

**SAHARA PETROCHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**  
**30 SEPTEMBER 2015**

**SAHARA PETROCHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2015**

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**KPMG Al Fozan & Al Sadhan**  
Al Subeaei Towers  
King Abdulaziz Road  
P O Box 4803  
Al Khobar 31952  
Kingdom of Saudi Arabia

Telephone +966 13 887 7241  
Fax +966 13 887 7254  
Internet www.kpmg.com.sa

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

## **LIMITED REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **The Shareholders**

**Sahara Petrochemicals Company**  
**(A Saudi Joint Stock Company)**  
**Al-Jubail, Kingdom of Saudi Arabia**

### ***Scope of limited review:***

We have reviewed the accompanying interim consolidated balance sheet of Sahara Petrochemicals Company ("the Company") and its subsidiary (collectively referred to as the "Group") as at 30 September 2015, the related interim consolidated statement of income, the interim consolidated statement of cash flows, the interim consolidated statement of changes in equity for three and nine months period ended on 30 September 2015 and the attached notes 1 to 10 which form an integral part of these interim consolidated financial statements. These interim consolidated 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 consolidated financial statements based on our limited review.

We conducted our limited review in accordance with the auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). 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. It is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express such an opinion.

### ***Conclusion:***

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Al Sadhan**

**Tareq Abdulrahman Al Sadhan**  
License No: 352



Al Khobar, 15 October 2015 G  
Corresponding to: 2 Muharram 1437 H

**SAHARA PETROCHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)**  
**AS AT 30 SEPTEMBER 2015**  
(Expressed in Saudi Arabian Riyals in thousands)

	Note	At 30 September 2015	At 31 December 2014	At 30 September 2014
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents		980,682	1,240,746	892,003
Short term deposits		140,000	100,701	160,873
Investments	5	177,416	-	-
Accounts receivable	6	382,399	393,640	308,285
Inventories		300,156	296,434	283,630
Prepayments and other current assets		69,169	147,619	130,929
<b>Total Current Assets</b>		<b>2,049,822</b>	<b>2,179,140</b>	<b>1,775,720</b>
<b>Non Current Assets:</b>				
Investments in and advances to associates	7	2,677,896	2,806,525	3,106,375
Investments	5	220,500	-	-
Project development costs		2,004	1,613	11,182
Property, plant and equipment		3,494,009	3,457,770	3,447,373
Intangible assets		132,126	45,047	67,428
<b>Total Non Current Assets</b>		<b>6,526,535</b>	<b>6,310,955</b>	<b>6,632,358</b>
<b>Total Assets</b>		<b>8,576,357</b>	<b>8,490,095</b>	<b>8,408,078</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities:</b>				
Current maturity of long term loans		-	246,522	241,522
Current maturity of liabilities under capital lease	4	123,319	-	-
Accounts payable		123,826	118,804	63,139
Zakat and income tax payable		23,904	41,314	15,967
Accrued expenses and other current liabilities		280,211	182,088	221,721
<b>Total Current Liabilities</b>		<b>551,260</b>	<b>588,728</b>	<b>542,349</b>
<b>Non Current Liabilities:</b>				
Long term loans		133,844	1,486,863	1,572,432
Liabilities under capital lease	4	1,734,332	-	-
Derivative financial instruments		-	18,358	23,184
Employees' end of service benefits		62,122	51,593	48,781
<b>Total Non Current Liabilities</b>		<b>1,930,298</b>	<b>1,556,814</b>	<b>1,644,397</b>
<b>Total Liabilities</b>		<b>2,481,558</b>	<b>2,145,542</b>	<b>2,186,746</b>
<b>Equity</b>				
<b>Equity attributable to the shareholder of th Company:</b>				
Share capital		4,387,950	4,387,950	4,387,950
Statutory reserve		197,851	197,851	159,313
Fair value reserve	4	-	(13,769)	(19,990)
Retained earnings		953,053	1,245,359	1,200,503
<b>Total shareholders' equity</b>		<b>5,538,854</b>	<b>5,817,391</b>	<b>5,727,776</b>
<b>Non-controlling interest</b>		<b>555,945</b>	<b>527,162</b>	<b>493,556</b>
<b>Total equity</b>		<b>6,094,799</b>	<b>6,344,553</b>	<b>6,221,332</b>
<b>Total liabilities and equity</b>		<b>8,576,357</b>	<b>8,490,095</b>	<b>8,408,078</b>

**Rushdi Khalid Al-Dulijan**  
**Chief Financial Officer**

**Saleh bin Mohammed Bahamdan**  
**President**

The accompanying notes 1 through 10 form an integral part of these financial statements.

**SAHARA PETROCHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**  
**FOR THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2015**  
(Expressed in Saudi Arabian Riyals in thousands)

	Period from 1 July to 30 September		Period from 1 January to 30 September	
	2015	2014	2015	2014
Sales	503,422	460,257	987,542	1,394,800
Cost of Sales	(325,504)	(434,531)	(770,743)	(1,181,171)
<b>Gross Profit</b>	<b>177,918</b>	<b>25,726</b>	<b>216,799</b>	<b>213,629</b>
<b>Operating expenses:</b>				
Selling and distribution	(21,377)	(18,546)	(51,619)	(69,497)
General and administration	(5,763)	(5,235)	(26,310)	(33,948)
	<b>(27,140)</b>	<b>(23,781)</b>	<b>(77,929)</b>	<b>(103,445)</b>
<b>Income from operations</b>	<b>150,778</b>	<b>1,945</b>	<b>138,870</b>	<b>110,184</b>
<b>Other income/(expenses)</b>				
Share of profit from associates	22,889	26,879	54,579	267,367
Financial charges	(13,367)	(16,415)	(78,372)	(47,683)
Others	18,810	2,487	15,986	8,870
<b>Income before Zakat and non-controlling interest</b>	<b>179,110</b>	<b>14,896</b>	<b>131,063</b>	<b>338,738</b>
Zakat charge	(18,000)	(350)	(24,000)	(14,536)
<b>Net income before non-controlling interest</b>	<b>161,110</b>	<b>14,546</b>	<b>107,063</b>	<b>324,202</b>
<b>Non-controlling interest</b>	<b>(40,142)</b>	<b>2,553</b>	<b>(24,194)</b>	<b>(22,218)</b>
<b>Net income for the period</b>	<b>120,968</b>	<b>17,099</b>	<b>82,869</b>	<b>301,984</b>
<b>Earnings per share:</b>				
Operating income	0.34	0.01	0.32	0.25
Net income	0.28	0.04	0.19	0.69

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**SAHARA PETROCHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2015**  
(Expressed in Saudi Arabian Riyals in thousands)

	<b>For the nine months period ended</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flow operating activities:</b>		
Net income for the period	<b>82,869</b>	301,984
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortization	<b>141,074</b>	153,456
Share of profit from associates	<b>(54,579)</b>	(267,367)
Income applicable to non controlling interest	<b>24,194</b>	22,218
Loss on disposal of property, plant and equipment	<b>312</b>	-
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	<b>11,241</b>	229,675
Inventories	<b>(3,722)</b>	(56,604)
Prepayments and other current assets	<b>78,450</b>	(65,329)
Accounts payable	<b>5,022</b>	(91,824)
Zakat and income tax payable-net	<b>(17,410)</b>	(24,142)
Accrued expenses and other current liabilities	<b>98,123</b>	8,194
Employees' end of service benefits-net	<b>10,529</b>	8,832
<b>Net cash provided by operating activities</b>	<b>376,103</b>	219,093
<b>Cash flow from investing activities:</b>		
Short-term deposits	<b>(39,299)</b>	(873)
Investments	<b>(397,916)</b>	-
Dividends received from an associate	<b>183,208</b>	97,650
Projects development costs	<b>(391)</b>	748
Additions to property plant and equipment	<b>(264,110)</b>	(33,012)
Additions to intangible assets	<b>(682)</b>	(23,015)
Proceeds from disposal of property, plant and equipment	<b>88</b>	-
<b>Net cash (used in)/provided by investing activities</b>	<b>(519,102)</b>	41,498
<b>Cash flow from financing activities:</b>		
Increase in long term loans	<b>2,014,000</b>	-
Repayments of long term loans	<b>(1,755,890)</b>	(120,370)
Dividends paid	<b>(372,975)</b>	(372,975)
Board of Directors' fee	<b>(2,200)</b>	(2,200)
<b>Net cash used in financing activities</b>	<b>(117,065)</b>	(495,545)
<b>Net decrease in cash and cash equivalents</b>	<b>(260,064)</b>	(234,954)
Cash and cash equivalents at the beginning of the period	<b>1,240,746</b>	1,126,957
<b>Cash and cash equivalent at the end of the period</b>	<b>980,682</b>	892,003

**Rushdi Khalid Al-Dulijan**  
**Chief Financial Officer**

**Saleh bin Mohammed Bahamdan**  
**President**

The accompanying notes 1 through 10 form an integral part of these financial statements.

**SAHARA PETROCHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2015**  
(Expressed in Saudi Arabian Riyals in thousands)

	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Total
Balance at January 1, 2014	4,387,950	159,313	(26,524)	1,273,694	5,794,433
Net income for the period	-	-	-	301,984	301,984
Dividend paid	-	-	-	(372,975)	(372,975)
Directors' remuneration	-	-	-	(2,200)	(2,200)
Fair value changes	-	-	6,534	-	6,534
Balance at September 30, 2014	4,387,950	159,313	(19,990)	1,200,503	5,727,776
<b>Balance at January 1, 2015</b>	<b>4,387,950</b>	<b>197,851</b>	<b>(13,769)</b>	<b>1,245,359</b>	<b>5,817,391</b>
Net income for the period	-	-	-	<b>82,869</b>	<b>82,869</b>
Dividend paid	-	-	-	<b>(372,975)</b>	<b>(372,975)</b>
Directors' remuneration	-	-	-	<b>(2,200)</b>	<b>(2,200)</b>
Settlement of interest rate swaps	-	-	13,769	-	13,769
<b>Balance at September 30, 2015</b>	<b>4,387,950</b>	<b>197,851</b>	<b>-</b>	<b>953,053</b>	<b>5,538,854</b>

**Rushdi Khalid Al-Dulijan**  
**Chief Financial Officer**

**Saleh bin Mohammed Bahamdan**  
**President**

The accompanying notes 1 through 10 form an integral part of these financial statements.

**SAHARA PETROCHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2015**  
 (Expressed in Saudi Arabian Riyals in thousands)

**1. ACTIVITIES:**

Sahara Petrochemicals Company (the "Company") is a Saudi Joint Stock Company and registered in the Kingdom of Saudi Arabia, operating under Commercial Registration ("CR") No. 1010199710 issued in Riyadh on 19 Jumada'I 1425 H (7 July 2004). The registered address of the Company is P.O. Box 251, Riyadh 11411, Kingdom of Saudi Arabia.

The Company is principally involved in investing in industrial projects, especially in the petrochemicals and chemical fields and to own and execute projects necessary to supply raw materials and utilities.

These interim consolidated financial statements include the accounts of the Company and its subsidiary 'Al Waha Petrochemicals Company ("Al Waha")', (collectively the "Group"), a Saudi limited liability company operating under CR No. 2055007751 issued in Dammam on 9 Shaban 1427 H (3 September 2006), and is owned 75% by the Company and 25% by Basell Arabian Investment ("Basell"). Al Waha owns and operates a petrochemicals complex that produces propylene as primary feedstock for the production of polypropylene.

The Group also holds equity interests in the following associates which are primarily involved in manufacturing of petrochemicals products:

Name	<u>Effective equity interest %</u>	
	2015	2014
Sahara and Ma'aden Petrochemicals Company ("SAMAPCO")	<b>50.00</b>	50.00
Saudi Acrylic Acid Company ("SAAC")	<b>43.16</b>	43.16
Tasnee and Sahara Olefins Company ("TSOC")	<b>32.55</b>	32.55

All the above companies are incorporated in Kingdom of Saudi Arabia.

These interim consolidated financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Group'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 three and nine months periods ended 30 September 2015 may not represent a proper indication for the annual results of operations. These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended 31 December 2014.

During 2014, SAMAPCO and SAAC commenced their commercial operations effective 4 Ramadan 1435 H (1 July 2014). SAMAPCO's plant is designed to produce 250,000 tons per year of concentrated Caustic Soda and 300,000 tons of Ethylene Dichloride. SAAC's plants are Acrylic Acid Plants complex, Acrylic Monomers factory and Super Absorbent Polymers factory.

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

These interim consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

**b) Basis of measurement**

The interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting, with exception of derivative financial instruments that are measured at fair value, and the going concern concept. Significant accounting policies adopted by the Group for preparing such interim consolidated financial statements are consistent with the accounting policies described in the 2014 annual audited consolidated financial statements of the Group.



SAHARA PETROCHEMICALS COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2015  
(Expressed in Saudi Arabian Riyals in thousands)

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2. **BASIS OF PREPARATION (Continued)**

c) **Functional and presentation currency**

These interim consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Company.

d) **Use of estimates and judgments**

The preparation of interim consolidated financial statements in conformity with generally accepted accounting standards requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

3. **SIGNIFICANT ACCOUNTING POLICIES:**

The interim consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted and consistently applied to all periods presented are as follows:

a) **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. Time deposits are deposits with banks having maturities of more than three months but less than a year and are disclosed separately as time deposits under cash and cash equivalents.

b) **Accounts receivable**

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated statement of income and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the interim consolidated statement of income.

c) **Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products includes the cost of raw materials, labor and production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Appropriate provisions are made for slow moving and redundant inventories.

d) **Investments**

i) **Subsidiary**

Subsidiary is an entity over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. A subsidiary is fully consolidated from the date on which control is transferred to the Group and is de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiary. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated.

SAHARA PETROCHEMICALS COMPANY  
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2015  
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3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

d) **Investments (Continued)**

ii) ***Associates***

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, which is adjusted subsequently for impairment loss, if any.

The Group's share of its associates' post-acquisition income or losses is recognized in the interim consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the interim consolidated statement of income.

e) **Projects development costs**

Projects development costs represent costs related to setting-up of new companies to undertake various new industrial projects. It also includes the assets acquired that will be transferred to the new companies and the associates. Upon successful incorporation of the new companies, related costs are transferred to the respective companies in which the Group will have equity interest.

f) **Property, plant and equipment**

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Depreciation is charged to the interim consolidated statement of income on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment.

The estimated useful lives of assets for current and comparative periods are as follows:

	<u>Years</u>
Buildings and leasehold land improvements	33
Plant, machinery and equipment	10-25
Furniture, fixtures and office equipment	3-10
Vehicles	4

Capital work in progress is stated at cost less impairment, if any, and is not depreciated until the asset is brought into commercial operations.

Leasehold land improvements are amortized on a straight line basis over the shorter of its useful life or the term of the lease.

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

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**g) Intangible assets**

Turnaround costs - Planned turnaround costs are deferred and amortized over the period until the date of the next planned turnaround which is usually within 3 to 5 years. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such costs.

Deferred charges - Costs that are not of benefit beyond the current period are charged to the interim consolidated statement of income, while costs that will benefit future periods are capitalized. Such charges are amortized over period not exceeding ten years.

Software costs - Expenditure to acquire computer software and licenses are capitalized and amortized using the straight-line method over the useful life of four years. Licenses are carried at costs less accumulated amortization.

**h) Impairment of non-current assets**

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim consolidated statement of income.

**i) Investments**

**Held to maturity investments**

Investments having fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the interim consolidated statement of income when the investment is derecognized or impaired. On impairment, the difference between carrying cost and the present value of estimated future cash flows is included in the interim consolidated statement of income as impairment loss on held to maturity investments. If the amount of impairment loss is subsequently decreased and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through interim consolidated statement of income.

**Available-for-sale investments**

Available for sale investments principally consist of less than 20% share in quoted and unquoted equity investments including mutual funds investments, which are not held for trading purposes and where the Group does not have any significant influence or control. These are initially recognized and subsequently re-measured at fair value. Any changes in fair value are recognized in equity as fair value reserve until the investment is disposed. Any significant and prolonged decline in value of the available for sales investments, if any, is charged to the interim consolidated statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the interim consolidated balance sheet date.

**j) Long term loans**

Loans are recognized at the proceeds received net of transactions cost incurred. Loans are subsequently carried at amortised cost. Any differences between the proceeds (net of transactions costs) and the redemption value is recognized in the interim consolidated statement of income over the period using effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets until such time as the assets are ready for their intended use. Other borrowing costs are charged to the interim consolidated statement of income.

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2015**  
(Expressed in Saudi Arabian Riyals in thousands)

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**k) 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.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the company recognises any impairment loss on assets associated with that contract.

**l) Accounts payable and accruals**

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

**m) Zakat and income-tax**

The Company and its Saudi Arabian subsidiary is subject to Zakat and income-tax in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Provision for zakat for the Company and zakat related to the Company's ownership in AlWaha is charged to the statement of income. Foreign shareholder of Al Waha is subject to income taxes. Provision for income tax is charged to non-controlling interest in these interim consolidated balance sheet. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Group withholds tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividends payments to the foreign shareholder of Al Waha, as required under the Saudi Arabian Income Tax Law.

**n) Employee benefits**

***i) Employees' end of service benefits***

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the interim consolidated statement of income. The liability is calculated; as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

***ii) Employees' home ownership program***

The Company has a home ownership program that offers eligible Saudi employees home ownership opportunities.

Costs incurred on the construction of houses are accumulated and recorded as capital work-in-progress under property, plant and equipment till the time the construction is completed. When the houses are transferred to the employees, the respective costs are transferred from property, plant and equipment to other non-current assets. Costs of unallocated houses are capitalized and depreciated. Down payments and installments of purchase price received from employees are adjusted against the other non-current assets and the title is transferred upon completion of receipt of all the installments.

**o) 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 interim consolidated statement of income as they arise.

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**p) Revenues**

Revenues from third parties are recorded at the time of delivery of the products. Products are also sold to the minority shareholder in Al Waha (the "Off-taker") under an off-take agreement. Upon delivery of the products to the Off-taker, sales are recorded at provisional selling prices which are later adjusted based on actual selling prices received by the Off-taker from third parties, after deducting costs of shipping, distribution and marketing. Adjustments are recorded as they become known to the Company.

**q) Expenses**

Selling and distribution expenses are those arising from the Group'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, selling and distribution and general and administrative expenses, when required, are made on a consistent basis.

**r) Dividends**

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

**s) Leases**

**i) Capital leases**

The Group accounts for property, plant and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to interim consolidated statement of income by applying the straight-line method at the rates applicable to the related assets.

**ii) Operating leases**

Rental expense under operating leases is charged to the interim consolidated statement of income over the period of the respective lease. Rental income is recognized on the accrual basis in accordance with the terms of the contracts.

**t) Earnings per share**

Earnings per share for the three and nine-month periods ended September 30, 2015 and 2014 has been computed by dividing the operating income/(loss) and net income/(loss) for such periods by weighted average number of 438,795,000 shares outstanding during such periods.

**u) Comparative reclassification**

Certain comparative figures have been reclassified to comply with the current period presentation of the financial statements.

**v) Foreign currency translation**

Transactions denominated in foreign currencies are translated to the functional currencies of the Group 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 to the functional currencies of the Group at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the interim consolidated statement of income.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**w) Segment reporting**

**i) *Business segment***

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

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

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

**ii) *Geographical segment***

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

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

**4. LIABILITIES AGAINST CAPITAL LEASE**

During the three month period ended 31 March 2015, Al Waha has signed an Ijarah Facility Agreement with a syndication of commercial banks (the "lessor") for the purpose of converting a commercial loan into an Islamic mode of financing amounting to Saudi Riyals 1,964 million through a sale and lease back of certain of its plant facilities.

Also, as a result of entering into this Ijara Facility Agreement, Al Waha has extinguished its outstanding interest rate swap agreements with the commercial banks and have charged the negative fair values amounting to Saudi Riyals 18.3 million as at 31 December 2014, along with the unamortized balance of the upfront fee related to the previous loan amounting to Saudi Riyals 21.3 million as of 31 December 2014, to the interim consolidated statement of income for the three month period ended 31 March 2015 under financial charges.

**5. INVESTMENTS**

Investments at September 30, comprise of the following:

	<u>2015</u>	<u>2014</u>
<b>Non Current assets</b>		
Available for sale investments	<u>220,500</u>	-
	<u>220,500</u>	-
<b>Current assets</b>		
Held to maturity	100,000	-
Available for sale investments	75,000	-
Others	<u>2,416</u>	-
	<u>177,416</u>	-

**6. ACCOUNTS RECEIVABLE**

Accounts receivable includes balances receivable from foreign affiliates of Basell Arabia Investment Limited (a related party) amounting to Saudi Riyals 263 million as at 30 September 2015 (2014: 179 million) on account of sales made to the affiliates.

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**7. INVESTMENT IN AND ADVANCES TO ASSOCIATES**

Investment in and advances to associates at 30 September comprise of the following:

	Note	2015	2014
<b>Investment in associates:</b>	<b>7.1</b>		
TSOC		1,927,720	2,198,263
SAMAPCO		364,284	425,461
SAAC		254,248	351,007
		<u>2,546,252</u>	<u>2,974,731</u>
<b>Advances to associates:</b>			
SAAC		80,074	80,074
SAMAPCO		51,570	51,570
		<u>131,644</u>	<u>131,644</u>

**7.1 Investment in associates**

	2015	2014
Opening balance	2,674,881	2,805,014
Share of net income	54,579	267,367
Dividends	(183,208)	(97,650)
Closing balance	<u>2,546,252</u>	<u>2,974,731</u>

The Group has provided long-term advances to the associates to finance the construction of their production facilities. Such advances are not repayable during 2015 and, accordingly, classified as non-current in accompanying consolidated balance sheet.

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

SAAC, a limited liability company and registered in the Kingdom of Saudi Arabia, is engaged in production and sale of Acrylic Acid and its related products.

SAMAPCO, a limited liability company and registered in the Kingdom of Saudi Arabia, is engaged in production and sale of Caustic Soda, Chlorine and Ethylene Dichloride.

**8. CONTINGENCIES AND COMMITMENTS**

The Group has a contingent liability for bank guarantees issued in the normal course of the business amounting Saudi Riyals 447 million at 30 September 2015 (2014: Saudi Riyals 455 million). The capital expenditure contracted by the Group but not yet incurred till 30 September 2015 was approximately Saudi Riyals 268 million (2014: Saudi Riyals 424 million).

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**9. DIVIDENDS**

The shareholders in their meeting held on 29 March 2015 approved dividends amounting to Saudi Riyals 373 million (Saudi Riyal 0.85 per share) which have been fully paid in April 2015 (2014: Saudi Riyals 373 million declared in March 2014 and paid in March 2014).

**10. SEGMENTAL REPORTING:**

The management of the Company views the whole business activities of the Company as one operating segment for performance assessment and resources allocation. Accordingly, reporting is provided by geographical segment only. SR 691 million (70%) of the sales for the nine months ended September 30, 2015 are through export (2014: SR 1,101 million (79%).