

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**  
**AND INDEPENDENT AUDITORS' REPORT**

**SAHARA PETROCHEMICALS COMPANY  
(A Saudi Joint Stock Company)  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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 - 21



## INDEPENDENT AUDITORS' REPORT

February 19, 2014

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 its subsidiary (collectively referred to as the "Group") as of December 31, 2013 and the consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 26 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 policies 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 consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards 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 By-laws with respect to the preparation and presentation of consolidated financial statements.

**PricewaterhouseCoopers**

By: \_\_\_\_\_  
Omar M. Al Sagga  
License Number 369

*PricewaterhouseCoopers, Al Hugayet Tower, P.O. Box 467, Dhahran Airport 31932, Kingdom of Saudi Arabia  
T: +966 (13) 849-6311, F: +966 (13) 849-6281, www.pwc.com/middle-east*

**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,	
		2013	2012
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	1,126,957	985,977
Short-term deposits		160,000	-
Accounts receivable	5	495,527	408,935
Inventories	6	227,026	301,318
Prepayments and other receivable	7	65,600	55,697
		<u>2,075,110</u>	<u>1,751,927</u>
<b>Non-current assets</b>			
Investments in and advances to associates	8	2,936,658	2,925,842
Projects development costs	9	54,363	60,004
Property, plant and equipment	10,15	3,536,346	3,671,658
Intangible assets	11	75,884	91,340
		<u>6,603,251</u>	<u>6,748,844</u>
<b>Total assets</b>		<u>8,678,361</u>	<u>8,500,771</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	12	-	56,310
Current maturity of long-term borrowings	15	221,140	200,758
Accounts payable	13	154,963	169,629
Accrued and other liabilities	14	213,527	231,733
Zakat and income tax payable	17	40,109	42,102
		<u>629,739</u>	<u>700,532</u>
<b>Non-current liabilities</b>			
Long-term borrowings	15	1,713,184	1,889,324
Derivative financial instruments	23	31,896	61,934
Employees termination benefits	16	39,949	32,095
		<u>1,785,029</u>	<u>1,983,353</u>
<b>Total liabilities</b>		<u>2,414,768</u>	<u>2,683,885</u>
<b>Equity</b>			
Equity attributable to shareholders of the Company:			
Share capital	19	4,387,950	4,387,950
Statutory reserve	20	159,313	102,235
Fair value reserve	23	(26,524)	(53,526)
Retained earnings		1,273,694	981,595
<b>Total shareholders' equity</b>		<u>5,794,433</u>	<u>5,418,254</u>
Non-controlling interest		<u>469,160</u>	<u>398,632</u>
<b>Total equity</b>		<u>6,263,593</u>	<u>5,816,886</u>
<b>Total liabilities and equity</b>		<u>8,678,361</u>	<u>8,500,771</u>
<b>Contingencies and commitments</b>	26		

The notes on pages from 7 to 21 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,	
		2013	2012
Sales	18	2,377,984	1,543,224
Cost of sales	18	(1,945,825)	(1,490,404)
Gross profit		432,159	52,820
<b>Operating expenses</b>			
Selling and distribution	21	(97,541)	(56,029)
General and administrative	22	(22,324)	(25,081)
Income (loss) from operations		312,294	(28,290)
<b>Other income (expenses)</b>			
Share in net income of associates	8	417,286	317,688
Financial charges	12,15	(76,399)	(84,887)
Other income		12,680	7,761
Income before zakat and non-controlling interest		665,861	212,272
Zakat	17	(32,068)	(31,219)
Income before non-controlling interest		633,793	181,053
Non-controlling interest		(63,018)	23,397
<b>Net income for the year</b>		<b>570,775</b>	<b>204,450</b>
<b>Earnings (loss) per share (Saudi Riyals)</b>			
Operating income (loss)	24	0.71	(0.06)
Net income for the year		1.30	0.47
<b>Weighted number of shares outstanding (in thousands)</b>	24	<b>438,795</b>	<b>438,795</b>

The notes on pages from 7 to 21 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,	
		2013	2012
<b>Cash flow from operating activities</b>			
Net income for the year		570,775	204,450
<u>Adjustments for non-cash items</u>			
Depreciation and amortization	10,11	211,171	255,734
Gain on disposal of property and equipment		(706)	(92)
Share in net income of associates	8	(417,286)	(317,688)
Income (loss) applicable to non-controlling interests		63,018	(23,397)
<u>Changes in working capital</u>			
Accounts receivable		(86,592)	26,339
Inventories		74,292	(82,831)
Prepayments and other receivable		(9,903)	(22,499)
Accounts payable		(14,666)	55,163
Accrued and other liabilities		(18,206)	6,212
Zakat and income tax payable	17	(1,993)	22,763
Employee termination benefits		7,854	6,661
Net cash generated from operating activities		<u>377,758</u>	<u>130,815</u>
<b>Cash flow from investing activities</b>			
Investments in and advances to associates	8	-	(88,397)
Dividends received from an associate	8	410,944	179,025
Increase in short-term deposits		(160,000)	-
Projects development costs	9	(7,647)	(4,642)
Additions to property, plant and equipment	10	(43,867)	(29,740)
Proceeds from disposal of property and equipment		1,227	1,538
Additions to intangible assets	11	(3,769)	(56,187)
Net cash generated from investing activities		<u>196,888</u>	<u>1,597</u>
<b>Cash flow from financing activities</b>			
Changes in short-term borrowings		(56,310)	56,310
Proceeds from long-term borrowings		45,000	(200,336)
Repayment of long-term borrowings		(200,758)	-
Dividends paid	25	(219,398)	-
Board of Directors' fee		(2,200)	-
Net cash utilized in financing activities		<u>(433,666)</u>	<u>(144,026)</u>
<b>Net change in cash and cash equivalents</b>		<b>140,980</b>	<b>(11,614)</b>
Cash and cash equivalents at beginning of year		<u>985,977</u>	<u>997,591</u>
<b>Cash and cash equivalents at end of year</b>		<b>1,126,957</b>	<b>985,977</b>

The notes on pages from 7 to 21 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, 2013</b>		<b>4,387,950</b>	<b>102,235</b>	<b>981,595</b>	<b>(53,526)</b>	<b>5,418,254</b>
Net income for the year		-	-	570,775	-	570,775
Transfer to statutory reserve	20	-	57,078	(57,078)	-	-
Dividends paid	25	-	-	(219,398)	-	(219,398)
Board of Directors' fee		-	-	(2,200)	-	(2,200)
Adjustments	8, 23	-	-	-	27,002	27,002
<b>December 31, 2013</b>		<b>4,387,950</b>	<b>159,313</b>	<b>1,273,694</b>	<b>(26,524)</b>	<b>5,794,433</b>
<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	-	204,450
Transfer to statutory reserve	20	-	20,445	(20,445)	-	-
Adjustments	8, 23	-	-	-	17,603	17,603
<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>

The notes on pages from 7 to 21 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, 2013**

(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 owns and operates 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.

On December 4, 2013, the Company signed a Memorandum of Understanding ("MoU") with Saudi International Petrochemical Company ("SIPCHEM"), a Saudi joint stock company, to continue the non-binding negotiations and other relevant matters relating to detailed terms of a proposed business merger between the two companies based on the principles of merger of equals (the "Proposed Merger"). Under the terms of the MoU, the Proposed Merger will be implemented by way of an exchange of shares. SIPCHEM will issue 0.685 new shares for every one share issued in the Company and the Company will become a subsidiary of SIPCHEM. The MoU does not constitute an offer by SIPCHEM to the Company's shareholders nor does it constitute an announcement of a firm intention to make an offer. The MoU will expire on the earlier of the date on which the merger agreement is signed by the companies or by notice for termination from either company to the other. If the terms of the Proposed Merger are agreed, it will be subject to various conditions and approvals including, without limitation, the approval of the Capital Market Authority, the approval at the general assembly of each company, and the approval of certain other Saudi Arabian regulatory authorities.

The accompanying consolidated financial statements were authorized by the Board of Directors on February 19, 2014.

### **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 periods 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.



## **SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

### **(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.

### **2.5 Accounts receivable**

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 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 and losses on transactions between Group companies are 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.

## **SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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. It also includes the assets acquired that will be transferred to the new companies and the associates. Upon successful incorporation of the new companies, related costs 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 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, machinery and equipment	10 - 25
• Furniture, fixtures and office equipment	3 - 10
• Vehicles	4

Leasehold land improvements are amortized 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**

Turnaround costs - Planned turnaround costs are deferred and amortized over the period until the date of the next planned turnaround which is usually within 3 to 5 years. 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.

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 terms of the loans.

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.

## **SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2013**

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

### **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 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.

### **2.12 Borrowings**

Borrowings are recognized at the proceeds received. 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 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 benefits**

#### ***Employee termination benefits***

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the income statement. The liability is calculated; as 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.

#### ***Employees' home ownership programme***

The Company has a home ownership programme 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 transferred to the employees, the respective costs are transferred from property, plant and equipment to other non-current assets. Costs of unallocated houses are capitalized and depreciated. Down payments and installments of purchase price received from employees are adjusted against the other non-current assets and the title is transferred upon completion of receipt of all the installments.

### **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 income statement as they arise.

## **SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

A cash flow hedge is a hedge of exposure to variability in cash flows relating to recognized asset or liability, an unrecognised 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 in the equity. Subsequently the amount is included in the income statement 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**

Substantially all product sales are made to the minority shareholder in Al Waha (the "Marketer") under a marketing agreement. Upon delivery of the products to the Marketer, sales are recorded at provisional selling prices which are later adjusted based on actual selling prices received by the Marketer from third parties, after deducting costs of shipping, distribution and marketing. Adjustments are recorded as they become known to the Company. Revenues from third parties are recorded at the time of delivery of the products.

### **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 Operating leases**

Rental expense under operating leases is 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.

### **2.21 Segment reporting**

#### **(a) Business segment**

A business segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

The Company is primarily engaged in manufacturing of petrochemicals and related products.

#### **(b) Geographical segment**

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

The Company's operations are conducted principally in Saudi Arabia.

### **2.22 Reclassifications**

Certain amounts in the accompanying 2012 consolidated financial statements have been reclassified to conform to 2013 presentation.

## **SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

### **3 Financial instrument and risk management**

Financial instrument carried on the balance sheet include cash and cash equivalents, accounts and other receivable, investments, 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.

#### **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 ("US") 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 principally 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. At December 31, 2013, approximately 90% (2012: 93%) of accounts receivable were due from a single customer, minority shareholder in Al Waha, primarily responsible for distribution of the Group's products. Management believes that this concentration of credit risk is mitigated as the customer is a related party and has sound credit standing and payments are received as per the agreed terms of the business. 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, 2013****(All amounts in Saudi Riyals thousands unless otherwise stated)****4 Cash and cash equivalents**

	2013	2012
Cash at bank	326,957	181,751
Time deposits	800,000	804,226
	<u>1,126,957</u>	<u>985,977</u>

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

**5 Accounts receivable**

	Note	2013	2012
Related parties	18	445,578	380,146
Other		49,949	28,789
		<u>495,527</u>	<u>408,935</u>

**6 Inventories**

	2013	2012
Raw materials	52,994	106,589
Spare parts and supplies, held not for sale	115,106	108,669
Finished products	58,926	86,060
	<u>227,026</u>	<u>301,318</u>

**7 Prepayments and other receivable**

	Note	2013	2012
Prepayments		3,715	3,784
Receivable from employees		4,500	1,716
Advances to suppliers		32,687	17,266
Receivable from associates	18	16,947	13,424
Other receivables		7,751	19,507
		<u>65,600</u>	<u>55,697</u>

**8 Investments in and advances to associates**

	Note	2013	2012
<b>Investment in associates:</b>	8.1		
Sahara and Ma'aden Petrochemicals Company ("SAMAPCO")		441,371	444,852
Saudi Acrylic Acid Company ("SAAC")		378,900	384,839
Tasnee and Sahara Olefins Company ("TSOC")		1,984,743	1,964,507
		<u>2,805,014</u>	<u>2,794,198</u>
<b>Advances to associates:</b>	8.2		
SAMAPCO		51,570	51,570
SAAC		80,074	80,074
		<u>131,644</u>	<u>131,644</u>
		<u>2,936,658</u>	<u>2,925,842</u>

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**8.1 Investment in associates**

	2013	2012
January 1	2,794,198	2,641,353
Additions	-	8,798
Share in net income	417,286	317,688
Dividends	(410,944)	(179,025)
Share of change in fair value reserve	4,474	5,384
December 31	<u>2,805,014</u>	<u>2,794,198</u>

**8.2 Advances to associates**

	2013	2012
January 1	131,644	52,045
Additions	-	80,074
Repayment	-	(475)
December 31	<u>131,644</u>	<u>131,644</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 2014 and, accordingly, classified as non-current in accompanying 2013 consolidated balance sheet.

**8.3 Summarized financial information**

The summarized financial information of the associates is as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Net (loss) income	% Equity interest
<b>2013</b>						
SAMAPCO	Saudi Arabia	3,192,702	2,309,960	-	(6,962)	50.00
SAAC	Saudi Arabia	7,695,386	5,580,705	-	(31,268)	43.16
TSOC	Saudi Arabia	18,698,993	10,094,544	5,866,875	1,295,412	32.55
		<u>29,587,081</u>	<u>17,985,209</u>	<u>5,866,875</u>	<u>1,257,182</u>	
<b>2012</b>						
SAMAPCO	Saudi Arabia	3,170,224	2,280,520	-	(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
		<u>28,167,225</u>	<u>16,576,066</u>	<u>5,423,166</u>	<u>980,529</u>	

SAMAPCO is currently in the process of constructing its production facilities and started its trial production on August 4, 2013. Management expects that the Company will commence its commercial operations in the first half of 2014.

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

TSOC, a closed joint stock company and registered in the Kingdom of Saudi Arabia, is engaged in production and sale of Propylene, Ethylene and Polyethylene.

**SAHARA PETROCHEMICALS COMPANY**

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2013

(All amounts in Saudi Riyals thousands unless otherwise stated)

**9 Projects development costs**

	2013	2012
January 1	60,004	55,362
Additions	7,647	4,642
Transfer to property, plant and equipment	(5,691)	-
Transfer to intangible assets	(7,597)	-
December 31	54,363	60,004

**10 Property, plant and equipment**

	January 1, 2013	Additions	Disposals / transfers	December 31, 2013
<b><u>2013</u></b>				
<b>Cost</b>				
Buildings and leasehold land improvements	734,406	2,122	(2,370)	734,158
Plant, machinery and equipment	3,239,136	10,790	(517)	3,249,409
Furniture, fixtures and office equipment	14,213	1,396	5,687	21,296
Vehicles	3,779	870	(1,199)	3,450
Capital work-in-progress	21,934	30,709	(2,020)	50,623
	4,013,468	45,887	(419)	4,058,936
<b>Accumulated depreciation</b>				
Buildings and leasehold land improvements	(42,757)	(22,280)	2,370	(62,667)
Plant, machinery and equipment	(285,199)	(157,968)	11	(443,156)
Furniture, fixtures and office equipment	(11,082)	(3,573)	4	(14,651)
Vehicles	(2,772)	(528)	1,184	(2,116)
	(341,810)	(184,349)	3,569	(522,590)
	3,671,658			3,536,346
	January 1, 2012	Additions	Adjustments / disposals	December 31, 2012
<b><u>2012</u></b>				
<b>Cost</b>				
Buildings and leasehold land improvements	746,127	578	(12,299)	734,406
Plant, machinery and equipment	3,276,010	7,847	(44,721)	3,239,136
Furniture, fixtures and office equipment	14,385	419	(591)	14,213
Vehicles	4,821	251	(1,293)	3,779
Capital work-in-progress	1,289	20,645	-	21,934
	4,042,632	29,740	(58,904)	4,013,468
<b>Accumulated depreciation</b>				
Buildings and leasehold land improvements	(20,130)	(22,627)	-	(42,757)
Plant, machinery and equipment	(125,638)	(159,561)	-	(285,199)
Furniture, fixtures and office equipment	(8,165)	(3,076)	159	(11,082)
Vehicles	(3,069)	(702)	999	(2,772)
	(157,002)	(185,966)	1,158	(341,810)
	3,885,630			3,671,658



**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

Administrative building of the Company and production and administration facilities 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.

**11 Intangible assets**

	Turnaround costs	Deferred charges	Software costs	Total
<b>2013</b>				
<b>Cost</b>				
January 1	56,187	60,000	14,317	130,504
Additions	573	-	3,196	3,769
Transfers	-	-	7,597	7,597
December 31	56,760	60,000	25,110	141,870
<b>Accumulated amortization</b>				
January 1	(6,242)	(29,357)	(3,565)	(39,164)
Charge for the year	(18,856)	(6,000)	(1,966)	(26,822)
December 31	(25,098)	(35,357)	(5,531)	(65,986)
	<b>31,662</b>	<b>24,643</b>	<b>19,579</b>	<b>75,884</b>
	<b>Turnaround costs</b>	<b>Deferred charges</b>	<b>Software costs</b>	<b>Total</b>
<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>

**12 Short-term borrowings**

These represent short-term loans at December 31, 2012 obtained by Al Waha from a commercial bank and were repaid during 2013. Total unused credit facilities available to the Company at December 31, 2013 comprise of short-term borrowing facilities amounting to Saudi Riyals 300.0 million and letters of credit, platinum lease and guarantee facilities amounting to Saudi Riyals 360.0 million.

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2013****(All amounts in Saudi Riyals thousands unless otherwise stated)****13 Accounts payable**

	Note	2013	2012
Trade		134,642	152,185
Related parties	18	18,834	9,337
Other		1,487	8,107
		<u>154,963</u>	<u>169,629</u>

**14 Accrued and other liabilities**

	2013	2012
Accrued expenses	29,499	44,351
Accrued purchases	131,172	134,823
Financial charges	27,419	29,125
Other	25,437	23,434
	<u>213,527</u>	<u>231,733</u>

**15 Long-term borrowings**

	Note	2013	2012
Advance against Islamic facilities	15.1	897,476	949,384
Saudi Industrial Development Fund loan ("SIDF")	15.2	265,000	320,000
Public Investment Fund loan ("PIF")	15.3	656,481	750,331
Loan from non-controlling interest	15.4	70,367	70,367
Loan from commercial bank	15.5	45,000	-
		<u>1,934,324</u>	<u>2,090,082</u>
Less: current maturity shown under current liabilities		<u>(221,140)</u>	<u>(200,758)</u>
		<u>1,713,184</u>	<u>1,889,324</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 participated 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 were 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 in 2011. 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.

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 Dollars 16.7 million (Saudi Riyals 62.7 million) to US Dollars 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 have been fully drawn until 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 a mortgage of assets, assignment of insurance proceeds, technology rights and corporate guarantee of the Company and minority shareholder of Al Waha.

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

**Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**15.3 PIF loan**

The loan agreement with PIF provided for a loan of US Dollars 250.0 million (Saudi Riyal 937.9 million) entered into by Al Waha to finance the construction of plant facilities. This loan bears financial charges at LIBOR plus 0.5% and is repayable in twenty semi-annual equal installments starting from May 2011. The loan is secured by mortgage on the assets of the Company.

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.

**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. Basell has confirmed that no repayment of these balances will be required during 2014.

**15.5 Loan from commercial bank**

During 2013, the Company signed a loan agreement of Saudi Riyals 500.0 million with a commercial bank to finance the employee housing scheme for the Company's employees and its affiliates (Al Waha and SAAC). Out of the total facility, the Company has utilized Saudi Riyals 45.0 million during the current period. The loan bears financial charges at Saudi Inter Bank Offered Rate ("SIBOR") plus 2% and is repayable in twenty equal semi-annual installments commencing after three years from the draw down date.

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

	2013	2012
<b>Years ending December 31:</b>		
2013	-	200,758
2014	221,140	221,140
2015	246,422	246,422
2016	256,798	256,798
2017	229,535	227,285
2018	199,917	197,667
Thereafter	780,512	740,012
	<b>1,934,324</b>	<b>2,090,082</b>

**16 Employees termination benefits**

	2013	2012
January 1	32,095	25,434
Provisions	11,251	13,145
Payments	(3,397)	(6,484)
December 31	<b>39,949</b>	<b>32,095</b>

**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, investments in and advances to associates and certain other items.

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2013****(All amounts in Saudi Riyals thousands unless otherwise stated)****17.1 Provision for zakat and income tax**

	2013	2012
Zakat for the Company	32,041	38,486
Zakat and income taxes for Al Waha	8,068	3,616
	<u>40,109</u>	<u>42,102</u>

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

	2013	2012
Zakat for the Company	24,000	28,619
Company's share in zakat of Al Waha	8,068	2,600
	<u>32,068</u>	<u>31,219</u>

**17.3 Status of final assessments**

Al Waha has received zakat and income tax certificates from the DZIT for the years through 2012.

The Company has received the zakat assessments for the years through 2011 which have been agreed with the DZIT except for the additional zakat assessment for the year 2010 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 consolidated financial statements.

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

Significant transactions with related parties included in the financial statements are summarized below:

	2013	2012
Sales	2,049,615	1,317,617
Purchases	151,398	145,954
Financial charges	3,507	3,507
Financial income	2,370	868
Cost and expenses charged to an associate	63,811	34,742

**18.2 Receivable from related parties**

Receivable from related parties at December 31, 2013 and 2012, as disclosed in Note 5, represent balances receivable from foreign affiliates of Basell. Further, receivable from associates at December 31, 2013 and 2012, as disclosed in Note 7, represent balances receivable from SAAC and SAMAPCO.

**18.3 Payable to related parties**

	2013	2012
TSOC	16,462	9,337
SAMAPCO	2,372	-
	<u>18,834</u>	<u>9,337</u>

**SAHARA PETROCHEMICALS COMPANY****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2013****(All amounts in Saudi Riyals thousands unless otherwise stated)****19 Share capital**

The share capital of the Company as of December 31, 2013 and 2012 was comprised of 438,795,000 shares stated at Saudi Riyals 10 per share.

**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, after recovering from accumulated deficit, to statutory reserve until it equals to 50% of its share capital. The statutory reserve in the accompanying consolidated 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**

	2013	2012
Freight charges	90,529	53,048
Other	7,012	2,981
	<u>97,541</u>	<u>56,029</u>

**22 General and administrative expenses**

	2013	2012
Salaries, wages and benefits	14,117	16,767
Maintenance	1,339	1,408
Professional services	1,042	499
Travelling	575	1,168
Depreciation and amortization	1,687	1,774
Rent	534	877
Other	3,030	2,588
	<u>22,324</u>	<u>25,081</u>

**23 Fair value reserve**

At December 31, 2013, the Group and certain of its associates had outstanding interest rate swap agreements with commercial banks with negative fair values. The Group has recorded its share of the change in fair values in the consolidated statement of changes in the shareholder's equity.

**24 Earnings (loss) per share**

Earnings (loss) per share for the years ended December 31, 2013 and 2012 has been computed by dividing the operating income (loss) and net income for such years by weighted average number of 438,795,000 shares outstanding during such years.

**25 Dividends**

During 2013, the shareholders in their meeting held on March 30, 2013 approved dividends amounting to Saudi Riyals 219.4 million (Saudi Riyals 0.5 per share) which have been fully paid (2012: Nil).

**SAHARA PETROCHEMICALS COMPANY**

**(A Saudi Joint Stock Company)**

**Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**26 Contingencies and commitments**

- (i) The Group was contingently liable for bank guarantees issued in the normal course of business amounting to Saudi Riyals 454.9 million (2012: Saudi Riyals 452.7 million).
- (ii) The capital expenditure contracted by the Group but not incurred till December 31, 2013 was approximately Saudi Riyals 368.7 million (2012: Saudi Riyals 22.1 million).

Also see Note 17 for zakat contingencies.