

**RABIGH REFINING AND PETROCHEMICAL COMPANY**  
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED  
FINANCIAL STATEMENTS**  
For the three-month period ended  
31 March 2013

**KPMG Al Fozan & Al Sadhan**

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License No. 46/11/323 issued 11/3/1992

## **REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS**

The Shareholders,  
Rabigh Refining and Petrochemical Company,  
Rabigh, Kingdom of Saudi Arabia.

### **Scope of Review**

We have reviewed the accompanying interim balance sheet of Rabigh Refining and Petrochemical Company (the Company) as at 31 March 2013, the related interim statements of income, cash flows and changes in shareholders' equity for the three-month period then ended and the attached condensed notes from 1 to 12 which form an integral part of these interim condensed financial statements. These interim condensed 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. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A 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**

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

### **For KPMG Al Fozan & Al Sadhan**

Ebrahim Oboud Baeshen  
License No. 382



Jeddah, Jamada Al Thani 11, 1434H  
Corresponding to April 21, 2013

**RABIGH REFINING AND PETROCHEMICAL COMPANY**  
(A Saudi Joint Stock Company)

**INTERIM BALANCE SHEET (UNAUDITED)**

As at 31 March 2013

(Expressed in Saudi Arabian Riyals '000)

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
<b><u>ASSETS</u></b>			
<b>Current assets</b>			
Cash and cash equivalents		706,207	2,648,390
Trade receivables		6,714,815	9,416,435
Inventories		4,432,509	3,858,297
Long-term loans, current portion	4	185,546	177,489
Prepayments and other current assets		325,398	313,869
<b>Total current assets</b>		<b>12,364,475</b>	<b>16,414,480</b>
<b>Non-current assets</b>			
Property, plant and equipment		27,627,362	29,700,186
Leased assets		311,963	331,933
Intangible assets		249,305	304,187
Investment	4	8,556	8,556
Long-term loans	4	2,545,009	2,684,943
<b>Total non-current assets</b>		<b>30,742,195</b>	<b>33,029,805</b>
<b>Total assets</b>		<b>43,106,670</b>	<b>49,444,285</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current liabilities</b>			
Finance lease obligations, current portion		11,042	10,593
Long-term loan from banks and financial institutions, current portion	5	1,606,433	1,606,433
Trade and other payables		10,363,531	14,735,833
Accrued Zakat		27,952	14,367
Accrued expenses and other current liabilities		777,823	863,874
<b>Total current liabilities</b>		<b>12,786,781</b>	<b>17,231,100</b>
<b>Non-current liabilities</b>			
Long-term loan from banks and financial institution	5	17,408,637	19,015,070
Loans from Founding Shareholders	5	4,575,000	4,575,000
Finance lease obligations		346,707	357,750
Provision for Deferred Employee Service Awards		30,624	25,373
Provision for employees' end of service benefits		55,977	38,420
<b>Total non-current liabilities</b>		<b>22,416,945</b>	<b>24,011,613</b>
<b>Total liabilities</b>		<b>35,203,726</b>	<b>41,242,713</b>
<b>Shareholders' equity</b>			
Share capital	6	8,760,000	8,760,000
Statutory reserve	6	2,485,344	2,436,458
Employee Share Ownership Plan		(31,808)	(31,936)
Accumulated losses		(3,310,592)	(2,962,950)
<b>Total shareholders' equity</b>		<b>7,902,944</b>	<b>8,201,572</b>
<b>Total liabilities and shareholders' equity</b>		<b>43,106,670</b>	<b>49,444,285</b>

The accompanying notes 1 to 12 form an integral part of these interim condensed financial statements.

**RABIGH REFINING AND PETROCHEMICAL COMPANY**  
(A Saudi Joint Stock Company)

**INTERIM STATEMENT OF INCOME (UNAUDITED)**

For the three-month period ended 31 March 2013

(Expressed in Saudi Arabian Riyals '000)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Sales		<b>10,189,363</b>	15,998,123
Cost of sales		<u><b>(10,637,901)</b></u>	<u>(15,616,673)</u>
<b>Gross (loss) profit</b>		<b>(448,538)</b>	381,450
General and administrative expenses		<b>(172,184)</b>	(209,792)
Marketing and selling expenses		<u><b>(7,741)</b></u>	<u>(20,268)</u>
Total expenses		<u><b>(179,925)</b></u>	<u>(230,060)</u>
<b>Operating (loss) profit</b>		<b>(628,463)</b>	151,390
Interest and other income, net		<b>47,399</b>	56,935
Financial charges, net		<u><b>(76,999)</b></u>	<u>(92,480)</u>
<b>Net (loss) income</b>		<u><b>(658,063)</b></u>	<u>115,845</u>
<b>(Loss) earnings per share SR</b>	8	<u><u><b>(0.75)</b></u></u>	<u><u>0.13</u></u>

The accompanying notes 1 to 12 form an integral part of these interim condensed financial statements.

**RABIGH REFINING AND PETROCHEMICAL COMPANY**  
(A Saudi Joint Stock Company)

**INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**

For the three-month period ended 31 March 2013

(Expressed in Saudi Arabian Riyals '000)

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>		
Net (loss) income for the period	(658,063)	115,845
<i>Adjustment to reconcile net (loss) income to net cash used in operating activities</i>		
Provision for doubtful debts	--	14,205
Depreciation	532,018	529,492
Amortization	13,720	13,715
Loss on retirement of property, plant and equipments	699	--
Provision for Deferred Employee Service Awards and Employees Share Ownership Plan	588	1,603
Provision for employees' end of service benefits	7,688	7,679
Financial charges, net	76,999	92,480
	<u>(26,351)</u>	<u>775,019</u>
<b>Changes in operating assets and liabilities</b>		
Decrease (increase) in trade receivables	1,095,466	(370,791)
(Increase) decrease in inventories	(446,432)	171,246
Increase in prepayments and other current assets	(54,232)	(22,130)
Decrease in trade and other payables	(4,054,087)	(653,647)
(Decrease) increase in accrued expenses and other current liabilities	(39,914)	49,021
	<u>(3,525,550)</u>	<u>(51,282)</u>
Employees end of service benefits paid	(1,018)	(1,220)
Net cash used in operating activities	<u>(3,526,568)</u>	<u>(52,502)</u>
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(27,620)	(40,193)
Net movement in long-term investments and other balances	34,178	37,648
Net cash from (used in) investing activities	<u>6,558</u>	<u>(2,545)</u>
<b>Cash flows from financing activities</b>		
Interest paid	(6,737)	(4,305)
Repayment of finance lease obligations	(2,718)	(2,540)
Net cash used in financing activities	<u>(9,455)</u>	<u>(6,845)</u>
Net decrease in cash and cash equivalents	(3,529,465)	(61,892)
Cash and cash equivalents at 1 January	<u>4,235,672</u>	<u>2,710,282</u>
<b>Cash and cash equivalents at 31 March</b>	<u><u>706,207</u></u>	<u><u>2,648,390</u></u>

The accompanying notes 1 to 12 form an integral part of these interim condensed financial statements.

**RABIGH REFINING AND PETROCHEMICAL COMPANY**

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**INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**

For the three-month period ended 31 March 2013

(Expressed in Saudi Arabian Riyals '000)

	Share capital	Statutory reserve	Employee Share Ownership Plan	Accumulated losses	Total
Balance at 1 January 2013	<b>8,760,000</b>	<b>2,485,344</b>	<b>(31,873)</b>	<b>(2,652,529)</b>	<b>8,560,942</b>
Vesting of IPO shares	--	--	<b>65</b>	--	<b>65</b>
Net loss for the period	--	--	--	<b>(658,063)</b>	<b>(658,063)</b>
<b>Balance at 31 March 2013</b>	<b><u>8,760,000</u></b>	<b><u>2,485,344</u></b>	<b><u>(31,808)</u></b>	<b><u>(3,310,592)</u></b>	<b><u>7,902,944</u></b>
Balance at 1 January 2012	8,760,000	2,436,458	(31,965)	(3,078,795)	8,085,698
Vesting of IPO shares	--	--	29	--	29
Net income for the period	--	--	--	115,845	115,845
Balance at 31 March 2012	<u>8,760,000</u>	<u>2,436,458</u>	<u>(31,936)</u>	<u>(2,962,950)</u>	<u>8,201,572</u>

The accompanying notes 1 to 12 form an integral part  
of these interim condensed financial statements.

## **RABIGH REFINING AND PETROCHEMICAL COMPANY**

(A Saudi Joint Stock Company)

### **NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

31 March 2013

(Expressed in Saudi Arabian Riyals '000)

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#### **1. REPORTING ENTITY AND OPERATIONS**

Rabigh Refining and Petrochemical Company ("the Company" or "PetroRabigh") is a company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4602002161 issued from the Ministry of Commerce, Jeddah, on 15 Shaaban 1426H (corresponding to 19 September 2005). The Founding Shareholders of the Company resolved on 28 Rabi Al Awal 1428H (corresponding to 16 April 2007) to change the legal status of the Company from a Limited Liability Company to a Joint Stock Company with an increased share capital of SR 6,570 million registered under the revised Commercial Registration issued by the Ministry of Commerce, Riyadh with effective date of 22 Shawal 1428H (corresponding to 3 November 2007).

The Company launched an Initial Public Offering (IPO) of 219 million shares, equivalent to 25% of its post-issue enlarged capital, at SR 21 per share from 5 to 12 January 2008, on approval of application for admission of the shares to the official list by the Capital Market Authority. Following the IPO, the total authorized capital was increased from 657 million to 876 million shares at a par value of SR 10 per share under the revised Commercial Registration issued by the Ministry of Commerce, Riyadh with effective date of 14 Muharram 1429H (corresponding to 23 January 2008).

The Company is engaged in the operation of an integrated petroleum refining and petrochemical complex, including the manufacturing of refined petroleum products, petrochemical products and other hydrocarbon products. The Company commenced its refined and petrochemical products operation effective 1 October 2008 and 1 July 2009 respectively.

The Company's registered office is located at the following address:

Rabigh Refining and Petrochemical Company  
P.O. Box 666  
Rabigh 21911  
Kingdom of Saudi Arabia

#### **2. BASIS OF PREPARATION**

##### **Statement of compliance**

These interim condensed financial statements have been prepared in accordance with the Standard for Interim Financial Information issued by the Saudi Organization for Certified Public Accountants (SOCPA).

## **RABIGH REFINING AND PETROCHEMICAL COMPANY**

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### **NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

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#### **2. BASIS OF PREPARATION (continued)**

##### **Basis of measurement**

These interim condensed financial statements have been prepared under the historical cost convention except for available for sale investment which is stated at fair value, using the accrual basis of accounting and the going concern concept.

The accompanying interim condensed financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Company's management to present a fair balance sheet, results of operations and cash flows. These interim condensed financial statements for the three-month period ended 31 March 2013 ('the period') should be read in conjunction with the Company's audited financial statements as at and for the year ended 31 December 2012.

The Company follows a fiscal year ending 31 December.

##### **Functional and presentation currency**

The functional currency of the Company has been determined by the management as the United States Dollars (US Dollars). However, these interim condensed financial statements are presented in Saudi Arabian Riyals (SR). All financial information presented in SR has been rounded to the nearest thousands, except where indicated.

##### **Use of estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, incomes and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas requiring significant management judgments and estimates are as follows:



## **RABIGH REFINING AND PETROCHEMICAL COMPANY**

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### **NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

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#### **2. BASIS OF PREPARATION (continued)**

##### **Impairment of accounts receivable**

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

##### **Useful lives of property, plant and equipment**

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

##### **Impairment of property, plant and equipment**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the statement of income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

##### **Impairment of available for sale investments**

The Company exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of the equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Company also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

## **RABIGH REFINING AND PETROCHEMICAL COMPANY**

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### **NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

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#### **2. BASIS OF PREPARATION (continued)**

##### **Impairment of non-financial assets**

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

#### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used for the preparation of the annual financial statements of the Company as at and for the year ended 31 December 2012 and are summarized below. Certain comparative amounts have been reclassified wherever necessary to facilitate comparison.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

##### **Trade receivables**

Trade receivables are carried at original amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is a significant doubt that the Company will be able to collect all amounts due according to the original terms of agreement.

## **RABIGH REFINING AND PETROCHEMICAL COMPANY**

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### **NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Inventories**

Inventories are valued at the lower of cost and net realisable value. The cost of inventories, determined on weighted average basis, in case of:

- raw materials, goods in transit, spare parts and consumables - invoice value and other costs incurred in bringing them to their existing location and condition; and
- work-in-process and finished goods - direct materials, labour and applicable production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition or construction of each asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the statement of income when incurred.

Expenditure incurred on testing and inspection are capitalized as part of the respective items of property, plant and equipment and depreciated over the period of four years.

Depreciation is calculated on a straight-line basis to write off the cost of property, plant and equipment over their estimated useful lives, which are as follows:

	<u>Years</u>
Buildings and infrastructure	8 – 25
Plant, machinery and operating equipment	6 – 23
Vehicles and related equipment	3 – 6
Furniture and IT equipment	3 – 14

Capital projects in progress are stated at cost.

## **RABIGH REFINING AND PETROCHEMICAL COMPANY**

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### **NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Leases**

###### **Leased assets**

Leases for which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and present value of the minimum lease payments. Subsequent to initial recognition, leased assets are depreciated over the shorter of the lease term and their following estimated useful lives:

	<u>Years</u>
Desalination plant	17
Marine terminal facilities	30
Medical equipment	3

Other leases classified as operating leases are not recognized in the balance sheet.

###### **Lease payments**

Minimum lease payments made under the finance leases are apportioned between the finance expense and the reduction of outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognized in statement of income on a straight line basis over the term of the lease.

##### **Intangible assets**

Intangible assets are non-monetary assets which have no physical existence but are independently identifiable and capable of production or supply of future economic benefits and the Company has earned the right due to events which have occurred in the past. They are acquired for cash and measured at the purchase price and all other directly attributable costs. Intangible assets are stated at cost less accumulated amortization and impairment loss, if any.

Amortization is recognized in the statement of income on a straight line basis over the estimated period of benefits associated with intangible assets, from the date that they are available for use.

## **RABIGH REFINING AND PETROCHEMICAL COMPANY**

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Intangible assets (continued)**

The estimated period of benefits associated with intangible assets are as follows:

	<u>Years</u>
Software	5
Licenses	15 - 22.5

##### **Investment**

The Company's investment in equity securities which are not for trading purposes and the Company does not have significant influence or control is classified as available for sale. The investment is initially recognized at cost, being the fair value of the consideration given including associated acquisition charges.

Subsequent to initial recognition, it is measured at fair value and net unrealized gains or losses other than impairment losses, are recognized in the shareholders' equity. In case fair value of equity securities is not readily available, the cost is taken as reliable basis for subsequent measurement of fair value of securities.

Impairment losses are recognised through the statement of income. Impairment is not reversed through the statement of income and subsequent gains are recognized in shareholders' equity.

##### **Trade and other payables**

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

##### **Provisions**

A provision is recognized if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

##### **Zakat and income tax**

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. Zakat is debited to the Saudi founding shareholders and the general public, while income tax is debited to the foreign Founding Shareholders' equity account.

## **RABIGH REFINING AND PETROCHEMICAL COMPANY**

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Employees' end of service benefits**

The Company provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employee's length of service and the completion of a minimum service period. Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date. The charge for the period is transferred to the statement of income on an actual basis.

##### **Employee Share Ownership Plan**

The employee service cost of share options granted to employees under the Employee Share Ownership Plan (ESOP) is measured by reference to the fair value of the Company's shares on the date on which the options are granted. This cost is recognized as an employee expense, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of shares that will ultimately vest. The statement of income charge for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Shares purchased in the IPO by the bank acting as trustee for the ESOP are carried at cost as a deduction from shareholders' equity until the options vest and the underlying shares are transferred to the employee.

##### **Revenue recognition**

Revenue from sale of products is recognized when significant risks and rewards of ownership have been transferred to the customer upon delivery or shipment of products.

Revenue from port services is recognized when services are rendered.

##### **Expenses**

Marketing and selling expenses are those arising from the Company's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding direct costs and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales and marketing and selling, general and administrative expenses, when required, are made on a consistent basis.

**RABIGH REFINING AND PETROCHEMICAL COMPANY**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign currency translation**

Transactions denominated in foreign currencies are translated to the functional currency of the Company (US Dollars) at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the statement of income.

For the purpose of preparation of these interim condensed financial statements in Saudi Arabian Riyals, the Company uses the conversion rate from US Dollars to Saudi Arabian Riyals at a fixed exchange rate of SR 3.75 / US Dollar 1.

**Segment reporting**

A segment is a distinguishable component of the Company that is engaged either 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.

**4. INVESTMENT AND TERM LOANS BALANCES**

	<u>2013</u>	<u>2012</u>
<b>Long-term investment (RAWEC)</b>	<u>8,556</u>	<u>8,556</u>
<b>Long-term loans:</b>		
Current portion (RAWEC) (Note 4.2)	<u>185,546</u>	177,489
Non-current portion:		
RAWEC loan facilities (Note 4.2)	<u>2,493,666</u>	2,679,212
Loans to employees (Note 4.3)	<u>51,343</u>	5,731
	<u>2,545,009</u>	2,684,943
	<u>2,730,555</u>	2,862,432

## **RABIGH REFINING AND PETROCHEMICAL COMPANY**

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### **NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

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#### **4. INVESTMENT AND TERM LOANS BALANCES (continued)**

- 4.1 The Company has entered into various agreements namely Water and Energy Conversion Agreement (WECA), Facility Agreement and RAWEC Shareholders' Agreement (the agreements) with Rabigh Arabian Water and Electricity Company (RAWEC), a Saudi limited liability company (the Contractor) and other developers, to develop a build, own, operate and transfer basis, a plant that will utilise fuel oil, steam condensate and sea water to produce desalinated water, steam and electric power, to be supplied to the Company under the WECA dated 7 August, 2005. The Company and RAWEC subsequently amended the WECA, initially through a "Memorandum of Understanding" (MOU) to revise the Contract on 1 January 2010 and the amended WECA was signed by both parties on 30 October 2011. According to the amended WECA, the water and energy conversion plant will continue to be utilized by the Company under an operating lease expiring on 1 June 2033. Through these agreements, the Company provided a portion of project finance through drawdowns over the construction period of the project. The project achieved commercial closing date on 1 June 2008.
- 4.2 The Company has provided a loan under the Facility Agreement in the total amount of SR 3.9 billion which carries interest at 5.765% per annum and is being settled through offsetting of monthly utilities related payments of operating lease relating to the water and energy conversion plant to RAWEC from 30 June 2008 to 30 November 2023. The loan is secured by a charge over all the assets of the RAWEC.
- 4.3 The Company has launched an Employee Home Ownership Program which is offered to eligible Saudi employees to provide interest free home loans. The cost of the land is advanced to employees free of cost as long as the employee serves the Company for a minimum period of five (5) years while the construction cost of the house is amortized and repayable only at 90% of the loan to the Company over a period of seventeen (17) years free of interest. Ownership of the housing unit is transferred to the employee upon full payment of the amounts due.

#### **5. LONG -TERM BORROWINGS**

##### **5.1 Loans from banks and financial institution**

The Company has entered in a consortium loan agreement with various commercial banks and financial institutions for development, design, construction and operation of Rabigh Development Project. The facilities available under the loan agreement have been utilized in full and drawdowns made which finished in 1 July 2008. The loan carries interest at agreed market rates.

Bi-annual repayments commenced from June 2011 till the year of maturity, i.e. December 2021. The consortium loan agreement include financial and operational covenants, which among other things; require certain financial ratios to be maintained.



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**5. LONG-TERM BORROWINGS (continued)**

The loan is secured by the following:

- cash and cash equivalents with a carrying value of SR 706 million;
- property, plant and equipment with a carrying value of SR 27,627 million; and
- guarantees from the Founding Shareholders.

The loan facilities are classified in the balance sheet as follows:

	<u>2013</u>	<u>2012</u>
Current portion	<b>1,606,433</b>	1,606,433
Non-current portion	<b>17,408,637</b>	19,015,070
	<b><u>19,015,070</u></b>	<u>20,621,503</u>

**5.2 Loans from founding shareholders**

Saudi Arabian Oil Company	<b>2,287,500</b>	2,287,500
Sumitomo Chemical Company	<b>2,287,500</b>	2,287,500
	<b><u>4,575,000</u></b>	<u>4,575,000</u>

Loans from the founding shareholders are availed as part of the Credit Facility Agreement and carries interest at agreed rates. Repayment shall be made on demand, after the first repayment made as per the Consortium Loan Agreement, financial completion date and achieving the criteria set by the financial institutions under the Inter-creditor Agreement. The loan is secured by promissory note issued by the Company in favour of each shareholder equivalent to drawdowns.

**6. SHARE CAPITAL AND STATUTORY RESERVE**

- 6.1 The Company's share capital of SR 8.76 billion at 31 March 2013 (31 March 2012: SR 8.76 billion) consists of 876 million fully paid and issued shares of SR 10 each (31 March 2012: 876 million shares of SR 10 each).
- 6.2 The net proceeds from the issuance of new shares during the IPO in January 2008 resulted in a share premium of SR 2,409 million, which has been transferred to statutory reserve in accordance with the Company's Articles of Association.
- 6.3 In accordance with the Company's Articles of Association and the Regulation for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer each year at least 10% of its net income to statutory reserve until such reserve equal 50 % of its share capital. This reserve is not available for distribution.

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#### **7. ZAKAT AND INCOME TAX**

##### **Charge for the period**

Zakat charge for the period ended 31 March 2013 amounts to Nil (31 March 2012: Nil). In view of the adjusted tax losses relating to foreign shareholders, no income tax has been accrued for the period.

##### **Status of assessments**

The Department of Zakat and Income Tax (DZIT) has issued assessments for the years 2006 and 2008 by raising an aggregate Zakat liability of SR 32 million. The Company has filed an objection which was rejected by the DZIT and on the request of the Company the assessments were transferred to Preliminary Appeal Committee (PAC) for adjudication. Management believes its position regarding the DZIT adjustment to be robust in the area of interpretation, and that it is too soon to be able to estimate a probable settlement amount. Any settlement amount eventually agreed with DZIT will not impact on the future earnings of the Company, as it will be recoverable from a founding shareholder - Saudi Arabian Oil Company.

The DZIT has also issued queries for 2009 and 2010 financial years requiring certain information pertaining to various elements of financial statements. The declaration for 2011 financial year was already filed and the Company has obtained a certificate valid until April 30, 2013.

#### **8. (LOSS) EARNINGS PER SHARE**

(Loss) earnings per share for the three-month period ended 31 March 2013 is computed by dividing the net (loss) income for the period by the weighted-average number of ordinary shares outstanding during the respective period of 876 million shares (31 March 2012: 876 million shares). The calculation for diluted earnings per share is not applicable to the Company.

#### **9. SEGMENT REPORTING**

The Company operates an integrated petroleum refining and petrochemical complex. The primary format for segment reporting is based on business segments (refined products and petrochemicals) is determined on the basis of management's internal reporting structure. The Company does not distinguish financial and non-financial information beyond gross profit or loss as the operating and financial accounting systems are structured to produce financial and operational information appropriate for an integrated petroleum refining and petrochemical complex. Accordingly, assets and liabilities are also not split into segments. In the opinion of management providing information beyond gross profit or loss levels will not affect the decisions of the users of the financial statements in view of its nature of operations. The segment information relating to the three-month period ended March 31 is as follows:

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**9. SEGMENT REPORTING (continued)**

	<u>Refined products</u>	<u>Petrochemicals</u>	<u>Total</u>
<b><u>2013</u></b>			
Sales	<b>9,081,835</b>	<b>1,107,528</b>	<b>10,189,363</b>
Cost of sales	<b>(9,762,859)</b>	<b>(875,042)</b>	<b>(10,637,901)</b>
Gross (loss) profit	<b>(681,024)</b>	<b>232,486</b>	<b>(448,538)</b>
<b><u>2012</u></b>			
Sales	13,734,880	2,263,243	15,998,123
Cost of sales	(13,827,804)	(1,788,869)	(15,616,673)
Gross (loss) profit	(92,924)	474,374	381,450

**10. RELATED PARTY TRANSACTIONS AND BALANCES**

Related party transactions mainly represent purchase and sales of goods and services which are undertaken at contractual terms and approved by management from the following entities:

<u>Name of entity</u>	<u>Relationship</u>
Saudi Arabian Oil Company	Founding Shareholder
Sumitomo Chemical Company Limited	Founding Shareholder
Sumitomo Chemical Engineering Company Limited	Affiliate of Founding Shareholder
Sumitomo Chemical Asia Pte Limited	Affiliate of Founding Shareholder
Rabigh Conversion Industry Management Services Co.	Affiliate of Founding Shareholder
Sumika Alchem Company Limited	Affiliate of Founding Shareholder
Sumika Chemical Analysis Service Limited	Affiliate of Founding Shareholder

Significant transactions with the founding shareholders and associates arise from purchase of crude oil feedstock, sale of refined and petrochemical products, credit facilities, terminal lease, secondment, service refinery complex lease and community lease agreements. In addition to the loan from founding shareholders, as set out in Note 5, the above mentioned transactions result in receivables and payables balances with the related parties as set out in the balance sheet in trade and non-trade receivables, trade and other payables and accrued expenses and other current liabilities amounting to SR 6,569 million (2012: 9,071.6 million), SR 10,036 million (2012: 14,262.9 million) and SR 519.7 million (2012: 463.4 million) respectively. These transactions are summarized as follows:

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**10. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<u>Nature of transaction</u>	<u>Amount of transactions</u>	
	<u>31 March</u> <u>2013</u>	<u>31 March</u> <u>2012</u>
<b><u>Saudi Arabian Oil Company</u></b>		
Purchase of feedstock	<b>10,041,143</b>	14,285,073
Sale of refined products	<b>9,081,835</b>	13,734,880
Interest expense	<b>11,486</b>	12,363
Secondees' and services costs	<b>24,282</b>	17,584
<b><u>Sumitomo Chemical Company</u></b>		
Purchase of goods	<b>8,276</b>	13,983
Sale of petrochemical products	<b>877,908</b>	1,722,535
Interest expense	<b>11,486</b>	12,363
Secondees' and services costs	<b>8,091</b>	12,388

The land used for the Refinery and Petrochemical Plant is on operating lease from one of the founding shareholders for a period of 99 years.

**Transactions with key management personnel**

Key management personnel of the Company comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. Transactions with key management personnel on account of salaries and other short-term benefits amounts to SR 2.1 million (2012: SR 2.7 million), are included in secondees and services cost above for the three-month period ended 31 March 2013.

**11. CONTINGENCIES AND COMMITMENTS****11.1 Contingency**

During year ended December 31, 2011, the Company deposited an amount of SR 198 million in a current account in a bank against claims relating to foreign contractors which were involved in the construction projects of the plant. As of March 31, 2013, the remaining outstanding claims from foreign contractors stand at SR 27.4 million.

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**11. CONTINGENCIES AND COMMITMENTS (continued)****11.2 Commitments**

As at 31 March 2013, capital commitments contracted for but not incurred for the construction of the petrochemical plant and facilities amounts to SR 108.9 million (2012: SR 106.3 million).

Non-cancellable operating lease rentals are as follows:

	<u>2013</u>	<u>2012</u>
Less than one year	<b>603,405</b>	575,441
Between one to five years	<b>2,133,915</b>	2,121,133
More than five years	<b>7,942,280</b>	8,907,812
	<b><u>10,679,600</u></b>	<b><u>11,604,386</u></b>

**12. APPROVAL AND AUTHORIZATION FOR ISSUE**

These interim condensed financial statements were approved and authorised for issue by the Board Audit Committee, as delegated by the Board of Directors, on 11 Jamada Al-Thani 1434H (corresponding to 21 April, 2013).