

**National Petrochemical Company  
(Petrochem) and its Subsidiary  
(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

NATIONAL PETROCHEMICAL COMPANY (PETEROCHEM) AND ITS SUBSIDIARY  
(A Saudi Joint Stock Company)

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CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
National Petrochemical Company (Petrochem)  
(A Saudi Joint Stock Company)**

**Scope of Audit**

We have audited the accompanying consolidated balance sheet of National Petrochemical Company - A Saudi Joint Stock Company ("Petrochem") and its subsidiary as of 31 December 2010 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of Petrochem's management 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 Petrochem and its subsidiary as of 31 December 2010 and its consolidated results of operations and its 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 Petrochem's By-Laws, in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young



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Certified Public Accountant  
Registration No. 354



Riyadh: 18 Rabi Awal 1432H  
(21 February 2011)

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARY  
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

(Amounts in SR '000)

	Note	2010	2009
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	2,103,141	3,272,088
Accrued interest and other assets		12,037	4,043
<b>TOTAL CURRENT ASSETS</b>		<b>2,115,178</b>	<b>3,276,131</b>
<b>NON-CURRENT ASSETS</b>			
Project under construction	5	16,007,140	11,169,548
Deferred charges	6	196,151	133,946
Property and equipment	7	1,083	1,445
<b>TOTAL NON-CURRENT ASSETS</b>		<b>16,204,374</b>	<b>11,304,939</b>
<b>TOTAL ASSETS</b>		<b>18,319,552</b>	<b>14,581,070</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accrued expenses and other liabilities		2,113	936
Amounts due to a related party	8	2,258	1,211
Zakat	9	41,085	53,065
<b>TOTAL CURRENT LIABILITIES</b>		<b>45,456</b>	<b>55,212</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term payables	10	288,598	964,444
Term loans	11	11,576,363	7,674,945
Subordinated loan from a non-controlling partner	12	14,859	1,036,719
Employees' terminal benefits		2,926	799
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,882,746</b>	<b>9,676,907</b>
<b>TOTAL LIABILITIES</b>		<b>11,928,202</b>	<b>9,732,119</b>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	4,800,000	4,800,000
Statutory reserve		1,780	1,780
Accumulated losses		(87,202)	(44,569)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,714,578</b>	<b>4,757,211</b>
Non-controlling interests		1,676,772	91,740
<b>TOTAL EQUITY</b>		<b>6,391,350</b>	<b>4,848,951</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>18,319,552</b>	<b>14,581,070</b>

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

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARY  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2010

(Amounts in SR '000)

	<i>Note</i>	<b>2010</b>	<b>2009</b>
General and administration expenses	14	(14,207)	(25,169)
<b>LOSS FROM MAIN OPERATIONS</b>		<b>(14,207)</b>	<b>(25,169)</b>
Income from bank deposits		11,442	15,923
<b>LOSS BEFORE NON-CONTROLLING INTERESTS AND ZAKAT</b>		<b>(2,765)</b>	<b>(9,246)</b>
Non-controlling interests share in net loss of the subsidiary		1,203	1,720
<b>LOSS BEFORE ZAKAT</b>		<b>(1,562)</b>	<b>(7,526)</b>
Zakat	9	(41,071)	(53,065)
<b>NET LOSS FOR THE YEAR</b>		<b>(42,633)</b>	<b>(60,591)</b>
<b>LOSS PER SHARE (SR)</b>			
Attributable to loss from main operations	15	(0.03)	(0.08)
Attributable to net loss		(0.09)	(0.19)

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

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARY  
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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

(Amounts in SR '000)

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Loss before zakat	(1,562)	(7,526)
Adjustments for:		
Employees' terminal benefits, net	2,127	788
Depreciation	384	319
Non-controlling interests share in net loss of the subsidiary	(1,203)	(1,720)
Changes in operating assets and liabilities:		
Accrued income and others current assets	(16,390)	31,497
Long term payables	(677,050)	630,430
Accrued expenses and other payables	1,177	870
Related party, net	10,647	(504)
Zakat paid	(53,051)	-
<b>Net cash (used in) from operating activities</b>	<b>(734,921)</b>	<b>654,154</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(22)	(1,113)
Deferred charges	(62,205)	(79,825)
Project under construction	(4,837,592)	(8,999,960)
<b>Net cash used in investing activities</b>	<b>(4,899,819)</b>	<b>(9,080,898)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from term loans	3,901,418	6,455,639
Proceeds from subordinated loan from a non-controlling partner	564,375	1,036,719
Non-controlling interests	-	93,460
Proceeds from capital increase	-	2,600,000
<b>Net cash from financing activities</b>	<b>4,465,793</b>	<b>10,185,818</b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,168,947)</b>	<b>1,759,074</b>
Cash and cash equivalents at the beginning of the year	3,272,088	1,513,014
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>2,103,141</b>	<b>3,272,088</b>
<b>NON CASH TRANSACTION</b>		
Subordinated loan from a non-controlling partner transferred to a proposed capital increase in the subsidiary's capital (note 2)	1,586,235	-

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

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARY  
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

(Amounts in SR '000)

	Attributable to the shareholders' equity				Non-	
	Share capital	Statutory reserve	Accumulated losses	Shareholders' equity total	controlling interest	Total
Balance as at 1 January 2009	2,200,000	1,780	16,022	2,217,802	-	2,217,802
Capital increase	2,600,000	-	-	2,600,000	-	2,600,000
Non-controlling interest	-	-	-	-	93,460	93,460
Net loss for the year	-	-	(60,591)	(60,591)	(1,720)	(62,311)
Balance as at 31 December 2009	4,800,000	1,780	(44,569)	4,757,211	91,740	4,848,951
Non-controlling interest resulted from proposed capital increase of the subsidiary	-	-	-	-	1,586,235	1,586,235
Net loss for the year	-	-	(42,633)	(42,633)	(1,203)	(43,836)
<b>Balance as at 31 December 2010</b>	<b>4,800,000</b>	<b>1,780</b>	<b>(87,202)</b>	<b>4,714,578</b>	<b>1,676,772</b>	<b>6,391,350</b>

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

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARY  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2010

**1. ORGANIZATION AND ACTIVITIES**

National Petrochemical Company ("Petrochem") is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010246363 dated 8 Rabi Al Awal 1429 H (corresponding to 16 March 2008), and was formed pursuant to the ministry of commerce and industry's resolutions numbered 53Q dated 16 Safar 1429H, (corresponding to 24 February 2008).

Petrochem is engaged in the development, establishment, operation, management and maintenance of petrochemical, gas, petroleum and other industrial plants, wholesale and retail trading in petrochemical materials and products, owning land, real estate and buildings for its benefits.

**2. BASIS OF CONSOLIDATION**

These consolidated financial statements include the financial statements of Petrochem and its subsidiary, as adjusted by the elimination of significant inter-company balances and transactions.

A subsidiary is an entity in which Petrochem has a direct or indirect equity investment of more than 50% or over which it exercises effective management control.

The financial statements of the subsidiary are prepared using accounting policies which are consistent with those of Petrochem.

The subsidiary' financial statements are consolidated from the date on which Petrochem is able to exercise effective management control over the subsidiaries.

The financial statements of the Saudi Polymers Company (the "subsidiary"), a mixed limited liability company, are consolidated in the financial statements of Petrochem, which is owned 65% by Petrochem.

The subsidiary is engaged in production and sale of engine fuel, fuel oil, ethylene, propylene, hexane, gasoline, high and low density polyethylene, polypropylene and polystyrene.

During the fourth quarter ended 31 December 2010, the partners of the subsidiary company have resolved the following:

- On 19 December 2010, the partners have resolved to increase the subsidiary company's capital by SR 1,138 million from SR 268 million to SR 1,406 million by transferring it from the partners' subordinated loan. The legal formalities to effect such increase in the capital are still in progress.
- On 29 December 2010, the partners have resolved to increase the subsidiary company's capital by SR 3,394 million from SR 1,406 million to SR 4,800 million by transferring it from the partners' subordinated loan. The legal formalities to effect such increase in the capital are still in progress.

31 December 2010

**3. SUMMARY OF 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. The figures in these consolidated financial statements are rounded to nearest thousand.

*Accounting convention*

The consolidated financial statements are prepared under the historical cost convention.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

*Cash and cash equivalents*

Cash and cash equivalents consists of bank balances, cash on hand, and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when acquired.

*Property and equipment / depreciation*

Property and equipment are stated at cost net of accumulated depreciation. Expenditure for maintenance and repairs is expensed, while expenditure for improvement is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight- line method. Leasehold improvements are depreciated over the shorter of the estimated useful life or the term of the lease.

*Project under construction*

Project under construction appears at cost until the asset is ready for its intended use, thereafter; it is re-classified to be as property and equipment. Project under construction include the cost of contractors, materials, services, borrowing, salaries and other overhead allocated on systematic basis.

*Deferred charges/amortization*

Deferred charges comprise agency and upfront fees and are amortized over the period of the related loans. The amortization is capitalized in the cost of the plant under construction.

*Impairment of financial assets*

Petrochem periodically reviews the carrying amounts of its long term tangible assets to determine whether there is any indication that those assets have suffered an impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, Petrochem estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment is recognised in the consolidated statement of income.

Where an impairment subsequently reverses, the carrying amount of the asset or the cash 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 been recognised for the asset or cash generating unit in prior years. A reversal of impairment is recognised as income immediately in the consolidated statement of income.

*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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Provisions*

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

*Zakat and income tax*

Zakat is provided in accordance with the Regulations of the Directorate of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final Zakat assessments are adjusted in the year of their finalization. The foreign partner in subsidiaries is subject to income tax which is included in non-controlling interest in the consolidated financial statements.

*Employees' terminal benefits*

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

*Borrowing costs*

Borrowing costs that are directly attributable to the construction of an asset are capitalised up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income.

*Foreign currencies*

Transactions in foreign currencies are translated into Saudi Riyals at the rate prevailing at the date of those transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rate prevailing at that date. All differences are taken to the consolidated statement of income.

*Revenue recognition*

Earnings on bank deposits are recognized on an accrual basis.

*General and administrative expenses*

All expenses, other than capitalized costs, are classified as general and administration expenses.

*Segment reporting*

A segment is a distinguishable component of Petrochem 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.

*Fair value*

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

*Statutory reserve*

In accordance with Saudi Arabian Regulations for Companies, the company must transfer 10% of its income for the year after deducting accumulated losses to the statutory reserve. The company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The reserve is not available for distribution.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARY  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2010

4. CASH AND CASH EQUIVALENTS

Amounts in SR '000	2010	2009
Time deposits	1,604,360	2,699,703
Bank balances and cash in hand	498,781	572,385
	<u>2,103,141</u>	<u>3,272,088</u>

Included in cash and cash equivalents balances assigned as securities and restricted cash balances amounting to SR 491.5 Million and SR 852.1 Million respectively, (2009: SR 562.1 Million and SR 1895.4 Million respectively) according to the agreements of loan facilities (note 12).

5. PROJECT UNDER CONSTRUCTION

Project under construction comprises cost of construction works under progress which is expected to be more than SR 20 Billion. It is anticipated that the construction works will be completed and commissioning works will start at the end of 2011.

The Plant is constructed on land leased from the Royal Commission for Jubail and Yanbu. The lease is initially for a period of 30 years commencing from 29 Dhu Al Qedah 1428H (corresponding to 9 December 2007) and is renewable for further periods thereafter.

The machinery and equipment of the plant are pledged as a part of collaterals against loan facilities (note 11).

Capitalised financial charges for the year amounting to SR 123 million (2009: SR 176 million) are included in the cost of construction of polymers plant.

Amounts in SR '000	2010	2009
At the beginning of the year	11,169,548	4,317,773
Additions during the year	4,837,592	6,851,775
	<u>16,007,140</u>	<u>11,169,548</u>

6. DEFERRED CHARGES

Amounts in SR '000	2010	2009
<i>Cost</i>		
At the beginning of the year	146,771	131,771
Additions	91,598	15,000
	<u>238,369</u>	<u>146,771</u>
<i>Amortization</i>		
At the beginning of the year	12,825	2,123
For the year	29,393	10,702
	<u>42,218</u>	<u>12,825</u>
Net book value	<u>196,151</u>	<u>133,946</u>

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARY  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2010

7. **PROPERTY AND EQUIPMENT**

The estimated useful lives of the asset in the calculation of depreciation are as follows:

Leasehold improvement	5 years
Vehicles	4 years
Furniture and office equipment	4 - 6.67 years
Computers and communication devices	4-5 years

Amounts in SR '000	Leasehold improvement	Furniture and office equipment	Computers and communication devices	Vehicle	Total 2010	Total 2009
Cost:						
At the beginning of the year	456	320	158	874	1,808	696
Additions	6	12	4	-	22	1,113
At the end of the year	462	332	162	874	1,830	1,809
Depreciation:						
At the beginning of the year	76	40	24	223	363	45
Charge for the year	91	49	25	219	384	319
At the end of the year	167	89	49	442	747	364
Net book amounts:						
At 31 December 2010	295	243	113	432	1,083	
At 31 December 2009	380	280	134	651		1,445

8. **RELATED PARTY TRANSACTIONS**

The following are the details of major related party transactions during the years:

Amounts in SR '000

Related party	Nature of transactions	Amount of transactions 2010	2009	Balance 2010	2009
Shareholder	Expenses paid on behalf of the company	7	867	46	-
	Fees of a bank guarantee	1,928	-		
	Consulting services	753	-		
Non-controlling partner	Proceeds of subordinated loan	564,375	398,960	14,859	1,036,719
Executive management	Services rendered	1,307	57	1,200	-
Affiliated companies	Services received, net	9,450	(2,962)	2,258	1,211

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARY  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2010

9. ZAKAT

**Charge for the year**

Zakat charge for the year amounting to SR 41.1 million (2009: SR 53.1 million) consists of current year's provision. As for the subsidiary company, no provision has been made since Zakat base is negative, and because the company has not earned any income and has not started its operations.

Amounts in SR '000	2010	2009
Equity	4,757,212	4,757,213
Opening provisions and other adjustments	713	225
Book value of long term assets	(3,117,586)	(2,638,894)
	<u>1,640,339</u>	<u>2,118,544</u>
Zakatable income for the year	2,453	4,042
Zakat base	<u>1,642,792</u>	<u>2,122,586</u>

The differences between the financial and the zakatable income are due mainly to provisions which are not allowed in the calculation of zakatable income.

**Movements in provision during the year**

The movement in the zakat provision for the year was as follows:

Amounts in SR '000	2010	2009
At the beginning of the year	53,065	-
Provided during the year	41,071	53,065
Paid during the year	(53,051)	-
At the end of the year	<u>41,085</u>	<u>53,065</u>

**Status of assessments**

Zakat returns have been filed with the DZIT for 2008 and 2009 and zakat due was settled accordingly. The DZIT has raised the zakat assessment for 2008, claiming a difference of SR 53,092,939. The company filed an appeal against this assessment before the Preliminary Zakat Appeal Committee, which is still pending. Based on the zakat consultant's advice; the management believes that the ultimate outcome of this issue will be in the company favor.

10. LONG TERM PAYABLES

Amounts in SR '000	2010	2009
Contractors payables	236,250	939,593
Retention payable	21,347	15,442
Other liabilities	31,001	9,409
	<u>288,598</u>	<u>964,444</u>

The management expects that the settlement of these payable will be refinanced by long term liabilities, accordingly, these payables have been classified as long term.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2010

11. TERM LOANS

Term loans represent the drawn portion out of loan facilities obtained from the following parties to finance the construction work in progress.

Amounts in SR '000	<u>Principal</u>		<u>Drawn</u>	
	2010	2009	2010	2009
Syndicated commercial banks	9,259,000	9,259,000	8,076,694	5,524,860
Public Investment Fund ("PIF")	3,000,000	3,000,000	2,541,266	2,150,085
Saudi Industrial Development Fund	1,200,000	1,200,000	958,403	-
	<u>13,459,000</u>	<u>13,459,000</u>	<u>11,576,363</u>	<u>7,674,945</u>

The loans are secured by charge and assignment of residual proceeds of plant and equipment, charge and assignment over secured project documents, charge and assignment over the subsidiary's offshore bank accounts of the project and pledge and assignment over each of Petrochem and the subsidiary company onshore bank accounts of the project, in addition, the assignment of insurance proceeds and the technology rights.

The loans obtained from commercial banks carry interest at Libor plus 0.06% to 1.15% and fees on the unutilized portion of the loan 0.3% to 0.5%. The loans obtained from PIF carry interest at Libor plus 0.50% along with a onetime appraisal fee of 0.50% of the principle amount of the loan.

Loans repayment for the commercial banks shall commence within 6 months of the project's operational phase on 22 semi-annual installments. Loans from PIF and SIDF should be repaid on 15 and 14 semi-annual installments respectively starting from December 2013.

The subsidiary is required to comply with covenants under all the loan facility agreements.

12. SUBORDINATED LOAN FROM A NON-CONTROLLING PARTNER

Subordinated loan from Arabian Chevron Petrochemical Company Limited (the "non-controlling partner") is a commission free loan granted to the subsidiary and is repayable subject to the minimum level required to be maintained by the terms of the loan facility arrangements granted by PIF. The movement of loan during the year is analyzed as follows:

Amounts in SR '000	2010	2009
At the beginning of the year	1,036,719	446,432
Proceeds received	564,375	590,287
Proposed capital increase in the subsidiary's capital	(1,586,235)	-
	<u>14,859</u>	<u>1,036,719</u>

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARY  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2010

**13. SHARE CAPITAL**

Share capital of Petrochem is divided into 480 million shares of SR 10 each as of 31 December 2010 (31 December 2009: 480 million shares).

Share Capital of Petrochem was increased through a resolution approved by shareholders' extraordinary general assembly meeting held on 23 Jumad Awal 1430H (corresponding to 18 May 2009). According to the resolution, 240 million shares at par value of SR 10 per share were offered to the general public and 20 million shares at par value of SR 10 per share were offered to the incorporators of Petrochem.

**14. GENERAL AND ADMINISTRATION EXPENSES**

Amounts in SR '000	2010	2009
Employees salaries and benefits	6,483	6,313
Bank commission	1,934	1,398
Board of directors expenses	1,307	57
Professional fees	947	108
Fees and subscription	544	254
Depreciation	384	319
Initial public offering costs	-	14,154
Others	2,608	2,566
	<u>14,207</u>	<u>25,169</u>

**15. LOSS PER SHARE**

The loss per share is calculated for the year ended 31 December 2010 by dividing loss from main operations and net loss for the year by the number of shares outstanding as at 31 December 2010 amounting to 480 million shares (weighted average number of shares outstanding during the year ended 31 December 2009 amounted to 317 million shares).

**16. SEGMENT INFORMATION**

Since Petrochem has not started the operations as of 31 December 2010, due to non-completion of project under construction, no segment information is available.

**17. COMPENSATION OF NON-CONTROLLING PARTNER**

As set out in note 2 and as a result to partners resolution on 29 December 2010 to increase the subsidiary company's capital by SR 3,394 million (from SR 1,406 million to SR 4,800 million) by transferring it from the partners' subordinated loan; which will cause the non- controlling partner to incur additional costs; the management of Petrochem has decided to compensate the non-controlling partner by making annual payments in the future based on the future earnings of the subsidiary, considering the non-distributable cash as a result of the said proposed capital increase.

**18. CAPITAL COMMITMENTS**

The balance of unutilized capital expenditure approved by the board of directors in connection with the petrochemical plant project amounted to SR 3.4 billion as at 31 December 2010 (31 December 2009: SR 6.6 billion).

**19. RISK MANAGEMENT**

**Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. Petrochem and the subsidiary are subject to interest rate risk on their interest bearing assets and liabilities, including time deposits and term loans.

**Liquidity risk**

Liquidity risk is the risk that Petrochem or the subsidiary will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by ensuring the availability of bank facilities.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Petrochem and the subsidiary monitor the change in foreign exchange prices and charge its effect on the consolidated financial statements accordingly.

**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. With respect to credit risk arising from the financial assets of Petrochem and the subsidiary, including cash and cash equivalents, the exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to their carrying amounts.

**20. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial assets of Petrochem and the subsidiary consist of cash and cash equivalents and accrued interest income on bank deposit, and their financial liabilities consist of trade payables, accrued expenses, other liabilities, term loans and subordinated loan from a non-controlling partner.

The fair values of financial instruments are not materially different from their carrying values.

**21. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS AND DISTRIBUTION OF NET INCOME**

The consolidated financial statements have been approved by the board of directors on 18 Rabi Awal 1432H (Corresponding to 21 February 2011).

**22. COMPARATIVE FIGURES**

Certain of the prior year figures have been re-classified to conform with the current year's presentation.