

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

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

NATIONAL PETROCHEMICAL COMPANY (PETEROCHEM) AND ITS SUBSIDIARY  
(A Saudi Joint Stock Company)  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

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

**Scope of Audit**

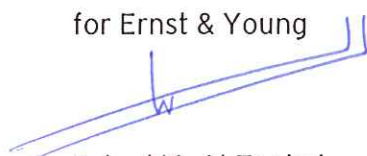
We have audited the accompanying consolidated balance sheet of National Petrochemical Company - A Saudi Joint Stock Company ("Petrochem") and its subsidiaries as of 31 December 2011 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of Petrochem's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

**Unqualified Opinion**

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

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

for Ernst & Young



Fahad M. Al-Toaimi  
Certified Public Accountant  
Registration No. 354



Riyadh: 29 Rabi Awal 1433H  
(21 February 2012)

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

(Amounts in SR '000)

	Note	2011	2010
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	1,707,060	2,103,141
Amounts due from a related party	8	2,116	-
Inventory		56,104	-
Cash margin and other assets		65,933	12,037
<b>TOTAL CURRENT ASSETS</b>		<b>1,831,213</b>	<b>2,115,178</b>
<b>NON-CURRENT ASSETS</b>			
Project under construction	5	18,014,778	16,007,140
Deferred charges	6	150,202	196,151
Property and equipment	7	849	1,083
<b>TOTAL NON-CURRENT ASSETS</b>		<b>18,165,829</b>	<b>16,204,374</b>
<b>TOTAL ASSETS</b>		<b>19,997,042</b>	<b>18,319,552</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accrued expenses and other liabilities		7,585	31,252
Zakat	9	40,578	41,085
<b>TOTAL CURRENT LIABILITIES</b>		<b>48,163</b>	<b>72,337</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term payables and other liabilities	10	237,927	259,459
Amounts due to a related party	8	35,714	2,258
Term loans	11	13,336,778	11,576,363
Subordinated loan from the non-controlling partner	12	14,859	14,859
Employees' terminal benefits		7,635	2,926
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,632,913</b>	<b>11,855,865</b>
<b>TOTAL LIABILITIES</b>		<b>13,681,076</b>	<b>11,928,202</b>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	4,800,000	4,800,000
Statutory reserve		1,780	1,780
Accumulated losses		(151,305)	(87,202)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,650,475</b>	<b>4,714,578</b>
Non-controlling interests		1,665,491	1,676,772
<b>TOTAL EQUITY</b>		<b>6,315,966</b>	<b>6,391,350</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>19,997,042</b>	<b>18,319,552</b>

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

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2011

(Amounts in SR '000)

	<i>Note</i>	<b>2011</b>	<b>2010</b>
General and administration expenses	14	<b>(47,128)</b>	<b>(14,207)</b>
<b>LOSS FROM MAIN OPERATIONS</b>		<b>(47,128)</b>	<b>(14,207)</b>
Income from bank deposits		<b>10,849</b>	<b>11,442</b>
<b>LOSS BEFORE NON-CONTROLLING INTERESTS AND ZAKAT</b>		<b>(36,279)</b>	<b>(2,765)</b>
Non-controlling interests share in net loss of the subsidiary		<b>11,999</b>	<b>1,203</b>
<b>LOSS BEFORE ZAKAT</b>		<b>(24,280)</b>	<b>(1,562)</b>
Zakat	9	<b>(39,823)</b>	<b>(41,071)</b>
<b>NET LOSS FOR THE YEAR</b>		<b>(64,103)</b>	<b>(42,633)</b>
<b>LOSS PER SHARE (SR)</b>	15		
Attributable to loss from main operations		<b>(0.10)</b>	<b>(0.03)</b>
Attributable to net loss		<b>(0.13)</b>	<b>(0.09)</b>

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

(Amounts in SR '000)

	2011	2010
<b>OPERATING ACTIVITIES</b>		
Loss before zakat	(24,280)	(1,562)
Adjustments for:		
Employees' terminal benefits, net	4,709	2,127
Depreciation	422	384
Non-controlling interests share in net loss of the subsidiary	(11,999)	(1,203)
Changes in operating assets and liabilities:		
Cash margin and others assets	(53,896)	(16,390)
Inventory	(56,104)	-
Accrued expenses and other liabilities	(19,506)	(695,573)
Related parties, net	31,340	10,647
Zakat paid	(40,330)	(53,051)
<b>Net cash used in operating activities</b>	<b>(169,644)</b>	<b>(754,621)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(188)	(22)
Project under construction	(1,889,938)	(4,714,592)
<b>Net cash used in investing activities</b>	<b>(1,890,126)</b>	<b>(4,714,614)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from term loans	1,760,415	3,901,418
Financial charges, paid	(97,444)	(165,505)
Proceeds from subordinated loan from a non-controlling partner	-	564,375
Non-controlling interests	718	-
<b>Net cash from financing activities</b>	<b>1,663,689</b>	<b>4,300,288</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(396,081)</b>	<b>(1,168,947)</b>
Cash and cash equivalents at the beginning of the year	2,103,141	3,272,088
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1,707,060</b>	<b>2,103,141</b>
<b>NON CASH TRANSACTION</b>		
Subordinated loan from a non-controlling partner transferred to capital increase in a subsidiary's capital (note 2)	-	1,586,235

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(Amounts in SR '000)

	Attributable to the shareholders' equity				Non-	
	Share capital	Statutory reserve	Accumulated losses	Shareholders' equity total	controlling interest	Total
Balance as at 31 December 2009	4,800,000	1,780	(44,569)	4,757,211	91,740	4,848,951
Non-controlling interest resulted from capital increase of the subsidiary (note 2)	-	-	-	-	1,586,235	1,586,235
Net loss for the year	-	-	(42,633)	(42,633)	(1,203)	(43,836)
Balance as at 31 December 2010	4,800,000	1,780	(87,202)	4,714,578	1,676,772	6,391,350
Non-controlling interest	-	-	-	-	718	718
Net loss for the year	-	-	(64,103)	(64,103)	(11,999)	(76,102)
<b>Balance as at 31 December 2011</b>	<b>4,800,000</b>	<b>1,780</b>	<b>(151,305)</b>	<b>4,650,475</b>	<b>1,665,491</b>	<b>6,315,966</b>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

1. ORGANIZATION AND ACTIVITIES

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

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

2. BASIS OF CONSOLIDATION

The consolidated financial statements include the interim financial statements of Petrochem and its subsidiaries, as adjusted by the elimination of significant inter-company balances and transactions. The financial statements of the subsidiaries are prepared using accounting policies consistent with those of Petrochem. The financial statements of the subsidiaries are consolidated from the date on which Petrochem is able to exercise effective management control on them.

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

The subsidiaries included in these financial statements are as follows:

		Shareholding %		Country of Incorporation
		2011	2010	
Saudi Polymers Company ("SPCo")	Subsidiary	65	65	Saudi Arabia
Gulf Polymers Distribution Company FZCO	Subsidiary	65	-	UAE

**SAUDI POLYMERS COMPANY ("SPCo")**

Is a mixed limited liability company, registered in Jubail in the Kingdom of Saudi Arabia under registration numbered 2055008886 dated 29 Dhul-Qadah 1428H (corresponding to 9 December 2007).

SPCo is engaged in production and sale of ethylene, propylene, hexene, gasoline, high and low density polyethylene, polypropylene and polystyrene. Currently, SPCo is in pre-operation stage and it is expected to commence its commercial operations during 2012.

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

- On 19 December 2010, the partners have resolved to increase SPCo's capital by SR 1,138 million from SR 268 million to SR 1,406 million by transferring it from the partners' subordinated loan.
- On 29 December 2010, the partners have resolved to increase SPCo's capital by SR 3,394 million from SR 1,406 million to SR 4,800 million by transferring it from the partners' subordinated loan.

The legal formalities related to such increases have been finalized during the year 2011.

**GULF POLYMERS DISTRIBUTION COMPANY FZCO ("GPDCo")**

Is a free zone limited liability company registered in the Dubai Airport Free Zone dated 12 Rabi Awal 1432 H (corresponding to 15 February 2011) with a capital of AED 2 million. GPDCo activity is restricted to selling and storing SPCo's polymer products. GPDCo did not start its commercial operations yet.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2011

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows. The figures in these consolidated financial statements are rounded to nearest thousand.

*Accounting convention*

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

*Use of estimates*

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

*Cash and cash equivalents*

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

*Inventories*

Inventories comprise raw materials and catalysts and are stated at the lower of cost and market value. Cost is determined at the purchase cost on a weighted average basis.

*Property and equipment / depreciation*

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

*Project under construction*

Project under construction appears at cost until the asset is ready for its intended use, thereafter; it is capitalized. Project under construction include the cost of contractors, materials, services, borrowing, salaries and other overhead allocated on systematic basis.

*Deferred charges/amortization*

Deferred charges comprise agency and upfront fees and are amortized over the period of the related loans. The amortization is capitalized in the cost of the plant under construction, until the project is ready for its intended use

*Impairment of financial assets*

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

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

Where an impairment subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset or cash generating unit in prior years. A reversal of impairment is recognised as income immediately in the consolidated statement of income.

*Accounts payable and accruals*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2011

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Provisions*

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

*Zakat and income tax*

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

*Employees' terminal benefits*

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

*Borrowing costs*

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

*Foreign currencies*

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

*Revenue recognition*

Earnings on bank deposits are recognized on an accrual basis.

*General and administrative expenses*

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

*Segment reporting*

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

*Fair value*

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

*Statutory reserve*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2011

**4. CASH AND CASH EQUIVALENTS**

Amounts in SR '000	2011	2010
Time deposits	1,507,764	1,604,360
Bank balances and cash in hand	199,296	498,781
	<u>1,707,060</u>	<u>2,103,141</u>

Included in cash and cash equivalents balances assigned as securities amounting to SR 1 billion (2010: SR 1.3 billion) according to the agreements of loan facilities (note 12).

**5. PROJECT UNDER CONSTRUCTION**

Project under construction comprises cost of construction works under progress of polymers plant (the "Plant"), which is in testing and trial phase. The commercial operation of the Plant is expected to start during 2012.

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

The machinery and equipment of the plant are pledged as collaterals against loan facilities (note 12).

Included in the balance capitalised financial charges are accumulated to SR 474 million (2010: SR 356 million).

**6. DEFERRED CHARGES**

Amounts in SR '000	2011	2010
<i>Cost</i>		
At the beginning of the year	238,369	146,771
Additions	-	91,598
At the end of the year	<u>238,369</u>	<u>238,369</u>
<i>Amortization</i>		
At the beginning of the year	42,218	12,825
For the year	45,949	29,393
At the end of the year	<u>88,167</u>	<u>42,218</u>
Net book value	<u>150,202</u>	<u>196,151</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
31 December 2011

7. **PROPERTY AND EQUIPMENT**

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

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

Amounts in SR'000	Leasehold improvement	Furniture and office equipment	Computers and communication devices	Vehicle	Total 2011	Total 2010
Cost:						
At the beginning of the year	461	332	162	875	1,830	1,808
Additions	-	11	27	150	188	22
At the end of the year	461	343	189	1,025	2,018	1,830
Depreciation:						
At the beginning of the year	167	89	49	442	747	363
Charge for the year	93	55	26	248	422	384
At the end of the year	260	144	75	690	1,169	747
Net book amounts:						
At 31 December 2011	201	199	114	335	849	
At 31 December 2010	294	243	113	433		1,083

8. **RELATED PARTY TRANSACTIONS**

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

Amounts in SR '000

Related party	Nature of transactions	Amount of transactions 2011	2010
Majority shareholder	Fees of a bank guarantee (Note 17)	1,285	1,928
	Consulting services	900	753
Non-controlling partner	Proceeds of subordinated loan	-	564,375
Committees, board of directors and executives of Petrochem	Expenses, fees, salaries and benefits	5,536	3,485
Affiliated companies *	Services received, net	4,001	9,450

\*During the year 2011, a shared services agreement signed with Saudi Chevron Philips and Jubail Chevron Philips, has been activated, whereby those companies will provide administrative and technical services to SPCo.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2011

**9. ZAKAT**

**Charge for the year**

Zakat charge for the year amounting to SR 39.8 million (2010: SR 41.1 million) consists of current year's provision. The movement in the zakat provision for the year was as follows:

Amounts in SR '000	2011	2010
At the beginning of the year	41,085	53,065
Provided during the year	39,823	41,071
Paid during the year	(40,330)	(53,051)
At the end of the year	<u>40,578</u>	<u>41,085</u>

**Status of assessments**

Zakat returns have been filed with the DZIT for previous years up to 2010 and zakat due was settled accordingly. The DZIT has raised the zakat assessment for 2008, claiming a difference of SR 53 million. Petrochem filed an appeal against this assessment before the Higher Appeal Committee, which is still pending. Based on the zakat consultant's advice; the management believes that the ultimate outcome of this issue will be in Petrochem favor.

As for SPCo, zakat returns have been filed with the DZIT for previous years up to 2010. The DZIT has raised the zakat assessment for 2008, claiming difference resulted from the treatment of certain items. SPCo filed an appeal against this assessment, which is still pending. The management believes that the ultimate outcome of this issue will be in SPCo favor.

**10. LONG TERM PAYABLES**

Amounts in SR '000	2011	2010
Contractors payables	219,537	236,250
Retention payable	12,551	21,347
Other liabilities	5,839	1,862
	<u>237,927</u>	<u>259,459</u>

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

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

31 December 2011

**11. TERM LOANS**

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

Amounts in SR '000	<u>Principal</u>	<u>Drawn</u> 2011	2010
Syndicated commercial banks	7,045,875	7,045,875	6,356,250
Syndicated commercial banks – guaranteed	2,212,500	2,212,500	1,720,444
Public Investment Fund (“PIF”)	3,000,000	3,000,000	2,541,266
Saudi Industrial Development Fund	1,200,000	1,078,403	958,403
	<u>13,458,375</u>	<u>13,336,778</u>	<u>11,576,363</u>

The loan obtained from syndicated commercial banks carries interest at Libor plus 0.08% to 1.15% and fees on the unutilized portion of the loan at 0.3%. The repayment of this loan is expected to commence during the year 2013 on 22 semi-annual installments with an amount ranges from 2 – 20% of the utilized loan amount.

The US Ex-IM guaranteed loan obtained from syndicated commercial banks carries interest at Libor plus 0.06% and fees on the unutilized portion of the loan at 0.5%. The repayment of this loan is expected to commence during the year 2013 on 22 semi-annual installments with an amount ranges from 3 – 8% of the utilized loan amount.

The loans obtained from PIF carries interest at Libor plus 0.5% along with a onetime appraisal fee of 0.50% of the principle amount of the loan. The repayment of this loan commences on 31 December 2013 on 15 semi-annual installments with an amount at 1% of the utilized loan amount for first two installments and at 7% to 9% thereafter.

The loans obtained from SIDF carries upfront interest at Libor plus 5% of the principle amount of the loan. The repayment of this loan commences on 18 December 2013 on 14 semi-annual installments with an amount ranges from 4.2% to 8.3% of the utilized loan amount.

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

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

**12. SUBORDINATED LOAN FROM A NON-CONTROLLING PARTNER**

Subordinated loan from Arabian Chevron Petrochemical Company Limited (the “non-controlling partner”) is a commission free loan granted to SPCo and is repayable subject to the minimum level required to be maintained by the terms of the loan facility arrangements granted by SIDF (note 11). The movement of loan during the year is analyzed as follows:

Amounts in SR '000	2011	2010
At the beginning of the year	14,859	1,036,719
Proceeds received	-	564,375
Transferred to capital increase in SPCo’s capital (note 2)	-	(1,586,235)
	<u>14,859</u>	<u>14,859</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2011

**13. SHARE CAPITAL**

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

**14. GENERAL AND ADMINISTRATION EXPENSES**

Amounts in SR '000	2011	2010
Employees salaries and benefits	21,159	4,305
Expenses and fees of committees and board of directors of Petrochem and salaries and benefits of executives	5,536	3,485
Utilities	6,458	67
Professional fees	1,765	947
Bank commission	1,546	1,934
Contract services	1,492	-
Rent	1,183	339
Travel	1,041	218
Fees and subscription	596	544
Foreign currency exchange differences	495	-
Depreciation	422	384
Others	5,435	1,984
	<u>47,128</u>	<u>14,207</u>

During the year 2011, a shared services agreement signed with Saudi Chevron Philips and Jubail Chevron Philips, has been activated, whereby those companies will provide administrative and technical services to SPCo.

**15. LOSS PER SHARE**

The loss per share is calculated for the year ended 31 December 2011 by dividing loss from main operations and net loss for the year by the number of shares during the year 2011 amounting to 480 million shares (2010: 480 million share).

**16. SEGMENT INFORMATION**

Since neither Petrochem nor any of its subsidiaries has started the operation as of 31 December 2011, due to non-commencement of the Plant operations, no segment information is available.

**17. CONTINGENT LIABILITIES**

As set out in note 2 and as a result to partners resolution dated 29 December 2010 to increase SPCo's capital by SR 3,394 million; which will cause the non- controlling partner to incur additional costs; the management of Petrochem has decided to compensate the non-controlling partner by making annual payments in the future based on the future earnings of SPCo, considering the non-distributable cash as a result of the said capital increase.

The bankers have issued on the behalf of Petrochem and its subsidiaries, letters of guarantee amounted to SR 1.6 billion (2010: 734.6 million).

**18. CAPITAL COMMITMENTS**

The balance of unutilized capital expenditure approved by the board of directors in connection with the Plant amounted to SR 357.5 million (31 December 2010: SR 3.4 billion).

31 December 2011

**19. 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 financial assets of Petrochem and its subsidiaries consist of cash and cash equivalents and accrued income, and its financial liabilities consist of accrued expenses, other liabilities, term loans and subordinated loan from a non-controlling partner. The fair values of financial instruments are not materially different from their carrying values.

**20. RISK MANAGEMENT**

**Interest rate risk**

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

**Liquidity risk**

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

**Currency risk**

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

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. With respect to credit risk arising from the financial assets of Petrochem and the subsidiaries, including cash and cash equivalents, the exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to their carrying amounts.

**21. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements have been approved by the board of directors on 29 Rabi Awal 1433H (Corresponding to 21 February 2012).

**22. COMPARATIVE FIGURES**

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