

**SAHARA PETROCHEMICAL COMPANY**  
**(Saudi Joint Stock Company)**

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

**FOR THE THREE MONTH PERIOD ENDED**  
**31 MARCH 2012**

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

### Scope of limited review:

We have reviewed the accompanying interim consolidated balance sheet of Sahara Petrochemical Company (A Saudi Joint Stock Company) ("the Company") and its subsidiary as at 31 March 2012, the related interim consolidated statement of income and the interim statement of cash flows for the three months period then ended. These interim consolidated financial statements have been prepared by the Company's management and submitted to us together with all the information and explanations which we required. Our review was limited and was conducted in accordance with Saudi Organisation of Certified Public Accountants (SOCPA) standard on interim financial information. The limited review consists principally of analytical procedures applied to financial data and inquiries of the Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit 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 on limited review:

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for these 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

25 Jumada Awal 1433H  
17 April 2012

Al-Khobar



# Sahara Petrochemical Company (Saudi Joint Stock Company)

## CONSOLIDATED INTERIM BALANCE SHEET (UN-AUDITED)

As At 31 March 2012

	2012 SR 000	2011 SR 000
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	1,024,152	187,100
Accounts receivable, other receivables, and prepayments	424,556	522,252
Inventories	<u>218,958</u>	<u>118,747</u>
<b>TOTAL CURRENT ASSETS</b>	<u>1,667,666</u>	<u>828,099</u>
<b>NON-CURRENT ASSETS</b>		
Projects development costs	13,643	211,548
Investment in associates	2,744,596	1,619,412
Capital work in progress	44,242	4,209,360
Property, plant and equipment	3,830,680	116,589
Intangible assets	<u>54,120</u>	<u>-</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<u>6,687,281</u>	<u>6,156,909</u>
<b>TOTAL ASSETS</b>	<u>8,354,947</u>	<u>6,985,008</u>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accruals	340,896	628,473
Retentions payable	-	55,647
Current portion of advances against Islamic facilities and bridge loan	51,909	159,995
Current portion of term loans	138,850	-
Zakat provision	<u>29,181</u>	<u>15,089</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>560,836</u>	<u>859,204</u>
<b>NON-CURRENT LIABILITIES</b>		
Advances against Islamic facilities	923,429	975,339
Term loans	1,070,290	1,209,140
Fair value of interest rate swaps	80,195	87,809
Employees' terminal benefits	<u>26,812</u>	<u>20,284</u>
<b>TOTAL NON CURRENT LIABILITIES</b>	<u>2,100,726</u>	<u>2,292,572</u>
<b>TOTAL LIABILITIES</b>	<u>2,661,562</u>	<u>3,151,776</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY</b>		
Share capital	4,387,950	2,925,300
Statutory reserve	81,790	40,631
Retained earnings	839,516	527,130
Change in fair value of interest rate swaps	<u>(83,506)</u>	<u>(122,474)</u>
	5,225,750	3,370,587
<b>MINORITY INTERESTS</b>	<u>467,635</u>	<u>462,645</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>5,693,385</u>	<u>3,833,232</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>8,354,947</u>	<u>6,985,008</u>

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

# Sahara Petrochemical Company (Saudi Joint Stock Company)

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

For the three month period ended 31 March 2012

	<i>Period from the beginning of the year to 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>SR 000</i>	<i>SR 000</i>
Sales	355,454	-
Cost of sales	(392,896)	-
<b>GROSS LOSS</b>	<b>(37,442)</b>	<b>-</b>
<b>EXPENSES</b>		
Selling and distribution	(15,048)	-
General and administration`	(5,230)	(4,314)
<b>LOSS FROM MAIN OPERATIONS</b>	<b>(57,720)</b>	<b>(4,314)</b>
Other income	3,504	24
Financial charges	(23,324)	-
Right issue costs	(165)	-
<b>LOSS BEFORE SHARE IN RESULTS OF ASSOCIATES, ZAKAT AND MINORITY INTEREST</b>	<b>(77,705)</b>	<b>(4,290)</b>
Share in results of associates	105,345	116,947
<b>INCOME BEFORE ZAKAT AND MINORITY INTEREST</b>	<b>27,640</b>	<b>112,657</b>
Zakat	(4,600)	(12,689)
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>23,040</b>	<b>99,968</b>
Minority interest	18,886	-
<b>NET INCOME FOR THE PERIOD</b>	<b>41,926</b>	<b>99,968</b>
 <b>Loss per share (From main operations)</b>	 <b>(0.13)</b>	 <b>(0.01)</b>
<b>Earnings per share (From net income)</b>	<b>0.10</b>	<b>0.34</b>
<b>Weighted average number of shares outstanding (in thousands)</b>	<b>438,795</b>	<b>292,530</b>

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

# Sahara Petrochemical Company (Saudi Joint Stock Company)

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

For the three month period ended 31 March 2012

	<i>Period from the beginning of the year to 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>SR 000</i>	<i>SR 000</i>
<b>OPERATING ACTIVITIES</b>		
Income before zakat and minority interest	27,640	112,657
Adjustments for:		
Depreciation	46,709	2,382
Amortization	1,497	-
Employees' terminal benefits, net	1,378	400
Share of results in associates	(105,345)	(116,947)
Financial charges	23,324	-
Gain on disposal of property, plant and equipment	(30)	-
Murabaha income	-	(24)
	(4,827)	(1,532)
Changes in operating assets and liabilities		
Receivable	99,893	(67,601)
Inventories	(471)	(4,180)
Payables	909	339,070
Cash from operations	95,504	265,757
Financial charges paid	(23,324)	-
Net cash from operating activities	72,180	265,757
<b>INVESTING ACTIVITIES</b>		
Additions to long term assets	(2,725)	(227,173)
Proceeds from disposal of property, plant and equipment	1,477	-
Murabaha income	-	24
Investment in associates	(8,798)	-
Net cash used in investing activities	(10,046)	(227,149)
<b>FINANCING ACTIVITIES</b>		
Advance against Islamic facilities	(15,573)	(15,572)
Term loans, net	(20,000)	-
Net cash from financing activities	(35,573)	(15,572)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>26,561</b>	<b>23,036</b>
Cash and cash equivalents at the beginning of the period	997,591	164,064
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1,024,152</b>	<b>187,100</b>

### SUPPLEMENTARY CASH FLOWS INFORMATION:

Non-cash transactions are as follows:

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Net change in fair value of interest rate swaps	(12,377)	(34,202)
Transfer of property form the capital work in progress to the property, plant and equipment	-	97,352

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

# Sahara Petrochemical Company (Saudi Joint Stock Company)

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

31 March 2012

### 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 was SR 2,925,300,000 divided into 292,530,000 shares of SR 10 each.

The board of directors of the parent company has recommended applying for the Capital Market Authority (CMA) and the Ministry of Commerce and Industry and the Extraordinary General Assembly (EGM) to increase the share capital of the parent company by way of a right issue amounting to SR 1,462,650,000 to finance expansions and future projects of the parent company which was approved in EGM in 29 November 2011. Number of shares issued in the rights offering was 146,265,000 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 increased to SR 4,387,950,000 divided into 438,795,000 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 parent company 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 parent company 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. The performance testing of the plant has been completed successfully during March 2011, and the subsidiary's commercial operations have commenced on 1 April 2011.

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). The Associate owns 75% share of Saudi Ethylene and Polyethylene Company which has commenced its commercial production effective 1 June 2009.

The parent company has 22% share in Saudi Acrylic Acid Company, a Saudi limited liability company, with direct contribution in the company of SR 382.1 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 has 50% share in Sahara and Maaden Petrochemical Company, a Saudi limited liability company, with direct contribution in the company of SR 450 million. 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.

**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**

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**

Inventories are stated at the lower of cost and market value, with due allowance for obsolete or slow moving items. Cost is determined as follows:

Raw materials, consumables and spare parts	-	purchase cost on a weighted average basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable

**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.

**Capital work in progress**

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

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

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

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

Leasehold improvements are amortised 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 the consolidated statement of income. Improvements that increase the value or materially extend the useful life of the related assets are capitalised.

### **Intangibles assets**

Intangibles assets mainly comprise upfront fees related to the loan from Saudi Industrial Development Fund ("SIDF") and loan acquisition and arrangement fees relating to the Islamic facilities.

These costs are being amortized over the remaining period of the related loans facilities.

### **Impairment of non-current assets**

At the end of each fiscal year, the group reviews the carrying values of property, plant and equipment and other non-current assets to determine whether there is any indication that those assets have suffered impairment. If such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The carrying value of the asset (or generating unit) is reduced to the recoverable value when the recoverable value is below the carrying value. Impairment loss is recognized as expense when incurred.

Where an impairment loss subsequently reverses, the carrying value of the asset (generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash generating unit) in prior years. The reversal of impairment loss is recognized as income once identified.

### **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 interim balance sheet date.

### **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.



## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### **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.

### **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.

### **Revenue recognition**

The group markets its products through marketers. Sales are made directly to final customers and also to the Marketers' distribution platforms. The sales through the distribution platforms are recorded at provisional prices at the time of shipments, which are later adjusted based on actual selling prices received by the Marketers from their final customers. Adjustments are made as they become known to the group. Local and export sales are recognized at the time of delivery of the product at the loading terminals located at the plant and at the King Fahd Industrial Port in Jubail Industrial City.

### **Expenses**

Selling and distribution expenses are those that specifically relate to warehousing and shipping costs as well as allowance for doubtful debts. All the period expenses except for production costs and financial charges are classified as general and administration expenses.

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

Earnings per share from net income are calculated by dividing the net results for the period by the weighted average of number of shares outstanding during the period.

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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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. As substantial portion of the group's sales is made outside the Kingdom and all the group's products are considered within one business segment. Hence, no segmental analysis was presented.

**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 2012 amounting to SR 0.6 million (31 March 2011: SR 216.1 million).