 2009, and last installment is due on 30 June 2018.

During the first quarter of 2009 the company withdrew the remaining balance of contracted bank facilities and loans including the facilities for working capital requirements.

The term loans are secured on the proceeds of project, when the company starts its commercial operations. In addition, the company has signed an Equity Support, Subordination and Retention Agreement with the majority Shareholder (SABIC) under which SABIC shall maintain its ownership in Yansab at 51% for the life of the loans.

**12 SHARE CAPITAL**

The authorized, issued and fully paid share capital of the company consists of 562.5 million shares of SR 10 each.

**13 STATUTORY RESERVE**

As required by Saudi Arabian Regulations for Companies the company must set aside 10% of net income for the period until it has built up a reserve equal to 50% of the capital. The company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The company transferred 10% from the net income for the six month period ended 30 June 2010.

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)  
For the period ended 30 June 2010

14	RELATED PARTY TRANSACTIONS AND BALANCES	Nature of transactions	Amount of transaction		Balance	
			For the six month period ended		At 30 June	
			30 June	2009	2010	2009
	Related party		SR'000	SR'000	SR'000	SR'000
<i>Amounts due from related parties</i>						
Saudi Basic Industries Corporation (SABIC) – (the majority shareholder)		Sale of products	2,844,125	72,874	1,663,487	73,871
		Advances for purchase of materials, product sales and other transactions	37,550	(2,550)	69,966	21,725
Affiliates		Sale of products	76,842	-	4,649	-
		Long term advance for freight expenses	-	-	7,500	7,500
		Other	26,11	843	-	113
					1,745,602	103,209
<i>Amounts due to related parties</i>						
Saudi Basic Industries Corporation (SABIC) – (the majority shareholder)		Payments on behalf of the company and other services provided by the shareholder	(701,591)	(133,723)	(336,610)	(105,275)
		Loan from a shareholder	(10,451)	(465,000)	(2,176,070)	(465,000)
Affiliates		Other	(189,883)	(136,711)	(126,483)	(24,097)
					(2,639,163)	(594,372)

The company obtained a loan from the above shareholder in accordance with the retention of shareholding and support agreement with the main shareholder (SABIC). The term loan which carries borrowing charges at commercial rates is fully payable within three years commencing on the date of withdrawal and the first installment is due on 30 June 2012.