



Ernst & Young

**Sahara Petrochemical Company and its subsidiary  
(Saudi Joint Stock Company)**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
AND AUDITORS' LIMITED REVIEW REPORT**

**FOR THE PERIOD ENDED  
31 MARCH 2010**

## LIMITED REVIEW REPORT TO THE SHAREHOLDERS OF SAHARA PETROCHEMICAL COMPANY (SAUDI JOINT STOCK COMPANY)

### Scope of limited review:

We have reviewed the accompanying consolidated interim balance sheet of Sahara Petrochemical Company (Saudi Joint Stock Company) and its subsidiary as at 31 March 2010, and the related consolidated interim statements of income and cash flows for the three months period then ended. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). The limited review consists principally of applying analytical procedures to financial data and information 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.

### Conclusion of limited review:

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

for Ernst & Young

  
Abdulaziz Saud Alshubaibi  
Certified Public Accountant  
Registration No. 339



29 Rabi' II 1431H  
14 April 2010

Alkhobar

# Sahara Petrochemical Company and its Subsidiary (Saudi Joint Stock Company)

## CONSOLIDATED INTERIM BALANCE SHEET (UN-AUDITED)

As At 31 March 2010

	2010 SR 000	2009 SR 000
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	515,280	534,437
Inventory	97,720	11,753
Accounts receivable, other receivables, and prepayments	<u>262,616</u>	<u>7,093</u>
<b>TOTAL CURRENT ASSETS</b>	<u>875,616</u>	<u>553,283</u>
<b>NON-CURRENT ASSETS</b>		
Projects under development	40,852	22,506
Investment in associates	1,224,440	856,913
Construction work in progress	4,124,174	3,670,254
Motor vehicles and equipment	<u>14,935</u>	<u>7,443</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<u>5,404,401</u>	<u>4,557,116</u>
<b>TOTAL ASSETS</b>	<u><u>6,280,017</u></u>	<u><u>5,110,399</u></u>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accruals	254,519	72,718
Retentions payable	56,580	104,696
Current portion of advances against Islamic facilities and bridge loan	31,145	111,118
Zakat provision	<u>1,500</u>	<u>300</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>343,744</u>	<u>288,832</u>
<b>NON-CURRENT LIABILITIES</b>		
Advances against Islamic facilities	1,006,484	644,062
Term loans	1,337,990	1,164,140
Bridge loan	-	752,000
Fair value of interest rate swaps	98,802	142,462
Employees' terminal benefits	<u>14,654</u>	<u>8,948</u>
<b>TOTAL NON CURRENT LIABILITIES</b>	<u>2,457,930</u>	<u>2,711,612</u>
<b>TOTAL LIABILITIES</b>	<u>2,801,674</u>	<u>3,000,444</u>
<b>SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>		
Share capital	2,925,300	1,875,000
Statutory reserve	7,715	69
Retained earnings	246,944	47,920
Change in fair value of interest rate swaps	<u>(91,199)</u>	<u>(163,421)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>3,088,760</u>	<u>1,759,568</u>
<b>Minority interest</b>	<u>389,583</u>	<u>350,387</u>
<b>TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>	<u>3,478,343</u>	<u>2,109,955</u>
<b>TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>	<u><u>6,280,017</u></u>	<u><u>5,110,399</u></u>

The attached notes form part of these consolidated interim financial statements.

# Sahara Petrochemical Company and its Subsidiary (Saudi Joint Stock Company)

## CONSOLIDATED INTERIM STATEMENT OF INCOME (UN-AUDITED)

Period ended 31 March 2010

	<i>Period from the beginning of the year to 31 March</i>	
	<i>2010</i>	<i>2009</i>
	<i>SR 000</i>	<i>SR 000</i>
General and administration expenses	<u>(3,643)</u>	<u>(13,122)</u>
<b>LOSS FROM MAIN OPERATIONS</b>	<b>(3,643)</b>	<b>(13,122)</b>
Murabaha income	297	-
Other income	<u>39</u>	<u>-</u>
<b>LOSS BEFORE SHARE IN RESULTS OF AN ASSOCIATE</b>	<b>(3,307)</b>	<b>(13,122)</b>
Share in results of an associate	<u>119,631</u>	<u>(851)</u>
<b>INCOME/(LOSS) BEFORE MINORITY INTEREST AND ZAKAT</b>	<b>116,324</b>	<b>(13,973)</b>
Minority interest	<u>-</u>	<u>91</u>
<b>INCOME/(LOSS) BEFORE ZAKAT</b>	<b>116,324</b>	<b>(13,882)</b>
Zakat	<u>(300)</u>	<u>(300)</u>
<b>NET INCOME/(LOSS) FOR THE PERIOD</b>	<b><u>116,024</u></b>	<b><u>(14,182)</u></b>
(Loss) per share (From main operations)	<u>(0.01)</u>	<u>(0.07)</u>
Earnings (loss) per share (From net income / (loss))	<u>0.40</u>	<u>(0.08)</u>
Weighted average number of shares outstanding (in thousand)	<u>292,530</u>	<u>187,500</u>

The attached notes form part of these consolidated interim financial statements.



# Sahara Petrochemical Company and its Subsidiary (Saudi Joint Stock Company)

## CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)

Period ended 31 March 2010

	<i>Period from the beginning of the year to 31 March</i>	
	<i>2010</i>	<i>2009</i>
	<i>SR 000</i>	<i>SR 000</i>
<b>OPERATING ACTIVITIES</b>		
Income/(loss) before zakat	116,324	(13,882)
Adjustments for:		
Depreciation	1,056	474
Employees' terminal benefits, net	1,151	1,342
Share in results of an associate	(119,631)	851
Murabaha income	(297)	-
	<u>(1,397)</u>	<u>(11,215)</u>
Changes in operating assets and liabilities		
Receivable	(108,191)	(3,771)
Inventories	6,705	(11,753)
Payables	<u>63,130</u>	<u>(47,145)</u>
Net cash used in operating activities	<u>(39,753)</u>	<u>(73,884)</u>
<b>INVESTING ACTIVITIES</b>		
Additions to long term assets	(46,902)	(169,668)
Proceeds from sale of vehicles	-	536
Murabaha income	297	-
Investment in associates	<u>(53,900)</u>	<u>(124,817)</u>
Net cash used in investing activities	<u>(100,505)</u>	<u>(293,949)</u>
<b>FINANCING ACTIVITIES</b>		
Loans, net	99,669	449,438
Minority interest	-	(204)
Net cash from financing activities	<u>99,669</u>	<u>449,234</u>
<b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(40,589)</b>	<b>81,401</b>
Cash and cash equivalents at the beginning of the period	<u>555,869</u>	<u>453,036</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b><u>515,280</u></b>	<b><u>534,437</u></b>

The attached notes form part of these consolidated interim financial statements.

# Sahara Petrochemical Company and its Subsidiary (Saudi Joint Stock Company)

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

31 March 2010

### **1 ACTIVITIES**

Sahara Petrochemical Company ("the parent company") is a Saudi Joint Stock Company registered under commercial registration number 1010199710 dated 19 Jumada'I 1425H (corresponding to 7 July 2004). The authorized, issued and fully paid share capital of the parent company before the capital increase was SR 1,875,000,000 divided into 187,500,000 shares of SR 10 each.

On 1 Ramadan 1430H (corresponding to 22 August 2009) the shareholders of the parent company agreed in their extraordinary general assembly meeting held in Riyadh to increase the share capital of Sahare Petrochemical Company ("the parent company") by way of a rights issue amounting to SR 1,050,300,000 limited to the existing shareholders registered in the records of the parent company at the end of trading on the day of meeting corresponding to 22 August 2009. Number of shares issued in the rights offering was 105,030,000 shares in the price of SR 10 each and without any premium. The subscription price for the additional shares was set at SR 10, SR 12, SR 14 and SR 16. Thus, the share capital of the parent company became SR 2,925,300,000 divided into 292,530,000 shares of SR 10 each.

The principal activities of the parent company and its subsidiary ("the Group") are to invest in industrial projects, especially in the petrochemical and chemical fields and to own and execute projects necessary to supply raw materials and utilities. The Group incurs costs on projects under development and subsequently establishes a separate company for each project that has its own commercial registration. Costs incurred by the Group will be transferred to separate companies when they are established.

Al Waha Petrochemical Company ("the subsidiary"), is a Saudi limited liability company registered under commercial registration number 2055007751, and is owned 75% by Sahara Petrochemical Company and 25% by Basell Arabia Investments, its contribution amounting to SR 1,161 million. The subsidiary company is still in the commissioning phase as at 31 March 2010.

The parent company also owns a 32.55% share in Tasnee and Sahara Olefins Company (the "Associate"), a closed Saudi Joint Stock Company, (with initial contribution of SR 781.2 million). This associated company owns 75% share of Saudi Ethylene and Polyethylene Company which has commenced its commercial production effective 1 June 2009.

During 2009, the parent company has invested in Saudi Acrylic Acid Company, a Saudi limited liability company, with a direct share of 15% of the capital, where the direct contribution amounted to SR 82.5 million. The parent company has increased its share in Saudi Acrylic Acid Company to 22% during the period, where its direct contribution in the company became SR 136,4 million. The parent company owns indirect share through Tasnee and Sahara Olefins Company (the "Associate") referred to above, which has a stake in this company of 65%. The company has not started its commercial operations yet.

The parent company's headquarters are located in Riyadh, where the branch and the industrial facilities are located at Jubail Industrial City, Kingdom of Saudi Arabia.

### **2 SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

#### **Basis of consolidation of interim financial statements**

The consolidated interim financial statements include the interim financial statements of Sahara Petrochemical Company and its subsidiary which is controlled by the company as prepared at 31 March. Control is achieved over the investee company when the parent company has the power to control the financial and operating policies of the investee company.

All significant inter-group transactions and balances have been eliminated in preparing the consolidated interim financial statements.



# Sahara Petrochemical Company and its Subsidiary (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) - continued  
31 March 2010

## **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Accounting convention**

The consolidated interim financial statements are prepared under the historical cost convention modified to include the measurement at fair value of interest rate swaps contracts.

### **Use of estimates**

The preparation of the interim 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 interim financial statements and the reported amounts of revenues and expenses during the reporting period.

### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents consists of bank balances, cash on hand, short term murabahat and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

### **Accounts receivable**

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

### **Inventories**

Raw material and spare parts are stated at the lower of cost and market value.

### **Investment in associates**

Investment in associates is accounted for using the equity method.

### **Projects development costs**

Projects development costs represent mainly legal, feasibility studies, and other related costs incurred by the group for the development of industrial projects and are accounted for at cost. Upon successful incorporation of the new companies, costs associated with the projects are transferred to the respective companies. When certain projects are considered to be not feasible, the related costs are written off immediately.

### **Construction work in progress**

Construction 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 commissioning phase.

### **Borrowing costs**

Borrowing costs are recorded generally as period costs when incurred. Borrowing costs directly attributable to the construction of qualifying assets are capitalized. The capitalization starts when the construction work is in progress and the expenses and borrowing costs are incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. In case portion of the loan are deposited in Murabahat investment or deposits, the financial income earned is credited to the capitalized borrowing costs.



# Sahara Petrochemical Company and its Subsidiary (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) - continued  
31 March 2010

## **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Motor vehicles and equipment**

Motor vehicles and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of motor vehicles and equipment are depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of motor vehicles and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Expenditure for repair and maintenance are charged to income. Improvements that increase the value or materially extend the useful life of the related assets are capitalized.

### **Accounts payable and accruals**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

### **Zakat**

Zakat is provided for in the consolidated interim financial statements based on the period share of the estimated zakat for the whole year. Differences between the estimated zakat for the interim period and the zakat provision that is calculated based on the detailed calculation of the zakat base at year end are accounted for at that time.

### **Employees' terminal benefits**

Provision is made for amounts payable under the employments contract applicable to employees' accumulated periods of service at the consolidation balance sheet date.

### **Statutory reserve**

As required by Saudi Arabian Regulations for Companies, the parent company must aside 10% of its consolidated annual net income until it has built up a reserve equal to one half of the capital. The reserve is not available for distribution.

### **Foreign currencies transactions**

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidation interim balance sheet date. All differences are taken to the consolidated interim statement of income.

### **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 consolidated interim statement of income as they arise.

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the consolidated interim balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated interim statement of income. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which is also immediately recognized in the consolidated interim statement of income.

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

# Sahara Petrochemical Company and its Subsidiary (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) - continued  
31 March 2010

## **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Expenses**

All the period expenses are classified as general and administration expenses.

### **Lease contracts**

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. All assets owned under capital lease agreements are recorded as assets at the lower of the present value of the minimum lease payments or fair market value of the asset at the date of the commencement of the lease. The difference between the gross lease obligation and the lower of the present value of the minimum lease payments and the fair market value of the asset at the commencement of the lease are considered financial costs and charged to the consolidated interim statement of income during the lease term to achieve a consistent rate of allocation over the remaining lease obligation for each accounting period.

Rentals payable under operating leases are charged to the consolidated statement of income over the lease term on a straight-line basis.

### **Earning (loss) per share**

Basic earnings (loss) per share from net income (loss) are calculated by dividing the net results for the period by the weighted average of number of shares outstanding during the period.

Basic earnings (loss) per share from main operations are calculated by dividing income (loss) from main operations for the period by the weighted average of number of shares outstanding during the period.

### **Segmental Analysis**

A segment is a distinguishable component of the company that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Segmental analysis is not disclosed until the group of companies commences the commercial operations.

### **Fair values**

The fair value of commission bearing items is estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

### **Results of the interim period**

The parent Company has made all necessary adjustments which are important in order to present fairly in all material respects the consolidated interim financial position and results of operations. The consolidated interim financial results may not be considered an accurate basis for the actual results for the whole year.

## **3 CAPITAL COMMITMENTS**

The group has future capital expenditures as at 31 March 2010 amounting to SR 440.5 million (31 March 2009 - SR 1,022 million ).

## **4 COMPARATIVE FIGURES**

Certain of the prior period comparative amounts have been reclassified to conform to the current year presentation. Certain costs which were included within intangible assets have been reclassified to construction work in progress as these costs are directly associated with the plant construction.

Total costs reclassified in comparative figures amounted to approximately SR 118,7 million.



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