

Rabigh Refining & Petrochemical Co.

تُثري الحياة
Enriching life

بترو رابغ
Petro Rabigh



Moving Forward

Annual Report 2010





The Content

The Board Of Directors' Report

Mission, Vision And Goals⁶
Board Members⁷
Chairman's Message to the Shareholders⁸
Company⁹
Company's Business⁹
Products Sales and Marketing⁹
Operational Achievements and Future Operations
Plan⁹⁻¹¹

Risks Related to the Main Business of the Company¹¹
Financial Summary¹¹⁻¹⁴
Geographical Sales Analysis¹⁴⁻¹⁵
Penalties and Sanctions¹⁵
Dividends Distribution Policy¹⁷
Communications with Shareholders¹⁷
Board of Directors¹⁷⁻¹⁸
Board Audit Committee¹⁹
Nomination, Remuneration and Compensation
Committee¹⁹⁻²¹

BBL/ANNUM

134,000,000

Refined
Products
Capacity



Loans²¹

Accruals for Other Government Institutions and Zakat
Assessment²²

Incentive Programs for Staff²²

Workforce and Training²²

Corporate Social Responsibility²³

Safety, Health and Environmental Protection²³

Compliance with Corporate Governance²³

Board of Directors' Declarations²³

The External Auditor's Report

Independent Auditor's Report²⁶⁻²⁷

Balance Sheet²⁸

Statement Of Income³⁰

Statement Of Cash Flows³¹

Statement Of Changes In Shareholders' Equity³²

Notes To Financial Statements³³⁻⁵⁴

The Board of Directors' Report

(for the year ending December 31, 2010)



Our Vision

As an independent public company, Petro Rabigh will become a world-class integrated company with a full range of capabilities in refining and petrochemicals. We will earn global recognition and be a leading model for the region by embracing safety, efficiency, and profitability, with a commitment to social responsibility.

Our contributions will include:

- Reliable supply of high quality products to local and global customers.
- Continuous process improvement through innovation.
- Systematic training and specialist development to create a highly talented workforce.
- Diversification of national and local economy that will provide a platform for further economic advances.
- Sustaining safe utilization of resources and protection of the environment.

Our Goals

Safety

Adopting and maintaining the highest standards of security, safety and environmental protection in the workplace and the community.

Integrity

Fairness, ethical practice, transparency and credibility in our business dealings with all stakeholders including employees, suppliers and customers.

Challenging Spirit

Continuous efforts by every member of Petro Rabigh to acquire new knowledge and skills, make improvements and demonstrate personal accountability for achieving Company goals.

Unity in Action

Close teamwork and cross-functional cooperation that bridges differences in culture, expertise and work practices.

Social Responsibility

Adopting socially responsible conduct in all Company practices relating to society, organizations and individuals.

Board of Directors



01



02



03



04



05



06



07



08

Abdulaziz F. Al-Khayyal⁰¹
Chairman of the Board

Hiromasa Yonekura⁰²
Deputy Chairman of the Board

Ziad S. Al-Labban⁰³
President & CEO, Board Member

Osamu Ishitobi⁰⁴
Board Member

Noriaki Takeshita⁰⁵
Board Member

Motassim A. Al-Ma'ashouq⁰⁶
Board Member

Saud A. Al-Ashgar⁰⁷
Board Member

Ahmed S. Al-Humaid⁰⁸
Board Member

Chairman's Message

Dear Shareholders,

On behalf of Petro Rabigh Board of Directors, I would like to submit to you the Petro Rabigh 2010 Annual Report for the period ending December 31, 2010, together with the audited Financial Statements and a summary of other major developments.

2010 was a historic year for our Company. It was the first full year of commercial operation of all of our facilities. Additionally, 2010 will go down in Petro Rabigh history as being the first profitable year for our Company.

Successes witnessed by our Company during 2010 have been supported by a strengthening global economy which was also reflected in improving refining and petrochemical margins. This positive trend carried through in our financial results for 2010. Though we did witness operational upsets during the year, however the Company was able to successfully rebound back into realizing profits.

In order to continue to create value for its shareholders, the Company continued its efforts to further optimize operations of its world-scale facilities. These enhancements resulted in improving revenue generating opportunities and cost rationalizations which resulted in making Petro Rabigh one of the world's lowest cost producers of ethylene derivatives. In parallel, the Company began to fine tune its marketing strategy to benefit from profit maximization opportunities in regional and world markets. With that, the Company was able to successfully place more than 112 million barrels of refined products and nearly 2 million metric tons of petrochemicals in the market during 2010. At the heart of these successes lie the human resource foundations which the Company continues to develop and motivate to meet current and future work requirements in a safe, environmentally friendly and profitable manner.

Our continuous objective will be to grow our Company to be a globally recognized world-class profitable refining and petrochemical enterprise that is locally committed in its value creation objectives.

On behalf of the Petro Rabigh Board of Directors, I would like to thank each and every one of the Petro Rabigh valued shareholders for your continued trust in the Company. Also, I would like to thank Petro Rabigh's executive management and all its employees for their determination and dedication to ensure the Company's continued success and prosperity.

Abdulaziz F. Al-Khayyal
Chairman of the Board of Directors

Solid Results

Net profit for the twelve months was SR 208.7 million, compared to a loss of SR 1,433.1 million in 2009.

1. Company

Rabigh Refining and Petrochemical Company (Petro Rabigh) was established as a Saudi limited liability Company under Commercial Registration No. 4602002161 on 15-08-1426H (corresponding to September 19, 2005). The Company was converted into a joint stock Company pursuant to the Minister of Commerce and Industry's Resolution No 262/Q dated 22/10/1428H (corresponding to November 3, 2007). The objectives of the Company are the development, construction and operation of an integrated petroleum refining and petrochemical complex. The complex will manufacture refined petroleum products, petrochemical products and other hydrocarbon products which include the following: gasoline, naphtha, jet fuel, diesel, fuel oil, polyethylene, mono ethylene glycol (MEG), polypropylene and propylene oxide (PO).

2. Company's Business

Company business is composed of two main activities: namely refining and petrochemical production. The two activities are integrated to maximize profit and minimize cost by converting low valued products to higher margin products.

Refining:

The Company can process up to 400,000 barrels per day of Arabian Light crude oil and produce 134 million barrels of gasoline, naphtha, jet fuel, diesel and fuel oil annually.

Petrochemical Production:

The Company produces up to 2,400 kilo tons per annum of polyethylene, mono ethylene glycol, polypropylene and propylene oxide from crude oil, ethane and butane feedstock supplied by Saudi Aramco.

3. Products Sales and Marketing

The marketing agreements between the Company and the two founding shareholders, namely Saudi Aramco and Sumitomo Chemical, are the key documents to govern the relationship between the Company and its marketers. Saudi Aramco is the sole marketer of the Company's refined products while Sumitomo Chemical is responsible for marketing a major portion of the petrochemical products. The remaining portions of the petrochemical products are marketed directly by the Company within the GCC and the Middle East. The Company is benefitting from the well established marketing and distribution networks of both founding shareholders.

4. Operational Achievements and Future Operation Plans

Year 2010 has been a remarkable year in the history of Petro Rabigh. It witnessed full commercial operations, as well as recording the first profitable year for the Company. Petro Rabigh has continued its commitment towards its shareholders and has generated net profits totaling SR 208.7 million, compared to a loss of SR 1,433.1 million in 2009.

Metric Tons/Annum

2,400,000 Petrochemicals
Capacity



During 2010, the Company produced and marketed more than 112 million barrels of refined products in the Saudi and international markets. Furthermore, Petro Rabigh supplied the local and global petrochemical demand with approximately 2 million metric tons of petrochemical products.

On the other hand, as part of its efforts to support the Saudi industrial sector, Petro Rabigh signed an agreement to provide propylene oxide to the Saudi Advanced Industries Company (SAIC) and the National Manufacturing Company (Tasnee). Per this agreement, Petro Rabigh provides the complex of these two companies with 100,000 metric tons per year of propylene oxide to produce 120,000 metric tons of polyether polyol. This product is used in manufacturing polyurethane material used in producing furniture, automotive parts, construction and thermal insulation components.

A maintenance shutdown of the whole complex is planned to commence during the second quarter of 2011. The maintenance shutdown is required for the existing refinery that was transferred from Saudi Aramco to the Company on October 1, 2008. Due to the integration of the complex, the Company will take this opportunity to perform an initial inspection of all major equipment and facilities throughout the complex.

It is noteworthy that during 2010, the Company received the first prize from the Forum for Global Competition for being the Company that attracted the largest foreign investment to the Kingdom of Saudi Arabia.

5. Risks Related to the Main Business of the Company

The business of Petro Rabigh relies on oil refining and petrochemical production which are exposed to the following risks:

- Competitive market risks.
- Downturn or recession in the global economy that causes the decline in demand for refined products and petrochemicals, and thus in turn leads to a decrease in the prices of these products, which affects the Company's sales and revenues.
- Economic risks which may impact inflation, wage levels, currency exchange rates, freight rates or the movement of international trade. This may have a positive or negative impact on the activity of the Company and its financial position.
- Risks associated with environmental protection. Despite the fact that Petro Rabigh is committed to, and applies, the highest environmental standards, there is a possibility of more stringent environmental laws that might impact market realization.
- Risks of anti-dumping laws, where some countries impose anti-dumping duties on petrochemical products from other regions of the world. This makes the prices of products from those regions uncompetitive.
- The risks of interruption of supply of services such as water, electricity and steam from the suppliers to the Company's complex, which may have a negative impact on operations.

6. Financial Summary

The Company's financial results for 2010 witnessed a significant improvement over the previous year, particularly in the fourth quarter. Following is a brief description of the 2010 financial outcome in comparison to the previous year:

- Net profit for the twelve months was SR 208.7 million, compared to a loss of SR 1,433.1 million for the same period in 2009.

- Earnings per share during the twelve months were SR 0.24, compared to a loss of SR 1.64 per share for the same period in 2009.
- The gross profit during the twelve months was SR 728.7 million, compared to a gross loss of SR 455.4 million for the same period during 2009.
- Operating loss during the twelve months was SR 112.8 million, compared to a loss of SR 1,209 million for the same period of the previous year, a decrease of 90.7%.

The Company's financial results for 2010 were significantly better than what was expected despite the unplanned outages of various plants during the year. Year 2010 observed full commercial operations of the entire complex with higher operating capacity, and sales compared to 2009.

Balance Sheet

	SR'000 2010	SR'000 2009	SR'000 2008	SR'000 2007	SR'000 2006
Current Assets	12,212,302	8,947,680	5,055,939	697,089	2,998,969
Non-Current Assets	35,030,684	43,198,730	42,855,000	26,263,517	8,171,966
Total Assets	47,242,986	52,146,410	47,910,939	26,960,606	11,170,935
Current Liability	13,639,248	11,337,665	7,199,074	1,564,271	1,952,033
Long-Term Loans & other Liabilities	25,593,941	32,977,927	31,448,024	19,443,750	6,768,750
Equity	8,009,797	7,830,818	9,263,841	5,952,585	2,450,153
Total Liabilities & Equity	47,242,986	52,146,410	47,910,939	26,960,606	11,170,935

Income Statement

	SR'000 2010	SR'000 2009	SR'000 2008	SR'000 2007	SR'000 2006
Income	46,837,888	29,422,706	6,543,342	--	--
Refined Products	39,057,796	27,897,120**	6,543,341*	--	--
Petrochemical Products	7,780,092	1,525,586**	--	--	--
Cost of Goods Sold	(46,109,234)	(29,878,063)	(7,165,236)	--	--
Gross Profit (Loss)	728,654	(455,357)	(621,894)	--	--
General & Administrative Expenses	(841,452)	(753,630)	(679,664)	(422,898)	(260,058)
Other Income (losses) - Net	321,488	(224,070)	45,315	(19,669)	85,210
Net Profit (Loss)	208,690	(1,433,056)	(1,256,243)	(442,567)	(174,848)

BBLS

112,089,200 Refined
Products Sold



* This only pertains to 4th Qtr, where the existing refinery was procured on October 1

** This only pertains to commercial sales, where pre-commercial sales were deducted from the Construction in Progress account

The financial statements of the Company have been prepared and kept in accordance with accounting principles generally accepted in the Kingdom of Saudi Arabia, and these principles are constantly applied in the Company. There is no deviation from the accounting standards issued by the Saudi Organization of Certified Public Accountants.

7. Geographical Sales Analysis

The Company has been producing refined and petrochemical products since the start of 2010. As indicated in the graphs below, a major portion of the produced refined products were marketed domestically while a major portion of the petrochemical products were marketed outside of Saudi Arabia.

• Refined Products

The sales volume of Petro Rabigh's refined petroleum products in 2010 amounted to 112,089,200 barrels, 29% of which were exported to international markets.

The following chart shows the geographical distribution of the Company's sales of refined petroleum products:

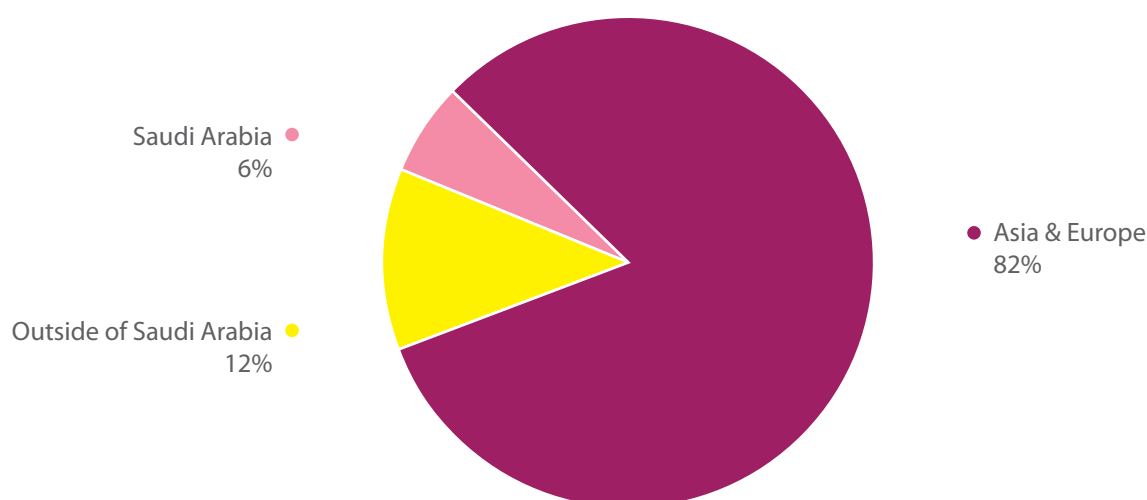


• Petrochemical Products Sector

The sales volume of Petro Rabigh's petrochemical products in 2010 amounted to 1,918,468 metric tons, 94% of which was exported to international markets. The following chart shows the geographical distribution of the Company's sales of petrochemical products:

Geographical Distribution of Petrochemicals

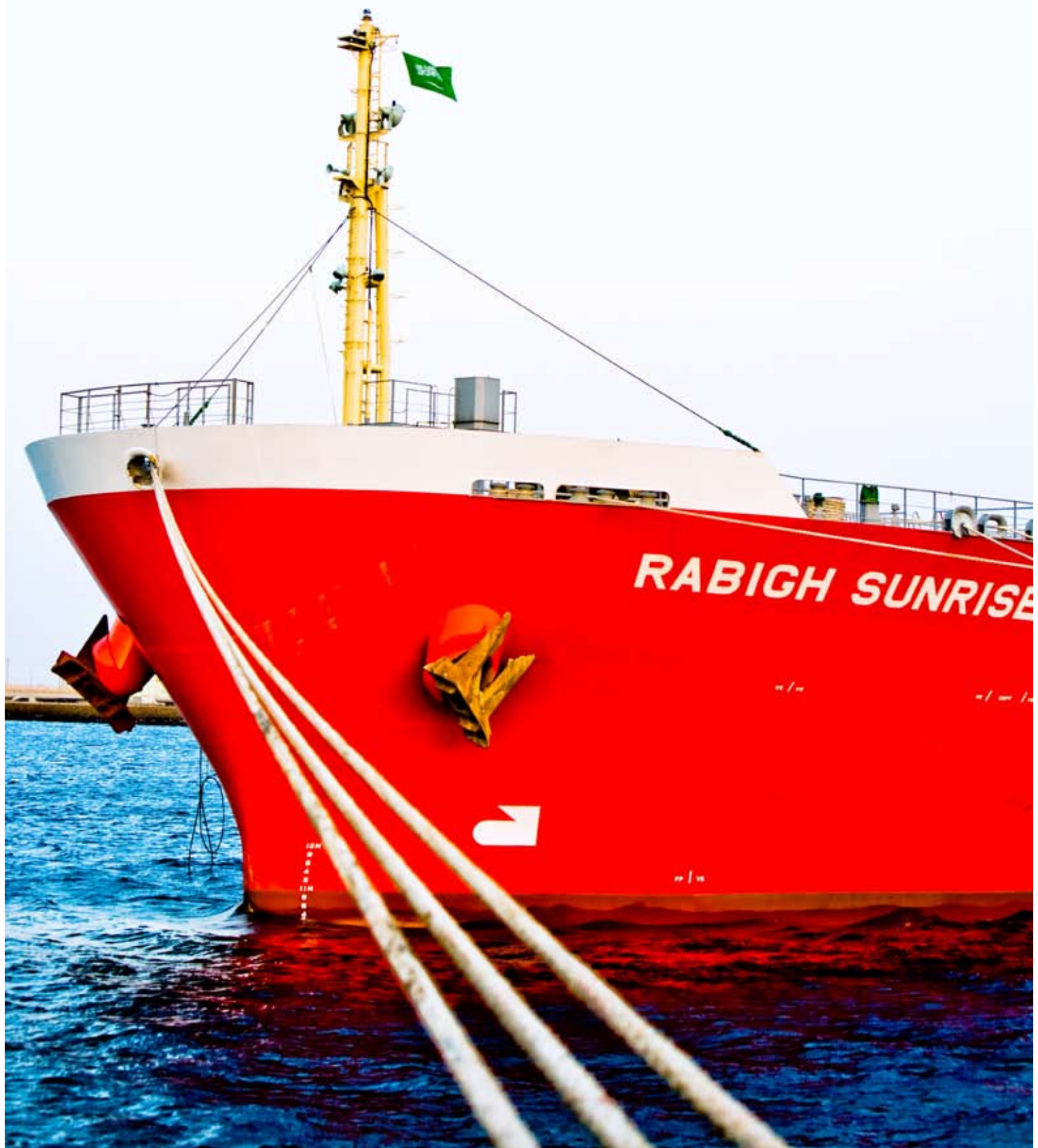
(1,918,468 Metric Tons)



8. Penalties and Sanctions

There were no penalties or restrictions imposed on the Company by the Capital Market Authority (CMA), by any supervisory, regulatory or other jurisdiction party.

Metric Tons **1,918,468** Petrochemical
Products Sold



9. Dividends Distribution Policy

The Company's annual profits shall be allocated, after deducting all general expenses and other costs including taxes and Zakat, as follows:

- 10% of the annual net profit shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when statutory reserve equals half of the Company's equity capital.
- The Ordinary General Assembly may, upon a request of the Board of Directors, set aside a percentage of the annual net profit to form an additional reserve to be allocated for purposes decided by the Ordinary General Assembly.
- All the remaining amounts of the annual net profits shall be distributed to shareholders as dividends unless the Ordinary General Assembly decides otherwise.

Furthermore, dividends distribution is based on the recommendation of the General Assembly based on the result of the cash flow and the governmental accrual, taking into consideration the restrictions in dividend distribution required by lenders in the facility agreements.

Also, there are no arrangements or agreements whereby any of the shareholders gives up his/her rights to the profits until December 31, 2010.

10. Communications with Shareholders

Petro Rabigh pays special attention to its shareholders, as it applies several measures to ensure similar access of information through "Tadawul" and the corporate web site; www.petrorabigh.com. The Company also provides comprehensive information on its activities and operations in the quarterly and annual financial statements and reports. Furthermore, the Company is keen on communicating with shareholders, answering their questions and providing them with all the required information in a timely manner and within the disclosure and transparency regulations and rules issued by the Capital Market Authority (CMA).

11. Board of Directors

The Board of Directors of Petro Rabigh consists of eight members, and continues its current composition for a period of five years since the establishment date and until 2013.

The Board of Directors held four meetings during 2010, and attendance was as follows:

Name	Title	Meetings Attended
Abdulaziz F. Al-Khayyal	Chairman (Non-Executive)	Four
Hiromasa Yonekura	Deputy Chairman (Non-Executive)	Two
Ziad S. Al-Labban	President & CEO of the Company (Executive Director)	Four
Noriaki Takeshita	Executive Director	Four
Motassim A. Al-Ma'ashouq	Non-Executive Director	Four
Osamu Ishitobi	Non-Executive Director	Four
Saud A. Al-Ashgar	Independent Director	Four
Ahmed S. Al-Humaid	Independent Director	Four

Changes in Members of the Board of Directors:

There has been no change to the Board of Directors' composition in 2010.

Membership of the Board Members in other Companies:

The directors listed below are also members on boards and hold positions in other companies:

Name	Company	Title
Abdulaziz F. Al-Khayyal	Saudi Arabian Oil Company (Saudi Aramco)	Board Member & Senior Vice President
Hiromasa Yonekura	Sumitomo Chemical Company Japan-Singapore Petrochemical Co., Ltd.	Chairman of the Board of Directors President
Osamu Ishitobi	Sumitomo Chemical Company	Executive Vice President
Saud A. Al-Ashgar	S-Oil Corporation (Korea)	Board Member

Board of Directors Shares Ownership:

The table below shows the number of shares owned by Board members and their families:

Name	Beginning of 2010	End of 2010
Abdulaziz F. Al-Khayyal	126	126
Saud A. Al-Ashgar	85,400	85,400
Ahmed S. Al-Humaid	210	4,210
Motassim A. Al-Ma'ashouq	168	168
Ziad S. Al-Labban	--	--

Fees & Remuneration:

The details of the Board meeting expenses, remuneration and Company executives' salaries are tabulated below:

	SR'000 Executive Board Members	SR'000 Independent Board Members	SR'000 Five Senior Executives (Including CEO & CFO)
Salaries & Compensation	2,179		5,610
Allowances		24	
Periodic Annual Remunerations*			
Incentives Plans			
Other Compensations or benefits		300	

*Non-independent BOD members have waived their annual bonuses

12. Board Audit Committee

The Audit Committee oversees financial, risk management and internal control aspects of the Company's operations. Its responsibilities include the review and discussion of the Company's interim and annual financial statements. The Board Audit Committee oversees the Company's external auditor and reviews the effectiveness of external and internal audit and has the authority to engage such external experts, as it deems necessary to fulfill its obligations of stewardship on the financial affairs of the Company.

The Board Audit Committee has responsibility for reviewing effectiveness of the Company's system of internal controls, accounting information systems and finance department competencies and capabilities in light of compliance with generally accepted accounting standards.

The Board Audit Committee held 7 meetings during 2010 with attendance as follows:

Name	Title	Meetings Attended
Motassim A. Al-Ma'ashouq	Chairman of Board Audit Committee	Seven
Osamu Ishitobi	Member	Seven
Saud A. Al-Ashgar	Member	Seven
Ahmed S. Al-Humaid	Member	Seven

Based on the comprehensive review conducted by the Board Audit Committee, the committee reports that the Company is applying an effective internal auditing system and that all its financial practices are in line with accepted accounting standards followed in the Kingdom of Saudi Arabia.

Solid Performance

The gross profit during the twelve months was SR 728.7 million, compared to a gross loss of SR 455.4 million for the same period during 2009.

13. Nomination, Remuneration and Compensation Committee

The Committee, which has a duration of three years, decides on how the Board's performance is to be evaluated and proposes objective performance criteria, subject to the approval of the Board. The main duties of the Committee include, but are not limited, to the following:

- Recommending nomination of the independent Directors to the Board.
- Annually reviewing the required skills of the independent Directors of the Board and the time that a Director should dedicate to the Board's functions.
- Verifying annually the independence of the independent Directors and the absence of any conflict of interests if the Directors serve as directors on the Board of any other Company.



- Recommending to the Board clear policies for the remuneration for the Directors and senior executive officers using the performance criteria.

During the year the Committee held three meetings and attendance was as follows:

Name	Title	Meetings Attended
Motassim A. Al-Ma'ashouq	Chairman of Board Audit Committee	Three
Ahmed S. Al-Humaid	Member	Three
Ziad S. Al-Labban	Member	Three
Osamu Ishitobi	Member	Three

On October 16, 2010 the Board of Directors reappointed the Chairman of the Nomination, Remuneration and Compensation Committee and members for two additional years ending on October 15, 2012.

Contracts with Material Interest to the Board of Directors:

The Board of Directors declares that none of its members have any material interest in any of the contracts that the Company has entered in.

14. Loans

The Company has utilized all of the loans available to it from third-party lenders totaling SR 21,900 million. It has also drawn down a total of SR 2,287.5 million from each of its founding shareholders during 2008 and 2009.

All the loan repayments, including the founding shareholder subordinated loans, are expected to start after commercial operation and will last until 2021. The Company did not start repaying any of its loans as of the end of 2010.

Loans from Commercial, Islamic and Governmental Banks:

The following table shows Petro Rabigh loans from commercial banks, Islamic banks and government agencies:

Lender	SR'000 Dec. 31, 2010	SR'000 Dec. 31, 2009	SR'000 Dec. 31, 2008	SR'000 Dec. 31, 2007
Japan Bank for International Co-operation	9,375,000	9,375,000	9,375,000	9,375,000
Commercial Banks	6,525,000	6,525,000	6,525,000	6,525,000
Public Investment Fund	3,750,000	3,750,000	3,750,000	2,043,750
Islamic Financial Institutions	2,250,000	2,250,000	2,250,000	1,500,000
Total	21,900,000	21,900,000	21,900,000	19,443,750

Loans from Founding Shareholders:

The following table lists Petro Rabigh loans from the two founding shareholders:

Lender	SR'000 Dec. 31, 2010	SR'000 Dec. 31, 2009	SR'000 Dec. 31, 2008	SR'000 Dec. 31, 2007
Saudi Aramco	2,287,500	2,287,500	1,500,000	--
Sumitomo Chemical	2,287,500	2,287,500	1,500,000	--
Total	4,575,000	4,575,000	3,000,000	--

15. Accruals for Government Institutions and Zakat Assessment

The Company has provided the Department of Zakat and Income Tax (DZIT) all requested information in relation to year 2006 Zakat in addition to a request pertaining to year 2007 Zakat. As of end of 2010, the Company did not receive any decision nor request for further information from DZIT in regard to the same matter.

Following are accrued liabilities which consist of accrued income taxes, withholding taxes and the Company contribution to GOSI.

	SR'000 Dec. 31, 2010	SR'000 Dec. 31, 2009	SR'000 Dec. 31, 2008
Department of Zakat & Income	87,222	17,378	32,145
General Organization for Social Insurance	3,904	2,156	1,759
Total	91,126	19,534	33,904

16. Incentive Programs for Staff

• Shares Ownership Incentive Program for Employees:

The Board of Directors has approved implementation of an employee share ownership plan (ESOP) which provides 800 shares to eligible employees at the end of a 5-year maturity period. To implement this, the Company arranged with a commercial bank to subscribe for 1.5 million shares during the IPO period at the offer price of SR 21 per share. These ESOP shares are managed by Riyadh Capital under an open ended mutual fund which has offered to subscribe and hold such shares "on trust" for the employees as part of an Administrative Service Agreement. These shares, as service awards to employees, are amortized evenly over a period of five years and allocated to eligible employees until the vesting period has been fully met.

As of the end 2010, a total of 1,700 employees have joined the ESOP Incentive Program, and a total of 2,400 shares were allocated to three deceased employees' family members and dependents.

• Home Ownership Incentive Program:

The Board of Directors of Petro Rabigh approved implementing an incentive program for the Saudi employees from both genders to own housing units. The program aims at providing stability for staff and the convenience of living near the Company's facilities, which should positively reflect on their performance and continued employment with the Company. Per this program, the employee can own or build a housing unit for a single family in the province of Rabigh.

17. Workforce and Training

As of the end of December 2010, the total number of direct and indirect hired employees in Petro Rabigh reached 2,692, with a Saudization level of 76%.

Petro Rabigh has achieved significant progress towards the recruitment and development of a skilled workforce. The Company has established in-house and Out-Of-Company (OOC) training programs in coordination with specialized institutes, especially in the operation and maintenance aspects of the plants. Special focus has been put on safety, certification training, professional and leadership training. During 2010, a total number of 426 employees have been enrolled in 28 in-house training programs, while 235 employees have attended OOC programs.

As part of the Company's effort to qualify national manpower, four training programs were established: the Apprenticeship Program, the Professional Development Program, the College Degree Program for Non-Employees, and the College Continuation Program for Non-Employees. Since commencement of the Apprenticeship Program, a total of 694 trainees have enrolled.

18. Corporate Social Responsibility (CSR)

The Company's management recognizes the significance of Corporate Social Responsibility (CSR), as well as realizing and maintaining an attractive return for its shareholders. Accordingly, the Company started several CSR initiatives that support the education sector in the Rabigh area, such as providing Bachelor Degree scholarships in Japanese universities, conducting summer training programs, equipping schools in the Rabigh area with science & language labs and providing reliable and safe school transportation services.

In addition, the Company has provided job opportunities for local residents through direct hiring and support services contracts. Business development was also a major CSR accomplishment during year 2010, where many contracts were awarded to Rabigh-based firms. Social development initiatives were also established by providing support services, such as providing irrigation and drinkable water to several organizations in Rabigh. Petro Rabigh has also awarded a contract to expand a 6 km stretch of local road which connects to the Jeddah–Yanbu highway.

19. Safety, Health and Environmental Protection

The Company is committed to protect the surrounding environment and the health of its employees and contractors. This is supported through recruitment of high quality professionals, implementing the best available technologies, local and international standards to control gaseous emissions, managing chemical wastes and implementation of contemporary occupational health and environmental standards.

To achieve its goals, the Company issued a number of policies and procedures such as a Safety, Health and Environment policy, Environment Monitoring Procedures, Hazardous Chemical Wastes Storage & Disposal and Protection of Rabigh Marine Environment.

The Company is implementing an Integrated Management System to achieve ISO certification in Quality, Environment, Safety, and Occupational Health. Several safety campaigns have been conducted among Petro Rabigh's employees to promote safe practices and boost safety awareness.

20. Compliance with Corporate Governance

The Company is committed to apply all rules listed in the Corporate Governance Regulation issued by the Capital Market Authority (CMA).

21. Declarations of the Board of Directors

The Board of Directors declares the following:

- The accounting records have been properly prepared.
- The internal control system was prepared on a sound basis and was effectively carried out.
- There is no doubt about the Company's ability to pursue its activities.

The External **Auditors' Report**

(for the year ending December 31, 2010)



**KPMG Al Fozan & Al Sadhan**

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

INDEPENDENT AUDITORS' REPORT

The Shareholders
Rabigh Refining and Petrochemical Company
Rabigh, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of Rabigh Refining and Petrochemical Company ("the Company") which comprise the balance sheet as at December 31, 2010 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes 1 through 30 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and the Company's Articles of Association. Management's responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

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

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

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

**Opinion**

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

- 1) present fairly, in all material respects, the financial position of the Company as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License no. 352



Rabi al-Awwal 19, 1432H
Corresponding to February 22, 2011

Balance Sheet

As at 31 December 2010 (Expressed in Saudi Arabian Riyals '000)

	Note	SR'000 2010	SR'000 2009
Assets			
Current assets			
Cash & cash equivalents	5	2,548,486	1,306,235
Trade receivables	6	6,452,386	4,682,139
Inventories	7	2,826,421	2,670,455
Current portion of long-term loan	12	158,642	--
Prepayments & other current assets	8	226,367	288,851
Total current assets		12,212,302	8,947,680
Non-current assets			
Property, plant and equipment	9	31,480,370	33,388,287
Leased assets	10	352,544	6,300,732
Intangible assets	11	291,914	297,574
Long-term investment	12	8,556	8,556
Long-term loan	12	2,897,300	3,203,581
Total non-current assets		35,030,684	43,198,730
Total assets		47,242,986	52,146,410
Liabilities And Equity			
Current liabilities			
Short-term bank debts	14	--	894,940
Current portion of finance lease obligations	10(f)	8,736	139,918
Current portion of long-term loans	16	1,278,496	--
Trade and other payables	13	11,510,036	9,454,877
Accrued Zakat	23	74,322	--
Accrued expenses and other current liabilities	15	767,658	847,930
Total current liabilities		13,639,248	11,337,665
Non-current liabilities			
Long-term loans	16	20,621,504	21,900,000
Loan from Founding Shareholders	17	4,575,000	4,575,000
Finance lease obligations	10(f)	368,256	6,485,575
Provision for deferred employee service awards	19	18,346	12,062
Employees' end of service benefits		10,835	5,290
Total non-current liabilities		25,593,941	32,977,927
Total liabilities		39,233,189	44,315,592
Shareholders' equity			
Share capital	18	8,760,000	8,760,000
Statutory reserve	18	2,429,869	2,409,000
Employee Share Ownership Plan	19	(31,450)	(31,467)
Accumulated losses		(3,148,622)	(3,306,715)
Total shareholders' equity		8,009,797	7,830,818
Total liabilities and shareholders' equity		47,242,986	52,146,410

The accompanying notes 1 to 30 form an integral part of these financial statements.



Statement Of Income

As at 31 December 2010 (Expressed in Saudi Arabian Riyals '000)

	Note	SR'000 2010	SR'000 2009
Sales	4	46,837,888	29,422,706
Cost of Sales	4	(46,109,234)	(29,878,063)
Gross profit (loss)		728,654	(455,357)
General and administrative expenses	20	(752,614)	(747,816)
Marketing and selling expenses		(88,838)	(5,814)
Total expenses		(841,452)	(753,630)
Operating loss		(112,798)	(1,208,987)
Interest and other income	21	660,582	129,722
Financial charges	22	(339,094)	(353,791)
Net income (loss) for the year		208,690	(1,433,056)
Income (loss) per share	24	0.24	(1.64)

The accompanying notes 1 to 30 form an integral part of these financial statements.

Statement Of Cash Flows

As at 31 December 2010 (Expressed in Saudi Arabian Riyals '000)

	SR'000 2010	SR'000 2009
Cash flows from operating activities		
Net income (loss) for the year	208,690	(1,433,056)
<i>Adjustments to reconcile net income / (loss) to net cash from (used in) operating activities:</i>		
Depreciation	1,979,081	1,042,374
Amortization of intangible assets	39,866	22,720
Loss on disposal of property, plant and equipment	--	255
Gain on derecognition of leased assets/liabilities	(310,843)	--
Provision for deferred employee service awards and employee Share Ownership Plan	6,301	6,321
Provision for employees' end of service benefits	5,928	1,791
<i>Changes in operating assets and liabilities:</i>		
Increase in trade receivables	(1,770,247)	(2,333,647)
Increase in inventories	(155,966)	(1,696,347)
Increase in current portion of long-term loan receivables	(158,641)	--
Decrease / (increase) in prepayments and other current assets	62,483	(89,601)
Increase in trade and other payables	2,184,676	2,587,967
Increase in Zakat payable	74,322	--
Increase (decrease) in accrued expenses and other current liabilities	(80,272)	426,798
	2,085,378	(1,464,425)
Employee end of service benefits paid	(382)	(118)
Net cash from (used in) operating activities	2,084,996	(1,464,543)
Cash flows from investing activities		
Additions to construction in progress	(245,823)	(1,226,054)
Net movement in long-term investment and other balances with RAWEC	306,281	125,489
Net cash from (used in) investing activities	60,458	(1,100,565)
Cash flows from financing activities		
Net movement in short-term bank debts	(894,940)	894,940
Loans received from Founding Shareholders	--	1,575,000
Repayment of finance lease obligations	(8,263)	(132,686)
Net cash (used in) from financing activities	(903,203)	2,337,254
Net increase (decrease) in cash and cash equivalents	1,242,251	(227,854)
Cash and cash equivalents as at 1 January	1,306,235	1,534,089
Cash and cash equivalents as at 31 December	2,548,486	1,306,235

The accompanying notes 1 to 30 form an integral part of these financial statements.

Statement of Changes In Shareholders' Equity

For the year ended 31 December 2010 (Expressed in Saudi Arabian Riyals '000)

	SR'000 Share capital	SR'000 Statutory reserve	SR'000 Employee share ownership plan	SR'000 Accumulated loss	SR'000 Total
Balance at 1 January 2009	8,760,000	2,409,000	(31,500)	(1,873,659)	9,263,841
Vesting of IPO of shares see Notes 1, 18 & 19)	--	--	33	--	33
Net loss for the year	--	--	--	(1,433,056)	(1,433,056)
Balance at 31 December 2009	8,760,000	2,409,000	(31,467)	(3,306,715)	7,830,818
Vesting of IPO of shares (see Notes 1, 18 & 19)	--	--	17	--	17
Net income for the year	--	--	--	208,690	208,690
Transfer to statutory re- serves	--	20,869	--	(20,869)	--
Zakat charge for the year	--	--	--	(74,322)	(74,322)
Zakat reimbursable from shareholder	--	--	--	44,594	44,594
Balance at 31 December 2010	8,760,000	2,429,869	(31,450)	(3,148,622)	8,009,797

The accompanying notes 1 to 30 form an integral part of these financial statements.

Notes To Financial Statement

31 December 2010 (Expressed in Saudi Arabian Riyals '000)

1. Organization And Principal Activities

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

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

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

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

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

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

2. Basis Of Preparation

Statement of compliance

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

Basis of measurement

These financial statements have been prepared under the historical cost convention using the accrual basis of accounting and the going concern concept.

Functional and presentation currency

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

Use of estimates and judgments

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

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

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements mainly comprise the leased assets (see Note 10), Employee Share Ownership Plan (see Note 19) and useful lives of property, plant and equipment (see Note 9).

3. Significant Accounting Policies

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

Cash and cash equivalents

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

Trade receivables

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

Inventories

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

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



Property, plant and equipment

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

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

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

	Years
Buildings, roads and infrastructure	8 – 25
Plant, machinery and operating equipment	6 – 25
Motor and construction equipment	5 – 20
Furniture and IT equipment	3 – 14

Leased assets

The Company accounts for tangible assets obtained under finance lease arrangements, including certain “build-operate-transfer” contracts, by capitalizing the assets and the related liability (lease obligations). The amounts to be capitalized are determined on the basis of the lower of fair value of assets at the inception of the lease and the discounted value of minimum lease payments. Finance charges are allocated to each accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives.

Operating leases

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

Intangible assets

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

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

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

	Years
Software	5
Licenses	15 - 22.5

Impairment of assets

Financial assets and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Long-term investment

The Company has an investment which is not for trading purposes and the Company does not have significant influence or control and accordingly this is classified as an investment available for sale. The investment is measured at cost.

Trade and other payables 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.

Provisions

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

Zakat and income tax

Zakat and income tax computed in accordance with Saudi Arabian fiscal regulations are accrued and charged to retained earnings. The Founding Shareholders have agreed to reimburse their liability of Zakat and income tax from the proceeds of the future appropriations, such amount receivable from the shareholders will be credited to retained earnings.

Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which employees are entitled, should their services be terminated at the balance sheet date.

Employee Share Ownership Plan

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

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

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

Revenue recognition

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

Revenue from services (port charges) is recognized when services are rendered.

Expenses

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

Foreign currency translation

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

For the purpose of preparation of the financial statements, the Company restates all financial information from US Dollars to Saudi Arabian Riyals using a fixed exchange rate of SR 3.75 / US Dollar 1.

Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

4. Arrangement With Shareholders

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

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

(a) Crude Oil Feedstock Supply Agreement:

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

(b) Refined Products Lifting and Marketing Agreement:

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

(c) Petrochemical Products Lifting and Marketing Agreement:

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

(d) Credit Facility Agreement:

On 18 March 2006, the Company entered into a Credit Facility Agreement (CFA) with both of its Founding Shareholders. Under the provisions of this agreement, the Founding Shareholders agreed to grant to the Company a loan facility up to a maximum aggregate amount of SR 6,206 thousands for the development, design, construction and operation of the integrated petroleum refining and petrochemical project. The commitment of the Founding Shareholders in respect of this facility shall expire on 1 July 2011. Repayment of the principal and the accrued commission to the Founding Shareholders shall not be made before the first scheduled loan repayments to the commercial banks and financial institutions have been made.

(e) Terminal Lease Agreement:

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

(f) Secondment Agreements:

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

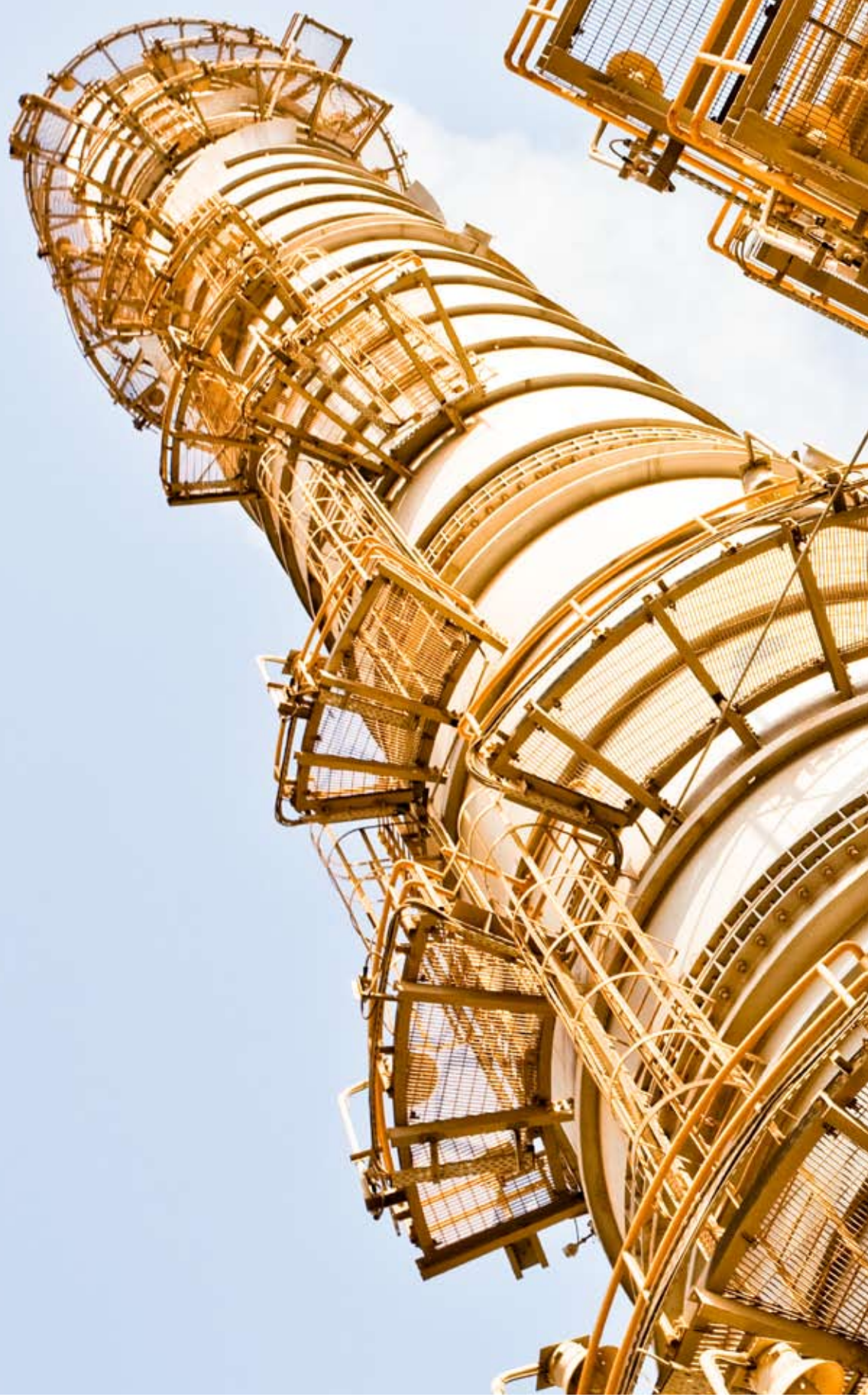
(g) Services Agreements:

The Company has entered into Services Agreements with each of its Founding Shareholders that with Saudi Aramco dated 8 May 2006, and with Sumitomo Chemical dated 27 May 2006. Each of these agreements has an initial term of 5 years with effect from 1 August 2005, and may be renewed thereafter for consecutive additional periods of one year each.

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

(h) Rabigh Refinery Complex Lease Agreement:

The Company has entered into Rabigh Refinery Complex Lease Agreement with Saudi Aramco dated 1 November 2005 for the lease of approximately 11.7 million square meters for a period of 99 years, with effect from 1 November 2005, and may be renewed thereafter for consecutive additional periods as agreed. The Company shall pay to



Saudi Aramco rent in an amount equal to SR 1 per square meter per annum starting from Rabigh Refinery transfer date.

(i) Rabigh Community Lease Agreement:

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

5. Cash And Cash Equivalents

	SR'000 2010	SR'000 2009
Cash in hand	128	137
Cash at bank in current accounts	111,005	1,306,098
Short-term bank deposits	2,437,353	--
Total	2,548,486	1,306,235

6. Trade Receivables

	SR'000 2010	SR'000 2009
Saudi Aramco - (Note 4 (b))	5,330,698	4,133,199
Sumitomo Chemical Asia - (Note 4 (c))	812,264	459,870
Others	309,424	89,070
Total	6,452,386	4,682,139

7. Inventories

	SR'000 2010	SR'000 2009
Raw materials	299,524	188,213
Work-in-process	118,376	110,798
Semi-finished goods	691,466	499,758
Finished goods	1,088,142	1,198,019
Spare parts and consumables	628,913	673,667
Total	2,826,421	2,670,455

8. Prepayments And Other Current Assets

	SR'000 2010	SR'000 2009
Custom duty deposits	119,499	136,284
Due from related parties	7,015	6,432
Advances to suppliers	12,091	31,847
Prepayments and other receivables	87,762	114,288
Total	226,367	288,851

9. Property, Plant And Equipment

	SR'000 Buildings, roads & infra- structure	SR'000 Plant, machinery & operating equipment	SR'000 Motor and construction equipment	SR'000 Furniture and IT equipment	SR'000 Capital projects in progress	SR'000 Total
Cost:						
At 1 January 2010	4,386,208	29,450,005	62,310	261,642	17,790	34,177,955
Transfers from construction in progress	703	524	--	--	(1,227)	--
Transfers to intangible assets	--	(34,206)	--	--	--	(34,206)
Additions	--	67,538	--	--	19,039	86,577
Reclassification	334,968	(379,994)	--	45,026	--	--
At 31 December 2010	4,721,879	29,103,867	62,310	306,668	35,602	34,230,326
Accumulated depreciation:						
At 1 January 2010	160,351	591,221	24,002	14,094	--	789,668
Charge for the year	280,075	1,630,991	18,888	30,334	--	1,960,288
At 31 December 2010	440,426	2,222,212	42,890	44,428	--	2,749,956
Net book value:						
At 31 December 2010	4,281,453	26,881,655	19,420	262,240	35,602	31,480,370
At 31 December 2009	4,225,857	28,858,784	38,308	247,548	17,790	33,388,287

9.1 The depreciation on property, plant and equipment and leased assets is allocated as follows:

	SR'000 2010	SR'000 2009
Cost of sales	1,865,902	952,667
General and administrative expenses	113,179	89,707
Total	1,979,081	1,042,374

9.2 The land used for the Refinery and the Petrochemical plant is on operating lease from one of the Founding Shareholders for a period of 99 years (see Note 4(h)).

10. Leased Assets

a) Leased assets at 31 December 2010 acquired under finance lease terms and detailed as under:

	SR'000 Desalination and power plants (c & d)	SR'000 Marine terminal facilities (e)	SR'000 Total
Cost:			
At 1 January 2010	6,537,495	288,820	6,826,315
Derecognised during the year	(6,431,480)	--	(6,431,480)
At 31 December 2010	106,015	288,820	394,835
Accumulated depreciation:			
At 1 January 2010	509,887	15,696	525,583
Charge for the year	6,236	12,557	18,793
Derecognised during the year	(502,085)	--	(502,085)
At 31 December 2010	14,038	28,253	42,291
Net book value:			
At 31 December 2010	91,977	260,567	352,544
At 31 December 2009	6,027,608	273,124	6,300,732

b) The aggregate present value of the leased assets was estimated to be SR 394.8 million which has been capitalized as leased assets cost while the total undiscounted minimum lease payments was SR 673.9 million (2009: SR 11.9 billion).

c) Leased assets at 31 December, 2009 included the major desalination and water plant (the Plant) operated by Rabigh Arabian Water and Electric Company (RAWEC) under a "build, own, operate and transfer" contract (the Contract) entered into between the Company and RAWEC. This original contract was assessed as containing a finance lease in respect of the Plant. During the year ended 31 December, 2010, the Company has signed a "Memorandum of Understanding" (MOU) with RAWEC to revise the Contract. According to the revised contract the Plant will continue to be utilized by the Company under an operating lease expiring on 1 June, 2033. Consequently, the leased asset amounting to SR 5.929 billion and related lease obligation amounting to of SR 6.24 billion have been derecognized from the books of the Company, resulting in a gain of SR 311 million to the Company (Note 21). The Company is in the process of finalizing and signing formal revisions to the Contract.

d) The Company has also taken over the interest and obligations of Saudi Aramco in a similar agreement (Modern United Water Desalination Company Limited) in respect of the Desalination plant for the Refinery Complex, with a remaining term of 17 years. The aggregate present value of this leased asset was estimated to be SR 106 million which has also been capitalized as leased assets cost. The total undiscounted minimum lease payments will be SR 143.3 million (2009: SR 153 million).

e) Marine terminal facilities are acquired under a finance lease agreement from Saudi Aramco over a period of 30 years (see Note 4(e)). The total undiscounted minimum lease payments will be SR 530.6 million (2009: SR 549.8 million).

f) At 31 December, the net present value of the finance lease obligations is presented in the financial statements as follows:

	SR'000 2010	SR'000 2009
Current portion shown under current liabilities	8,736	139,918
Non-current portion shown under non-current liabilities	368,256	6,485,575
Total	376,992	6,625,493

g) The future minimum lease payments as of 31 December are analyzed as follows:

Year	SR'000 2010	SR'000 2009
2010	--	509,555
2011	28,834	509,555
2012	28,861	510,899
2013	28,834	509,555
2014	28,834	509,555
2015 and thereafter	558,611	9,417,057
Total	673,974	11,966,176



11. Intangible Assets

Intangible assets are mainly comprised as of 31 December 2010 as follows:

	SR'000 Software	SR'000 Licenses	SR'000 Total
Cost:			
At 1 January 2010	129,059	191,235	320,294
Capitalized during the year	22,233	11,973	34,206
At 31 December 2010	151,292	203,208	354,500
Accumulated amortization:			
At 1 January 2010	13,449	9,271	22,720
Charge for the year	29,517	10,349	39,866
At 31 December 2010	42,966	19,620	62,586
Net book value:			
At 31 December 2010	108,326	183,588	291,914
At 31 December 2009	115,610	181,964	297,574

12. Long-Term Investment And Loan Balances With RAWEC

The Company has entered into a series of agreements with Rabigh Arabian Water and Electricity Company (RAWEC), a Saudi limited liability company formed to construct, operate and subsequently transfer an electricity co-generation and desalination plant at Rabigh, and with RAWEC's developers and financiers. Through these agreements, the Company will provide a portion of the finance for RAWEC's plant construction through drawdowns over the construction and plant preparation period.

The Company has a 1% equity stake in RAWEC in accordance with the Shareholders Agreement. In addition, the Company has provided a total amount of SR 3,990 million of loan finance under a Facilities Agreement.

The investment in RAWEC and loan outstanding at the balance sheet date comprised the following:

	SR'000 2010	SR'000 2009
Long-term investment:		
Equity participation	8,556	8,556
Long-term loans:		
Current portion	158,642	--
Non-current portion	2,897,300	3,203,581
Total	3,055,942	3,203,581

Under the Facilities Agreement, the loans carry interest at 5.765% per annum and repayments are scheduled to be made by RAWEC in monthly instalments from 30 June 2008 to 30 November 2023.

13. Trade And Other Payables

	SR'000 2010	SR'000 2009
Trade accounts payable:		
Related parties – (Note 25)	11,180,633	9,003,559
Others	329,403	343,833
Total	11,510,036	9,347,392
Other payables to related parties – (Note 25)	--	107,485
Total	11,510,036	9,454,877

Trade payables to related parties result principally from the COSA with Saudi Aramco (see Note 4(a)).

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

14. Short-Term Bank Debts

Short-term bank debts at December 31, 2009 represented amounts outstanding under bank overdraft and short-term loan facilities with a commercial bank to finance the working capital requirements of the Company. The financing carried commission (interest) at the rate of SIBOR + a fixed margin of 1.15% per annum. At December 31, 2010, the Company has not availed the bank overdraft and short-term loan facility.

15. Accrued Expenses And Other Current Liabilities

	SR'000 2010	SR'000 2009
Retention deposits	257,024	463,365
Withholding tax payable	12,900	17,379
Accrued interest	273,699	183,218
Others	224,035	183,968
Total	767,658	847,930

16. Long-Term Loans

The Company has entered into loan facility agreements, secured through guarantees of the Founding Shareholders, with various commercial banks and financial institutions, in order to finance approximately 60% of the estimated costs of the Rabigh Development Project. The total facilities available under these term-loan agreements were utilized and the amounts drawn down at balance sheet date are:

	SR'000 2010	SR'000 2009
Japan Bank for International Cooperation	9,375,000	9,375,000
Other commercial banks	6,525,000	6,525,000
Public Investment Fund	3,750,000	3,750,000
Islamic financial institutions	2,250,000	2,250,000
Total	21,900,000	21,900,000

At December 31, 2010, the long-term loans are presented in the financial statements as follows:

	SR'000 2010	SR'000 2009
Current portion	1,278,496	--
Non-current portion	20,621,504	21,900,000
Total	21,900,000	21,900,000

The facilities for the year ended 2010 were subject to commission (interest) at rates between 1.7939 % - 5.4813 % as of the balance sheet date. The financing agreements include certain covenants, which, among other things, require certain financial ratios to be maintained. Repayments under the loan facilities are expected to commence in 2011 and will run up to 2021.

17. Loans From Founding Shareholders

	SR'000 2010	SR'000 2009
Saudi Arabian Oil Company	2,287,500	2,287,500
Sumitomo Chemical Company	2,287,500	2,287,500
Total	4,575,000	4,575,000

Additional loans secured by the Company from the Founding Shareholders are availed as part of the existing credit facility for the development, design, construction and operation of the Project. Repayment of the principal and the accrued commission to the Founding Shareholders shall not be made until after the first repayment to the commercial banks and financial institutions has been made, as referred to in Note 16 and expected within two years from 2011.

18. Share Capital And Statutory Reserve

The Company's share capital of SR 8.76 billion at 31 December 2010 (2009: SR 8.76 billion) consists of 876 million fully paid and issued shares of SR 10 each (2009: 876 million shares of SR 10 each).

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

19. Employee Share Ownership Plan

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

The Company arranged with a commercial bank to subscribe for 1.5 million shares during the IPO at the offer price of SR 21 per share. These ESOP shares are held by the bank in trust for the staff that will become eligible for an award under the plan. Any of the ESOP shares that do not become issuable to eligible employees will be dealt with by the bank in accordance with the Company's instructions, and any disposal proceeds will be for the account of



the Company. The Company recognized the liability through provision by amortizing the total cost of the ESOP shares on a straight line basis over a period of 5 years.

Until these ESOP shares become vested and are transferred to staff, they are accounted for as a deduction from shareholders' equity. During the year, the Company has vested 800 (2009: 1,600) shares to employees' beneficiaries due to accidental death.

20. General And Administrative Expenses

	SR'000 2010	SR'000 2009
Salaries and other staff benefits – (Note 25)	298,191	282,360
Recruitment, apprentice and training expenses – (Note 25)	7,759	11,917
Services and secondment costs – (Note 25)	5,360	20,114
Professional fees	7,829	33,496
Others	433,475	399,929
Total	752,614	747,816

21. Interest And Other Income

	SR'000 2010	SR'000 2009
Interest and other income	175,199	96,603
Port charges	38,117	31,597
Sales of scrap materials	136,423	1,522
Gain on derecognition of leased assets and related lease obligations – (Note 10)	310,843	--
Total	660,582	129,722

22. Financial Charges

The main components of financial charges are as follows:

	SR'000 2010	SR'000 2009
Interest on bank loans - Others	5,784	11,291
Interest on bank loans – Project Finance	216,567	104,965
Interest on Founding Shareholders' loans – (Note 25)	92,802	36,505
Interest on finance lease	20,571	198,336
Foreign exchange loss	3,370	2,694
Total	339,094	353,791

23. Zakat And Income Tax

a) Zakat

The significant components of Zakat base are as follows:

	SR'000 2010	SR'000 2009
Capital (Saudi Share-62.5%) (2009: 62.5%)	5,475,000	5,475,000
Statutory reserve	1,505,625	1,505,625
Adjusted net income (loss)	(2,955,908)	(2,675,539)
Saudi's shareholder loan and similar items	16,782,495	19,703,434
Deduction for property, plant & equipment	(15,489,561)	(22,877,020)
Deduction for construction in progress	--	--
Deduction for investment	(5,348)	(5,348)
Deduction for spare parts & consumables	(272,709)	--
Adjusted brought forward losses	(2,066,697)	(1,171,037)
Total	2,972,897	(44,885)

Zakat charge for the year ended December 31, 2010 is in the amount of SR 74.322 million (2009: SR Nil)

b) Income tax

The Company has an adjusted estimated tax loss relating to the Foreign Shareholder of SR 1,647.6 million for the year; and accumulated estimated tax losses available for offset against future taxable profits of SR 4,164.4 million. Accordingly, no income tax has been accrued for the year.

c) Status of assessments

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

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

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

24. Income (Loss) Per Share

Income (loss) per share for the year 31 December 2010 is computed by dividing the net income (loss) for the year by the weighted-average number of ordinary shares outstanding during the year ended 31 December 2010 of 876 million shares (2009: 876 million shares).

25. Related Party Transactions And Balances

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

Name of entity	Relationship
Saudi Aramco	Founding Shareholder
Sumitomo Chemical	Founding Shareholder
Sumitomo Chemical Engineering Co.	Associate of Founding Shareholder
Sumitomo Chemical Asia. Pte Ltd	Associate of Founding Shareholder
Rabigh Conversion Industry Management Services Co.	Associate of Founding Shareholder
Sumika Alchem Co. Ltd.	Associate of Founding Shareholder
Sumika Chemical Analysis Service	Associate of Founding Shareholder

Significant transactions with the Founding Shareholders and associates arise from the contracts and arrangements set out in Note 4. These transactions, which result in receivables (Note 6) and payables (Note 13) balances with the related party, include:

Nature of transaction	Amount of transactions	
	SR'000 2010	SR'000 2009
Saudi Aramco		
Purchase of feedstock	42,106,585	30,313,523
Sale of refined products	39,057,796	27,897,120
Asset purchases	219	5,435
Interest expense	45,211	63,328
Seconded's and services costs	184,619	303,489
Sumitomo Chemical & its Associates		
Purchase of goods	76,419	64,391
Sale of petrochemical products	5,888,257	1,394,508
Interest expense	45,211	63,328
Seconded's and services costs	175,757	220,328

Transactions with key management personnel:

Key management personnel of the Company comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. Transactions with key manage-

ment personnel on account of salaries and other short-term benefits amounts to SR 7.4 million (2009: SR 6.49 million), are included in secondees and services cost above.

The remuneration paid to the independent directors amounting to SR 324 thousand (2009: SR 324 thousand)

26. Operating Leases

a) The Company has entered into operating leases for land, office space, furniture, vehicles, office equipment and employees' accommodation. The leases are for initial period for 1 year to 5 years with options to renew the leases after lease period. Rental charges for the year ended 31 December 2010 amounted to SR 589.3 million (2009: SR 59.61 million).

b) At 31 December, the Company's obligations under operating leases are analysed as follows:

	SR'000 2010	SR'000 2009
Within one year	595,999	49,117
Between 2 to 5 years	2,169,325	132,813
More than 5 years	9,555,275	1,118,348
Total	12,320,599	1,300,278

27. Segment Reporting

The Company's primary format for segment reporting is based on business segments, (refined products and petrochemicals) determined on the basis of Company's management and internal reporting structure.

	SR'000 Refined products	SR'000 Petrochemicals	SR'000 Total
2010			
Revenue	39,057,796	7,780,092	46,837,888
Cost of sales	(40,816,408)	(5,292,826)	(46,109,234)
Gross (loss) profit	(1,758,612)	2,487,266	728,654
2009			
Revenue	27,897,120	1,525,586	29,422,706
Cost of sales	(28,829,315)	(1,048,748)	(29,878,063)
Gross (loss) profit	(932,195)	476,838	(455,357)

As the Company commenced its petrochemical operations in the last quarter of 2009, the management is in the process of formalizing the basis of allocation of assets, liabilities and common expenses.

28. Financial Instruments And Risk Management

Financial instruments carried on the balance sheet include cash and cash equivalents, trade and other accounts receivable, investments, short-term borrowings, accounts payable, other liabilities, Founding Shareholders loan and long-term debt.

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. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade accounts receivable are mainly due from Saudi Aramco and Sumitomo Chemical (see Note 4 (b) and (c)).

As at 31 December 2010, there were minimal overdue debts equivalent below 0.01% (2009: 0.20%) of the balance with respect to the Company's allowed credit periods.

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

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risks may result from the inability to realise a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Company's transactions are principally in Saudi Arabian Riyals, Japanese Yens and United States Dollars. Currency risk arising from other foreign currency transactions is managed by straight forward purchases of foreign currencies to cover month to month exposures.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

29. Commitments And Contingencies

The Company at 31 December has the following commitment and contingencies.

	SR'000 2010	SR'000 2009
Letter of Guarantee	104,775	104,775

Remaining estimated commitments under existing contracts for the construction of the petrochemical plant and facilities amounted to SR 141.5 million as of 31 December, 2010 (2009: SR 262 million).

30. Board Of Directors' Approval

These financial statements were approved and authorized for issue by the Board of Directors on 22 February 2011.



