

SAHARA PETROCHEMICALS COMPANY

(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS
ENDED JUNE 30, 2012 AND INDEPENDENT
AUDITORS' LIMITED REVIEW REPORT**

SAHARA PETROCHEMICALS COMPANY
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2012

| | Pages |
|--|--------------|
| Independent auditors' limited review report | 2 |
| Interim consolidated balance sheet | 3 |
| Interim consolidated income statement | 4 |
| Interim consolidated cash flow statement | 5 |
| Notes to the interim consolidated financial statements | 6 - 10 |



INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

July 16, 2012

To the Shareholders of Sahara Petrochemicals Company:

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Sahara Petrochemicals Company (the "Company") and Subsidiary (collectively the "Group") as of June 30, 2012 and the related interim consolidated statements of income for the three-month and six-month periods then ended and cash flows for the six-month period then ended June 30, 2012, including the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management.

We conducted our limited review in accordance with the standard of review of interim financial reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial accounting matters. The scope of the limited review is substantially less than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements of the Group for them to be in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group.

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SAHARA PETROCHEMICALS COMPANY**(A Saudi Joint Stock Company)****Interim consolidated balance sheet**

(All amounts in Saudi Riyals in thousands unless otherwise stated)

| | Note | As of June 30, 2012 (Unaudited) | As of December 31, 2011 (Audited) | As of June 30, 2011 (Unaudited) |
|---|------|---------------------------------------|---|---------------------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 385,652 | 997,591 | 194,558 |
| Short-term deposits | | 504,226 | - | - |
| Accounts receivable | | 333,077 | 496,405 | 668,103 |
| Inventories | | 260,055 | 218,487 | 257,307 |
| Prepayments and other receivables | | 47,532 | 28,044 | 41,330 |
| | | 1,530,542 | 1,740,527 | 1,161,298 |
| Non-current assets | | | | |
| Investments | | 2,935,435 | 2,641,353 | 1,740,794 |
| Project costs | | 14,172 | 12,929 | 272,021 |
| Property, plant and equipment | | 3,830,667 | 3,921,205 | 4,078,728 |
| Intangible assets | | 68,527 | 55,479 | - |
| | | 6,848,801 | 6,630,966 | 6,091,543 |
| Total assets | | 8,379,343 | 8,371,493 | 7,252,841 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Short-term borrowings | | 58,597 | - | 192,000 |
| Current maturity of long-term borrowings | | 215,759 | 200,377 | 159,995 |
| Accounts payable | | 178,552 | 104,779 | 184,638 |
| Accrued and other liabilities | | 103,433 | 235,208 | 396,963 |
| Zakat payable | | 23,726 | 24,581 | 12,441 |
| | | 580,067 | 564,945 | 946,037 |
| Non-current liabilities | | | | |
| Long-term borrowings | | 1,921,794 | 2,019,674 | 2,137,554 |
| Derivative financial instruments | | 72,042 | 78,226 | 84,760 |
| Employee termination benefits | | 28,876 | 25,434 | 22,787 |
| | | 2,022,712 | 2,123,334 | 2,245,101 |
| Total liabilities | | 2,602,779 | 2,688,279 | 3,191,138 |
| Equity | | | | |
| Equity attributable to the shareholders of the Company | | | | |
| Share capital | | 4,387,950 | 4,387,950 | 2,925,300 |
| Statutory reserve | | 81,790 | 81,790 | 40,631 |
| Fair value reserve | | (49,515) | (71,129) | (132,361) |
| Retained earnings | | 893,836 | 797,590 | 736,108 |
| Total shareholders' equity | | 5,314,061 | 5,196,201 | 3,569,678 |
| Minority interest | | 462,503 | 487,013 | 492,025 |
| Total equity | | 5,776,564 | 5,683,214 | 4,061,703 |
| Total liabilities and equity | | 8,379,343 | 8,371,493 | 7,252,841 |

Contingencies and commitments 4

The notes on pages from 6 to 10 form an integral part of these interim consolidated financial statements.

SAHARA PETROCHEMICALS COMPANY
(A Saudi Joint Stock Company)

Interim consolidated income statement

(All amounts in Saudi Riyals in thousands unless otherwise stated)

| | Note | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|---|------|---|---------------------|---|---------------------|
| | | 2012 (Unaudited) | 2011 (Unaudited) | 2012 (Unaudited) | 2011 (Unaudited) |
| Sales | | 281,428 | 721,330 | 636,882 | 721,330 |
| Cost of sales | | (275,373) | (560,316) | (668,269) | (560,316) |
| Gross profit | | 6,055 | 161,014 | (31,387) | 161,014 |
| Operating expenses | | | | | |
| Selling and distribution | | (11,958) | (21,527) | (27,006) | (21,527) |
| General and administrative | | (7,333) | (4,267) | (12,563) | (8,581) |
| Income from operations | | (13,236) | 135,220 | (70,956) | 130,906 |
| Other income (expenses) | | | | | |
| Share in net income of associates | 3 | 82,890 | 133,554 | 188,235 | 250,501 |
| Financial charges | | (22,376) | (24,136) | (45,700) | (24,136) |
| Other income | | 2,872 | 138 | 6,211 | 162 |
| Income before zakat and minority interest | | 50,150 | 244,776 | 77,790 | 357,433 |
| Zakat | | (3,000) | (7,185) | (7,600) | (19,874) |
| Income before minority interest | | 47,150 | 237,591 | 70,190 | 337,559 |
| Minority interest | | 7,170 | (28,613) | 26,056 | (28,613) |
| Net income for the period | | 54,320 | 208,978 | 96,246 | 308,946 |
| Earnings (loss) per share (Saudi Riyals): | | | | | |
| Operating income (loss) | | (0.03) | 0.46 | (0.16) | 0.45 |
| Net income for the period | | 0.12 | 0.71 | 0.22 | 1.06 |
| Weighted average number of shares outstanding (in thousands) | 2.18 | 438,795 | 292,350 | 438,795 | 292,350 |

The notes on pages from 6 to 10 form an integral part of these interim consolidated financial statements.

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

| | Six-month period ended June 30, | |
|--|------------------------------------|---------------------|
| | 2012 (Unaudited) | 2011 (Unaudited) |
| Cash flow from operating activities | | |
| Net income for the period | 96,246 | 308,946 |
| <u>Adjustments for non-cash items</u> | | |
| Depreciation and amortization | 96,382 | 51,919 |
| Gain on disposal of property, plant and equipment | (31) | - |
| Share of net income of associates | (188,235) | (250,501) |
| Minority interest | (26,056) | 28,613 |
| <u>Changes in working capital</u> | | |
| Accounts receivable | 163,328 | (242,396) |
| Inventories | (41,568) | (86,086) |
| Prepayments and other receivables | (19,488) | (12,386) |
| Accounts payable | 73,773 | 20,152 |
| Accrued and other current liabilities | (131,775) | 112,417 |
| Zakat payable | (855) | 10,041 |
| Employee termination benefits | 3,442 | 2,903 |
| Net cash generated from (utilized in) operating activities | 25,163 | (56,378) |
| Cash flow from investing activities | | |
| Short-term deposits | (504,226) | - |
| Investments | (88,871) | (9,755) |
| Project costs | (1,243) | (136,541) |
| Additions to property, plant and equipment | (4,293) | (104,302) |
| Proceeds from disposal of property, plant and equipment | 1,478 | - |
| Additions to intangible assets | (16,046) | - |
| Net cash used in investing activities | (613,201) | (250,598) |
| Cash flow from financing activities | | |
| Short-term borrowings | 58,597 | 192,000 |
| Repayment of long-term borrowings | (82,498) | (62,497) |
| Minority interest | - | 207,967 |
| Net cash (utilized in) generated from financing activities | (23,901) | 337,470 |
| Net change in cash and cash equivalents | (611,939) | 30,494 |
| Cash and cash equivalents at beginning of period | 997,591 | 164,064 |
| Cash and cash equivalents at end of period | 385,652 | 194,558 |

The notes on pages from 6 to 10 form an integral part of these interim consolidated financial statements.

SAHARA PETROCHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2012 (Unaudited)

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 accompanying interim consolidated financial statements include the accounts of the Company and its subsidiary 'Al Waha Petrochemicals Company ('Al Waha'), a Saudi limited liability company operating under CR No. 2055007751 issued in Dammam on 9 Shaban 1427 H (September 3, 2006). Al Waha is 75% owned by the Company.

The Company and Al Waha (collectively the "Group") are 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.

During 2011, the shareholders of Company resolved to increase the share capital by way of right issue of 146,265,000 shares, at par value, amounting to Saudi Riyals 1.46 billion to finance expansions and future projects, consequently increasing the share capital of the Company from Saudi Riyals 2,925,500,000 to Saudi Riyals 4,387,950,000. The legal formalities of right issue of shares were completed during 2011.

As described in Note 3, the Group also holds equity interests in various associates.

The accompanying interim consolidated financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Group's management to present a fair statement of the financial position, results of operations and cash flows. The interim results of the operations for the three-month and six-month periods ended June 30, 2012 may not represent a proper indication for the annual results of operations. These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2011.

The accompanying interim consolidated financial statements were approved by the Company's management on July 16, 2012.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The accompanying interim 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 the Standard of Accounting for Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. Significant accounting policies adopted by the Group for preparing such interim consolidated financial statements are consistent with the accounting policies described in the 2011 annual audited consolidated financial statements of the Group.

2.2 Critical accounting estimates and judgments

The preparation of interim consolidated 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. Although these estimates 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. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

SAHARA PETROCHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2012 (Unaudited)

2.3 Foreign currency translations

(a) Reporting currency

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

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals at 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 of monetary assets and liabilities denominated in foreign currencies at the interim consolidated balance sheet date exchange rates are recognized in the interim consolidated 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.

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for 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 to "General and administrative expenses" in the income statement.

2.6 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of finished products include 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.

2.7 Investments

(a) Subsidiaries

Subsidiaries are entities 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(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, net of any accumulated amortization and impairment losses, if any.

SAHARA PETROCHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2012 (Unaudited)

2.8 Project costs

Projects costs represent professional fees charged by legal advisors and financial consultants for setting up of new companies to undertake various new industrial projects. Upon successful incorporation of the new companies, costs associated with the projects are transferred to the respective companies in which the Group will have equity interest.

2.9 Property, plant and equipment

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

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.

Capital work in progress are recognized at cost of materials and services needed to fabricate the plant and equipment plus salaries and other costs that can be specifically identified as necessary costs to have the plant and equipment ready for its intended use and other overheads allocated on a systematic basis, as well as capitalized borrowing costs. The cost of construction work in progress is reduced by the net proceeds from sale of products during the testing of plant.

2.10 Intangible assets

Intangible assets include upfront fees related to the loan from Saudi Industrial Development Fund ("SIDF") and loan acquisition and arrangement fees relating to the Islamic facilities. These costs are being amortized over the remaining period of the related loans facilities.

Intangible assets also include turnaround 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.

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, if any. 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.

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 Company.

SAHARA PETROCHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month and six-month periods ended June 30, 2012 (Unaudited)

2.14 Zakat and taxes

The Group is subject to zakat in accordance with the regulations of the Department of Zakat and Income Taxes (the "DZIT"). Provision for zakat for the Group is charged to the income statement. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

The group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia 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 Company and its subsidiary and are 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 laws of Saudi Arabia.

2.16 Revenues

Revenues are recognized upon delivery of the products to the marketers and the customers. Upon delivery to the marketers, sales are recorded at provisional sales prices and are later adjusted for actual selling prices for sales made by the marketers to the third parties and costs of shipping and marketing fees etc..

2.17 General and administrative expenses

Selling, marketing 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, marketing and general and administrative expenses and production costs, when required, are made on a consistent basis.

2.18 Earnings per share

Earnings per share for the three-month period and six-month periods ended June 30, 2012 has been computed by dividing the operating income and net income for the period by weighted average number of 438,795,000 shares outstanding at June 30, 2012 (2011: 292,350,000 shares).

2.19 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. The statutory reserve in the accompanying interim consolidated financial statements is the statutory reserve of the Company. Such allocation is made at the end of the fiscal year. This reserve currently is not available for distribution to the shareholders of the Company.

2.20 Dividends

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

2.21 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.

2.22 Derivative financial instruments

Derivative financial instruments, principally interest rate swap and foreign currency forward exchange contracts, 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 income statement as they arise and the resulting positive and negative fair values are reported under current assets and liabilities, respectively, in the balance sheet.

SAHARA PETROCHEMICALS COMPANY**(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements****For the three-month and six-month periods ended June 30, 2012 (Unaudited)****2.23 Reclassification**

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

3. Investments

The Group also has equity interests in the following associates which are primarily involved in manufacturing of petrochemical products:

| | <u>Country of incorporation</u> | <u>Effective ownership at June 30,</u> | |
|--|-------------------------------------|--|-------------|
| | | <u>2012</u> | <u>2011</u> |
| Tasnee and Sahara Olefins Company | Saudi Arabia | 32.55% | 32.55% |
| Saudi Acrylic Acid Company ("SAAC") | Saudi Arabia | 43.16% | 43.16% |
| Sahara and Maaden Petrochemical Company ("SAMAPCO") | Saudi Arabia | 50.00% | - |

SAMAPCO has not yet started the commercial production. SAAC acts as a holding company of various projects. The Company along with SAAC incur costs on development of the projects and establish separate companies for each project with its own commercial registration.

4. Contingencies and commitments

The Group has future expenditures as at June 30, 2012 amounting to Saudi Riyals 13.20 million (2011: Saudi Riyals 795.0 million).