

**National Petrochemical Company
(Petrochem) and its Subsidiaries
(A Saudi Joint Stock Company)**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

NATIONAL PETROCHEMICAL COMPANY (PETEROCHEM) AND ITS
SUBSIDIARIES

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
NATIONAL PETROCHEMICAL COMPANY (Petrochem)
(A Saudi Joint Stock Company)**

Scope of Audit

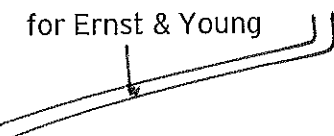
We have audited the accompanying consolidated balance sheet of National Petrochemical Company - A Saudi Joint Stock Company - ("Petrochem") and its subsidiaries as of 31 December 2012 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of Petrochem's and its subsidiaries management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of 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 degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion

In our opinion, the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of Petrochem and its subsidiaries as of 31 December 2012 and its consolidated results of operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) Comply with the requirements of the Regulations for Companies and Petrochem's By-Laws, in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young



Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354

Riyadh: 10 Rabi' Al-Thani 1434H
(20 February 2013)

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

(Amounts in SR '000)

	Note	2012	2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	168,050	1,707,060
Receivables, cash margin and other assets	5	313,925	57,472
Amounts due from related parties	6	172,117	2,116
Inventory	7	429,104	56,104
TOTAL CURRENT ASSETS		1,083,196	1,822,752
NON-CURRENT ASSETS			
Employee loan	5	11,422	8,461
Project under construction	8	889,503	18,014,778
Deferred charges	9	107,182	150,202
Property and equipment	10	18,295,302	849
TOTAL NON-CURRENT ASSETS		19,303,409	18,174,290
TOTAL ASSETS		20,386,605	19,997,042
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Payables, accrued expenses and other liabilities	11	427,837	7,585
Amounts due to related parties	6	50,509	-
Zakat	12	40,389	40,578
Current portion of term loans	14	565,043	-
TOTAL CURRENT LIABILITIES		1,083,778	48,163
NON-CURRENT LIABILITIES			
Long term payables and other liabilities	13	-	237,927
Amount due to a related party	6	-	35,714
Term loans	14	12,893,332	13,336,778
Subordinated loan from non-controlling partner	15	764,296	14,859
Employees' terminal benefits		14,163	7,635
TOTAL NON-CURRENT LIABILITIES		13,671,791	13,632,913
TOTAL LIABILITIES		14,755,569	13,681,076
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	16	4,800,000	4,800,000
Statutory reserve		1,780	1,780
Accumulated losses		(614,842)	(151,305)
TOTAL SHAREHOLDERS' EQUITY		4,186,938	4,650,475
Non-controlling interests		1,444,098	1,665,491
TOTAL EQUITY		5,631,036	6,315,966
TOTAL LIABILITIES AND EQUITY		20,386,605	19,997,042

The accompanying notes from 1 to 26 form part of these consolidated financial statements.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

(Amounts in SR '000)

	Note	2012	2011
Sales		857,875	-
Cost of sales		(1,336,737)	-
GROSS LOSSES		(478,862)	-
Sales, general and administrative expenses	17	(203,431)	(47,128)
LOSS FROM MAIN OPERATIONS		(682,293)	(47,128)
Other income	18	50,776	-
Income from time deposit		7,451	10,849
Financial charges		(21,897)	-
LOSS BEFORE NON-CONTROLLING INTEREST AND ZAKAT		(645,963)	(36,279)
Non-controlling interest share in net loss of the subsidiaries		221,393	11,999
LOSS BEFORE ZAKAT		(424,570)	(24,280)
Zakat	12	(38,967)	(39,823)
NET LOSS FOR THE YEAR		(463,537)	(64,103)
 LOSS PER SHARE FOR THE YEAR (SR)	19		
Attributable to loss from main operations		(1.42)	(0.10)
Attributable to net loss		(0.97)	(0.13)

The accompanying notes from 1 to 26 form part of these consolidated financial statements.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

(Amounts in SR '000)

	2012	2011
OPERATING ACTIVITIES		
Loss before zakat	(424,570)	(24,280)
Adjustments for:		
Employees' terminal benefits, net	6,528	4,709
Depreciation and amortization	201,644	422
Non-controlling interests share in net loss of the subsidiaries	(221,393)	(11,999)
Changes in operating assets and liabilities:		
Receivable, cash margin and others assets	(226,107)	(53,896)
Inventory	(373,000)	(56,104)
Payables, accrued expenses and other liabilities	182,325	(116,950)
Related parties, net	53,347	31,340
Zakat paid	(39,156)	(40,330)
Net cash used in operating activities	(840,382)	(267,088)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(127,623)	(188)
Project under construction	(1,442,039)	(1,889,938)
Net cash used in investing activities	(1,569,662)	(1,890,126)
FINANCING ACTIVITIES		
Proceeds from term loans	121,597	1,760,415
Proceeds from subordinated loan from a non-controlling partner	749,437	-
Non-controlling interests	-	718
Net cash from financing activities	871,034	1,761,133
DECREASE IN CASH AND CASH EQUIVALENTS	(1,539,010)	(396,081)
Cash and cash equivalents at the beginning of the year	1,707,060	2,103,141
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	168,050	1,707,060
NON CASH TRANSACTION		
Property, plant and equipment transferred from project under construction (note 8)	18,358,762	-
Project under construction transferred to affiliates (note 6)	208,553	-

The accompanying notes from 1 to 26 form part of these consolidated financial statements.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(Amounts in SR '000)

	Attributable to the shareholders' equity				Non- controlling interest	Total
	Share capital	Statutory reserve	Accumulated losses	Shareholders' equity total		
Balance as at 31 December 2010	4,800,000	1,780	(87,202)	4,714,578	1,676,772	6,391,350
Non-controlling interest	-	-	-	-	718	718
Net loss for the year	-	-	(64,103)	(64,103)	(11,999)	(76,102)
Balance as at 31 December 2011	4,800,000	1,780	(151,305)	4,650,475	1,665,491	6,315,966
Non-controlling interest	-	-	-	-	(221,393)	(221,393)
Net loss for the year	-	-	(463,537)	(463,537)	-	(463,537)
Balance as at 31 December 2012	4,800,000	1,780	(614,842)	4,186,938	1,444,098	5,631,036

The accompanying notes from 1 to 26 form part of these consolidated financial statements.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

1. ORGANIZATION AND ACTIVITIES

National Petrochemical Company ("Petrochem") is a Saudi joint stock company registered in Riyadh, in the Kingdom of Saudi Arabia under commercial registration number 1010246363 dated 8 Rabi Awal 1429H (corresponding to 16 March 2008), and was formed pursuant to the ministry of commerce and industry's resolutions numbered 53Q dated 16 Safar 1429H, (corresponding to 24 February 2008).

Petrochem is engaged in the development, establishment, operation, management and maintenance of petrochemical, gas, petroleum and other industrial plants, wholesale and retail trading in petrochemical materials and products, owning land, real estate and buildings for its benefits.

2. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of Petrochem and its subsidiaries, as adjusted by the elimination of significant inter-company balances and transactions. A subsidiary is an entity in which Petrochem has a direct or indirect investment of more than 50% of the voting capital or over which it exercise effective management control.

The financial statements of the subsidiaries are prepared using accounting policies consistent with those of Petrochem. The financial statements of the subsidiaries are consolidated from the date on which Petrochem is able to exercise effective management control on them.

Non- controlling interest in the net assets of consolidated subsidiaries is identified separately from Petrochem's equity therein. Non- controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

The subsidiaries included in these financial statements are as follows:

		Shareholding %		Country of Incorporation
		2012	2011	
Saudi Polymers Company ("SPCo")	Subsidiary	65	65	Saudi Arabia
Gulf Polymers Distribution Company FZCO	Subsidiary	65	65	UAE

SAUDI POLYMERS COMPANY ("SPCo")

Is a mixed limited liability company, registered in Jubail in the Kingdom of Saudi Arabia under registration number 2055008886 dated 29 Dhul-Qadah 1428H (corresponding to 9 December 2007).

SPCo is engaged in production and sale of ethylene, propylene, hexene, gasoline, high and low density polyethylene, polypropylene and polystyrene. SPCo completed its trial operation and announced the commercial production during the year. Subsequently to this announcement, the plant has ceased its commercial production due to some technical problems in some of its production units. Subsequently on 8 Rabi' Al-awwal 1434H (corresponding 20 January 2013) the company has announced the gradual resumption of the commercial production.

GULF POLYMERS DISTRIBUTION COMPANY FZCO ("GPDCo")

Is a free zone limited liability company registered in the Dubai Airport Free Zone dated 12 Rabi Awal 1432H (corresponding to 15 February 2011) with a capital of AED 2 million. GPDCo activity is restricted to storing and selling SPCo's polymer products.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The figures in these consolidated financial statements are rounded to nearest thousand. The significant accounting policies adopted are as follows.

Accounting convention

The consolidated financial statements are prepared under the historical cost convention.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from these estimates.

Cash and cash equivalents

Cash and cash equivalents consists of bank balances and cash on hand and short term deposits with original maturities of three months or less from the date of purchase.

Accounts receivable

Accounts receivable are stated at the invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when the collection of the receivable amount is considered doubtful. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost and market value. Cost is determined as follows:

Raw materials, spare parts and catalysts	- purchase cost on a weighted average basis.
Work in progress & Finished goods	- cost of direct materials and labor plus attributable overheads based on a normal level of activity

Project under construction

Project under construction appears at cost until the asset is ready for its intended use, thereafter; it is capitalized on the related assets. Project under construction include the cost of contractors, materials, services, borrowing, salaries and other direct costs and overhead allocated on systematic basis.

Deferred charges / amortization

Deferred charges comprise agency and upfront fees on term loans and are amortized over the period of the related loans. The amortization is capitalized in the cost of the plant under construction, until the project is ready for its intended use, and thereafter, is charged to the consolidated statement of income.

Property, plant and equipment / Depreciation

Property, plant and equipment are stated at cost net of accumulated depreciation except for Platinum (precious metal) which is stated at cost and is not depreciated. Expenditure for maintenance and repairs is expensed, while expenditure for improvement is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight- line method. Leasehold improvements are depreciated over the shorter of the estimated useful life or the term of the lease.

The estimated useful lives of the asset in the calculation of depreciation are as follows:

	Years		Years
Buildings	20 years	Computers and communication devices	4 - 5 years
Leasehold improvements	5 years	Motor vehicles	4 years
Office equipment and furniture	3.33- 10 years	Plant and equipments	5-20 years

Impairment of non-current assets

Periodically, the carrying amounts of non-current assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, estimates are made of the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment is recognized in the consolidated statement of income.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-current assets (continued)

Where an impairment subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized for the asset or cash generating unit in prior years. A reversal of impairment is recognized as income immediately in the consolidated statement of income.

Accounts payable and accruals

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

Provisions

Provisions are recognized when Petrochem or its subsidiaries has an obligation (legal or constructive) arising from a past event, and the costs to settle these obligation are both probable and may be measured reliably.

Zakat and income tax

Zakat is provided in accordance with the Regulations of the Directorate of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final Zakat assessments are adjusted in the year of their finalization. Foreign shareholders in subsidiaries are subject to income tax which is included in non-controlling interest in the consolidated financial statements.

Employees' terminal benefits

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the consolidated balance sheet date.

Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the company must transfer 10% of its income for the year after deducting accumulated losses to the statutory reserve. The company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The reserve is not available for distribution.

Borrowing costs

Borrowing costs that are directly attributable to the construction of an asset are capitalized up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed, and thereafter, is charged to the consolidated statement of income.

Revenue recognition

Sales represent the invoiced value of goods supplied. Sales from sale of goods are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably; normally on delivery to the customer. Other income is recognized when earned.

Expenses

Selling expenses are those that specifically relate to delivery and marketing. All other expenses –except cost of sales- are allocated on a consistent basis to general and administration expenses in accordance with allocation factors determined as appropriate by the management.

Foreign currencies

Transactions in foreign currencies are translated into Saudi Riyals at the rate prevailing at the date of those transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rate prevailing at that date. All differences are taken to the consolidated statement of income.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (continued)

Assets and liabilities of the consolidated subsidiaries denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies are translated into Saudi Riyals at average exchange rates during the period. Component of equity, other than retained earnings, are translated at the rates prevailing at the date of their occurrence. Exchange differences arising from such translations, if material, are included in the cumulative translation adjustment account under equity in the consolidated balance sheet.

Segment reporting

A segment is a distinguishable component of Petrochem and its subsidiaries 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.

Fair value

The fair value of commission-bearing items are estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

4. CASH AND CASH EQUIVALENTS

Amounts in SR '000	2012	2011
Time deposits	102,250	1,507,764
Bank balances and cash in hand	65,800	199,296
	<u>168,050</u>	<u>1,707,060</u>

5. RECEIVABLES, CASH MARGIN AND OTHER ASSETS

Amounts in SR '000	2012	2011
Trade receivable	247,331	-
Cash margin	53,091	53,091
Employee loan – current portion *	7,597	1,629
Prepaid expenses	1,343	697
Accrued income from time deposits	317	1,396
Other	4,246	659
	<u>313,925</u>	<u>57,472</u>

* Represents commission free housing loans provided to Saudi employees in Petrochem and its subsidiaries to buy or build housing unit and are secured by mortgage over property purchased under employee home ownership program. The loans are repayable in monthly installments within a maximum period of 15 years.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
31 December 2012

6. RELATED PARTY TRANSACTIONS

The following are the details of major related party transactions during the year :

Amounts in SR '000

Related party	Nature of transaction	Amount of transaction	
		2012	2011
Majority shareholder	Fees of a bank guarantee (Note 21)	1,475	1,285
	Consulting services	810	900
Non-controlling partner	Proceeds of subordinated loan	749,437	-
	Marketing fees	37,012	-
Committees, board of directors and executives of Petrochem	Expenses, fees, salaries and benefits	3,853	5,536
Affiliated companies	Services received	312,881	(4,001)
	Projects under construction transferred to affiliates	208,553	-
	Purchases	(440,198)	-

Amounts due from / to related parties are shown in the consolidation balance sheet.

7. INVENTORY

Amounts in SR '000

	2012	2011
Raw materials	154,031	56,104
Spare parts	150,019	-
Finished goods	101,988	-
Catalyst	23,066	-
	<u>429,104</u>	<u>56,104</u>

8. PROJECT UNDER CONSTRUCTION

As of 31 December 2011, This item comprises cost of construction works of Saudi polymers plant (the "Plant"). The plant has completed its trial operation and announced its commercial production during the current year. Therefore, the balances related to the plant construction after this announcement have been transferred to the property, plant and equipment. Petrochem thereafter has announced the cessation of the plant commercial production due to the some technical problems in some of its units. Subsequently on 8 Rabi' Al-awwal 1434H (corresponding 20 January 2013) the company has announced the gradual resumption of the commercial production.

The outstanding balance at 31 December 2012 represents the cost of construction of additional units and facilities at the plant during the year.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2012

9. DEFERRED CHARGES

Deferred charges consists of agency and upfront fees on the term loan and amortized over the period of the related loan:

Amounts in SR '000	2012	2011
<i>Cost</i>		
At the beginning and ending of the year	238,369	238,369
<i>Amortization</i>		
At the beginning of the year	88,167	42,218
Capitalized on projects under construction during the year	33,308	45,949
Charged as expenses during the year	9,712	-
At the end of the year	131,187	88,167
Net book value	107,182	150,202

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

10. PROPERTY, PLANT AND EQUIPMENT

Amounts in SR'000	Buildings	Platinum	Leasehold improvement	Furniture and office equipment	Computers and communication devices	Vehicles	Plant and equipment	Total 2012	Total 2011
Cost:									
At the beginning of the year	-	-	461	343	339	875	-	2,018	1,830
Additions	-	-	-	119,436	-	8,187	-	127,623	188
Transferred from project under construction (note 8)	676,091	24,758	-	18,480	-	18,791	17,620,642	18,358,762	-
At the end of the year	676,091	24,758	461	138,259	339	27,853	17,620,642	18,488,403	2,018
Depreciation:									
At the beginning of the year	-	-	260	144	104	661	-	1,169	747
Charge for the year	6,761	-	92	6,937	59	1,524	176,559	191,932	422
At the end of the year	6,761	-	352	7,081	163	2,185	176,559	193,101	1,169
Net book amounts:									
At 31 December 2012	669,330	24,758	109	131,178	176	25,668	17,444,083	18,295,302	
At 31 December 2011	-	-	201	199	235	214	-		849

The plant is constructed on land leased from the Royal Commission for Jubail and Yanbu. The lease is initially for a period of 30 years commencing from 29 Thul-Qi' dah 1428H (corresponding 9 December 2007) and is renewable for further periods thereafter.

The machinery and equipment of the plant are pledged as collaterals against loan facilities (note 14).

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

11. PAYABLES, ACCRUED EXPENSES AND OTHER LIABILITIES

Amounts in SR '000	2012	2011
Trade payable	345,135	-
Accrued expenses	75,630	4,044
Other liabilities	7,072	3,541
	<u>427,837</u>	<u>7,585</u>

12. ZAKAT

Charge for the year

Zakat charge for the year amounting to SR 38.9 million (2011: SR 39.8 million) consists of current year's provision. The provision for the year is based on individual zakat base of the Petrochem and its subsidiaries.

Movement in provision:

The movement in the zakat provision for the year was as follows:

Amounts in SR '000	2012	2011
At the beginning of the year	40,578	41,085
Provided during the year	38,967	39,823
Paid during the year	(39,156)	(40,330)
At the end of the year	<u>40,389</u>	<u>40,578</u>

Status of assessments

As for Petrochem, its zakat returns, has been filed with the Department of Zakat & Income Tax (DZIT) for all prior years up to 2011, and zakat was settled accordingly. The DZIT has raised the final zakat assessments up to 2010. Petrochem has filed an appeal against the assessment for the year 2008 before the Higher Appeal Committee, with differences of SR 53 million. The appeal is still pending. Based on the zakat consultant's opinion, the management believes that the ultimate outcome of this appeal will be in the favor of Petrochem.

Petrochem and its zakat consultant have filed an appeal against the assessment for the year 2010 before the DZIT against some items excluded from that assessment which resulted in a difference of SR 74 million. The management believes that the ultimate outcome of this appeal will be in the favor of Petrochem.

As for SPCo, zakat returns have been filed with the DZIT for previous years up to 2011. The DZIT has raised the zakat assessment for 2008. Final assessments for the years from 2009 to 2011 have not been raised yet by DZIT.

As for GPDCo, the company registered in Dubai Airport Free Zone, and is exempted from income tax.

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
31 December 2012

13. LONG TERM PAYABLES AND OTHER LIABILITIES

Amounts in SR '000	2012	2011
Contractors payables	-	219,537
Retention payable	-	12,551
Other liabilities	-	5,839
	<u>-</u>	<u>237,927</u>

These long term payable and other liabilities consists of retention payables for construction and other liabilities.

14. TERM LOANS

Term loans represent the drawn portion out of loan facilities obtained from the following parties to finance the construction work in progress of plant form the following:

Amounts in SR '000	<i>Principal</i>	<i>Drawn</i>	
		2012	2011
Syndicated commercial banks	7,045,875	7,045,875	7,045,875
Syndicated commercial banks – guaranteed	2,212,500	2,212,500	2,212,500
Public Investment Fund ("PIF")	3,000,000	3,000,000	3,000,000
Saudi Industrial Development Fund	1,200,000	1,200,000	1,078,403
		<u>13,458,375</u>	<u>13,336,778</u>
Less: Current portion of term loans			
Syndicated commercial banks		352,294	-
Syndicated commercial banks – guaranteed		132,750	-
Public Investment Fund ("PIF")		30,000	-
Saudi Industrial Development Fund		49,999	-
		<u>565,043</u>	<u>-</u>
Current portion of term loans		<u>12,893,332</u>	<u>-</u>

The loan obtained from syndicated commercial banks carries commission at Libor plus 0.08% to 1.15%. The repayment of this loan commences on 15 June 2013 and on 22 semi-annual installments with an amount ranges from 2 – 20% of the utilized loan amount.

The US Ex-IM guaranteed loan obtained from syndicated commercial banks carries commission at Libor plus 0.06%. The repayment of this loan commences on 15 June 2013 and on 22 semi-annual installments with an amount ranges from 3 – 8% of the utilized loan amount.

The loans obtained from PIF carries commission at Libor plus 0.5% along with an upfront fee of 0.50% of the principle amount of the loan. The repayment of this loan commences on 31 December 2013 on 15 semi-annual installments with an amount at 1% of the utilized loan amount for first two installments and at 7% to 9% thereafter.

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14. TERM LOANS (continued)

The loans obtained from SIDF carries upfront commission at 7.5% of the principle amounts of the loans. The repayment of this loan commences on 18 December 2013 on 14 semi-annual installments with an amount ranges from 4.2% to 8.3% of the utilized loan amount.

The loans are secured by charge and assignment of residual proceeds of plant and equipment, charge and assignment over secured project documents, charge and assignment over SPCo's offshore bank accounts of the project and pledge and assignment over each of Petrochem and SPCo onshore bank accounts of the project, in addition, the assignment of insurance proceeds and the technology rights.

SPCo is required to comply with covenants under all the loan facility agreements.

15. SUBORDINATED LOAN FROM A NON-CONTROLLING PARTNER

Subordinated loan from Arabian Chevron Petrochemical Company Limited (the "non-controlling partner") is a commission free loan granted from the partners to SPCo in proportion of there shareholding in the company, and its settlement is subject to the minimum level required to be maintained by the terms of the loan facility agreements granted by SIDF (note 14).

The movement of loan during the year is analyzed as follows:

Amounts in SR '000	2012	2011
At the beginning of the year	14,859	14,859
Proceeds received	749,437	-
	<u>764,296</u>	<u>14,859</u>

16. SHARE CAPITAL

Share capital of Petrochem is divided into 480 million shares of SR 10 each (2011: 480 million shares).

17. GENERAL AND ADMINISTRATION EXPENSES

Amounts in SR '000	2012	2011
Employees salaries and benefits	141,993	20,690
Depreciation	23,766	422
Amortization	9,712	-
Utilities	5,016	6,458
Expenses and fees of committees and board of directors of Petrochem and salaries and benefits of executives	3,853	5,536
Professional fees	1,668	1,409
Bank commission	1,475	1,426
Rent	1,024	1,183
Fees and subscription	768	812
Travel	254	648
Others	13,902	8,544
	<u>203,431</u>	<u>47,128</u>

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18. OTHER INCOME

Other income mainly represents net profit earned from sale of products in the trial production period during the year (2011: Nil).

19. LOSS PER SHARE

The loss per share is calculated for the year ended by dividing loss from main operations and net loss for the year by the number of shares during the year 2012 amounting to 480 million shares (2011: 480 million share).

20. SEGMENT INFORMATION

Petrochem's management is of the opinion that all activities and operations of Petrochem and its subsidiaries comprise single operational segment in respect of performance appraisal and allocation of resources. Consequently, financial reports are issued only for geographical segments.

Operating assets of Petrochem and its subsidiaries are located in the Kingdom of Saudi Arabia. Petrochem and its subsidiaries sales are geographically distributed between domestic sales in the Kingdom by 4%, overseas sales to Asia by 83% and to European countries and Africa by 13%.

21. CONTINGENT LIABILITIES

During 2010, Petrochem and the non-controlling partner have resolved to increase the capital of SPCo by SR 3,394 million, which will cause the non-controlling partner to incur additional costs; the management of Petrochem has decided to compensate the non-controlling partner by making annual payments in the future based on the future earnings of SPCo, considering the non-distributable cash as a result of the proposed capital increase.

Petrochem's and its subsidiaries local bankers have issued, on its behalf and during the normal course of business cycle, bank guarantees of SR 913 million which included SR 860 million from SPCo to the benefit of Saudi Aramco Company for feedstock cost (2011: SR 910 million).

22. CAPITAL COMMITMENTS

The balance of unused capital expenditure approved by the board of directors in connection with the construction of additional units and facilities in Saudi Polymers plant SR 39.4 million (2011: SR 358 million related to the plant construction).

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

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. The financial assets of Petrochem and its subsidiaries consist of cash and cash equivalents, trade receivable and accrued income, and its financial liabilities consist of trade payable, accrued expenses, other liabilities, term loans and subordinated loan from a non-controlling partner. The fair values of financial instruments are not materially different from their carrying values.

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24. RISK MANAGEMENT

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. Petrochem and the subsidiaries are subject to commission rate risk on their commission bearing assets and liabilities, including time deposits and term loans.

Liquidity risk

Liquidity risk is the risk that Petrochem or the subsidiaries will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by ensuring the availability of bank facilities.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Petrochem and its subsidiaries did not undertake significant transactions in currencies other than the Saudi Riyals and US Dollars during the year. As the Saudi Riyal is pegged to the US Dollar, Petrochem and its subsidiaries are not subject to significant currency risk.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. Petrochem and its subsidiaries seek to limit its credit risk with respect to customers by setting credit limits for individual customers and constantly monitoring outstanding receivables balances. As the balance sheet date, no significant concentration of credit risk was identified by management.

25. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the board of directors on 10 Rabi' al-thani 1434H (Corresponding to 20 February 2013).

26. COMPARATIVE FIGURES

Certain of the prior year figures have been re-classified to conform with the current year's presentation.