

**SAHARA PETROCHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**AND INDEPENDENT AUDITORS' REPORT**

**SAHARA PETROCHEMICALS COMPANY  
(A Saudi Joint Stock Company)  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Page</b>
Independent auditors' report	2
Consolidated balance sheet	3
Consolidated income statement	4
Consolidated cash flow statement	5
Consolidated statement of changes in shareholders' equity	6
Notes to the consolidated financial statements	7 - 20



## INDEPENDENT AUDITORS' REPORT

February 23, 2013

To the Shareholders of  
Sahara Petrochemicals Company  
(A Saudi Joint Stock Company)

### Scope of audit

We have audited the accompanying consolidated balance sheet of Sahara Petrochemicals Company (the "Company") and Subsidiary (collectively the "Group") as of December 31, 2012 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. 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 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 basis for our opinion.

### Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Bye laws with respect to the preparation and presentation of consolidated financial statements.

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**SAHARA PETROCHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Consolidated balance sheet**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at December 31,	
		2012	2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	985,977	997,591
Trade accounts receivable	5	408,935	435,274
Inventories	6	301,318	218,487
Prepayments and other receivable	7	59,629	37,130
		<u>1,755,859</u>	<u>1,688,482</u>
<b>Non-current assets</b>			
Investments in and advances to associates	8	2,925,842	2,693,398
Projects development costs	9	60,004	55,362
Property, plant and equipment	10,15	3,671,658	3,885,630
Intangible assets	11	91,340	48,621
		<u>6,748,844</u>	<u>6,683,011</u>
<b>Total assets</b>		<u>8,504,703</u>	<u>8,371,493</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	12	56,310	-
Current maturity of long-term borrowings	15	200,758	200,377
Accounts payable	13	169,629	114,466
Accrued and other liabilities	14	231,733	225,521
Zakat and income tax payable	17	42,102	24,581
		<u>700,532</u>	<u>564,945</u>
<b>Non-current liabilities</b>			
Long-term borrowings	15	1,889,324	2,090,041
Derivative financial instruments	23	61,934	78,226
Employees termination benefits	16	32,095	25,434
		<u>1,983,353</u>	<u>2,193,701</u>
<b>Total liabilities</b>		<u>2,683,885</u>	<u>2,758,646</u>
<b>Equity</b>			
Equity attributable to shareholders of the Company:			
Share capital	19	4,387,950	4,387,950
Statutory reserve	20	102,235	81,790
Fair value reserve	23	(53,526)	(71,129)
Retained earnings		981,595	797,590
<b>Total shareholders' equity</b>		<u>5,418,254</u>	<u>5,196,201</u>
Non-controlling interest		<u>402,564</u>	<u>416,646</u>
<b>Total equity</b>		<u>5,820,818</u>	<u>5,612,847</u>
<b>Total liabilities and equity</b>		<u>8,504,703</u>	<u>8,371,493</u>
<b>Contingencies and commitments</b>	25		

The notes on pages from 7 to 20 form an integral part of these consolidated financial statements.

**SAHARA PETROCHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Consolidated income statement**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2012	2011
Sales	18	1,543,714	1,525,894
Cost of sales	18	(1,490,404)	(1,285,603)
Gross profit		53,310	240,291
<b>Operating expenses</b>			
Selling and distribution	21	(56,029)	(58,001)
General and administrative	22	(25,081)	(15,323)
(Loss) income from operations		(27,800)	166,967
<b>Other income (expenses)</b>			
Share in net income of associates	8	317,688	398,987
Financial charges	12,15	(89,182)	(61,472)
Rights issue costs	19	-	(30,029)
Other income (expense)		11,566	(8,880)
Income before zakat and non-controlling interest		212,272	465,573
Zakat	17	(31,219)	(26,772)
Income before non-controlling interest		181,053	438,801
Non-controlling interest		23,397	(27,214)
<b>Net income for the year</b>		<b>204,450</b>	<b>411,587</b>
<b>(Loss) earnings per share (Saudi Riyal)</b>			
Operating (loss) income	24	(0.06)	0.55
Net income for the year		0.47	1.35
<b>Weighted number of shares outstanding (in thousands)</b>	24	<b>438,795</b>	<b>305,754</b>

The notes on pages from 7 to 20 form an integral part of these consolidated financial statements.

**SAHARA PETROCHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Consolidated cash flow statement**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2012	2011
<b>Cash flow from operating activities</b>			
Net income for the year		204,450	411,587
<u>Adjustments for non-cash items</u>			
Depreciation, amortization and other adjustments	10,11	255,734	154,354
(Gain) loss on disposal of property, plant and equipment		(92)	3,266
Share in net income of associates	8	(317,688)	(398,987)
(Loss) income applicable to non-controlling interests		(23,397)	27,214
<u>Changes in working capital</u>			
Trade accounts receivable		26,339	(426,319)
Inventories		(82,831)	(47,266)
Prepayments and other receivable		(22,499)	408,566
Accounts payable		55,163	(177,809)
Accrued and other liabilities		6,212	269,838
Zakat and income tax payable	17	22,763	22,181
Employee termination benefits		6,661	5,550
Net cash generated from operating activities		<u>130,815</u>	<u>252,175</u>
<b>Cash flow from investing activities</b>			
Investments in and advances to associates	8	(88,397)	(490,553)
Dividends received from an associate	8	179,025	-
Projects development costs	9	(4,642)	(144,438)
Additions to property, plant and equipment	10	(29,740)	(96,632)
Proceeds from disposal of property, plant and equipment		1,538	144
Additions to intangible assets	11	(56,187)	(9,824)
Net cash generated from (utilized in) investing activities		<u>1,597</u>	<u>(741,303)</u>
<b>Cash flow from financing activities</b>			
Changes in short-term borrowings		56,310	-
Repayment of long-term borrowings		(200,336)	(139,995)
Proceeds from increase in share capital		-	1,462,650
Net cash (utilized in) generated from financing activities		<u>(144,026)</u>	<u>1,322,655</u>
<b>Net change in cash and cash equivalents</b>		<b>(11,614)</b>	<b>833,527</b>
Cash and cash equivalents at beginning of year		<u>997,591</u>	<u>164,064</u>
<b>Cash and cash equivalents at end of year</b>		<b><u>985,977</u></b>	<b><u>997,591</u></b>

The notes on pages from 7 to 20 form an integral part of these consolidated financial statements.

**SAHARA PETROCHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Consolidated statement of changes in shareholders' equity**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

	Note	Share capital	Statutory reserve	Retained earnings	Fair value reserve	Total
<b>January 1, 2012</b>		<b>4,387,950</b>	<b>81,790</b>	<b>797,590</b>	<b>(71,129)</b>	<b>5,196,201</b>
Net income for the year		-	-	204,450	-	<b>204,450</b>
Transfer to statutory reserve	20	-	20,445	(20,445)	-	-
Adjustments	8, 23	-	-	-	17,603	<b>17,603</b>
<b>December 31, 2012</b>		<b>4,387,950</b>	<b>102,235</b>	<b>981,595</b>	<b>(53,526)</b>	<b>5,418,254</b>
<b>January 1, 2011</b>		<b>2,925,300</b>	<b>40,631</b>	<b>427,162</b>	<b>(88,272)</b>	<b>3,304,821</b>
Increase of share capital	19	1,462,650	-	-	-	1,462,650
Net income for the year		-	-	411,587	-	411,587
Transfer to statutory reserve	20	-	41,159	(41,159)	-	-
Adjustments	8, 23	-	-	-	17,143	17,143
<b>December 31, 2011</b>		<b>4,387,950</b>	<b>81,790</b>	<b>797,590</b>	<b>(71,129)</b>	<b>5,196,201</b>

The notes on pages from 7 to 20 form an integral part of these consolidated financial statements.

## **SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

### **1 General information**

Sahara Petrochemicals Company (the "Company") is a Saudi Joint Stock Company and registered in the Kingdom of Saudi Arabia, operating under Commercial Registration ("CR") No. 1010199710 issued in Riyadh on 19 Jumada'l 1425 H (July 7, 2004). The registered address of the Company is P.O. Box 251, Riyadh 11411, Kingdom of Saudi Arabia.

The Company is principally involved in investing in industrial projects, especially in the petrochemicals and chemical fields and to own and execute projects necessary to supply raw materials and utilities.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiary 'Al Waha Petrochemicals Company ("Al Waha")', (collectively the "Group"), a Saudi limited liability company operating under CR No. 2055007751 issued in Dammam on 9 Shaban 1427 H (September 3, 2006), and is owned 75% by the Company and 25% by Basell Arabian Investment ("Basell") . Al Waha was established to construct, own and operate a petrochemicals complex that produces propylene as primary feedstock for the production of polypropylene.

The Group also holds equity interests in associates which are primarily involved in manufacturing of Petrochemicals products. See Note 8.

The accompanying consolidated financial statements were authorized by the Board of Directors on February 23, 2013.

### **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented.

#### **2.1 Basis of preparation**

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of derivative financial instruments to fair value, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants.

#### **2.2 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

#### **2.3 Foreign currency transaction and balances**

##### **(a) Reporting currency**

These consolidated financial statements are presented in Saudi Riyals which is the reporting currency of the Group.

##### **(b) Transactions and balances**

Foreign currency transactions, if any, are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

#### **2.4 Cash and cash equivalents**

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.



## **SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

### **2.5 Trade accounts receivable**

Trade accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the income statement.

### **2.6 Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products includes the cost of raw materials, labor and production overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Appropriate provisions are made for slow moving and redundant inventories.

### **2.7 Investments**

#### **(a) Subsidiary**

Subsidiary is an entity over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. A subsidiary is fully consolidated from the date on which control is transferred to the Group and is de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiary. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated.

#### **(b) Associates**

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, which is adjusted subsequently for impairment loss, if any.

The Group's share of its associates' post-acquisition income or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

### **2.8 Projects development costs**

Projects development costs represent professional fees charged by legal advisors and financial consultants for setting up of new companies to undertake various new industrial projects. Also, it includes the assets acquired that will be transferred to the new companies. Upon successful incorporation of the new companies, related costs are transferred to the respective companies in which the Group will have equity interest.

## **SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

### **2.9 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation except capital work in progress which is stated at cost. Depreciation is charged to the income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	<b>Number of years</b>
• Buildings and leasehold land improvements	33
• Plant and machinery	10 - 25
• Furniture, fixtures and office equipment	3 - 10
• Motor vehicles	4

Leasehold land improvements are amortised on a straight line basis over the shorter of its useful life or the term of the lease.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

### **2.10 Intangible assets**

Deferred charges - Costs that are not of benefit beyond the current period are charged to the income statement, while costs that will benefit future periods are capitalized. Deferred charges, reported under "Intangible assets" in the accompanying consolidated balance sheet include front-end fees paid on loans from Saudi Industrial Development Fund ("SIDF") and advances against Islamic facilities. Such charges are amortized over the term of loan from SIDF and advances against Islamic facilities.

Turnaround costs - Intangible assets also include turn around costs which are deferred and amortized over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such costs.

Software costs - Expenditure to acquire computer software and licenses are capitalized and amortized using the straight-line method over the useful life of four years. Licenses are carried at costs less accumulated amortization.

### **2.11 Impairment of non-current assets**

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. Impairment losses recognized on intangible assets are not reversible.

### **2.12 Borrowings**

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the income statement.

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.13 Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

**2.14 Zakat and taxes**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat for the Company and zakat related to the Company's ownership in Al Waha is charged to the income statement. Foreign shareholder of Al Waha is subject to income taxes. Provision for income tax is charged to non controlling interest in the accompanying balance sheet.

Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Group withholds tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividends payments to the foreign shareholder of Al Waha, as required under the Saudi Arabian Income Tax Law.

**2.15 Employee termination benefits**

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Group and charged to the income statement. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

**2.16 Derivative financial instruments**

Derivative financial instruments are initially recorded at cost and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the statement of income as they arise.

A cash flow hedge is a hedge of exposure to variability in cash flows relating to recognized asset or liability, an unrecognized firm commitment or a forecasted transaction. To the extent the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in the shareholders' equity. Subsequently the amount is included in the statement of income in the same period or periods during which the hedged item affects net profit or loss. For hedges of forecasted transaction, the gain or loss on the hedging instrument will adjust the recorded carrying amount of the acquired asset or liability.

**2.17 Revenues**

Sales are recorded at net provisional price upon delivery of the products to the marketing affiliate. The net provisional price is subsequently adjusted to actual selling price as reported by the marketing affiliate net of selling, distribution and marketing expenses. Other sales are recognized at the time of delivery of the product at the loading terminals.

**2.18 Selling, distribution and general and administrative expenses**

Selling and distribution, and general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between selling and distribution, and general and administrative expenses and production costs, when required, are made on a consistent basis.

**2.19 Dividends**

Dividends are recorded in the financial statements in the period in which they are approved by shareholders of the Company.

**2.20 Leases**

Rental expenses under operating leases are charged to the income statement over the period of the respective lease. Rental income is recognized on the accrual basis in accordance with the terms of the contracts.

## **SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

### **2.21 Reclassifications**

Certain amounts in the accompanying 2011 consolidated financial statements have been reclassified to conform to 2012 presentation.

## **3 Financial Instrument and risk management**

Financial instrument carried on the balance sheet include cash and cash equivalents, accounts and other receivable, investments, short-term and long-term borrowings, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Risk management is carried out by senior management. The most important types of risks are currency risk, fair value and cash flow interest rate risk.

### **3.1 Currency risk**

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, United States dollars and Euros. Management believes the currency risk is not significant.

### **3.2 Fair value and interest rate cash flow risk**

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 Group's financial positions and cash flows. The Group's interest rate risks arise mainly from the time deposits and borrowings, which are at a floating rate of interest and are subject to re-pricing on a regular basis. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps the Group agrees with other parties to exchange, at specified intervals (generally on half yearly basis), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. Management monitors the changes in interest rates and believes that fair value and cash flow interest rate risks to the Group are not significant.

### **3.3 Price risk**

The risk that the value of financial instrument will fluctuate as result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group financial instruments are not exposed to price risk.

### **3.4 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 Group has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings.

### **3.5 Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liability risk may result from inability to sell 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, including committed credit facilities, to meet the Group's obligations as they become due.

### **3.6 Fair value**

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 Group's financial instruments are compiled under the historical cost convention, except for derivative financial instruments which are carried at fair values, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012****(All amounts in Saudi Riyals thousands unless otherwise stated)****4 Cash and cash equivalents**

	2012	2011
Cash at bank	181,751	126,736
Time deposits	804,226	870,855
	<u>985,977</u>	<u>997,591</u>

Time deposits were held with local commercial banks and yield financial income at the prevailing market rates.

**5 Trade accounts receivable**

	Note	2012	2011
Related parties	18	380,146	419,321
Other		28,789	15,953
		<u>408,935</u>	<u>435,274</u>

**6 Inventories**

	2012	2011
Raw materials	106,589	37,271
Spare parts and supplies, held not for sale	108,669	104,710
Finished products	86,060	76,506
	<u>301,318</u>	<u>218,487</u>

**7 Prepayments and other receivable**

	Note	2012	2011
Prepayments		3,784	3,066
Receivable from employees		1,716	1,662
Advances to suppliers		17,266	6,456
Receivable from associates	18	13,424	9,087
Other receivables		23,439	16,859
		<u>59,629</u>	<u>37,130</u>

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012****(All amounts in Saudi Riyals thousands unless otherwise stated)****8 Investments in and advances to associates**

	Note	2012	2011
<b>Investment in associates:</b>	8.1		
Sahara and Ma'aden Petrochemicals Company (SAMAPCO)		444,852	448,154
Saudi Acrylic Acid Company (SAAC)		384,839	380,509
Tasnee and Sahara Olefins Company (TSOC)		1,964,507	1,812,690
		<u>2,794,198</u>	<u>2,641,353</u>
<b>Advances to associates:</b>	8.2		
SAMAPCO		51,570	52,045
SAAC		80,074	-
		<u>131,644</u>	<u>52,045</u>
		<u>2,925,842</u>	<u>2,693,398</u>

**8.1 Investment in associates**

	2012	2011
January 1	2,641,353	1,538,316
Additions	8,798	438,508
Transfer from project development costs	-	257,234
Share in net income	317,688	398,987
Dividends	(179,025)	-
Share of change in fair value reserve	5,384	8,308
December 31	<u>2,794,198</u>	<u>2,641,353</u>

**8.2 Advances to associates**

	2012	2011
January 1	52,045	-
Additions	80,074	52,045
Repayment	(475)	-
December 31	<u>131,644</u>	<u>52,045</u>

The Group has provided long-term advances to the associates to finance the construction of their production facilities. Such advances are not repayable during 2013 and, accordingly, classified as non-current in accompanying 2012 and 2011 balance sheet.

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012****(All amounts in Saudi Riyals thousands unless otherwise stated)****8.3 Summarized financial information**

The summarized financial information of the associates is as follows:

<b>Name</b>	<b>Country of incorporation</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Revenues</b>	<b>Net (loss) income</b>	<b>%Interest</b>
<b>2012</b>						
SAMAPCO	Saudi Arabia	3,173,422	2,283,718	-	(6,605)	50.00
SAAC	Saudi Arabia	6,639,179	4,506,336	-	(10,013)	43.16
TSOC	Saudi Arabia	18,357,822	9,789,210	5,423,166	997,147	32.55
		<b>28,170,423</b>	<b>16,579,264</b>	<b>5,423,166</b>	<b>980,529</b>	
<b>2011</b>						
SAMAPCO	Saudi Arabia	2,576,794	1,680,486	-	(3,692)	50.00
SAAC	Saudi Arabia	4,350,414	2,382,610	-	(1,548)	43.16
TSOC	Saudi Arabia	17,281,612	9,480,211	5,730,654	1,236,073	32.55
		<b>24,208,820</b>	<b>13,543,307</b>	<b>5,730,654</b>	<b>1,230,833</b>	

SAMAPCO is currently under development stages and expect to commence commercial operating during 2013.

SAAC is a holding company having investments in various projects which are expected to commence commercial operations during years 2013 and 2014.

**9 Projects development costs**

	<b>2012</b>	<b>2011</b>
January 1	<b>55,362</b>	177,913
Additions	<b>4,642</b>	144,438
Transfer to property, plant and equipment	-	(9,755)
Transfer to investment in associates	-	(257,234)
December 31	<b>60,004</b>	55,362

**SAHARA PETROCHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2012**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**10 Property, plant and equipment**

	January 1, 2012	Additions	Adjustments / disposals	December 31, 2012
<b>2012</b>				
<b>Cost</b>				
Buildings and lease hold land improvements	746,127	578	(12,299)	734,406
Plant, machinery and equipment	3,276,010	7,847	(44,001)	3,239,856
Furniture, fixtures and office equipment	14,385	419	(1,340)	13,464
Vehicles	4,821	251	(1,293)	3,779
Capital work in progress	1,289	20,645	-	21,934
	<u>4,042,632</u>	<u>29,740</u>	<u>(58,933)</u>	<u>4,013,439</u>
<b>Accumulated depreciation</b>				
Buildings and land lease hold improvements	(20,130)	(22,627)	-	(42,757)
Plant, machinery and equipment	(127,330)	(160,652)	-	(287,982)
Furniture, fixtures and office equipment	(6,473)	(1,985)	188	(8,270)
Vehicles	(3,069)	(702)	999	(2,772)
	<u>(157,002)</u>	<u>(185,966)</u>	<u>1,187</u>	<u>(341,781)</u>
	<u>3,885,630</u>			<u>3,671,658</u>
	January 1, 2011	Additions	Disposals / transfers	December 31, 2011
<b>2011</b>				
<b>Cost</b>				
Buildings and land lease hold improvements	2,706	743,421	-	746,127
Plant, machinery and equipment	6,103	3,273,758	(3,851)	3,276,010
Furniture, fixtures and office equipment	12,895	1,490	-	14,385
Vehicles	4,475	632	(286)	4,821
Capital work in progress	4,131,913	102,369	(4,232,993)	1,289
	<u>4,158,092</u>	<u>4,121,670</u>	<u>(4,237,130)</u>	<u>4,042,632</u>
<b>Accumulated depreciation</b>				
Buildings and land lease hold improvements	(1,591)	(18,539)	-	(20,130)
Plant, machinery and equipment	(1,383)	(126,388)	441	(127,330)
Furniture, fixtures and office equipment	(3,897)	(2,576)	-	(6,473)
Vehicles	(2,265)	(1,090)	286	(3,069)
	<u>(9,136)</u>	<u>(148,593)</u>	<u>727</u>	<u>(157,002)</u>
	<u>4,148,956</u>			<u>3,885,630</u>

Administrative building of the Company and property, plant and equipment of Al Waha are constructed on land leased under a renewable lease contract with the Royal Commission for Jubail and Yanbu (the "Royal Commission") to the Company. The lease term is for an initial period of 30 years commenced in 2006 and is renewable by mutual agreement of the parties.

Al Waha has capitalized approximately Saudi Riyals 20.3 million of financial charges during the year ended December 31, 2011 (2012: Nil).



**SAHARA PETROCHEMICALS COMPANY**

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)

**11 Intangible assets**

	Turnaround costs	Deferred charges	Software costs	Total
<b>2012</b>				
<b>Cost</b>				
January 1	-	60,000	14,337	74,337
Additions	56,187	-	-	56,187
Disposal	-	-	(20)	(20)
December 31	56,187	60,000	14,317	130,504
<b>Accumulated amortization</b>				
January 1	-	(23,357)	(2,359)	(25,716)
Charge for the year	(6,242)	(6,000)	(1,226)	(13,468)
Disposal	-	-	20	20
December 31	(6,242)	(29,357)	(3,565)	(39,164)
	<b>49,945</b>	<b>30,643</b>	<b>10,752</b>	<b>91,340</b>
	Turnaround costs	Deferred charges	Software costs	Total
<b>2011</b>				
<b>Cost</b>				
January 1	-	60,000	4,513	64,513
Additions	-	-	9,824	9,824
December 31	-	60,000	14,337	74,337
<b>Accumulated amortization</b>				
January 1	-	(17,557)	(1,118)	(18,675)
Charge for the year	-	(5,800)	(1,241)	(7,041)
December 31	-	(23,357)	(2,359)	(25,716)
Net book value	-	36,643	11,978	48,621

**12 Short-term borrowings**

These represent short-term loans outstanding at December 31, 2012 obtained by Al Waha from a commercial bank and bear financial charges at prevailing market rates which are based on Saudi inter-bank offer rate.

Such borrowing facilities are secured by assignment of accounts receivable and were guaranteed by the Company and non-controlling shareholder of Al Waha.

**13 Accounts payable**

	2012	2011
Trade	161,522	104,779
Other	8,107	9,687
	<b>169,629</b>	<b>114,466</b>

**SAHARA PETROCHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2012**  
 (All amounts in Saudi Riyals thousands unless otherwise stated)

**14 Accrued and other liabilities**

	2012	2011
Accrued expenses	44,351	14,282
Accrued purchases	134,823	132,574
Financial charges	29,125	24,499
Other	23,434	54,166
	<u>231,733</u>	<u>225,521</u>

**15 Long-term borrowings**

	Note	2012	2011
Advance against Islamic facilities	15.1	949,384	990,911
Saudi Industrial Development Fund loan ("SIDF")	15.2	320,000	385,000
Public Investment Fund loan ("PIF")	15.3	750,331	844,140
Loan from non-controlling interest	15.4	70,367	70,367
		<u>2,090,082</u>	<u>2,290,418</u>
Less: current maturity shown under current liabilities		<u>(200,758)</u>	<u>(200,377)</u>
		<u>1,889,324</u>	<u>2,090,041</u>

**15.1 Advance against Islamic facilities**

During 2006, Al Waha signed an Islamic Facility Agreement (IFA) for US dollars 276.6 million (Saudi Riyals 1.04 billion) through which the commercial banks will participate in the procurement of Al Waha's production facilities on the basis of co-ownership. On the completion of construction of Al Waha's production facilities, such assets will be leased to Al Waha at an annual rental calculated at London Inter Bank Offered Rate ("LIBOR") plus 1.95%. Under a separate Purchase Undertaking Agreement, Al Waha will purchase the above assets from the banks over a period of eleven years starting six months after the completion of the construction phase. The advanced are mainly denominated in US dollars. The aggregate maturities of these advanced, based on their repayment schedules, are spread in 2010 through 2021. These loans are principally secured by mortgage on the property, plant and equipment of Al Waha.

Al Waha has also entered into interest rate swap contracts with commercial banks to manage the exposure to volatility in interest rates for a notional amount ranging from US\$ 16.7 million (Saudi Riyals 62.7 million) to US\$ 503.8 million (Saudi Riyals 1,889.7 million) with no upfront premium.

**15.2 SIDF Loan**

Al Waha has signed a loan agreement with SIDF for a loan of Saudi Riyals 400.0 million to finance the construction of plant facilities, which was draw down as of December 31, 2011. The loan bears no periodic financial charges. The loan is payable in thirteen un-equal semi-annual installments which commenced from July 17, 2011. The loan is secured through mortgage of assets, assignment of insurance proceeds, technology rights and corporate guarantee of the Company and non-controlling shareholder of Al Waha.

**15.3 PIF Loan**

The loan agreement with PIF provided for a loan of US\$ 250 million (Saudi Riyal 937.9 million) entered into by Al Waha to finance the construction of plant facilities. This loan interest is payable at LIBOR plus 0.5% and is repayable in twenty semi-annual equal installments starting from May 2011. The loan is secured by mortgage of the assets of Al Waha.

The covenants of some of the borrowing facilities require Al Waha to maintain certain level of financial conditions, require lenders' prior approval for dividends distribution above a certain amount and limit the amount of annual capital expenditure and certain other requirements.

**SAHARA PETROCHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2012**  
 (All amounts in Saudi Riyals thousands unless otherwise stated)

**15.4 Loan from non-controlling interest**

This represent loan from Basell to finance construction of production facilities of Al Waha. This loan bears financial charges at an agreed rate with no stated repayment date.

**15.5 Maturity profile of long-term borrowings**

	2012	2011
<b>Years ending December 31:</b>		
2012	-	200,377
2013	200,758	200,758
2014	220,958	220,958
2015	246,422	246,422
2016	256,798	256,798
Thereafter	1,165,146	1,165,105
	<u>2,090,082</u>	<u>2,290,418</u>

**16 Employees termination benefits**

	2012	2011
January 1	25,434	19,884
Provisions	13,145	11,760
Payments	(6,484)	(6,210)
December 31	<u>32,095</u>	<u>25,434</u>

**17 Zakat and income tax**

The Company and Al Waha file separate zakat and income tax declarations on unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulation are principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less deduction for the net book value of property, plant and equipment and certain other items.

**17.1 Provision for zakat and taxes at December 31**

	2012	2011
Zakat for the Company	38,486	8,262
Zakat and income taxes for Al Waha	3,616	16,319
	<u>42,102</u>	<u>24,581</u>

**17.2 Provision for zakat charged to the income statement**

	2012	2011
Zakat for the Company	28,619	10,453
Share of the Company in zakat of Al Waha	2,600	16,319
	<u>31,219</u>	<u>26,772</u>

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012****(All amounts in Saudi Riyals thousands unless otherwise stated)****17.3 Status of final assessments**

Al Waha has received zakat and income tax assessments from the DZIT until 2007.

The Company has received the zakat assessments for the year through 2004. The Company has received assessment for the year 2010 with additional zakat amounting to Saudi Riyals 7.4 million. The Company has filed an appeal against such assessment and believes that no material liability will arise upon ultimate settlement of such appeal and, accordingly, no provision has been recorded in the accompanying financial statements.

**18 Related parties matters****18.1 Related party transactions**

The following is a summary of transactions with related parties during December 31:

	2012	2011
Sales	1,291,490	1,738,000
Purchase of inventories	91,894	60,100
Cost and expenses charged by the Company to an associate	30,486	2,128

**18.2 Receivable from related parties**

Receivable from related parties at December 31, 2012 and 2011, as disclosed in Note 5, represent balances receivable from foreign affiliates of the Basell, the non-controlling interest. Further, receivable from associates at December 31, 2012 and 2011, as disclosed in Note 7, represent balances receivable from SAAC and SAMAPCO.

**19 Share capital**

The share capital of the Company as of December 31, 2012 and 2011 was comprised of 438,795,000 shares stated at Saudi Riyals 10 per share.

During 2011, the shareholders of the Company resolved to increase the share capital from Saudi Riyals 2,925,300,000 to Saudi Riyals 4,387,950,000 by way of rights issue of 146,265,000 shares, at par value, amounting to Saudi Riyals 1.46 billion. The legal formalities related to rights issue of shares were completed during 2011.

**20 Statutory reserve**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of the net income for the year to statutory reserve unless it equals to 50% of its share capital. The statutory reserve in the accompanying financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

**21 Selling and distribution expenses**

	2012	2011
Freight charges	53,048	55,077
Other	2,981	2,924
	<u>56,029</u>	<u>58,001</u>

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2012****(All amounts in Saudi Riyals thousands unless otherwise stated)****22 General and administrative expenses**

	2012	2011
Salaries, wages and benefits	16,767	12,245
Maintenance	1,408	667
Professional services	499	184
Travelling	1,168	821
Depreciation and amortization	1,774	882
Rent	877	226
Other	2,588	298
	<u>25,081</u>	<u>15,323</u>

**23 Fair value reserve**

At December 31, 2012, the Group had outstanding interest rate swap agreements with commercial banks with negative fair values of Saudi Riyals 53.5 million (2011: Saudi Riyals 71.1 million). The change in fair values has been recorded in the consolidated statement of changes in equity.

**24 (Loss) earnings per share**

(Loss) earnings per share for the year ended December 31, 2012 and 2011 has been computed by dividing the operating (loss) income and net income for such years by weighted average number of shares outstanding during such years.

**25 Contingencies and commitments**

- (i) The Group was contingently liable for bank guarantees issued on behalf of the Group in the normal course of business amounting to Saudi Riyals 452.7 million. (2011: Saudi Riyals 12.2 million).
- (ii) The capital expenditure contracted by the Group but not incurred till December 31, 2012 was approximately Saudi Riyals 22.1 million. (2011: Saudi Riyals 0.9 million).

Also see Note 17 for zakat contingencies.