

**ADVANCED PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)**

**INTERIM FINANCIAL STATEMENTS AND
AUDITORS' REPORT (LIMITED REVIEW)
FOR THE THREE MONTHS
ENDED MARCH 31, 2014**

ADVANCED PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)

INTERIM FINANCIAL STATEMENTS AND AUDITORS' REPORT
(LIMITED REVIEW)
FOR THE THREE MONTHS ENDED MARCH 31, 2014



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AUDITORS' REPORT (LIMITED REVIEW) ON INTERIM FINANCIAL STATEMENTS

To the stockholders
Advanced Petrochemical Company
Dammam, Kingdom of Saudi Arabia.

Scope of Review

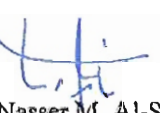
We have reviewed the accompanying interim balance sheet of Advanced Petrochemical Company, a Saudi Joint Stock Company ("the Company") as of March 31, 2014 and the interim statements of income and cash flows for the three months then ended, and notes 1 to 6 which form an integral part of these interim financial statements as prepared by the Company and presented to us with all the necessary information and explanations. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standard of auditing applicable to interim financial reporting issued by the Saudi Organization for Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope 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.

Review Results

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

Deloitte & Touche
Bakr Abulkhair & Co.


Nasser M. Al-Sagga
License No. 322
14 Jumada II, 1435
April 14, 2014



ADVANCED PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)

INTERIM BALANCE SHEET
AS OF MARCH 31, 2014

(All amounts in Saudi Riyals thousands unless otherwise stated)



	Note	March 31, 2014 (Un-audited)	March 31, 2013 (Un-audited)
Assets			
Current assets			
Cash and cash equivalents		351,965	344,267
Trade receivables		297,350	272,884
Inventories		146,289	169,462
Prepayments and other receivables		19,016	28,266
Total current assets		814,620	814,879
Non-current assets			
Other non-current assets		32,212	32,933
Available for sale investments		157,498	-
Investment in unconsolidated subsidiaries	4	1,900	1,900
Intangible assets		43,543	87,592
Property, plant and equipment		2,153,510	2,178,644
Total non-current assets		2,388,663	2,301,069
TOTAL ASSETS		3,203,283	3,115,948
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short term loans		-	93,750
Long term loans – current portion		125,000	125,000
Accounts payable and other liabilities		380,125	376,989
Dividend payable		4,385	3,944
Total current liabilities		509,510	599,683
Non-current liabilities			
Long term loans		475,000	500,000
End-of-service indemnities		29,796	22,979
Total non-current liabilities		504,796	522,979
Stockholders' equity			
Share capital	1	1,639,950	1,639,950
Statutory reserve		220,485	162,848
Unrealized gain on available for sale investments		6,301	-
Retained earnings		322,241	190,488
Total stockholders' equity		2,188,977	1,993,286
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		3,203,283	3,115,948
KHALIFA A. AL-MULHEM Chairman of the Board		ABDULLAH M. AL-GARAWI President & CEO	
		KHALID F. AL OTAIBI GM-Finance & Admin.	


The accompanying notes form an integral part of these interim financial statements

ADVANCED PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)


INTERIM STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)



	Note	March 31, 2014 (Un-audited)	March 31, 2013 (Un-audited)
Sales		669,168	641,518
Cost of sales		(518,750)	(508,751)
Gross profit		150,418	132,767
Selling and distribution expenses		(4,106)	(3,559)
General and administrative expenses		(7,714)	(7,459)
Operating income		138,598	121,749
Finance charges		(2,776)	(4,114)
Other income, net		1,631	302
NET INCOME		137,453	117,937
Earnings per share	3		
Earnings per share from net income (SR)		0.838	0.719
Earnings per share from continuing main operations (SR)		0.828	0.717
Earnings per share from other operations (SR)		0.010	0.002
Weighted average number of shares		163,995,000	163,995,000


KHALIFA A. AL-MULHEM
Chairman of the Board


ABDULLAH M. AL-GARAWI
President & CEO


KHALID F. AL OTAIBI
GM-Finance & Admin.

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ADVANCED PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)



	March 31, 2014 (Un-audited)	March 31, 2013 (Un-audited)
OPERATING ACTIVITIES		
Net income	137,453	117,937
Adjustments for:		
Depreciation and amortization	51,443	52,180
Loss on disposal of property, plant and equipment	77	323
Realized gain on available for sale investments	(1,197)	-
Finance charges	2,776	4,114
End-of-service indemnities	2,602	2,275
Changes in:		
Trade receivables	(31,356)	9,881
Inventories	(1,094)	(28,715)
Prepayments, other receivable and other non-current assets	244	(7,120)
Accounts payable and other liabilities	14,740	(2,526)
Cash from operating activities	175,688	148,349
End-of-service indemnities paid	(1,297)	(1,214)
Finance charges paid	(146)	(2,816)
Net cash from operating activities	174,245	144,319
INVESTING ACTIVITIES		
Purchase of available for sale investments	(150,000)	-
Additions to property, plant and equipment	(31,831)	(4,709)
Proceeds from disposal of property, plant and equipment	-	225
Increase in intangible assets	(172)	(873)
Net cash used in investing activities	(182,003)	(5,357)
FINANCING ACTIVITIES		
Repayment of short term loans	-	(93,750)
Borrowing long term loans	20,000	-
Dividend paid	(204,170)	(163,238)
Net cash used in financing activities	(184,170)	(256,988)
Net change in cash and cash equivalents	(191,928)	(118,026)
Cash and cash equivalents, beginning of period	543,893	462,293
CASH AND CASH EQUIVALENTS, MARCH 31	351,965	344,267

Non-cash transactions:

Unrealized gain on available for sale investments	(6,301)	-
Zakat and income tax provisions charged to stockholders' equity accounts	3,833	3,288

KHALIFA A. AL-MULHEM
Chairman of the Board

ABDULLAH M. AL-GARAWI
President & CEO

KHALID F. AL OTAIBI
GM-Finance & Admin.,

The accompanying notes form an integral part of these interim financial statements

1. ORGANIZATION AND ACTIVITIES

Advanced Petrochemical Company (the "Company") is a Saudi joint stock company, registered in Saudi Arabia under commercial registration number 2050049604 dated 27 Sha'ban, 1426H (October 1, 2005). The registered address of the Company is P.O. Box 7215, Dammam 31462, Kingdom of Saudi Arabia. The share capital of the Company is SR 1,639,950,000, divided into 163,995,000 shares of SR 10 each.

During 2014, the stockholders of the Company approved a final cash dividend of SR 205 million (2013: SR 163.9 million) in their general assembly meeting, held in February 2014, which was proposed by the Board of Directors ("BOD") during November 2013.

The principal activity of the Company is to manufacture and sell polypropylene.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim financial statements have been prepared in accordance with the Standard of Accounting for Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The following is a summary of significant accounting policies applied by the Company:

Accounting convention

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Revenue recognition

For international markets, all products are sold to the marketers, while for local markets (Saudi Arabia and GCC countries) the products are sold through the Company. Upon delivery to the marketers, sales are recorded at provisional sales prices that are later adjusted based upon actual selling prices received by the marketers from third parties, after deducting the costs of shipping and marketing fees etc. Adjustments are made, as they become known to the Company. Sales in local markets are recognized upon delivery of products to customers.

Expenses

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Company's products. All other expenses are classified as general and administrative expenses.

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



Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined for work in progress and finished goods, on a weighted average cost basis and includes cost of materials, labor and an appropriate proportion of direct overheads. All other inventories are valued on a weighted average cost basis.

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, demand deposits and highly liquid investments with original maturities of three months or less.

Trade receivables

Trade receivables are carried at their original amount less provision made for doubtful debts. An allowance for doubtful debts is established when there is significant doubt that the Company will be able to collect all amounts due according to the original terms of trade receivables.

Property, plants and equipment

Property, plants and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated useful lives of the assets are as follows:

	Years
Plants	20
Capital spare parts	20
Buildings	33
Machinery and equipment	10
Furniture, fixtures and office equipment	3 – 8
Catalysts	2 – 8
Laboratory and safety equipment	5
Vehicles and trucks	4 – 10
Leasehold improvements	10

Capital spare parts that are considered essential to ensure continuous plant operation, are classified under property, plants and equipment, and are depreciated using the straight line method in accordance with applicable rates. Spare parts are capitalized if they are not readily available in the market or unavailable, and their manufacturing requires an extended time to complete.

Intangible assets

Intangible assets comprise of establishment costs, listing costs and expenses incurred prior to commencement of commercially viable production which is expected to provide benefits in future periods. These costs also include plants testing and commissioning costs net off any proceeds from sale of off-spec production during the testing phase. Intangible assets are amortized over a period not exceeding seven years.

Planned turnaround costs 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.

Other non-current assets

Other non-current assets comprise mainly of the share purchase cost, which under the Employee Share Ownership Program (ESOP) will be repaid to the Company over a period of time by the employees eligible for ESOP. The Company at no point will become the legal owner of these shares.

Investments in subsidiaries

A subsidiary is an enterprise that is controlled by the Company by governing the financial and operating policies.

Available for sale investments

Investments in financial instruments are classified according to Company's intent with respect to these securities. Investments in discretionary portfolios and marketable securities classified as available for sale are stated at fair value and unrealized gains or losses thereon are included in the stockholders' equity. The carrying amount of such investment is reduced to recognize any impairment in the value of the individual investment.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

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 so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods when risks and rewards attributable to goods are transferred to the Company or services are received, whether or not billed to the Company.

Provision for obligations

A provision is recognized in the financial statements when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.



Borrowing costs

Borrowing costs directly attributable to cost of projects under construction are added to the cost of the project until such time as the project is ready for its intended use. Investment income earned on temporary investments of specific borrowings pending their expenditure on the project under construction is deducted from the borrowing costs eligible for capitalization.

Employee benefits

End-of-service indemnities

End-of-service indemnities, required by Saudi Arabian Labor Law, are provided in the interim financial statements based on the employees' length of service.

Employees home ownership program

The Company has a home ownership program that offers eligible Saudi employees' home ownership opportunities.

Costs incurred on the construction of houses are accumulated and recorded as construction in progress under property, plant and equipment till the time the construction is completed. When the houses are allocated to the employees', the respective costs are transferred from the property, plant and equipment to other non-current assets. Costs of the unallocated houses are capitalized and depreciated. Down payments and installments of purchase price received from the eligible employees' are adjusted against non-current assets. The title will be transferred to the eligible employees upon receipt of full purchase price.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the interim balance sheet date. Exchange gains or losses are credited or charged to interim statement of income.

Statutory reserve

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution. The statutory reserve is appropriated at the period end based on period end net income and any difference between the amount appropriated and the actual is adjusted in the last quarter.

Zakat and income tax

The Company is subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accruals basis and charged to retained earnings. The zakat charge is computed on the Saudi stockholders' share in the zakat base. Income tax is computed on the foreign stockholders' share in the adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to interim statement of income on a straight-line basis over the term of the operating lease.

ADVANCED PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTHS ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)



3. EARNINGS PER SHARE

Earnings per share from net income are computed by dividing net income for the period by the weighted average number of shares outstanding during the period. Outstanding number of shares at March 31, 2014 and 2013 were 163.995 million shares.

Earnings per share from the continuing main operations are computed by dividing the net income excluding other income, net for the periods by the weighted average number of shares outstanding.

Earning per share from other operations is computed by dividing the other income for the periods by the weighted average number of shares outstanding.

4. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

These represent the Company's equity interest in the share capital contribution of the following Saudi Arabian limited liability companies, as of March 31, 2014 and 2013:

Name of subsidiary	Percentage of holding	Amount
Advanced Renewable Energy Company ("AREC")	95	950
Advanced Global Investment Company ("AGIC")	95	950
		<u>1,900</u>

AREC and AGIC were formed in March 2012 and August 2012, respectively. The share capital contribution of these companies was kept in their respective bank accounts and there were no other assets or liabilities, including contingent liabilities at the balance sheet dates and they do not have any operations for the reported periods. The Company will start consolidating them upon commencement of operations as non-consolidation does not have any material impact on the accompanying interim financial statements.

5. CONTINGENCIES AND COMMITMENTS

- The Company has issued letters of guarantee in favor of Saudi Aramco (for the propane and gas sales supply agreements) and others amounting to SR 452.02 million (2013: SR 452.02 million).
- The capital expenditure contracted by the Company but not incurred till March 31, 2014 was approximately SR 291 million (2013: nil).

6. RESULTS OF INTERIM PERIOD

The results of the interim period are not an indication of the results for the year.