

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

**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH
2015**

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended 31 March 2015

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REVIEW REPORT

To the shareholders of National Petrochemical Company (Petrochem) (A Saudi Joint Stock Company)

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of National Petrochemical Company - a Saudi Joint Stock Company - ("Petrochem") and its subsidiaries as at 31 March 2015, and the related interim consolidated statements of income, cash flows and changes in equity for the three month period then ended. These interim consolidated financial statements are the responsibility of Petrochem's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

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

For Ernst & Young



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



Riyadh: 30 Jumada Al Thani 1436H
(19 April 2015)

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

INTERIM CONSOLIDATED BALANCE SHEET (Unaudited)

As at 31 March 2015

(Amounts in SR'000)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,671,744	706,151
Short term deposit		553,000	-
Accounts receivable		1,014,254	976,838
Cash margins, prepayments and other assets		62,324	81,532
Due from related parties	4	122,581	77,471
Inventories	5	1,087,962	1,025,010
TOTAL CURRENT ASSETS		4,511,865	2,867,002
NON-CURRENT ASSETS			
Employee loans		60,432	39,340
Deferred charges		49,052	68,413
Property, plant and equipment		17,569,945	18,264,031
TOTAL NON-CURRENT ASSETS		17,679,429	18,371,784
TOTAL ASSETS		22,191,294	21,238,786
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payables		212,727	222,516
Accrued expenses and other liabilities		367,580	347,435
Amount due to a related party	4	107,566	150,680
Current portion of term loans	6	1,145,503	925,504
Short term loan		-	600,000
Zakat	7	175,533	85,900
TOTAL CURRENT LIABILITIES		2,008,909	2,332,035
NON-CURRENT LIABILITIES			
Sukuk	8	1,200,000	-
Non-Current portion of term loans	6	10,822,328	11,967,831
Subordinated loan from a non-controlling partner in a subsidiary	9	1,131,797	1,131,797
Employees' terminal benefits		37,996	24,898
TOTAL NON-CURRENT LIABILITIES		13,192,121	13,124,526
TOTAL LIABILITIES		15,201,030	15,456,561
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	10	4,800,000	4,800,000
Statutory reserve		11,128	1,780
Retained earnings (accumulated losses)		185,971	(539,953)
TOTAL SHAREHOLDERS' EQUITY		4,997,099	4,261,827
Non-controlling interest		1,993,165	1,520,398
TOTAL EQUITY		6,990,264	5,782,225
TOTAL LIABILITIES AND EQUITY		22,191,294	21,238,786

The attached notes 1 to 16 form part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)

For the three-month period ended 31 March 2015

(Amounts in SR'000)

	<i>Note</i>	2015	2014
Sales		1,770,753	1,709,954
Cost of sales		(1,331,188)	(1,253,797)
GROSS PROFIT		439,565	456,157
EXPENSES			
Selling and distribution		(142,735)	(116,198)
General and administrative		(63,724)	(59,108)
TOTAL EXPENSES		(206,459)	(175,306)
INCOME FROM MAIN OPERATIONS		233,106	280,851
Financial charges		(31,667)	(41,897)
Other income		979	-
INCOME BEFORE NON-CONTROLLING INTEREST AND ZAKAT		202,418	238,954
Non-controlling interest share in net income of the subsidiaries		(74,500)	(86,490)
INCOME BEFORE ZAKAT		127,918	152,464
Zakat	7	(26,080)	(11,447)
NET INCOME		101,838	141,017
EARNINGS PER SHARE (SR)	11		
Attributable to the income from main operations		0.49	0.59
Attributable to the net income		0.21	0.29

The attached notes 1 to 16 form part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

For the three-month period ended 31 March 2015

(Amounts in SR'000)

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Income before zakat	127,918	152,464
Adjustments for:		
Employees' terminal benefits, net	3,555	3,204
Depreciation and amortization	203,588	206,927
Non-controlling interest share in net income of the subsidiaries	74,500	86,490
Changes in operating assets and liabilities:		
Accounts receivable	(25,640)	(288,814)
Cash margins, prepayments and other assets	11,056	(3,780)
Inventories	155,177	(94,053)
Accounts payable	(978)	(21,746)
Accrued expenses and other liabilities	5,724	(15,889)
Related parties, net	(24,985)	104,428
Zakat paid	(62)	(445)
Net cash from operating activities	<u>529,853</u>	<u>128,786</u>
INVESTING ACTIVITIES		
Short term deposit refunded	6,000	-
Addition of property, plant and equipment	(35,962)	(95,343)
Net cash used in investing activities	<u>(29,962)</u>	<u>(95,343)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	499,891	33,443
Cash and cash equivalents at the beginning of the period	<u>1,171,853</u>	<u>672,708</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>1,671,744</u></u>	<u><u>706,151</u></u>

The attached notes 1 to 16 form part of these interim consolidated financial statements.

(Amounts in SR'000)

The attached notes 1 to 16 form part of these interim consolidated financial statements.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
31 March 2015

1. ORGANIZATION AND ACTIVITIES

National Petrochemical Company ("Petrochem") is a Saudi joint stock company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010246363 dated 8 Rabi Al 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 23 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 interim consolidated financial statements include the interim 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 and/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 shareholder 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 interim consolidation financial statements are as follows:

Subsidiaries companies	Shareholding %		Country of Incorporation
	2015	2014	
Saudi Polymers Company ("SPCo")	65	65	Saudi Arabia
Gulf Polymers Distribution Company FZCO	65	65	UAE

SAUDI POLYMERS COMPANY ("SPCo")

Is a mixed limited liability company, registered in Jubail in the Kingdom of Saudi Arabia under registration numbered 2055008886 dated 29 Dhu Al Qedah 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.

Saudi polymers plant (the "Plant") has announced an unscheduled disruption of production during March 2014 for 10 days due to disruption of feedstock system.

GULF POLYMERS DISTRIBUTION COMPANY FZCO ("GPDCo")

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued
31 March 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements have been prepared in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted by Petrochem in preparing its interim consolidated financial statements, summarized below, are consistent with those used in the preparation of the last audited consolidated financial statements for the year ended 31 December 2014. The interim consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the related notes for the year ended 31 December 2014.

The figures in these interim consolidated financial statements are rounded to nearest thousand.

Accounting convention

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

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 interim 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 deposit.

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 net realizable 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

Property, plant and equipment / Depreciation

Property, plant and equipment are stated at cost net of accumulated depreciation. 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:

Plant and equipments	5- 25	years	Vehicles	4	years
Buildings	20	years	Leasehold improvements	5	years or the term of lease,
Office equipment and furniture	3.33-10	years			whichever is shorter

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.

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.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued
31 March 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 interim 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 interim 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 interim consolidated statement of income on estimated basis during interim periods, and will be accurately calculated in the annual financial statements. Differences, if any, resulting from the final Zakat assessments are adjusted in the year of their finalization. Foreign partners in subsidiaries are subject to income tax which is included in non-controlling interest in the interim consolidated financial statements, if exist.

Zakat charge is computed on the basis of the zakat base for the company and the subsidiaries separately.

Employees' terminal benefits

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the interim 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 interim consolidated statement of income.

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.

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 incurred.

Expenses

Selling and distribution expenses are those that specifically relate to the products delivery and marketing. All other expenses –except cost of sales- are allocated on a consistent basis to general and administrative 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued
31 March 2015

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 balance sheet date are retranslated at the rate prevailing at that date. All differences are taken to the interim 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 interim 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 interim 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 interim 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. RELATED PARTIES TRANSACTIONS

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

(Amounts in SR '000)

Related party	Nature of transaction	Amount of transaction	
		2015	2014
Majority shareholder (Saudi Industrial Investment Group)	Bank guarantee commissions charged	349	349
	Finance commissions charged	-	67.5
	Shared services provided	273	273
Non-controlling partner in a subsidiary	Marketing fees	(46,868)	(45,138)
Affiliated companies	Services provided	(83,130)	(72,663)
	Sales	67,474	102,184
	Purchases	(194,884)	(304,624)

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued
31 March 2015

5. INVENTORIES

(Amounts in SR '000)	2015	2014
Finished goods	575,388	627,932
Spare parts	323,437	159,899
Raw materials	133,721	197,241
Catalyst	55,416	39,938
	<u>1,087,962</u>	<u>1,025,010</u>

6. TERM LOANS

The balance of term loans represents the utilized amounts from loan facilities obtained by SPCo from a syndication of local and foreign commercial banks, Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF). These facilities are secured by various guarantees including pledges over the machinery and equipment and bank accounts of the project. These loans carry varying interest rates in excess of LIBOR and are consistent with the terms of each loan facility agreement. Those loans should be repaid on semi-annual installments. SPCo is required to comply with covenants stipulated for in all of the loan facility agreements.

7. ZAKAT

Zakat is provided for and charged to the interim consolidated statement of income on an estimated basis. Differences resulting from the final zakat calculation are adjusted at year end.

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.

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.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued
31 March 2015

8. 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).

9. SUBORDINATED LOAN FROM THE NON-CONTROLLING PARTNER IN A SUBSIDIARY

This represent subordinated loan from Arabian Chevron Philips Petrochemical Company Limited (the “non-controlling partner”), which 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 6).

10. SHARE CAPITAL

Share capital of Petrochem is divided into 480 million shares (2014: 480 million shares) of SR 10 each.

11. EARNINGS PER SHARE

Earnings per share is calculated by dividing income from main operations and net income by the number of shares outstanding.

12. INTERIM RESULTS

The interim consolidated results of operations of Petrochem and its subsidiaries may not be an accurate indicator of the annual results of operations.

13. 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 their behalf and during the normal course of business cycle, bank guarantees of SR 860.24 million which included SR 860 million provided from SPCo to the benefit of Saudi Aramco Company for feedstock cost (2014: SR 910 million included SR 857 million from SPCo to the benefit of Saudi Aramco Company for feedstock cost).

14. SEGMENTAL INFORMATION

In respect of performance appraisal and allocation of resources, Petrochem’s management is of the opinion that all activities and operations of Petrochem and its subsidiaries comprise single operating segment i.e. petrochemical sector. Therefore, 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 10% (2014: 4%), overseas sales to Asia by 62% (2014: 67%) and to European countries and Africa by 28% (2014: 29%).

15. CAPITAL COMMITMENTS

The balance of unused capital expenditure approved by the board of directors in connection with the construction of additional units and facilities for Saudi Polymers plant was SR 67.7 million (2014: SR 47 million).

16. COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to conform within the current period’s presentation.