

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

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
YANBU NATIONAL PETROCHEMICAL COMPANY - YANSAB
(A SAUDI JOINT STOCK COMPANY)**

Scope of audit

We have audited the accompanying balance sheet of Yanbu National Petrochemical Company (YANSAB) ("the Company") - A Saudi Joint Stock Company - as at 31 December 2011 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company'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 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 statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2011 and the results of its 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 the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence No. 356



29 Safar 1433 H
23 January 2012

Jeddah

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

BALANCE SHEET

As at 31 December 2011

	Note	2011 SR'000	2010 SR'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	599,095	789,735
Murabaha commodity placements	4	768,750	656,250
Amounts due from related parties and other receivables	5	2,582,732	2,079,786
Inventories	6	1,170,021	901,051
TOTAL CURRENT ASSETS		5,120,598	4,426,822
NON-CURRENT ASSETS			
Property, plant and equipment	7	17,588,017	18,425,721
Intangible assets	8	234,142	274,250
Other non-current assets		32,385	36,674
TOTAL NON-CURRENT ASSETS		17,854,544	18,736,645
TOTAL ASSETS		22,975,142	23,163,467
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	9	423,437	256,327
Accruals and provisions	10	737,394	1,058,091
Current portion of term loans	11	863,695	724,624
Current portion of term loan from majority shareholder	12	1,213,412	-
Current portion of Ijara arrangements	13	317,550	222,285
TOTAL CURRENT LIABILITIES		3,555,488	2,261,327
NON-CURRENT LIABILITIES			
Term loans	11	5,864,347	8,040,542
Term loan from majority shareholder	12	678,119	2,870,154
Obligations under Ijara arrangements	13	2,235,552	2,553,102
Employees' terminal benefits		126,819	97,853
TOTAL NON-CURRENT LIABILITIES		8,904,837	13,561,651
TOTAL LIABILITIES		12,460,325	15,822,978
SHAREHOLDERS' EQUITY			
Share capital	15	5,625,000	5,625,000
Statutory reserve	16	498,740	181,308
Retained earnings		4,391,077	1,534,181
TOTAL SHAREHOLDERS' EQUITY		10,514,817	7,340,489
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		22,975,142	23,163,467

Financial Manager

President

Managing Director

The attached notes 1 to 23 form part of these financial statements.

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

STATEMENT OF INCOME

For the year ended 31 December 2011

	<i>Note</i>	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Sales		9,659,342	5,821,530
Cost of sales		<u>(5,866,258)</u>	<u>(3,651,964)</u>
GROSS PROFIT		3,793,084	2,169,566
General and administration expenses	17	<u>(175,403)</u>	<u>(123,072)</u>
INCOME FROM MAIN OPERATIONS		3,617,681	2,046,494
Financial charges		(413,308)	(376,113)
Other income		<u>62,254</u>	<u>42,687</u>
INCOME BEFORE ZAKAT		3,266,627	1,713,068
Zakat	18	<u>(92,299)</u>	<u>(40,289)</u>
NET INCOME FOR THE YEAR		<u>3,174,328</u>	<u>1,672,779</u>
Weighted number of shares Outstanding (in thousands)		<u>562,500</u>	<u>562,500</u>
Earnings per share			
Attributable to income from main operations for the year – SR		6,431	3,638
Attributable to net income for the year – SR		5,643	2,974

Financial Manager

President

Managing Director

The attached notes 1 to 23 form part of these financial statements.

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	<i>Note</i>	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
OPERATING ACTIVITIES			
Net income before zakat		3,266,627	1,713,068
Adjustments for:			
Provision for employees' terminal benefits		37,249	26,971
Depreciation		977,710	799,521
Amortisation of intangible assets		40,108	35,345
		<u>4,321,694</u>	<u>2,574,905</u>
Changes in working capital:			
Inventories		(268,970)	(163,234)
Receivables		(502,946)	(1,214,854)
Payables		(204,331)	510,388
		<u>3,345,447</u>	<u>1,707,205</u>
Cash from operations activities		3,345,447	1,707,205
Employees' terminal benefits paid		(8,283)	(10,225)
Zakat paid		(41,555)	-
		<u>3,295,609</u>	<u>1,696,980</u>
Net cash from operations activities		3,295,609	1,696,980
INVESTING ACTIVITIES			
Murabaha commodity placements		(112,500)	(656,250)
Purchase of property, plant and equipment		(210,792)	(649,407)
Net proceeds from sale of property, plant and equipment		70,786	-
Other non-current assets		4,289	(6,509)
		<u>(248,217)</u>	<u>(1,312,166)</u>
Net cash used in investing activities		(248,217)	(1,312,166)
FINANCING ACTIVITIES			
Repayment of term loans		(2,037,124)	(915,664)
Payments of obligations under Ijara arrangements		(222,285)	-
(Payment)/proceeds from majority shareholder's loan		(978,623)	714,954
		<u>(3,238,032)</u>	<u>(200,710)</u>
Net cash used in financing activities		(3,238,032)	(200,710)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(190,640)	184,104
Cash and cash equivalents at the beginning of the year		789,735	605,631
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	<u>599,095</u>	<u>789,735</u>

Financial Manager

President

Managing Director

The attached notes 1 to 23 form part of these financial statements.

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2011

	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Retained earnings SR'000</i>	<i>Total SR'000</i>
Balance at 31 December 2009	5,625,000	14,030	28,680	5,667,710
Income for the year	-	-	1,672,779	1,672,779
Transfer to statutory reserve	-	167,278	(167,278)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	5,625,000	181,308	1,534,181	7,340,489
Income for the year	-	-	3,174,328	3,174,328
Transfer to statutory reserve	-	317,432	(317,432)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	5,625,000	498,740	4,391,077	10,514,817

Financial Manager

President

Managing Director

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1 ACTIVITIES

Yanbu National Petrochemical Company (YANSAB) ("the company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4700009432 dated 14 Muharram 1427 H (corresponding to 13 February 2006) in accordance with the Ministerial Resolution declaring No.49, the incorporation of the company dated 12 Muharram 1427 H (corresponding to 11 February 2006). The company has obtained Industrial License number S/1367 dated 18 Rajab 1426 H (corresponding to 1 September 2005). The company is 51% owned by Saudi Basic Industries Corporation (SABIC), (the majority shareholder), and 49% owned by others or publicly traded.

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

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

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

Cash and cash equivalents

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

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when the collection of full amount is no longer probable. Bad debts are written off as incurred.

Inventory

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials, consumables, spare parts and finished goods are primarily determined on a weighted average basis. Cost of inventories in work in process and finished goods include the cost of raw materials, labour and an appropriate portion of manufacturing overheads.

Property, plant and equipment/depreciation

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

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

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

Capital Work in Progress

Capital work in progress, representing new auxiliary projects and employees housing project, is recorded at cost. Included in such costs are the costs of material, construction, installation and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets comprises of:

Pre-operating expenses

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

Deferred charges

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

Accounts payable and accruals

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

Provisions

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

Employees' terminal benefits

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

Employees' saving scheme

The company manage a Saudi employees' saving scheme. Saudi members' contributions to the scheme are transferred to a bank account separate from those of the company. In addition, the company contributes to the scheme. Company's contributions to saving scheme are taken to statement of income.

Revenue recognition

Sales represent the invoiced value of goods shipped and services rendered by the Company during the year, net of the discount allowed and returns. Generally, sales are reported net of marketing and distribution expenses incurred in accordance with marketing and agreements.

Selling and general and administration expenses

Production costs and direct expenses are classified as cost of sales and yearend inventory. All other expenses comprising selling and distribution expenses not capable of being deducted from sales are classified as general and administration expenses.

Zakat

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

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Leases

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

3 CASH AND CASH EQUIVALENTS

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Murabaha commodity placements	587,138	738,750
Current accounts	11,957	50,985
	<u>599,095</u>	<u>789,735</u>

Murabaha commodity placements are maintained with local and foreign banks and matures within three months.

4 MURAHABA COMMODITY PLACEMENTS

Murabaha commodity placements represent placements with original maturity exceeding three month, and maintained with local and foreign banks.

5 AMOUNTS DUE FROM RELATED PARTIES AND OTHER RECEIVABLES

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Amounts due from majority shareholder (see note 14)	2,539,176	2,004,740
Amounts due from related parties (see note 14)	20,714	6,645
Other receivables	22,842	68,401
	<u>2,582,732</u>	<u>2,079,786</u>

6 INVENTORIES

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Finished goods	606,991	427,759
Spare parts and industrial catalysts	548,883	461,405
Goods in transit	14,147	11,887
	<u>1,170,021</u>	<u>901,051</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

7 PROPERTY, PLANT AND EQUIPMENT

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

Building & Leasehold improvements	33 years	Plant, machinery & heavy equipment	20 years
Furniture	10 years	Motor vehicles	4 years
Computers & software	5 years	Laboratory & safety equipment	5 years

	<i>Buildings & leasehold improvements</i>	<i>Plant, machinery & heavy equipment</i>	<i>Equipment & tools</i>	<i>Furniture</i>	<i>Vehicles</i>	<i>Computers & software</i>	<i>Laboratories & safety equipment</i>	<i>Capital work in progress</i>	<i>Total 2011</i>	<i>Total 2010</i>
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Cost:										
At the beginning of the year	174,635	18,542,965	65,449	12,018	1,355	63,454	42,113	323,227	19,225,216	18,575,835
Additions	764	131,814	-	297	18	4,802	47	73,050	210,792	649,806
Transfers	598	174,001	110	212	(932)	-	-	(173,989)	-	-
Disposals	-	(77,901)	-	-	-	-	-	-	(77,901)	(425)
At the end of the year	175,997	18,770,879	65,559	12,527	441	68,256	42,160	222,288	19,358,107	19,225,216
Depreciation:										
At the beginning of the year	4,410	772,177	4,029	1,001	283	10,576	7,019	-	799,495	-
Charge for the year	5,316	944,967	4,516	1,209	187	13,084	8,431	-	977,710	799,521
Transfers	-	240	32	-	(272)	-	-	-	-	-
Disposals	-	(7,115)	-	-	-	-	-	-	(7,115)	(26)
At the end of the year	9,726	1,710,269	8,577	2,210	198	23,660	15,450	-	1,770,090	799,495
Net book amounts:										
At 31 December 2011	166,271	17,060,610	56,982	10,317	243	44,596	26,710	222,288	17,588,017	
At 31 December 2010	170,225	17,770,788	61,420	11,017	1,072	52,878	35,094	323,227		18,425,721

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

7 PROPERTY, PLANT AND EQUIPMENT (continued)

- a) The plants are situated on land leased from the Royal Commission, Yanbu, for 35 Hijra years commencing 1 Dhul Al-Hija 1426 H (corresponding to 1 January 2006). The lease is renewable for further similar periods at the option of the parties.
- b) Included in property, plant and equipment are assets of net book value amounting to SR 2,553 million (2010: SR 2,775 million) held under Ijarah arrangements with certain banks (note 13).
- c) The capital work in progress represents staff accommodation project amounting to SR 222 million (2010: SR 323 million).

8 INTANGIBLE ASSETS

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Pre-operating expenses (see note "a" below)	147,619	176,191
Deferred charges (see note "b" below)	86,523	98,059
	<u>234,142</u>	<u>274,250</u>

a) Pre-operating expenses

These represent a contribution of SR 200 million to the Centennial Fund and Higher Plastic Institute that will financially support small and medium sized projects in the related industry. Pre-operating expenses are amortized using the straight line method over the shorter of 7 years or their estimated useful life, from the commencement of commercial operations. The amortization of pre-operating expenses started on 1 March 2010.

b) Deferred charges

These represent financial legal advisory and arrangement fees totalling SR 143.2 million, relating to long term financing arrangements to finance the partial construction of the company's plant. These fees were included in the initial recognition of the related financing arrangements and are being amortized, using the effective interest rate, over the period of long term financing agreements. The amortized portion relating to the construction period amounting to SR 35.6 million as at 28 February 2010 is capitalized. Amortization for the period from 1 March 2010, date of commencement of operations, to 31 December 2010 is charged to the statement of income.

9 ACCOUNTS PAYABLE

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Suppliers and contractors	269,696	12,515
Amount due to majority shareholder and a related party (note 14)	153,741	243,812
	<u>423,437</u>	<u>256,327</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

10 ACCRUALS AND PROVISIONS

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Accrued expenses	449,468	657,356
Amounts due to majority shareholder and related parties (note 14)	178,464	339,303
Zakat payable	91,033	40,289
Other payables	18,429	21,143
	<u>737,394</u>	<u>1,058,091</u>

11 TERM LOANS

Term loans comprise of:

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Public Investment Fund (PIF) (see note (a) below)	3,000,938	3,401,062
Commercial and Export Credit Agencies (ECA) loans (see note (b) below)	3,727,104	5,364,104
	<u>6,728,042</u>	<u>8,765,166</u>
Less:		
Current portion for long term loans (see notes (a, b and c) below)	(863,695)	(724,624)
	<u>5,864,347</u>	<u>8,040,542</u>

- a) The PIF term loan obtained in 2007 to finance the partial construction of the plants is limited to SR 4,001 million. The term loan carries charges at commercial rates and is repayable in equal semi-annual instalments of SR 200 million. The first instalment was paid on 31 December 2009, and the last instalment is payable on 30 June 2019.
- b) During 2007, the above loans obtained were from a consortium of banks in three loans, of which two loans limited to SR 5,948 million and guaranteed by Export Credit Agencies (ECA), Servizi Assicurativi Del Commercio Estero and Export Credits Guarantee Department (ECGD) to finance the partial construction of plants and working capital. The loans which carry commission at commercial rates are repayable in semi-annual variable instalments with the first instalment payable on 30 June 2009 and the last instalment payable on 30 June 2018.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

12 TERM LOAN FROM MAJORITY SHAREHOLDER

The company obtained a loan from the above shareholder in accordance with the retention of shareholding and support agreement with the majority shareholder (SABIC). The term loan which carries borrowing charges at commercial rates is fully repayable within three years commencing on the date of drawdown and the first instalment is due on 30 June 2012. During 2010 and 2011 the company has accelerated payment with amount of SR 1,012 million.

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Total term loan from majority shareholder (see note 14)	1,891,531	2,870,154
Less:		
Current portion of term loan from majority shareholder	(1,213,412)	-
	<u>678,119</u>	<u>2,870,154</u>

13 OBLIGATION UNDER IJARA ARRANGEMENTS

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Obligation under Ijara arrangements	2,553,102	2,775,387
Less:		
The current portion of obligations under Ijara arrangements	(317,550)	(222,285)
	<u>2,235,552</u>	<u>2,553,102</u>

In accordance with supply agreement a portion of the project equivalent in amount to the share of Original Facility Participants in Financing Facility as at completion of withdrawal date of 22 November 2010 amounting to SR 2,775 million has been transferred to Yanbu Asset Ijara Company Limited (Company owned by Original Participants). In accordance with Ijara arrangements the last instalment is repayable on 30 June 2018. The commercial rates on obligation under Ijara arrangement is computed on effective interest rate basis.

The minimum Ijara principal for the five years subsequent to 31 December 2011 are as follows:

	<i>SR'000</i>
2012	317,550
2013	357,244
2014	365,182
2015	431,868
2016	432,503
Thereafter	648,755
	<u>2,553,102</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

14 RELATED PARTY TRANSACTIONS AND BALANCES

The following are details of major related party transactions during the year for the year end 31 December:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transaction For the year ended</i>		<i>Balance</i>	
		<i>31 December 2011</i>	<i>2010</i>	<i>At 31 December 2011</i>	<i>2010</i>
		<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<i>Amounts due from related parties</i>					
Saudi Basic Industries Corporation (SABIC) – (majority shareholder)	Sales	9,581,756	6,338,373	2,438,624	1,905,248
	Advances for purchase of materials, product sales and other transactions	31,172	40,765	100,552	99,492
	Long term advance for freight charges	-	-	7,500	7,500
Affiliates	Sale of products	77,586	77,311	-	-
	Others	7,558	8,132	20,714	6,645
				<u>2,567,390</u>	<u>2,018,885</u>
<i>Amounts due to related parties</i>					
Saudi Basic Industries Corporation (SABIC) – (majority shareholder)	Payments on behalf of the company and other services rendered by the majority shareholder	(1,435,247)	(1,340,532)	(224,729)	(518,348)
	Loan from majority shareholder (note 12)	978,623	(714,955)	(1,891,531)	(2,870,154)
Affiliates	Others	(303,735)	(248,687)	(107,476)	(64,767)
				<u>(2,223,736)</u>	<u>(3,453,269)</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

15 SHARE CAPITAL

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

16 STATUTORY RESERVE

As required by Saudi Arabian Regulations for Companies, the company must set aside 10% of net income for the year until it has built up a reserve equal to 50% of the capital. The company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The company transferred 10% of the net income for the year ended 31 December 2011.

17 GENERAL AND ADMINISTRATION EXPENSES

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Research and development expenses (see note below)	166,627	117,701
Salaries and benefits	5,353	4,643
Other expenses	3,423	728
	<u>175,403</u>	<u>123,072</u>

In accordance with the contract with the majority shareholder a fixed percentage of sales is accrued for research and development fees and the contract submitted to the company (see note 14).

18 ZAKAT

Charge for the year

The zakat charge consists of:

	<i>2011</i> <i>SR</i>	<i>2010</i> <i>SR</i>
Charge for the year	<u>92,299</u>	<u>40,289</u>

The provision is based on the following:

	<i>2011</i> <i>SR</i>	<i>2010</i> <i>SR</i>
Shareholders' equity	7,340,489	5,667,710
Provision for employees' terminal benefits transferred	94,941	78,594
Loans	11,172,675	-
Book value of long term assets (net of related financing)	(18,403,275)	(4,366,567)
	<u>204,830</u>	<u>1,379,737</u>
Net zakatable income for the year	<u>3,394,596</u>	<u>231,807</u>
Zakat base	<u>3,599,426</u>	<u>1,611,544</u>

The differences between the financial and zakatable results for the year ended 31 December 2011 are mainly due to certain adjustments in accordance with the related financial regulations.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

18 ZAKAT (continued)

Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (the DZIT) up to 31 December 2008. Zakat and income tax returns have been filed with the Department of Zakat and Income Tax ("DZIT") for the year ended 31 December 2009 and 2010, and Zakat assessment have not yet been raised by the DZIT.

19 RISK MANAGEMENT

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of the financial instruments. The company is subject to interest rate risk on its interest bearing liabilities namely bank deposits and term loans.

In compliance with the requirements of loan agreements the company has entered into hedge arrangements with local and foreign banks to manage interest rate risks associated with term loans. Under the arrangement the company pays fixed interest rate and receives floating interest rate for a portion of the loan amounting to SR 5,496 million (US Dollars 1,465 million) (2010: SR 6,319 million) (US Dollars 1,685 million).

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The company manages its liquidity risk by ensuring that bank facilities are available.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The company is subject to fluctuations in foreign exchange rates in the normal course of its business. The company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year. As Saudi Riyals is pegged to US Dollar balances do not represent any significant currency risk to the company.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company seeks to limit its credit risk by selling most of its product to majority shareholder i.e. SABIC. Such arrangement completely limits credit risk with respect to customers and other financial assets of the company.

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. The company's financial assets consist of cash and cash equivalents, advances to suppliers, receivables and other receivables, its financial liabilities consists of payables and accruals, term loans and obligation under Ijara arrangements. The fair values of financial instruments are not materially different from their carrying values.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

21 COMMITMENTS

The directors have approved future capital expenditures amounting to SR 183 million for the fiscal year ended 31 December 2011 (2010: SR 62.4 million)

22 LEASE COMMITMENTS

The following are the minimum future lease payments under irrevocable operating leases:

	<i>2011</i> <i>SR' 000</i>	<i>2010</i> <i>SR' 000</i>
Within one year	51,982	51,982
1 – 5 years	80,099	106,705
Thereafter	59,255	70,999
	191,336	229,686

23 CONTINGENCIES

As at 31 December 2011 the company has outstanding letters of guarantee for SR 36 million (2010: SR 39 million).