

BOARD OF DIRECTORS REPORT  
APICORP ACTIVITIES IN 2008  
PROJECT AND TRADE FINANCE



## PROJECT AND TRADE FINANCE

After three years of hectic activity, the project finance market has been marked in 2008 by a severe deceleration in the first half of the year followed by a complete stop by Summer. This is the outcome of the convergence of several forces. Indeed, in addition to the effects of the credit crunch, the energy industry in the region has been facing additional challenges: unavailability of feedstock like ethane, persistence of high project costs, uncertainties with regard to the world demand for petroleum products and finally the unprecedented volatility of petroleum product prices.

Accordingly, the number of Project Finance transactions progressed in 2008 has amounted to 9 against 16 in 2007. The number of trade finance transactions on the other hand has remained stable.

Such a reduction in the number of transactions in 2008 has not impacted negatively the revenue stream, as a large portion of the transactions booked since 2005 was still in the drawdown phase. Furthermore, the trend of higher pricings on loans that had emerged in second half of 2007 accentuated in 2008.

As a consequence, for the third consecutive year, 2008 set up another historical record for the project and trade finance activities at APICORP with a net income close to US\$ 30 million of which around US\$ 10 million in fees. In comparison, the net income generated by the project and trade finance activities at APICORP in 2007 and 2006 had amounted respectively to US\$ 23.9 million and US\$ 18.8 million. Our asset growth has continued, but at a slightly lower pace, to reach US\$ 2.4 billion against US\$ 1.9 billion at the end of 2007 and US\$ 1.3 billion at the end of 2006.

Therefore, in a context of an unprecedented financial market turmoil, the Corporation has continued to play an instrumental role in the financing of most of the entrepreneurial and viable oil, gas and petrochemical projects launched in the Arab World in 2008, confirming accordingly its position as the prominent regional player in the financing of the Arab energy industry, committed to support that industry in times of hell and high water.

## PROJECT FINANCE

Project Finance has remained in 2008 the main segment of the Corporation's lending activities. As evidenced by the table below, the Corporation has consolidated further its leading role in the arrangement of most of the landmark financings that took place in the Arab hydrocarbon industry in 2008.

Client	Main sponsors	Amount and Type of Facility	Date of signing	Purpose	APICORP role
Pacific Star	Saudi Private Sector	US\$ 180 million Ship finance	March 2008	Very Large Gas Carriers (VLGCs)	Joint Lead Arranger
Saudi Polymers	SIIG & ChevronPhillips	US\$ 1.9 billion Limited recourse	April 2008	Greenfield petrochemical project	Mandated Lead Arranger
Saudi Kayan	SABIC, Al-Kayan Petrochemical Co.	US\$ 6 billion Limited recourse	May 2008	Greenfield petrochemical project	Mandated Lead Arranger
Maaden	Maaden, SABIC	US\$ 3,963 million Limited recourse	June 2008	Greenfield fertilizer project	Mandated Lead Arranger

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Client	Main sponsors	Amount and Type of Facility	Date of signing	Purpose	APICORP role
EMAL	Dubai Aluminium Co. Mubadala Development Co.	US\$ 6,605 million Limited recourse	June 2008	Aluminium smelter	Arranger
Nakilat	Qatar Petroleum Transport Co. Private Sector	US\$ 1,500 million Corporate facility	July 2008	LNG vessels acquisition	Mandated Lead Arranger
Orascom	Sawiris family	US\$ 950 million Corporate facility	July 2008	Acquisition of EFC	Arranger
Boubyan	National Investments Company Al Ghanim Group Al Dabbous Group	US\$ 100 million Corporate facility	August 2008	General corporate purposes	Arranger
Ras Girtas Power	Qatar Petroleum QEWG Suez Tractebel Mitsui	US\$ 1,391 million Limited recourse	August 2008	Power and water project	Mandated Lead Arranger

### TRADE FINANCE

In 2008, the efforts made since 2005 to revitalize and expand the Trade Finance activity of the Corporation has been pursued, as shown in the sample of the deals provided below.

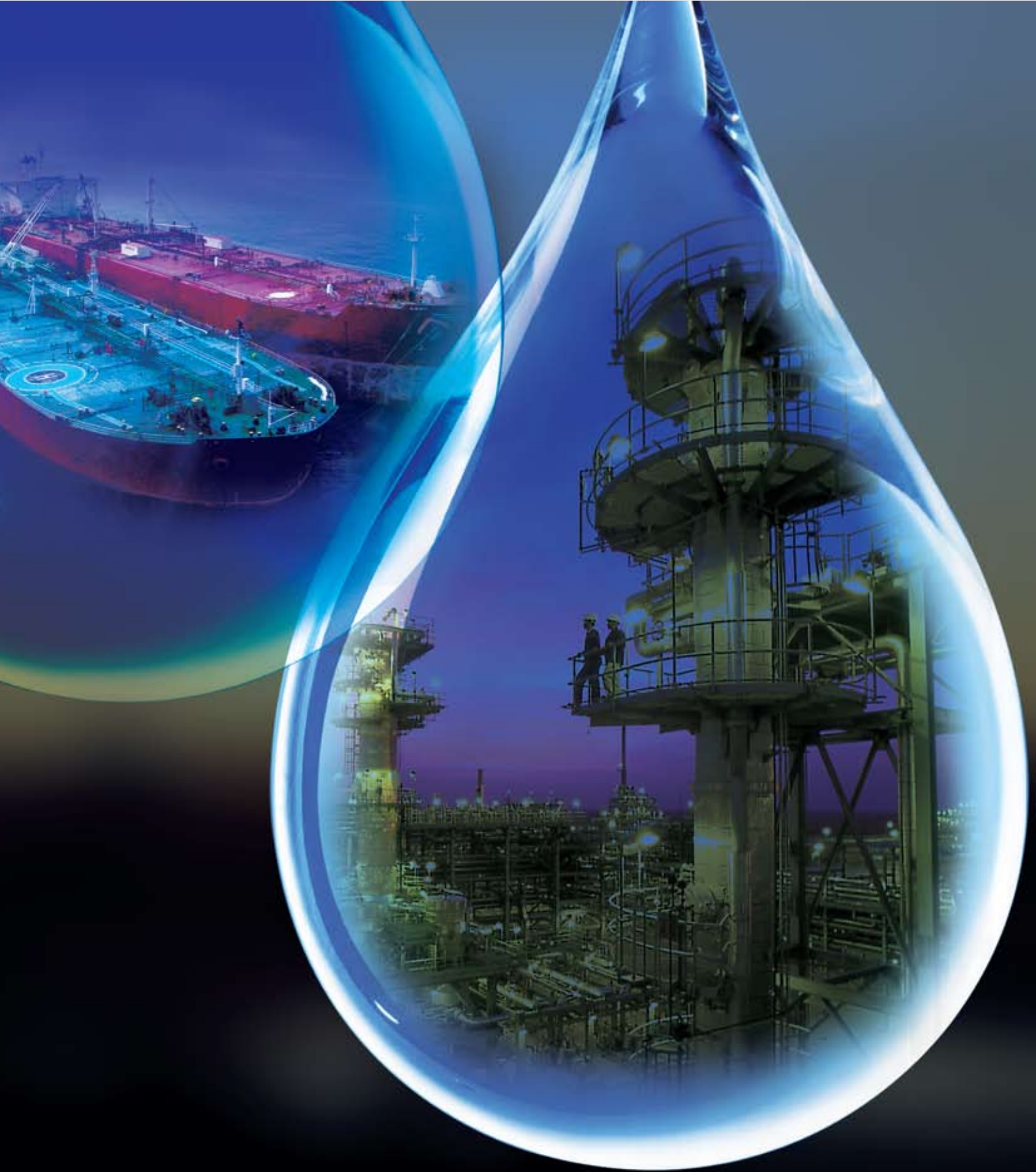
Client	Main sponsors	Amount and Type of Facility	Date of signing	Purpose	APICORP role
Midor	Egyptian General Petroleum Corporation	US\$ 925 million Conventional	March 2008	Oil processing	Participant
Egyptian General Petroleum Corporation (EGPC)	Arab Republic of Egypt	US\$ 400 million Conventional	March 2008	Petroleum products imports	Participant
Egyptian General Petroleum Corporation (EGPC)	Arab Republic of Egypt Co-financed with IDB	US\$ 100 million Islamic	March 2008	Petroleum products imports	Joint Underwriter

Client	Main sponsors	Amount and Type of Facility	Date of signing	Purpose	APICORP role
Société Anonyme Marocaine de L'Industrie et du Raffinage (SAMIR)	Corral Petroleum Holding Holmarcom Group Public	US\$ 100 million Islamic	April 2008	Petroleum and petroleum products purchase	Participant
Commercial International Bank S.A.E	Listed on the Egyptian stock market	US\$ 78.5 million L/C confirmation	June 2008	Oil field acquisition	Participant
Société Anonyme Marocaine de L'Industrie et du Raffinage (SAMIR)	Corral Petroleum Holding Holmarcom Group Public	US\$ 300 million Unfunded - Conventional	June 2008	Petroleum and petroleum products purchase	Participant
Independent Petroleum Group, SAK	Listed on the Kuwaiti stock market	US\$ 107 million Islamic	July 2008	General corporate purposes	Participant
Midor	Egyptian General Petroleum Corporation	US\$ 825 million Conventional	October 2008	Oil processing	Participant
AMPTC	OAPEC	US\$ 75 million L/C	On-going	Oil trading	Structuring bank
Holborn European Marketing Company	Oilinvest	US\$ 350 million Conventional	On-going	Oil trading	Participant

## ADVISORY

The Corporation has remained committed to provide specialized advisory services in the field of structured finance for the hydrocarbon industry within the region, but on a selective basis. Two advisory assignments, Hasdrubal in Tunisia and Asry in Bahrain, were completed with success in 2008. The Corporation has been able to build over the recent years a very good track record that is very encouraging for the future.

BOARD OF DIRECTORS REPORT  
APICORP ACTIVITIES IN 2008  
DIRECT EQUITY INVESTMENTS



## DIRECT EQUITY INVESTMENTS

The total investment of APICORP encompasses nine petrochemical, three Oil & Gas services and two gas products companies in six Arab countries with a total value of US\$ 283 million at the end of 2008. Five petrochemical companies and one gas product are located in Egypt. Saudi Arabia hosts IBN ZAHR, IBN RUSHD and YANSAB petrochemical companies. The Seismic and drilling companies are situated in Libya. The remaining three companies are stationed in Bahrain, Iraq and Tunis. The products and services of these companies include the following:

- Seismic services and drilling of wells for Oil & Gas.
- Extraction of LPG, NGL.
- Storage of Petroleum Pras and Nitrogen fertilizers

The range of the products from the projects in Saudi Arabia, Iraq and in Egypt consists of: Methanol, Ethylene Glycol, Polyethylene, Polypropylene, Methyl Tertiary Butyl Ether (MTBE), Aromatics (BTX), Linear Alkyl Benzene (LAB), Carbon Black, Nitrogen Fertilizers (Ammonia and Urea) and synthetic fibers (Polyester, Acrylic).

A brief summary on each of direct equity investment is provided below:



شركة غاز البحرين الوطنية (س.م.ب.)  
Bahrain National Gas Company (B.S.C)

### (1) Bahrain National Gas Company (BANAGAS)

APICORP share: 12.5%

BANAGAS was established in 1978 to extract and market LPG and light naphtha from associated gas. Total production in 2008 was around 77 thousand tons of propane, 85 thousand tons of Butane and 181 thousand tons of light naphtha. At the end of 2008, BANAGAS reported a net income of BD 19.6 million (versus BD 15.8 million in 2007).



### (2) Arab Drilling & Workover Company (ADWOC)

APICORP share: 20%

ADWOC was established in 1978 to provide drilling and related operation services in Libya and nearby Arab markets. At the end of 2008, the net income declared was US\$ 27.3 million versus US\$ 19.9 million in 2007.



### (3) Arab Company For Detergent Chemicals (ARADET)

APICORP share: 32%

ARADET was established in 1981 to produce 50,000 tons/yr of linear alkyl benzene (LAB). The LAB complex at Baiji, in operation since 1987, also includes an aromatics line with a capacity of 30,000 tons/yr of benzene and Toluene. The Alkylation unit was restarted in mid of December 2008 after a 15 months shutdown period due to excessive and repetitive power failure resulting in high production costs and, therefore, ARADET recorded a net loss for 2008 of US\$ 1.61 million compared to the net loss of US\$ 1.34 million at the end of 2007.



### (4) Tankage Méditerranée (TANKMED)

APICORP share: 20%

TANKMED was established in 1984 to provide storage services for petroleum products at La Skhira terminal in Tunisia. TANKMED's total storage capacity stands at 300,000 cubic meters. As at the end of 2008, TANKMED maintained a capacity utilization rate of 96.4%, and achieving a net income of TD 4.04 million compared to the budgeted figure of TD 3.0 million, i.e. higher by 35%, while the net income at the end of 2007 was TD 4.3 million.

## BOARD OF DIRECTORS REPORT APICORP ACTIVITIES IN 2008 DIRECT EQUITY INVESTMENTS



### (5) Arab Geophysical Exploration Services Company (AGESCO)

APICORP share: 16.67%

AGESCO was established in 1985 to provide advanced seismic services in Libya and the Arab world. The company maintains three seismic crews and was able to achieve operation rate in 2008 which resulted in operating revenues of LD 54.05 million compared to LD 63.87 million in 2007. As at the end of 2008, AGESCO recorded a net profit of around LD 5.8 million compared to LD 14.63 million in 2007.



### (6) The Saudi European Petrochemical Company (IBN ZHR)

APICORP share: 10%

IBN ZHR, established in 1985 in Jubail, can produce 1.3 million tons/yr of methyl tertiary butyl ether (MTBE), a gasoline octane booster and 640,000 tons/yr polypropylene, which has recently increased to 1.3 million tons/yr. In 2008, MTBE production was 1.63 million tons and polypropylene output totaled to about 638,000 tons. At end 2008, IBN ZHR reported a net income of SR 2,258 million versus a net income of SR 2,267 million in 2007.



### (7) Alexandria Carbon Black Company (ACBC)

APICORP share: 12%

ACBC was established in 1993 to produce and market carbon black, an oil based material. ACBC has a design capacity of about 210,000 tons/yr. The company, as at the end of 2008, produced over 231.2 thousand tons of Carbon Black and posted a net income of about US\$ 15.0 million compared to a budgeted figure of US\$ 44.6 million, and US\$ 46.8 million in 2007.



### (8) The Arabian Industrial Fibers Company (IBN RUSHD)

APICORP share: 3.45%

IBN RUSHD was established in 1993 in Yanbu on the west of Saudi Arabia. IBN RUSHD is an integrated petrochemical complex composed of three plants for the production of aromatics (730,000 tons/yr), purified terephthalic acid (PTA 350,000 tons/yr) and polyester (146,000 tons/yr). In the beginning of 2008, Saudi Public Investment Fund has entered to the company's shareholders list with a share of 33.51% and therefore, the paid up capital of the company has been increased to SR 8,510 million resulting APICORP's share portion to be decreased to 3.45% from 8.3%. As at the end of 2008, IBN RUSHD recorded a net loss of SR 1178 million versus a net loss of SR 698.6 million for the last year 2007.



### (9) Oriental Petrochemicals Company (OPC)

APICORP share: 14%

OPC was established in 1996 with an initial capacity of 120,000 tons/yr polypropylene that later can be expanded to 162,000 tons/yr. The company announced the successful commissioning of its plant at the beginning of 2002, and since then it has become the main producer and supplier of polypropylene in the local market. At the end of 2008, the company's produced around 159 thousand and marketed around 143 thousand of polypropylene, however, due to the high inventory levels, OPC has declared a net loss of around L.E 78.6 million, versus a net income of L.E 30 million for the year 2007.



### (10) Alexandria Acrylic Fibers Company (AFCO)

APICORP share: 10%

AFCO was established late 2003 in Egypt, and its plant which was completed in late 2005

has a nameplate capacity of 18,000 t/yr. Currently the plant is under expansion to 54,000 t/yr. AFCO produces poly acrylic fibers, which is used mainly in manufacturing carpets and blankets. AFCO produced 17,566 tons in 2008 versus 16,621 tons in 2007. Because of the global financial crisis and due to the decrease in the prices during the 4th quarter of 2008, the company's recorded a net loss of around L.E 36 million, compared to a net loss of L.E. 15.3 million in 2007.



#### 11) Yanbu National Petrochemical Company (YANSAB)

APICORP share: 1.57%

YANSAB was established in early 2005 by SABIC with a paid up capital of SR 5,625 million, of which SABIC owns 55%, SABIC partners in IBN RUSHD and TAIF own 10%, and the remainder percentage was offered to the Saudi public. Currently, the company has become listed on the Saudi Stock Market (Tadawul). YANSAB is expected to start up in the second quarter of 2009. The complex will produce 900,000 tons per year of polyethylenes 700,000 tons per year of ethylene glycols, 400,000 tons per year of polypropylene, in addition to some other by products. At the end of 2008, YANSAB recorded a non-operational net loss of SR 25.6 million compared to SR 30.4 million in 2007.



#### 12) Egyptian Methanol Company (E-Methanex)

APICORP share: 7%

Metanex Corporation, Egyptian Petrochemicals Holding Company (ECHEM), Egyptian Natural Gas Holding Company (EGAS), Egyptian Natural Gas Company (GASCO) and APICORP established E-Methanex in 2005 with a paid up capital of US \$ 420 million to build a US \$ 950 million cost methanol production facility in Damietta, Egypt with a nameplate capacity of 1.28 million tons per year. As of the end of January 2009, the project achieved around 74.8% cumulative actual progress verse 75.3% planned. The start of commercial operation is planned in April 2010.



#### 13) Misr Oil Processing Company (MOPCO)

APICORP share: 3%

MOPCO general assembly has officially approved the acquisition merger with EAgrium, and therefore, the equity paid up capital of MOPCO will be doubled from L.E 996 million to L.E 1,992 million and as a result, APICORP's share decreased from 7% to 3%. Construction works are expected to resume during April 2009 and the project is expected to be started commercially by the end of the 1st quarter of 2011.

MOPCO expansion project consists of two identical and integrated units with a capacity of 400 thousand t/y Ammonia and 635 thousand t/y Urea each. After completion, MOPCO complex for nitrogenous fertilizers will have a total capacity of 1.2 million t/y and 1.9 million t/y of Ammonia and Urea respectively.



#### 14) The Egyptian Bahraini Gas Derivatives Company (EBGDCO)

APICORP share: 20%

The Egyptian Natural Gas Company, DANAGAZ of Bahrain and APICORP established EBGDCO in 2007 in Egypt with a share capital of US \$ 25 million. The objective of the company will be to construct a US \$ 80 million facility for propane and butane recovery from associated natural gas. The plant will be located at Ras Shakair on the Red Sea. The company was registered at the end of 2007. Construction works are expected to resume during June 2009 and the project is expected to be started commercially by the beginning of 2011.



**BOARD OF DIRECTORS REPORT**  
**APICORP ACTIVITIES IN 2008**  
**APICORP EQUITY PARTICIPATIONS**  
as at 31 December 2008



Company Name	Paid-up Capital	Participation	Other Major Shareholders	Activities
<b>Bahrain National Gas Company (BANAGAS)</b> Bahrain	BD 8 million	12.5%	National Oil and Gas Authority (NOGA), Bahrain Chevron Asia Pacific Company	Extraction and marketing of LPG and condensates from associated gas.
<b>Arab Drilling and Workover Company (ADWOC)</b> Libyan Arab Jamahiriya	LD 60 million	20%	Arab Petroleum Services Co. (APSC), Libya Santa Fe, USA	Drilling and related operations in the Arab world.
<b>Arab Company for Detergent Chemicals (ARADET)</b> Iraq	ID 36 million	32%	Government of the Republic of Iraq Government of the Kingdom of Saudi Arabia Government of the State of Kuwait Arab Mining Company, Amman The Arab Investment Co., Saudi Arabia	Production and marketing of linear alkyl benzene and the excess of intermediary products
<b>Tankage Mediterranee (TANKMED)</b> Tunisia	TD 13.2 million	20%	l'Entreprise Tunisienne d'Activities Petrolieres (ETAP), Tunisia National Oil Distribution Company (SNDP) Societe Tuniso Seoudienne d'Investissement et de Développement (STUSID) Banque Tuniso-Koweitienne de Développement (BTKD)	Storing, trans-shipment and handling petroleum and petrochemical products at La Skhirra terminal.
<b>Arab Geophysical Exploration Services Company (AGESCO)</b> Libyan Arab Jamahiriya	LD 19 million	16.67%	Arab Petroleum Services Co. (APSC), Libya National Oil Co., Libya	Providing advanced seismic services in the Arab world.
<b>Saudi European Petrochemical Company (IBN ZAHR)</b> Saudi Arabia	SR 1,025 million	10%	Saudi Basic Industries Corp. (SABIC) Saudi Arabia Ecofuel, Italy	Production of gasoline octane booster MTBE, and Polypropylene (PP).

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## APICORP ACTIVITIES IN 2008 APICORP EQUITY PARTICIPATIONS

as at 31 December 2008

Company Name	Paid-up Capital	Participation	Other Major Shareholders	Activities
Alexandria Carbon Black Company (ACBC) Egypt	US \$ 16.205 million	12%	Indian Industrial Investment Group (BIRLA), India Transport and Engineering Company (El Nesser Tire Co.), Egypt Al-Nasr Coke Company, Egypt Saudi Egyptian Industrial Investment Company, Egypt International Finance Corporation (IFC), USA Continental Carbon Company, USA	Production and marketing of carbon black.
The Arabian Industrial Fibers Company (IBN RUSHD) Saudi Arabia	SR 8,510 million	3.45%	Saudi Basic Industries Corp. (SABIC), Saudi Arabia Public Investments Fund, Saudi Arabia GIC, Kuwait Saudi Pharmaceuticals Co., Saudi Arabia SAFCO, Saudi Arabia Others	Production of Aromatics, PTA and Polyester Fibers.
Oriental Petrochemical Company (OPC) Egypt	LE 120 million	14%	Oriental Weavers Group, Egypt Arab International Investments Co., Libya Al-Ahli Bank, Egypt Egyptian Petrochemicals Co., Egypt Misr Insurance Co., Egypt	Production and marketing of Polypropylene.
Alexandria Acrylic Fibers Company (AFCO) Egypt	LE 286.55 million	10%	Alexandria Carbon Black Co., Egypt Thai Carbon Black Public Co., Ltd. Thailand Thai Rayon Public Co., Ltd. Thailand Thai Acrylic Fiber Public Co., Ltd. Thailand Sidikerir Petrochemicals Co., Egypt Saudi Egyptian Industrial Investment Co., Egypt	Production and marketing of Acrylic Fibers

Company Name	Paid-up Capital	Participation	Other Major Shareholders	Activities
<b>Yanbu National Petrochemical Company (Yansab)*</b> Saudi Arabia	SR 5,625 million	1.57%	SABIC SABIC Partners in Ibn Rushd and Taif Saudi Public Others	Production and marketing of PE, EG, PP and other by products
<b>Egyptian Methanex Methanol Company (EMethanex)*</b> Egypt	US \$ 420 million	7%	Methanex Corporation, Canada Egyptian Petrochemicals Holding Company (Echem), Egypt Egyptian Natural Gas Holding Company (Egas), Egypt Egyptian Natural Gas Company (GASCO), Egypt	Production and marketing of Methanol
<b>Misir Oil Processing Company &amp; Fertilizer Company (MOPCO)*</b> Egypt	LE 1,992 million	3%	Egyptian General Petroleum Corporation, Egypt Agrium, Canada National Investments Bank, Egypt Egyptian Petrochemicals Holding Company (Echem), Egypt Egyptian Natural Gas Holding Company (Egas), Egypt Egyptian Natural Gas Company (GASCO), Egypt Al Nasr Petroleum Company, Egypt Others	Production and marketing of Ammonia and Urea
<b>The Egyptian Bahraini Gas Derivative Company (EBGDCO)**</b> Egypt	US \$ 25 million	20%	The Egyptian Natural Gas Holding Company (Egas) Danagas, UAE	Fractionation of natural gas liquids (NGL) to recover Propane and Butane.

\*Under construction

\*\*Under formation

# BOARD OF DIRECTORS REPORT

## APICORP ACTIVITIES IN 2008

### TREASURY & CAPITAL MARKETS ACTIVITIES IN 2008

2008 has been a very challenging year for the global financial sector due to the adverse impact of the ongoing subprime crisis. Both international as well as regional financial institutions have not been immuned from the effects of the extreme volatilities in the global money, credit and capital markets and the slowing economic conditions.

APICORP's strategy during 2008 was on prioritizing liquidity management and minimizing risk given the challenging market and economic environment. Treasury & Capital Markets assets as at 31st December 2008 stood at US\$ 854 million compared to US\$ 1,275.5 million as at 31st December 2007. The Treasury & Capital Markets achieved a gross income of US\$ 38.4 million, compared to US \$ 47.8 million for the year 2007. The income was affected partly due to ongoing negative impact of the credit crisis and also due to decline in overall treasury assets. As at end 31st December 2008, APICORP's liquidity measured by cash, placements and investment in treasury securities amounted to comfortable US\$ 388 million.

The events following the unprecedented market turmoil in September 2008 adversely impacted some of our investment portfolios and resulted in making provisions and revaluation losses on certain securities and funds. As at end 31st December 2008, Fixed Income securities portfolio has a high standard of credit profile with an average of AA rating.

The foreign branch of APICORP which started its operations as an Investment Bank in Bahrain during last quarter of 2006 complements all the Treasury & Capital Markets activities of APICORP's head office. We continue to place emphasis to further increasing and diversifying our funding sources, which are vital to finance our core activities and maintain sufficient liquidity levels.



# BOARD OF DIRECTORS REPORT

## APICORP ACTIVITIES IN 2008

### THE DEPARTMENT OF ECONOMICS & RESEARCH

The Economics & Research Department, which was established at the end of 2007 on the foundation of a former Research Unit, is dedicated to the study of economic and policy issues relevant to APICORP's business development and growth strategy.

To address these issues, we focused on three separate but interdependent areas in 2008 :

- (i) the scanning of the Corporation's economic environment and trends, highlighting the potential impact of the global credit market crisis and that of the subsequent downturn of the international oil market;
- (ii) the enhancement of our in-house country risk methodology and the associated "perceptual mapping" of the energy investment climate in the Arab (MENA) world;
- (iii) the regular publication of our Economic Commentary on current global and regional economic and financial issues to convey our research findings to a broader audience.

Furthermore, our Review of Energy Investments in the Arab/MENA world has become an authoritative source of informed analysis in the field. Repetition of the review every year, since 2003, has made trend studies possible, thus offering analysts a useful tool for policy formulation.

Both the Economic Commentary and the Review of Energy Investments have greatly contributed to elevating APICORP's external profile and helped strengthen our relationship with similar industry, research centres and specialized media.

## CONFERENCES AND SEMINARS 2008

#	Title	Date	Venue
1	Chatham House's Conference on Middle East Energy	4 – 5 February	London
2	The Paris Oil & Gas Club,	11 April	Paris
3	MEED Project Finance Conference	26 – 27 February	Bahrain
4	Advanced Oil & Gas Finance and Accounting Conference	26 – 28 April	Dubai
5	The Arab Economic Forum	2-3 May	Beirut
6	4th Annual Middle East Project Finance Forum	26 – 28 May	Abu Dhabi
7	Middle East Petrochemicals 2008 – MEED Conference	16 – 17 June	Bahrain,
8	Seminar on Junior E&P Companies	5 – 17 October	London
9	The Arab Energy Club	17 October	Bahrain
10	The Fleming Gulf's Annual Investments in Oil, Gas And Petrochemicals	20 – 21 Oct	Dubai
11	The Oxford Energy Policy Club,	15 November	London
12	4th Algeria Energy Week (SEA4)	15 – 19 Nov	Algeria
13	NSCSA Bankers Meeting	4 December	Dubai