



**ADVANCED PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
AND INDEPENDENT AUDITORS' REPORT**

ADVANCED PETROCHEMICAL COMPANY

(A Saudi joint stock company)



**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012**

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INDEPENDENT AUDITORS' REPORT

January 26, 2013

To the Shareholders of Advanced Petrochemical Company:
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying balance sheet of Advanced Petrochemical Company (the "Company") as of December 31, 2012 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes which form an integral part of the financial statements. These financial statements, which were prepared by the Company to comply with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

By: _____

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ADVANCED PETROCHEMICAL COMPANY

(A Saudi joint stock company)


المتقدمة
Advanced
BALANCE SHEET**AS AT DECEMBER 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at December 31,	
		2012	2011
Assets			
Current assets			
Cash and cash equivalents	4	462,293	476,475
Trade receivable		282,764	343,282
Inventories	5	140,748	155,837
Prepayments and other receivable	6	21,021	30,970
Total current assets		906,826	1,006,564
Non-current assets			
Other non-current assets	7	33,058	33,558
Investment in unconsolidated subsidiaries	8	1,900	-
Property, plant and equipment	9	2,215,248	2,279,686
Intangible assets	10	98,134	60,273
Total non-current assets		2,348,340	2,373,517
Total assets		3,255,166	3,380,081
Liabilities			
Current liabilities			
Short-term borrowings	11	187,500	-
Current maturity of long-term loans	12	125,000	175,000
Accounts payable		160,648	161,604
Accruals and other current liabilities	13	214,281	246,204
Dividend payable		3,187	2,482
Total current liabilities		690,616	585,290
Non-current liabilities			
Long-term loans	12	500,000	750,000
Employee termination benefits	15	21,918	16,469
Total non-current liabilities		521,918	766,469
Total liabilities		1,212,534	1,351,759
Shareholders' equity			
Share capital	16	1,639,950	1,413,750
Statutory reserve	17	151,054	118,230
Retained earnings		251,628	496,342
Total shareholders' equity		2,042,632	2,028,322
Total liabilities and shareholders' equity		3,255,166	3,380,081
Contingencies	22		

The notes on pages from 7 to 18 form an integral part of these financial statements.

KHALIFA A. AL-MULHEM
 Chairman of the Board

ABDULLAH M. AL-GARAWI
 President & CEO

FAHAD A. AL-MIS'HAL
 VP-Finance & Marketing
 CFO

ADVANCED PETROCHEMICAL COMPANY

(A Saudi joint stock company)

**INCOME STATEMENT****FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2012	2011
Sales		2,472,436	2,790,923
Cost of sales		(2,085,936)	(2,215,180)
Gross profit		386,500	575,743
Selling and distribution expenses	18	(14,163)	(18,628)
General and administrative expenses	19	(25,936)	(23,387)
Income from operations		346,401	533,728
Other income (expenses)			
Finance charges, net		(21,442)	(22,594)
Other Income		3,278	1,670
Net income for the year		328,237	512,804
Earnings per share (Saudi Riyals):	21		
• Income from operations		2.112	3.255
• Net income for the year		2.002	3.127
Weighted average number of shares		163,995,000	163,995,000

The notes on pages from 7 to 18 form an integral part of these financial statements.

KHALIFA A. AL-MULHEM

Chairman of the Board

ABDULLAH M. AL-GARAWI

President & CEO

FAHAD A. AL-MIS'HAL

VP-Finance & Marketing
CFO

ADVANCED PETROCHEMICAL COMPANY

(A Saudi joint stock company)

**CASH FLOWS STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2012	2011
Cash flow from operating activities			
Net income for the year		328,237	512,804
<u>Adjustments for non-cash items</u>			
Depreciation and amortization	9,10	197,270	217,596
Gain on disposal of property, plant and equipment		-	(174)
<u>Changes in working capital</u>			
Trade receivables		60,518	(169,092)
Inventories		15,089	10,073
Prepayments, other receivables and other non-current assets		10,449	(11,008)
Accounts payable		(956)	34,285
Accruals and other current liabilities		(26,194)	93,781
Employees termination benefits		5,449	5,461
Net cash generated from operating activities		589,862	693,726
Cash flow from investing activities			
Investment in unconsolidated subsidiaries	8	(1,900)	-
Additions to property, plant and equipment	9	(96,969)	(23,813)
Proceeds from disposal of property, plant and equipment		321	189
Increase in intangible assets		(74,045)	(19,483)
Net cash utilized in investing activities		(172,593)	(43,107)
Cash flow from financing activities			
Short-term borrowings		187,500	(93,750)
Repayment of long-term loans		(300,000)	(245,000)
Zakat and income tax payments	14	(14,286)	(10,169)
Dividend paid		(304,665)	(281,839)
Net cash utilized in financing activities		(431,451)	(630,758)
Net change in cash and cash equivalents		(14,182)	19,861
Cash and cash equivalents, beginning of year		476,475	456,614
Cash and cash equivalents, end of year	4	462,293	476,475

The notes on pages from 7 to 18 form an integral part of these financial statements.

KHALIFA A. AL-MULHEM

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ABDULLAH M. AL-GARAWI

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**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
January 1, 2011		1,413,750	66,950	330,608	1,811,308
Net income for the year		-	-	512,804	512,804
Transfer to statutory reserve	17	-	51,280	(51,280)	-
Dividends	1	-	-	(282,750)	(282,750)
Zakat and income tax	14	-	-	(13,040)	(13,040)
December 31, 2011		1,413,750	118,230	496,342	2,028,322
January 1, 2012		1,413,750	118,230	496,342	2,028,322
Net income for the year		-	-	328,237	328,237
Increase in share capital	1	226,200	-	(226,200)	-
Transfer to statutory reserve	17	-	32,824	(32,824)	-
Dividends	1	-	-	(305,370)	(305,370)
Zakat and income tax	14	-	-	(8,557)	(8,557)
December 31, 2012		1,639,950	151,054	251,628	2,042,632

The notes on pages from 7 to 18 form an integral part of these financial statements.

KHALIFA A. AL-MULHEM
 Chairman of the Board

ABDULLAH M. AL-GARAWI
 President & CEO

FAHAD A. AL-MIS'HAL
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ADVANCED PETROCHEMICAL COMPANY

(A Saudi joint stock company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)



1 Organization and activities

Advanced Petrochemical Company (the "Company") is a Saudi joint stock company, registered in Saudi Arabia under commercial registration number 2050049604 dated 27 Sha'ban, 1426H (October 1, 2005). The registered address of the Company is P.O. Box 7215, Dammam 31462, Kingdom of Saudi Arabia.

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

During 2012:

- the shareholders of the Company approved final cash dividends of Saudi Riyals 141.4 million in their general assembly meeting, held in February 2012, which were proposed by the Board of Directors (BoD) during December 2011;
- the shareholders of the Company resolved to approve the BoD's proposal to increase the share capital from Saudi Riyals 1.41 billion to Saudi Riyals 1.64 billion through capitalization of Saudi Riyals 226.2 million from retained earnings by distribution of one bonus share for every 6.25 shares in their general assembly meeting held in February 2012. The increase in the share capital has been approved by the Capital Market Authority and the related legal formalities to register the increase have been completed;
- the BoD declared and distributed interim cash dividends for the first half of the 2012 amounting to Saudi Riyals 163.9 million (2011: Saudi Riyals 141.4 million); and
- the BoD has proposed a final cash dividend of Saudi Riyals 1.0 per share, amounting to Saudi Riyals 163.9 million, for the second half of the year 2012, which will be paid during 2013 upon approval of the shareholders.

The accompanying financial statements were approved for issue by the Company's management on January 26, 2013.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants.

2.2 Critical accounting estimates and judgments

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

2.3 Foreign currency translations

(a) Reporting currency

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

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

ADVANCED PETROCHEMICAL COMPANY

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)



2.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement and reported under "General and administrative expenses". When 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 income statement.

2.6 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of work in progress and finished products include 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.

2.7 Investments

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. 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, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. Goodwill is tested annually for impairment and carried at cost, net of any accumulated amortization and impairment losses, if any.

2.8 Property, plant and equipment

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

	Number of years
Plants	20
Capital spares	20
Buildings	33
Machinery and equipment	10
Furniture, fixtures and office equipment	4 - 8
Catalyst	2 - 8
Laboratory and safety equipment	5
Vehicles and trucks	4 - 10
Leasehold Improvements	10

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)



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

Capital spares that are considered essential to ensure continuous plant operations, are classified under property, plant and equipment and are depreciated using the straight line method in accordance with applicable rates. Spare parts are capitalised if they are not readily available in the market or unavailable, and their manufacturing requires an extended time to complete.

2.9 Intangible assets

Intangible assets mainly include:

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

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

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

2.10 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 other than intangible 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 income statement. Impairment losses recognized on intangible assets are not reversible.

2.11 Borrowings

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

2.12 Zakat and taxes

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat attributable to the Saudi shareholder and to income taxes attributable to the foreign shareholder. Provisions for zakat and income taxes are charged to the statement of changes in shareholders' equity. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

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

2.13 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the income statement. 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. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

ADVANCED PETROCHEMICAL COMPANY

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)



2.14 Revenues

Revenues are recognized upon delivery of the products to the marketers and the customers. Upon delivery to the marketers, sales are recorded at provisional sales prices that are later adjusted based upon actual selling prices received by the marketers from third parties, after deducting the costs of shipping and marketing fees etc.

2.15 Selling, distribution and general and administrative expenses

Selling, distribution and general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between selling, distribution and general and administrative expenses and production costs, when required, are made on a consistent basis.

2.16 Dividends

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

2.17 Operating leases

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

2.18 Reclassifications

Certain amounts in the accompanying 2011 financial statements has been reclassified to conform with 2012 presentation.

3 Financial instruments and risk management

Financial instruments carried on the balance sheet include cash and cash equivalents, trade and other receivables, non-current assets, investments, short-term borrowings, long-term loans, trade payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are in Saudi Riyals, United States ('US') dollars and Euros. Management of the Company believes that the currency risk for the other financial instruments is not significant.

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risks arise mainly from its short-term Islamic investments and bank borrowings which are at floating rate of interest and are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that fair value and cash flow interest rate risks to the Company are not significant.

3.3 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial assets and liabilities are not exposed to price risk.

ADVANCED PETROCHEMICAL COMPANY

(A Saudi joint stock company)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**3.4 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings.

3.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available, to meet any future commitments.

3.6 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

4 Cash and cash equivalents

	2012	2011
Cash and bank balances	127,665	121,601
Islamic investments	334,628	354,874
	462,293	476,475

Islamic investments are held with financial institutions for a period of less than three months and yield income at the prevailing market rates.

5 Inventories

	2012	2011
Finished goods	54,051	78,207
Semi-finished goods	7,436	3,375
Spare parts	51,226	55,859
Catalyst	14,216	6,969
Other	13,819	11,427
	140,748	155,837

6 Prepayments and other receivables

	2012	2011
Advances to suppliers	3,658	14,198
Prepayments	11,082	10,839
Deposits	5,960	5,693
Other	321	240
	21,021	30,970

ADVANCED PETROCHEMICAL COMPANY

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)



7 Other non-current assets

Other non-current assets primarily represent balances related to Employee Share Ownership Program ("ESOP"). During 2012, the Board of Directors have approved an ESOP which provides a 5 year service awards to eligible employees effective June 1, 2012. These employees, subject to their subscription to ESOP and meeting the underlying conditions, are given an option to buy the Company's shares, at an agreed exercise price, at a future date (the "vesting date") once they become fully entitled to the shares. The ESOP cost is recognized as an expense over the period in which the service conditions are fulfilled by the employees

In relation to ESOP, the Company purchased its shares at Saudi Riyals 30.2 million (2011: Saudi Riyals 30.2 million) through a local financial institution under a custody arrangement and these shares are held by the local financial institution as the Company at no point will becomes legal owner. The value of such shares has been recorded under other non-current assets. The eligible employees will repay the exercise price of the shares to the Company at the completion of the vesting period.

8 Investment in un-consolidated subsidiaries

These at December 31, 2012 represent the Company's equity interest in the share capital contribution of the following Saudi Arabian limited liability companies:

Name of subsidiary	Amount
Advanced Renewable Energy Company ("AREC")	950
Advanced Global Investment Company ("AGIC")	950
	<u>1,900</u>

AREC and AGIC are effectively wholly owned subsidiaries of the Company. AREC was formed in March 2012 and AGIC was formed in August 2012. At December 31, 2012, the share capital contribution of these companies was kept in their respective bank accounts and there were no other assets or liabilities, including contingent liabilities at that date and they do not have any operations for the period ended December 31, 2012. The Company will start consolidating such subsidiaries upon commencement of operations as non-consolidation does not have any material impact on the accompanying 2012 financial statements.

ADVANCED PETROCHEMICAL COMPANY

(A Saudi joint stock company)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**9 Property, plant and equipment**

	January 1, 2012	Additions	Disposals	December 31, 2012
2012				
Cost				
Plants	2,625,209	19,499	-	2,644,708
Capital spares	39,310	17,638	(4)	56,944
Buildings	58,274	1,114	-	59,388
Machinery and equipment	21,159	4,189	-	25,348
Furniture, fixtures and office equipment	7,149	554	(233)	7,470
Catalyst	82,019	40,701	-	122,720
Laboratory and safety equipment	14,792	72	-	14,864
Vehicles and trucks	4,069	1,186	(300)	4,955
Leasehold improvements	232	148	-	380
Construction in progress	10,359	11,868	-	22,227
Total	2,862,572	96,969	(537)	2,959,004
Accumulated depreciation				
Plants	(478,045)	(113,636)	-	(591,681)
Capital spares	(6,371)	(2,761)	-	(9,132)
Buildings	(7,482)	(2,329)	-	(9,811)
Machinery and equipment	(8,212)	(4,606)	-	(12,818)
Furniture, fixtures and office equipment	(3,794)	(984)	197	(4,581)
Catalyst	(64,405)	(33,990)	-	(98,395)
Laboratory and safety equipment	(12,636)	(1,856)	-	(14,492)
Vehicles and trucks	(1,828)	(889)	19	(2,698)
Leasehold improvements	(113)	(35)	-	(148)
Total	(582,886)	161,086	216	(743,756)
Net book value as at December 31, 2012	2,279,686			2,215,248

ADVANCED PETROCHEMICAL COMPANY

(A Saudi joint stock company)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts in Saudi Riyals thousands unless otherwise stated)



	January 1, 2011	Additions	Disposals	December 31, 2011
2011				
Cost				
Plants	2,624,453	756	-	2,625,209
Capital spares	35,397	3,913	-	39,310
Buildings	55,226	3,048	-	58,274
Machinery and equipment	16,910	4,405	(156)	21,159
Furniture, fixtures and office equipment	6,666	534	(51)	7,149
Catalyst	82,019	-	-	82,019
Laboratory and safety equipment	14,708	84	-	14,792
Vehicles and trucks	4,010	713	(654)	4,069
Leasehold improvements	232	-	-	232
Construction in progress	-	10,359	-	10,359
Total	2,839,621	23,812	(861)	2,862,572
Accumulated depreciation				
Plants	(346,791)	(131,254)	-	(478,045)
Capital spares	(4,532)	(1,839)	-	(6,371)
Buildings	(5,290)	(2,192)	-	(7,482)
Machinery and equipment	(4,984)	(3,381)	153	(8,212)
Furniture, fixtures and office equipment	(2,788)	(1,046)	40	(3,794)
Catalyst	(45,714)	(18,691)	-	(64,405)
Laboratory and safety equipment	(8,976)	(3,660)	-	(12,636)
Vehicles and trucks	(1,790)	(692)	654	(1,828)
Leasehold improvements	(89)	(24)	-	(113)
Total	(420,954)	(162,779)	847	(582,886)
Net book value as at December 31, 2011	2,418,667			2,279,686

Construction in progress at December 31, 2012 principally represents costs incurred on certain routine projects which are expected to be completed in 2013.

Buildings and plant facilities of the Company is constructed on land leased under operating lease agreements at nominal annual rent from the Royal Commission of Jubail and Yanbu for 30 Hijra years under renewable operating lease.

10 Intangible assets

	2012	2011
January 1	60,273	95,607
Additions	74,045	19,483
Amortization	(36,184)	(54,817)
December 31	98,134	60,273

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**11 Short-term borrowings**

Short-term borrowings at December 31, 2012 is representing a working capital facility of US dollars 50.0 million from a commercial bank and bears financial charges at prevailing market rates which are based on London inter-bank offered rate.

12 Long-term loans

	Note	2012	2011
Saudi Industrial Development Fund ("SIDF") loan	12.1	-	175,000
Murabaha loans	12.2	625,000	750,000
		625,000	925,000
Current maturity shown under current liabilities		(125,000)	(175,000)
		500,000	750,000

12.1 SIDF loan

SIDF has granted a loan to the Company for Saudi Riyals 400.0 million. The loan was secured by personal and corporate guarantees of some key stockholders and mortgage on all present and future assets of the Company. The loan was repayable in 13 unequal semiannual installments commencing 15 Sha'ban, 1431H (July 27, 2010). This loan was fully repaid during 2012.

12.2 Murabaha loans

During 2007, the Company entered into a commercial facilities agreement wherein the investment agent (Gulf International Bank- "GIB") agreed to make available to the purchaser (the Company) the facilities to finance the purchase of commodities from the nominated suppliers. On May 22, 2007, the agreement was transferred into a Murabaha agreement for the purpose of being Shar'iah compliant. The total Murabaha agreement is US\$ 330 million (Saudi Riyals 1,238 million) comprising of a total facility of US\$ 300.0 million (Saudi Riyals 1,125 million) and the total standby facility of US\$ 30.0 million. The facility will be repaid after in 18 successive equal semiannual installments where the first repayment date is the date falling 6 months after the project completion date or the date falling 18 months after the scheduled project completion date.

During 2011, the loan facility was transferred to Riyadh Bank (as investment agent) by GIB with the same repayment terms but with different covenants.

12.3 Maturity profile of long-term loans

Years ending December 31:	2012	2011
2012	-	175,000
2013	125,000	220,000
2014	125,000	155,000
2015	125,000	125,000
2016	125,000	125,000
2017	125,000	125,000
	625,000	925,000

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**13 Accruals and other current liabilities**

	Note	2012	2011
Accrued purchases		160,191	155,728
Advances from customers		3,437	4,022
Accrued expenses		32,429	39,065
Accrued finance charges		3,487	3,204
Provision for zakat and income tax	14	8,601	14,330
Customers' rebate		5,371	29,323
Other		765	532
		214,281	246,204

14 Zakat matters**14.1 Significant components of zakat base**

Significant components of zakat base for the years ended December 31, 2012 and 2011, subject to changes as per zakat and income tax regulations, were as follow:

	Note	2012	2011
Shareholders' equity at beginning of year		2,028,322	1,811,308
Provisions at beginning of year		16,469	11,008
Long-term loans		625,000	925,000
Net income for the year		328,237	512,804
Non-current assets		(2,348,340)	(2,373,517)
Spare parts	5	(51,226)	(55,859)
Dividends paid		(304,665)	(281,839)

Zakat is payable at 2.5 percent of higher of the approximate zakat base and adjusted net income attributable to Saudi shareholders. Income tax is payable at 20% of adjusted net income attributable to the foreign shareholders.

14.2 Provision for zakat and income taxes

	Zakat	Income tax	Total
January 1, 2012	13,429	901	14,330
Provisions:			
For current year	8,035	566	8,601
Adjustments related to prior years	(44)	-	(44)
Payments	(13,385)	(901)	(14,286)
December 31, 2012	8,035	566	8,601
January 1, 2011	11,110	349	11,459
Provisions:			
For current year	13,429	901	14,330
Adjustments related to prior years	(1,124)	(166)	(1,290)
Payments	(9,986)	(183)	(10,169)
December 31, 2011	13,429	901	14,330

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**14.3 Status of final assessments**

The Company has received final zakat and income tax certificates through the years ended December 31, 2011.

15 Employee termination benefits

	2012	2011
January 1	16,469	11,008
Provisions	7,854	6,622
Payments	(2,405)	(1,161)
December 31	<u>21,918</u>	<u>16,469</u>

16 Share capital

The share capital of the Company as of December 31, 2012 was comprised of 163,995,000 shares (2011: 141,375,000 shares) stated at Saudi Riyals 10 per share. Also see Note 1.

17 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equal 50% of its share capital. This reserve currently is not available for distribution to the shareholders of the Company.

18 Selling and distribution expenses

	2012	2011
Terminal and handling charges	13,951	18,423
Other	212	205
	<u>14,163</u>	<u>18,628</u>

19 General and administrative expenses

	2012	2011
Salaries and related benefits	17,606	14,778
Professional charges	1,475	2,987
Depreciation	729	692
Rent expenses	187	166
Directors' fees and remunerations	2,180	2,248
Advertising and promotion	2,619	1,464
Other	1,140	1,052
	<u>25,936</u>	<u>23,387</u>

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**20 Operating leases**

The Company has leased land from the Royal Commission for Jubail and Yanbu, for building the plants and other facilities. Rental expenses for the year ended December 31, 2012 amounted to Saudi Riyals 0.6 million (2011: Saudi Riyals 0.6 million). The lease expires in 1456 H, with the option for renewal. Future rental commitments at December 31, 2012 under these operating leases are as follows:

	2012	2011
Years ending December 31:		
2012	-	650
2013	650	650
2014	650	650
2015	650	650
2016	650	650
Thereafter	13,008	13,008
	15,608	16,258

21 Earnings per share

Earnings per share for the year ended December 31, 2012 and 2011 have been computed by dividing the income from operations and net income for each year by weighted average number of 163,995,000 shares outstanding at December 31, 2012 and 2011, after considering the effect of issuance of bonus shares. See Note 1.

22 Contingencies

The Company was contingently liable for bank guarantees issued on behalf of the Company in the normal course of the business amounting to Saudi Riyals 452.02 million at December 31, 2012.