

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

NATIONAL PETROCHEMICAL COMPANY (PETEROCHEM) AND ITS  
SUBSIDIARIES

(A Saudi Joint Stock Company)

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CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014

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

**Scope of Audit**

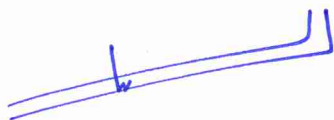
We have audited the accompanying consolidated balance sheet of National Petrochemical Company - A Saudi Joint Stock Company - ("Petrochem") and its subsidiaries as at 31 December 2014 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of Petrochem's 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 at 31 December 2014 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: 30 Rabi Al-Thani 1436H  
(19 February 2015)

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

(Amounts in SR '000)

	<i>Note</i>	<b>2014</b>	2013
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and bank balances		<b>1,171,853</b>	672,708
Time deposits		<b>559,000</b>	-
Trade receivable		<b>988,614</b>	688,024
Prepayments, cash margin and other assets	4	<b>85,261</b>	89,684
Amounts due from related parties	5	<b>113,809</b>	152,916
Inventory	6	<b>1,243,139</b>	930,957
<b>TOTAL CURRENT ASSETS</b>		<b>4,161,676</b>	2,534,289
<b>NON-CURRENT ASSETS</b>			
Employees loan	4	<b>48,551</b>	27,406
Deferred charges	7	<b>51,468</b>	74,786
Property, plant and equipment	8	<b>17,735,155</b>	18,369,244
<b>TOTAL NON-CURRENT ASSETS</b>		<b>17,835,174</b>	18,471,436
<b>TOTAL ASSETS</b>		<b>21,996,850</b>	21,005,725
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade payable		<b>213,705</b>	244,262
Accrued liabilities and other liabilities	9	<b>361,856</b>	363,324
Amounts due to related parties	5	<b>123,779</b>	121,697
Current portion of term loans	10	<b>1,145,503</b>	925,504
Short term loan		-	600,000
Zakat	11	<b>149,515</b>	74,898
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,994,358</b>	2,329,685
<b>NON-CURRENT LIABILITIES</b>			
Term loans	10	<b>10,822,328</b>	11,967,831
Sukuk	12	<b>1,200,000</b>	-
Subordinated loan from non-controlling partner in a subsidiary	13	<b>1,131,797</b>	1,131,797
Employees' terminal benefits		<b>34,441</b>	21,694
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,188,566</b>	13,121,322
<b>TOTAL LIABILITIES</b>		<b>15,182,924</b>	15,451,007
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	14	<b>4,800,000</b>	4,800,000
Statutory reserve		<b>11,128</b>	1,780
Retained earnings (accumulated losses)		<b>84,133</b>	(680,970)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,895,261</b>	4,120,810
Non-controlling interests		<b>1,918,665</b>	1,433,908
<b>TOTAL EQUITY</b>		<b>6,813,926</b>	5,554,718
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>21,996,850</b>	21,005,725

The accompanying notes from 1 to 24 form an integral 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 2014

(Amounts in SR '000)

	<i>Note</i>	<b>2014</b>	2013
Sales		<b>7,858,516</b>	4,436,677
Cost of sales		<b>(5,559,454)</b>	(3,710,162)
<b>GROSS PROFIT</b>		<b>2,299,062</b>	726,515
<b>EXPENSES</b>			
Selling and marketing	15	<b>(492,555)</b>	(310,568)
General and administrative	16	<b>(300,896)</b>	(250,516)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>1,505,611</b>	165,431
Financial charges, net		<b>(171,305)</b>	(203,439)
<b>INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST AND ZAKAT</b>		<b>1,334,306</b>	(38,008)
Non-controlling interest share in net (income) loss of the subsidiaries		<b>(484,757)</b>	10,190
<b>INCOME (LOSS) BEFORE ZAKAT</b>		<b>849,549</b>	(27,818)
Zakat	11	<b>(75,098)</b>	(38,310)
<b>NET INCOME (LOSS)</b>		<b>774,451</b>	(66,128)
<b>EARNING (LOSS) PER SHARE (SR)</b>	17		
Attributable to income from main operations		<b>3.14</b>	0.34
Attributable to net income (loss)		<b>1.61</b>	(0.14)

The accompanying notes from 1 to 24 form an integral 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 2014

(Amounts in SR '000)

	2014	2013
<b>OPERATING ACTIVITIES</b>		
Income (loss) before zakat	849,549	(27,818)
Adjustments for:		
Employees' terminal benefits, net	12,747	7,530
Depreciation and amortization	825,568	819,114
Non-controlling interests share in net income (loss) of the subsidiaries	484,757	(10,190)
Gain from disposal of property, plant and equipment	(125)	-
Changes in operating assets and liabilities:		
Trade receivable	(300,590)	(445,643)
Prepayments, cash margin and others assets	(16,722)	(34,120)
Inventory	(312,182)	(501,857)
Trade payable	(30,557)	(46,095)
Accrued liabilities and other liabilities	(1,468)	255,188
Related parties, net	41,189	90,388
Zakat paid	(481)	(3,801)
<b>Net cash from operating activities</b>	<b>1,551,685</b>	<b>102,696</b>
<b>INVESTING ACTIVITIES</b>		
Short term time deposits	(559,000)	-
Additions of property, plant and equipment	(168,161)	(498)
Proceeds from disposal of property, plant and equipment	125	-
<b>Net cash used in investing activities</b>	<b>(727,036)</b>	<b>(498)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of term loans, net	(925,504)	(565,040)
Proceeds from Sukuk issuing	1,200,000	-
(Repayment) proceeds from short term loan	(600,000)	600,000
Subordinated loan from a non-controlling partner in a subsidiary	-	367,500
<b>Net cash (used in) from financing activities</b>	<b>(325,504)</b>	<b>402,460</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>499,145</b>	<b>504,658</b>
Cash and cash equivalents at the beginning of the year	672,708	168,050
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1,171,853</b>	<b>672,708</b>
<b><u>SIGNIFICANT NON-CASH TRANSACTIONS</u></b>		
Property, plant and equipment transferred from project under construction (note 8)	-	860,161

The accompanying notes from 1 to 24 form an integral 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 2014

(Amounts in SR '000)

	Attributable to the shareholders' equity					
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Retained earnings (accumulated losses)</i>	<i>Shareholders' equity</i>	<i>Non-controlling interest</i>	<i>Total</i>
Balance as at 31 December 2012	4,800,000	1,780	(614,842)	4,186,938	1,444,098	5,631,036
Net loss for the year	-	-	(66,128)	(66,128)	(10,190)	(76,318)
Balance as at 31 December 2013	4,800,000	1,780	(680,970)	4,120,810	1,433,908	5,554,718
Net income for the year	-	-	774,451	774,451	484,757	1,259,208
Transfer to statutory reserve	-	9,348	(9,348)	-	-	-
<b>Balance as at 31 December 2014</b>	<b>4,800,000</b>	<b>11,128</b>	<b>84,133</b>	<b>4,895,261</b>	<b>1,918,665</b>	<b>6,813,926</b>

The accompanying notes from 1 to 24 form an integral 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 2014

**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:

Subsidiary Company	Shareholding %		Country of Incorporation
	2014	2013	
Saudi Polymers Company ("SPCo")	65	65	Kingdom of Saudi Arabia
Gulf Polymers Distribution Company FZCO	65	65	United Arab Emirates

**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, polyethylene, polypropylene and polystyrene. At 1 October 2012, SPCo completed its trial operation and announced the commercial production.

SPCo plant (the "plant") has faced certain interruption in production during 2013 due to certain technical problems in certain production units. Further, an unscheduled disruption of production has been announced during March 2014 for 10 days due to disruption in its feedstock supply.

**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 of SPCo's 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.

#### *Use of estimates*

The preparation of the consolidated 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, cash on hand, and short term deposits that are readily convertible into known amounts of cash and have a maturity of three months or less when placed.

#### *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

#### *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 interim consolidated statement of income.

Included in deferred charges, turnaround costs which are deferred and amortized over the period until the date of the next planned turnaround. Should unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and new turnaround costs are deferred and amortized over the period likely to benefit from such costs.

#### *Property, plant and equipment / Depreciation*

Property, plant and equipment are stated at cost net of accumulated depreciation except for Platinum (precious metal) and work in progress which are stated at cost and are 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.

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

Buildings	20 years	Computers and communication devices	4 - 5 years
Leasehold improvements	5 years or the term of lease, whichever is shorter	Motor vehicles	4 years
Plant and equipment	5-25 years	Office equipment and furniture	3.33- 10 years

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Impairment of 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.

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 Department 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, if exist.

Zakat provision is calculated based on the individual zakat base of Petrochem and its subsidiaries.

***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.

***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.

***Statutory reserve***

In accordance with Saudi Arabian Regulations for Companies, the Company must transfer 10% of its net income in each year (after covering accumulated losses) to the statutory reserve. The Company may resolve to discontinue such transfers when it builds up a reserve equal to one half of the capital. The reserve is not available for distribution.

***Revenue recognition***

Sales represent the invoiced value of goods supplied and 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 and marketing expenses are those that specifically relate to delivery and marketing of the products. 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2014

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

*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 consolidated balance sheet date are retranslated at the rate prevailing at that date. All differences are taken to the consolidated statement of income.

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 year. 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. PREPAYMENTS, CASH MARGIN AND OTHER ASSETS**

(Amounts in SR '000)	2014	2013
Prepaid expenses	29,927	20,598
Advances to suppliers	20,996	-
Cash margin	16,455	53,093
Employees loan – current portion *	15,148	14,098
Other	2,735	1,895
	<b>85,261</b>	<b>89,684</b>

\* 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  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
31 December 2014

**5. RELATED PARTIES TRANSACTIONS**

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

(Amounts in SR '000)

Related party	Nature of transaction	Amount of transaction	
		2014	2013
Majority shareholder (Saudi Industrial Investment Group)	Bank guarantee commission	<b>1,397</b>	1,020
	Finance commission	<b>116</b>	465
	Shared services provided	<b>1092</b>	1,092
	Financing, (repayment) proceeds	<b>(25,018)</b>	25,018
	Investment in Sukuk	<b>130,000</b>	-
Non-controlling partner in a subsidiary	Proceeds from subordinated loan	-	367,500
	Marketing fees	<b>317,708</b>	184,997
Committees, board of directors and Petrochem's senior executive	Expenses, remunerations, salaries and benefits	<b>5,253</b>	4,721
Affiliated companies	Services provided	<b>673,835</b>	600,101
	Sales	<b>472,090</b>	492,864
	Purchases	<b>(1,418,644)</b>	(1,037,914)

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

**6. INVENTORY**

(Amounts in SR '000)

	2014	2013
Finished goods	<b>747,888</b>	598,954
Spare parts	<b>303,900</b>	150,019
Raw materials	<b>133,718</b>	141,893
Catalyst	<b>57,633</b>	40,091
	<b>1,243,139</b>	930,957

**7. DEFERRED CHARGES**

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

(Amounts in SR '000)

	2014	2013
<i>Cost</i>		
At the beginning and ending of the year	<b>238,369</b>	238,369
<i>Amortization</i>		
At the beginning of the year	<b>163,583</b>	131,186
Charged as expenses during the year	<b>23,318</b>	32,397
At the end of the year	<b>186,901</b>	163,583
Net book value	<b>51,468</b>	74,786

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31 December 2014

8. PROPERTY, PLANT AND EQUIPMENT

(Amounts in SR '000)

	<i>Buildings</i>	<i>Platinum</i>	<i>Leasehold improvement</i>	<i>Furniture and office equipment</i>	<i>Computers and communication devices</i>	<i>Vehicles</i>	<i>Plant and equipment</i>	<i>Work in progress</i>	<b><i>Total 2014</i></b>	<b><i>Total 2013</i></b>
Cost:										
At the beginning of the year	679,954	24,462	461	141,773	348	28,721	18,473,343	-	<b>19,349,062</b>	18,488,403
Additions	-	-	-	1,778	37	1,499	60,623	104,224	<b>168,161</b>	498
Transferred from work in progress	-	-	-	-	-	-	-	-	-	860,161
Disposals	-	-	-	-	-	(684)	-	-	<b>(684)</b>	-
At the end of the year	<u>679,954</u>	<u>24,462</u>	<u>461</u>	<u>143,551</u>	<u>385</u>	<u>29,536</u>	<u>18,533,966</u>	<u>104,224</u>	<b><u>19,516,539</u></b>	<u>19,349,062</u>
Depreciation:										
At the beginning of the year	33,810	-	444	35,081	261	7,752	902,470	-	<b>979,818</b>	193,101
Charge for the year	27,203	-	17	28,383	52	5,812	740,783	-	<b>802,250</b>	786,717
Disposals	-	-	-	-	-	(684)	-	-	<b>(684)</b>	-
At the end of the year	<u>61,013</u>	<u>-</u>	<u>461</u>	<u>63,464</u>	<u>313</u>	<u>12,880</u>	<u>1,643,253</u>	<u>-</u>	<b><u>1,781,384</u></b>	<u>979,818</u>
Net book amounts:										
<b>At 31 December 2014</b>	<b><u>618,941</u></b>	<b><u>24,462</u></b>	<b><u>-</u></b>	<b><u>80,087</u></b>	<b><u>72</u></b>	<b><u>16,656</u></b>	<b><u>16,890,713</u></b>	<b><u>104,224</u></b>	<b><u>17,735,155</u></b>	
At 31 December 2013	<u>646,144</u>	<u>24,462</u>	<u>17</u>	<u>106,692</u>	<u>87</u>	<u>20,969</u>	<u>17,570,873</u>	<u>-</u>		<u>18,369,244</u>

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 10).

As of 31 December 2014, work in progress balance comprises cost of the construction of additional units and facilities for the Plant.

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

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**9. ACCRUED LIABILITIES AND OTHER LIABILITIES**

(Amounts in SR '000)	2014	2013
Accrued liabilities	325,935	336,592
Other liabilities	35,921	26,732
	<b>361,856</b>	<b>363,324</b>

**10. TERM LOANS**

Term loans represent the outstanding balances from the loan facilities obtained from the following parties to finance the construction work of the plant:

(Amounts in SR '000)	Nominal Value	Outstanding Balance	
		2014	2013
Syndicated commercial banks	7,045,875	6,270,831	6,693,585
Syndicated commercial banks – guaranteed	2,212,500	1,947,000	2,079,750
Public Investment Fund (“PIF”)	3,000,000	2,730,000	2,970,000
Saudi Industrial Development Fund	1,200,000	1,020,000	1,150,000
		<b>11,967,831</b>	<b>12,893,335</b>
Less: Current portion of term loans			
Syndicated commercial banks		422,753	422,754
Syndicated commercial banks – guaranteed		132,750	132,750
Public Investment Fund (“PIF”)		420,000	240,000
Saudi Industrial Development Fund		170,000	130,000
Current portion of term loans		<b>1,145,503</b>	<b>925,504</b>
Long term portion of term loans		<b>10,822,328</b>	<b>11,967,831</b>

The loan obtained from syndicated commercial banks carries a commission of Libor plus a margin ranging from 0.8% to 1.15%. The repayment of this loan commenced on 15 June 2013 and on 22 semi-annual installments with an amount ranging 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 commenced on 15 June 2013 and on 22 semi-annual installments with an amount ranging from 3% to 8% of the utilized loan amount.

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

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**10. TERM LOANS – continued**

The loans obtained from SIDF carries an upfront commission of 7.5% of the nominal amounts of the loans. The repayment of this loan commenced on 18 December 2013 on 14 semi-annual installments with an amount ranging 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, and in addition, the assignment of insurance proceeds and the technology rights.

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

**11. ZAKAT**

**Charge for the year**

Zakat charge for the year amounting to SR 75.1 million (2013: SR 38.3 million) consists of current year's provision. The provision for the year is based on individual zakat base of Petrochem and its subsidiaries.

**Movement in provision:**

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

(Amounts in SR '000)	2014	2013
At the beginning of the year	74,898	40,389
Provided during the year	75,098	38,310
Paid during the year	(481)	(3,801)
At the end of the year	149,515	74,898

**Status of assessments**

For Petrochem, Zakat returns have been filed with the Department of Zakat & Income Tax (DZIT) for all prior years up to 2013, and zakat was settled accordingly. The DZIT has raised zakat assessment for the year 2008 which resulted a difference of SR 53 million. The Higher Appeal Committee has issued its ruling during the current year in the favor of Petrochem.

Petrochem and its zakat consultant have filed an appeal against the claim for the year 2010 which resulted in a difference of SR 74.42 million. The Committee has issued its ruling, reducing the claim by the amount of SR 74.10 million. The Company and DZIT appealed against the ruling before The Higher Appeal Committee. The management believes that the ultimate outcome of this appeal will be in the favor of Petrochem.

Also Petrochem and its zakat consultant have filed an appeal against the claim for the year 2012 which resulted in a difference of SR 35 million. The management believes that the provision made is adequate to cover any differences that may arise from this claim.

As for SPCo, zakat returns have been filed with the DZIT for previous years up to 2013. The DZIT has raised the zakat assessment for 2008. Final assessments for the years from 2009 to 2013 have not been raised yet by DZIT.

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

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**12. SUKUK**

On 25 Shaban 1435H, (corresponding to 23 June 2014), Petrochem issued Sukuk amounting to SR 1.2 billion at a par value of SR 1,000,000 each with no discount or premium. The Sukuk issuance bears a variable rate of return at (SIBOR) plus 1.7% margin, payable semi-annually. The Sukuk is due at maturity at par value on its expiry date of 20 Shawal 1440 H (corresponding 23 June 2019).

**13. SUBORDINATED LOAN FROM A NON-CONTROLLING PARTNER IN A SUBSIDIARY**

Subordinated loan from Arabian Chevron Philips Petrochemical Company Limited (the “non-controlling partner”) is a commission free loan granted from the partners to SPCo in proportion of their shareholding in the company, and its repayment is subject to the minimum level required to be maintained by the terms of the loan facility agreements granted by SIDF (note 10).

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

(Amounts in SR '000)	2014	2013
At the beginning of the year	1,131,797	764,297
Proceeds received	-	367,500
	<u>1,131,797</u>	<u>1,131,797</u>

**14. SHARE CAPITAL**

Share capital of Petrochem is divided into 480 million shares of SR 10 each (2013: 480 million shares).

**15. SELLING AND MARKETING EXPENSES**

(Amounts in SR '000)	2014	2013
Marketing fees	317,708	184,997
Warehouses rent and maintenance	94,060	88,774
Distribution and shipping	43,235	26,131
Currency exchange differences	27,133	(8,090)
Employees costs	7,065	6,799
Others	3,354	11,957
	<u>492,555</u>	<u>310,568</u>

**16. GENERAL AND ADMINISTRATION EXPENSES**

(Amounts in SR '000)	2014	2013
Employee salaries and benefits	181,270	147,436
Depreciation	66,360	65,321
Professional fees	10,794	3,181
Bank commission	6,622	4,531
Expenses and fees of committees and board of directors of Petrochem, salaries and benefits of senior executives	5,253	4,721
Support service and general utilities	3,416	3,400
Others	27,181	21,926
	<u>300,896</u>	<u>250,516</u>



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**17. EARNING (LOSS) PER SHARE**

The earning (loss) per share are calculated by dividing income from main operations and net income (loss) for the year by the number of shares during the year 2014 amounting to 480 million shares (2013: 480 million share).

**18. 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 9% (2013: 4%), overseas sales to Asia by 57% (2013: 67%) and to European countries and Africa by 34% (2013: 29%).

**19. 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 agreed 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 and its subsidiaries local banks have issued, on their behalf and during the normal course of business cycle, bank guarantees of SR 860.24 million (2013: SR 913 million) which included SR 860 million (2013: SR 860 million) provided from SPCo to the benefit of Saudi Aramco Company for feedstock cost.

**20. CAPITAL COMMITMENTS**

The balance of unused capital expenditure approved by the board of directors in connection with the construction of the additional units and facilities for Saudi Polymers plant was SR 332 million (2013: SR 271.9 million).

**21. 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 bank balances, trade receivable, prepayments and other assets and time deposits, and its financial liabilities consist of trade payable, accrued expenses and other liabilities, term loans, Sukuk and subordinated loan from a non-controlling partner. The fair values of financial instruments are not materially different from their carrying values.

**22. 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, term loans and Sukuk.

**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 may result from an inability to sell a financial asset quickly at an amount close to its fair value. Petrochem manages its liquidity risk by ensuring that bank facilities are available. Petrochem's terms of sales require amounts to be paid within 7-90 days of the date of sale. Trade payables are normally settled within 30-45 days of the date of purchase.

**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, US Dollars and Euros 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 consolidated balance sheet date, no significant concentration of credit risk was identified by management. .

**23. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements have been approved by the board of directors on 30 Rabi al-thani 1436H (Corresponding to 19 February 2015).

**24. COMPARATIVE FIGURES**

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