

**ADVANCED PETROCHEMICAL COMPANY**  
**(A Saudi joint stock company)**

INTERIM FINANCIAL STATEMENTS FOR THE  
THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2013  
AND INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

**INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2013**

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## LIMITED REVIEW REPORT

October 9, 2013

To the shareholders of Advanced Petrochemical Company  
(A Saudi joint stock company)

### Scope of review

We have reviewed the accompanying interim balance sheet of the Advanced Petrochemical Company (the "Company") as of September 30, 2013 and the interim income statement for the three-month and nine-month periods ended September 30, 2013, and the interim statement of cash flows for the nine-month period then ended and the related notes which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, 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 conclusion

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 accounting standards generally accepted in Saudi Arabia.

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**ADVANCED PETROCHEMICAL COMPANY**


(A Saudi joint stock company)

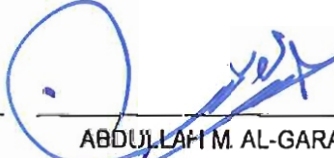

**المتقدمة**  
**Advanced**
**INTERIM BALANCE SHEET****AS AT SEPTEMBER 30, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	September 30, 2013 (Un-audited)	September 30, 2012 (Un-audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		496,214	279,071
Trade receivables		294,990	370,103
Inventories		157,167	193,786
Prepayments and other receivable		44,238	18,213
<b>Total current assets</b>		<b>992,609</b>	<b>861,173</b>
<b>Non-current assets</b>			
Other non-current assets		32,798	33,182
Investment in unconsolidated subsidiaries	3	1,900	1,900
Property, plant and equipment		2,139,425	2,248,741
Intangible assets		65,419	107,327
<b>Total non-current assets</b>		<b>2,239,542</b>	<b>2,391,150</b>
<b>Total assets</b>		<b>3,232,151</b>	<b>3,252,323</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings		93,750	187,500
Current maturity of long-term loans		125,000	170,000
Accounts payable		173,299	162,508
Accruals and other current liabilities		213,009	217,707
Dividends payable		3,561	3,908
<b>Total current liabilities</b>		<b>608,619</b>	<b>741,623</b>
<b>Non-current liabilities</b>			
Long-term loans		497,500	562,500
Employees termination benefits		26,162	19,906
<b>Total non-current liabilities</b>		<b>523,662</b>	<b>582,406</b>
<b>Total liabilities</b>		<b>1,132,281</b>	<b>1,324,029</b>
<b>Shareholders' equity</b>			
Share capital	1	1,639,950	1,639,950
Statutory reserve		190,610	139,353
Retained earnings		269,310	148,991
<b>Total shareholders' equity</b>		<b>2,099,870</b>	<b>1,928,294</b>
<b>Total liabilities and shareholders' equity</b>		<b>3,232,151</b>	<b>3,252,323</b>

The notes on pages from 6 to 9 form an integral part of these interim financial statements.

  
**KHALIFA A. AL-MULHEM**  
 Chairman of the Board

  
**ABDULLAH M. AL-GARAWI**  
 President & CEO

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

**ADVANCED PETROCHEMICAL COMPANY**  
(A Saudi joint stock company)



**INTERIM INCOME STATEMENT**

**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2013**

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Advanced

(All amounts in Saudi Riyals thousands unless otherwise stated)

Note	For three-month period ended September 30,		For nine-month period ended September 30,	
	2013 (Un-audited)	2012 (Un-audited)	2013 (Un-audited)	2012 (Un-audited)
Sales	694,245	649,288	2,021,431	1,692,434
Cost of sales	(540,125)	(534,525)	(1,583,941)	(1,440,466)
<b>Gross profit</b>	<b>154,120</b>	<b>114,763</b>	<b>437,490</b>	<b>251,968</b>
Selling and distribution expenses	(4,456)	(4,074)	(11,999)	(9,578)
General and administrative expenses	(6,134)	(5,178)	(20,083)	(18,162)
<b>Income from operation</b>	<b>143,530</b>	<b>105,511</b>	<b>405,408</b>	<b>224,228</b>
Other income (expenses)				
Finance charges, net	(3,163)	(5,688)	(11,317)	(15,240)
Other income	592	440	1,476	2,244
<b>Net income for the period</b>	<b>140,959</b>	<b>100,263</b>	<b>395,567</b>	<b>211,232</b>
<b>Earnings per share (Saudi Riyals):</b>				
• Income from operation	0.875	0.643	2.472	1.367
• Net income for the period	0.860	0.611	2.412	1.288
Weighted average number of shares	2.23	163,995,000	163,995,000	163,995,000

The notes on pages from 6 to 9 form an integral part of these interim financial statements.

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**  
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**INTERIM CASH FLOWS STATEMENT**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2013**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	September 30, 2013 (Un-audited)	September 30, 2012 (Un-audited)
<b>Cash flow from operating activities</b>		
Net income for the period	395,567	211,232
<u>Adjustments for non-cash items</u>		
Depreciation and amortization	157,352	138,884
Loss (gain) on disposal of property, plant and equipment	338	(16)
<u>Changes in working capital</u>		
Trade receivables	(12,226)	(26,820)
Inventories	(16,419)	(37,949)
Prepayments, other receivable and other non-current assets	(22,957)	13,132
Accounts payable	12,651	905
Accruals and other current liabilities	(2,816)	(20,102)
Employees termination benefits	4,244	3,437
<b>Net cash generated from operating activities</b>	<b>515,734</b>	<b>282,703</b>
<b>Cash flow from investing activities</b>		
Investment in unconsolidated subsidiaries	-	(1,900)
Additions to property, plant and equipment	(46,688)	(89,834)
Proceeds from disposal of property, plant and equipment	322	321
Increase in intangible assets	(2,786)	(65,464)
<b>Net cash utilized in investing activities</b>	<b>(49,152)</b>	<b>(156,877)</b>
<b>Cash flow from financing activities</b>		
Short-term borrowings	(93,750)	187,500
Proceeds from long-term loans	60,000	-
Repayment of long-term loans	(62,500)	(192,500)
Zakat and income tax paid	(8,795)	(14,286)
Dividend paid	(327,616)	(303,944)
<b>Net cash utilized in financing activities</b>	<b>(432,661)</b>	<b>(323,230)</b>
<b>Net change in cash and cash equivalents</b>	<b>33,921</b>	<b>(197,404)</b>
Cash and cash equivalents, beginning of period	462,293	476,475
<b>Cash and cash equivalents, end of period</b>	<b>496,214</b>	<b>279,071</b>

The notes on pages from 6 to 9 form an integral part of these interim financial statements.

  
KHALIFA A. AL-MULHEM  
Chairman of the Board

  
ABDULLAH M. AL-GARAWI  
President & CEO

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



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

During the nine-month period ended September 30, 2013:

- the shareholders of the Company approved a final cash dividend of Saudi Riyals 163.9 million (2012: Saudi Riyals 141.4 million) in their general assembly meeting, held in February 2013, which was proposed by the Board of Directors (BoD) during December 2012; and
- In May 2013, the BoD of the Company declared interim cash dividends for the first half of the year 2013 amounting to Saudi Riyals 163.9 million (2012: Saudi Riyals 163.9 million).

The accompanying interim financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Company's management to present a fair statement of the financial position, results of operations and cash flows. The interim results of the operations for the nine-month period ended September 30, 2013 may not represent a proper indication for the annual results of operations. These interim financial statements and notes should be read in conjunction with the annual audited financial statements and the related notes for the year ended December 31, 2012.

The accompanying interim financial statements were approved by the Company's management on October 9, 2013.

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

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

### **2.1 Basis of preparation**

The accompanying interim financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with the Standard of Accounting for Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. Significant accounting policies adopted by the Company for preparing such interim financial statements are consistent with the accounting policies described in the 2012 annual audited financial statements of the Company.

### **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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

### **2.3 Foreign currency translations**

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

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

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

Foreign currency transactions are translated into Saudi Riyals 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 period-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 Company will not be able to collect all amounts due according to the original terms of the receivables.

## **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 and work in progress include the cost of raw materials, labor and production overheads.

## **2.7 Other non-current assets**

Other non-current assets primarily represent balances related to Employee Share Ownership Program ("ESOP") as approved by the Company's BoD. The ESOP provides a 5 year service awards to eligible employees effective June 1, 2012 subject to their subscription to ESOP and meeting the underlying conditions. The ESOP cost is recognized as an expense over the period in which the service conditions are fulfilled by the employees. In relation to ESOP, the Company purchased its shares through a local financial institution under a custody arrangement and these shares are held by the local financial institution as the Company at no point will become legal owner. The value of such shares has been recorded under other non-current assets.

## **2.8 Property, plant and equipment**

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

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

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

## **2.9 Intangible assets**

Intangible assets include:

- Establishment costs, listing costs and expenses incurred prior to commencement of commercially viable production which is expected to provide benefits in future periods; and
- Plant testing and commissioning costs net off any proceeds from sale of off grade production during the testing phase.

The above intangible assets are amortized over a period not exceeding seven years.

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



#### **2.10 Investments in subsidiaries**

Subsidiaries are entities over which the Company 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.

#### **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.

#### **2.12 Borrowings**

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

#### **2.13 Accounts payable and accruals**

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

#### **2.14 Provisions**

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

#### **2.15 Zakat and taxes**

The Company is subject to zakat and income tax in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provisions for zakat and income tax are charged to the retained earnings. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividends payments to the foreign shareholders, as required under the Saudi Arabian Income Tax Law.

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

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the income statement.

#### **2.17 Revenues**

Revenues are recognized upon delivery of the products to the marketers and the customers. Upon delivery to the marketers, sales are recorded at provisional sales prices 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.

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

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

#### **2.19 Statutory reserve**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income to a statutory reserve until such reserve equals 50% of share capital. Allocation to the statutory reserve is made for the interim period considering the net income for such period which is adjusted at the year-end considering the net income for the year. This reserve currently is not available for distribution to the shareholders of the Company.

## 2.20 Dividends

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

## 2.21 Operating leases

Rental expense under operating leases is charged to the income statement over the period of the respective lease.

## 2.22 Reclassifications

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

## 2.23 Earnings per share

Earnings per share for the three-month and nine-month periods ended September 30, 2013 and 2012 has been computed by dividing the income from operations and net income for each periods by weighted average number of 163,995,000 shares outstanding during such periods.

## 3 Investment in unconsolidated subsidiaries

These represent the Company's equity interest in the share capital contribution of the following Saudi Arabian limited liability companies:

Name of subsidiary	September 30, 2013		September 30, 2012	
	Percentage of holding	Amount	Percentage of holding	Amount
Advanced Renewable Energy Company ("AREC")	95	950	95	950
Advanced Global Investment Company ("AGIC")	95	950	95	950
		<u>1,900</u>		<u>1,900</u>

AREC was formed in March 2012 and AGIC was formed in August 2012. 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.

## 4 Contingencies and commitments

- The Company was contingently liable for bank guarantees issued on behalf of the Company in the normal course of the business amounting to Saudi Riyals 452.02 million at September 30, 2013 (2012: Saudi Riyals 451.9 million); and
- The capital expenditure contracted by the Company but not incurred till September 30, 2013 was approximately Saudi Riyals 172.0 million.