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

**CONSOLIDATED FINANCIAL STATEMENTS**
For the year ended December 31, 2015
With
**INDEPENDENT AUDITORS' REPORT**

**CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2015**

## INDEX

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

# INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

We have audited the accompanying consolidated financial statements of **Sahara Petrochemicals Company** ("the Company") and its subsidiary (collectively referred to as the "Group") which comprise the consolidated balance sheet as at December 31, 2015 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 33 which form an integral part of the consolidated financial statements.

***Management's responsibility for the financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with article 123 of the Regulations for Companies and the Company's by-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

***Auditors' responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

***Opinion***

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

1) present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

**For KPMG Al Fozan & Partners**

كي . بي . ام . جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

**Khalil Ibrahim Al Sedais**
License No. 371

Al Khobar, February 25, 2016
Corresponding to: 16 Jummada Al Awwal 1437 H.

**SAHARA PETROCHEMICALS COMPANY**
(A SAUDI JOINT STOCK COMPANY)
**CONSOLIDATED BALANCE SHEET**
**AS AT DECEMBER 31, 2015**
Expressed in Saudi Arabian Riyals in thousands

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Current Assets:** | | | |
| Cash and cash equivalents | 4 | **1,042,011** | 1,240,746 |
| Murabaha deposits | 5 | **340,000** | 100,701 |
| Trade receivables | 6 | **278,160** | 393,037 |
| Inventories | 7 | **282,283** | 296,434 |
| Prepayments and other current assets | 8 | **90,213** | 148,222 |
| **Total Current Assets** | | **2,032,667** | 2,179,140 |
| **Non Current Assets:** | | | |
| Investments in and advances to equity accounted investees | 9 | **2,593,951** | 2,806,525 |
| Available for sale investments | 10 | **220,483** | - |
| Project development costs | 11 | **1,575** | 1,613 |
| Property, plant and equipment | 12 | **3,612,563** | 3,478,085 |
| Intangible assets | 13 | **29,810** | 24,732 |
| **Total Non Current Assets** | | **6,458,382** | 6,310,955 |
| **Total Assets** | | **8,491,049** | 8,490,095 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current Liabilities:** | | | |
| Current maturity of long term borrowings | 15 | **112,303** | 240,522 |
| Trade payables | 16 | **33,696** | 115,214 |
| Accrued expenses and other current liabilities | 17 | **186,484** | 185,678 |
| Provision for Zakat and income tax | 26 | **37,554** | 41,314 |
| **Total Current Liabilities** | | **370,037** | 582,728 |
| **Non Current Liabilities:** | | | |
| Long term borrowings | 15 | **1,921,629** | 1,492,863 |
| Employees' end of service benefits | 18 | **65,644** | 51,593 |
| Derivative financial instruments | 19 | **-** | 18,358 |
| Deferred revenue | 20 | **59,771** | - |
| **Total Non Current Liabilities** | | **2,047,044** | 1,562,814 |
| **Total Liabilities** | | **2,417,081** | 2,145,542 |
| **Equity** | | | |
| **Equity attributable to the shareholder's of the Company:** | | | |
| Share capital | 21 | **4,387,950** | 4,387,950 |
| Statutory reserve | 22 | **202,169** | 197,851 |
| Fair value reserve | 19 | **-** | (13,769) |
| Retained earnings | | **909,047** | 1,245,359 |
| **Total shareholders' equity** | | **5,499,166** | 5,817,391 |
| **Non-controlling interest** | | **574,802** | 527,162 |
| **Total equity** | | **6,073,968** | 6,344,553 |
| **Total liabilities and equity** | | **8,491,049** | 8,490,095 |

These consolidated financial statements as shown on pages 1 to 24 were approved by the Board of Directors on February 25, 2016 based on resolution circulation and are signed on their behalf by:

**Rushdi Khalid Al-Dulijan**
**General Manager, Finance & IT**

**Saleh bin Mohammed Bahamdan**
**Chief Executive Officer**

The accompanying notes 1 through 33 form an integral part of these consolidated financial statements

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

**CONSOLIDATED STATEMENT OF INCOME**
**FOR THE YEAR ENDED DECEMBER 31, 2015**
Expressed in Saudi Arabian Riyals in thousands

| | Note | 2015 | 2014 |
|---|---|---|---|
| Sales | 27 | **1,424,372** | 1,904,205 |
| Cost of sales | 27 | **(1,062,644)** | (1,464,574) |
| **Gross Profit** | | **361,728** | 439,631 |
| **Operating expenses:** | | | |
| Selling and distribution | 23 | **(85,278)** | (107,060) |
| General and administrative | 24 | **(100,021)** | (97,352) |
| | | **(185,299)** | (204,412) |
| **Operating income** | | **176,429** | 235,219 |
| **Other income/(expenses)** | | | |
| Share of (loss)/profit from equity accounted investees | 9 | **(29,366)** | 278,991 |
| Financial charges | | **(91,325)** | (58,387) |
| Others-net | 25 | **68,173** | 24,870 |
| **Income before Zakat and tax and non-controlling interest** | | **123,911** | 480,693 |
| Zakat and tax charge | 26 | **(37,029)** | (40,162) |
| **Net income before non-controlling interest** | | **86,882** | 440,531 |
| Non-controlling interest | | **(43,701)** | (55,153) |
| **Net income for the year** | | **43,181** | 385,378 |
| **Earnings per share:** | 28 | | |
| Operating income | | **0.40** | 0.53 |
| Net income | | **0.10** | 0.88 |

The accompanying notes 1 through 33 form an integral part of these consolidated financial statements

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2015**
Expressed in Saudi Arabian Riyals in thousands

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Cash flow from operating activities:** | | | |
| Net income for the year | | **43,181** | 385,378 |
| *Adjustment to reconcile net income to net cash provided by operating activities:* | | | |
| Depreciation and amortization | 12&13 | **192,199** | 197,452 |
| Share of loss/(profit) from equity accounted investees | 9 | **29,366** | (278,991) |
| Income applicable to non-controlling interest | | **43,701** | 55,153 |
| Loss on disposal of property and equipment | | **639** | - |
| **Changes in operating assets and liabilities:** | | | |
| Trade receivable | | **114,877** | 101,887 |
| Inventories | | **14,151** | (69,408) |
| Prepayments and other current assets | | **58,009** | (39,586) |
| Trade payable | | **(81,518)** | (36,159) |
| Zakat and income tax payable-net | 26 | **(3,760)** | 1,205 |
| Accrued expenses and other current liabilities | | **60,577** | (31,439) |
| Employees' end of service benefits-net | 18 | **14,051** | 11,644 |
| **Net cash provided by operating activities** | | **485,473** | 297,136 |
| | | | |
| **Cash flow from investing activities:** | | | |
| Murabaha deposits | | **(239,299)** | 59,299 |
| Available for sale investments | 10 | **(220,483)** | - |
| Dividends received from equity accounted investees | 9 | **183,208** | 411,725 |
| Projects development costs | | **(1,334)** | (23) |
| Additions to property, plant and equipment | 12 | **(330,020)** | (79,195) |
| Additions to intangible assets | 13 | **(1,004)** | (23,441) |
| Proceeds from disposal of property and equipment | | **2** | 294 |
| **Net cash provided by investing activities** | | **(608,930)** | 368,659 |
| | | | |
| **Cash flow from financing activities:** | | | |
| Proceeds from long term borrowings | | **2,114,000** | 38,844 |
| Repayments of long term borrowings | | **(1,813,453)** | (215,140) |
| Dividends paid | | **(372,975)** | (372,975) |
| Board of Directors' fee | | **(2,200)** | (2,200) |
| Changes in non-controlling interest | | **(650)** | (535) |
| **Net cash used in financing activities** | | **(75,278)** | (552,006) |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(198,735)** | 113,789 |
| Cash and cash equivalents at the beginning of the year | | **1,240,746** | 1,126,957 |
| **Cash and cash equivalent at the end of the year** | | **1,042,011** | 1,240,746 |

The accompanying notes 1 through 33 form an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2015**
Expressed in Saudi Arabian Riyals in thousands

| | Equity attributable to Company's shareholders | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** | **Statutory reserve** | **Fair value reserve** | **Retained earnings** | **Total** | **Non-Controlling interest** |
| Balance as at January 1, 2014 | 4,387,950 | 159,313 | (26,524) | 1,273,694 | 5,794,433 | 469,160 |
| Net income for the year | - | - | - | 385,378 | 385,378 | 55,153 |
| Income tax | - | - | - | - | - | (535) |
| Transfer to statutory reserve | - | 38,538 | - | (38,538) | - | - |
| Dividend paid | - | - | - | (372,975) | (372,975) | - |
| Directors' remuneration | - | - | - | (2,200) | (2,200) | - |
| Fair value changes | - | - | 12,755 | - | 12,755 | 3,384 |
| Balance as at December 31, 2014 | 4,387,950 | 197,851 | (13,769) | 1,245,359 | 5,817,391 | 527,162 |
| Net income for the year | **-** | **-** | **-** | **43,181** | **43,181** | **43,701** |
| Income tax | **-** | **-** | **-** | **-** | **-** | **(650)** |
| Transfer to statutory reserve | **-** | **4,318** | **-** | **(4,318)** | **-** | **-** |
| Dividend paid | **-** | **-** | **-** | **(372,975)** | **(372,975)** | **-** |
| Directors' remuneration | **-** | **-** | **-** | **(2,200)** | **(2,200)** | **-** |
| Settlement of interest rate swaps | **-** | **-** | **13,769** | **-** | **13,769** | **4,589** |
| **Balance as at December 31, 2015** | **4,387,950** | **202,169** | **-** | **909,047** | **5,499,166** | **574,802** |

The accompanying notes 1 through 33 form an integral part of these consolidated financial statements

## 1. ACTIVITIES:

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

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

These consolidated financial statements include the accounts of the Company and its subsidiary 'Al Waha Petrochemicals Company ("Al Waha")', (collectively the "Group"), a Saudi limited liability company licensed under foreign investment license No. 121030061745 issued by the Saudi Arabian General Investment Authority on 28 Jumada II 1427H (July 25, 2006) and operating under Commercial Registration No. 2055007751 dated 9 Sha'ban 1427 H (September 3, 2006), and is owned 75% by the Company and 25% by Basell Arabian Investment ("Basell"). Al Waha owns and operates a petrochemicals complex that produces propylene as primary feedstock for the production of polypropylene.

The registered address of the Company is P.O. Box 251, Riyadh 11411, Kingdom of Saudi Arabia.

## 2. BASIS OF PREPARATION

### a) Statement of compliance

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

### b) Basis of measurement

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

### c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at December 31 each year. The financial statements of the subsidiary is prepared for the same reporting year as the Company.

#### *i) Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intra-Group balances, transactions, income and expenses and profits and losses resulting from intra-Group/Company transactions that are recognized in assets, are eliminated in full. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

## 2. BASIS OF PREPARATION (continued)

### c) Basis of consolidation (continued)

*ii) Non-controlling interest*

Non-controlling interest represents the interest in subsidiary companies, not held by the Company which are measured at their proportionate share in the subsidiary's identifiable net assets. Transactions with Non-controlling interest parties are treated as transactions with parties external to the Group.

### d) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Group. All amounts have been rounded to the nearest thousands, unless otherwise stated.

### e) Use of estimates and judgments

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the consolidated financial statements are as follows:

***i) Impairment of trade receivables***

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

***ii) Provision for slow moving inventory items***

The management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

***iii) Useful lives of property, plant and equipment***

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

## 2. BASIS OF PREPARATION (continued)

### e) Use of estimates and judgments (continued)

#### *iv) Impairment of non-financial assets*

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

#### v) Impairment of available for sale investments

The management exercises judgment to calculate the impairment loss of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes an other than temporary decline in the value of investments. In case of equity instruments any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for such impairment. The determination of what is 'significant' and 'prolonged' requires management's judgment. The management also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Furthermore, management considers 20% or more as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 9 months or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

## 3. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies adopted and consistently applied to all periods presented are as follows:

### a) Cash and cash equivalents

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

### b) Murabaha deposits

Murabaha deposits are deposits with banks having maturities of more than three months but less than a year from date of placement.

### c) Accounts receivable

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) Inventories

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

### e) Investments

***i) Investments in associated and jointly controlled entities***

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investee), which are initially recognized at cost including goodwill identified on acquisition, which is adjusted subsequently for impairment loss, if any.

The Group's share in its investees' post-acquisition income and losses is recognized in the consolidated statement of income and its share in post-acquisition movements in reserves is recognized in the Group's equity. When the Group's share of losses exceeds its interest in an equity accounted investee, the Company's carrying amount is reduced to nil and recognition of further losses is continued when the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

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

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

***ii) Available-for-sale investments***

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

### f) Projects development costs

Projects development costs represent costs related to undertake various new industrial projects.

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

**g) Property, plant and equipment**

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

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

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

| | *Years* |
|---|---|
| Buildings and leasehold land improvements | 33 |
| Plant, machinery and equipment | 10-25 |
| Furniture, fixtures and office equipment | 3-10 |
| Vehicles | 4 |

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

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

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

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

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

**h) Intangible assets**

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

**i) Long term borrowings**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### j) Provisions

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

### k) Accounts payable and accruals

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

### l) Zakat and income-tax

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

The Group withholds tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividends payments to the foreign shareholder, as required under the Saudi Department of Zakat and Income Tax ("DZIT") regulations.

### m) Employee benefits

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### n) Derivative financial instruments

Changes in the fair value of derivative financial instruments that do not qualify for cash flow hedge accounting are recognized in the consolidated statement of income as they arise and the resulting positive and negative fair values are reported under current assets and liabilities, respectively, in the consolidated balance sheet.

Changes in fair value of derivative financial instruments that qualify for cash flow hedges accounting are recorded as derivative financial instruments in the consolidated balance sheet and taken to other reserves in shareholders' equity.

When the hedging instrument matures or expires or the hedge ceases to be effective, any associated accumulated gain or loss in other reserves is reclassified to profit or loss in the same period during which the hedged item affects profit or loss.

### o) Revenues

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

### p) Expenses

Selling and distribution expenses are those arising from the Group's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding direct costs and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales, selling and distribution and general and administrative expenses, when required, are made on a consistent basis.

### q) Dividends

Interim dividends are recorded as liability in the period in which they are approved by the Board of Directors. Final dividends approved by the shareholders of the Company are recorded in the consolidated financial statements in the period in which they are approved.

### r) Leases

#### *i) Capital leases*

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

#### *ii) Operating leases*

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

### s) Comparative reclassification

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

Expressed in Saudi Arabian Riyals in thousands

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### t) Foreign currency translation

Transactions denominated in foreign currencies are translated to the functional currencies of the Group at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currencies of the Group at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the consolidated statement of income.

### u) Segment reporting

***i) Business segment***

A business segment is group of assets, operations or entities:
(i) engaged in revenue producing activities;
(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
(iii) financial information is separately available.

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

***ii)* Geographical segment**

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

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

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, comprise of the following:

| | **2015** | 2014 |
|---|---|---|
| Cash in hand | **10** | - |
| Cash at bank | **93,795** | 293,722 |
| Short term deposits | **948,206** | 947,024 |
| | **1,042,011** | 1,240,746 |

Short term deposits were held with local commercial banks and yield financial income at the prevailing market rates.

## 5. MURABAHA DEPOSITS

Short term deposits were placed with the local commercial banks having contractual maturities more than 3 months and yield financial income at prevailing market rates.

## 6. TRADE RECEIVABLES

Trade receivables as at December 31, comprise of the following:

| | **Note** | **2015** | 2014 |
|---|---|---|---|
| Related parties balance | 27 | **213,525** | 317,946 |
| Other trade receivables | | **64,635** | 75,091 |
| | | **278,160** | 393,037 |

Expressed in Saudi Arabian Riyals in thousands

## 7. INVENTORIES

Inventories as at December 31, comprise of the following:

| | 2015 | 2014 |
|---|---|---|
| Spare parts | **137,879** | 125,543 |
| Finished goods | **109,247** | 128,677 |
| Raw materials | **35,157** | 42,214 |
| | **282,283** | 296,434 |

## 8. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as at December 31, comprise of the following:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Receivable from associates | 27 | **13,579** | 54,047 |
| Insurance claim receivable | | **25,344** | - |
| Advances to suppliers | | **29,367** | 82,107 |
| Prepayments | | **5,986** | 4,226 |
| Receivable from employees | | **4,758** | 3,643 |
| Others | | **11,179** | 4,199 |
| | | **90,213** | 148,222 |

## 9. INVESTMENTS IN AND ADVANCES TO EQUITY ACCOUNTED INVESTEES

The Group holds investments in equity accounted investees which are incorporated in Kingdom of Saudi Arabia and primarily involved in the manufacturing of petrochemicals products. Investment in and advances to equity accounted investees as at December 31, comprise of the following:

| | Note | Effective equity interest % 2015 | Effective equity interest % 2014 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Investment in equity accounted investees:** | | | | | |
| Tasnee and Sahara Olefins Company ("TSOC") | (a) | **32.55** | 32.55 | **1,950,628** | 1,955,066 |
| Sahara and Ma'aden Petrochemicals Company ("SAMAPCO") | (b) | **50.00** | 50.00 | **324,776** | 416,407 |
| Saudi Acrylic Acid Company ("SAAC") | (c) | **43.16** | 43.16 | **186,903** | 303,408 |
| | | | | **2,462,307** | 2,674,881 |
| **Advances to equity accounted investees** | (d) | | | | |
| Saudi Acrylic Acid Company | | | | **80,074** | 80,074 |
| Sahara and Ma'aden Petrochemicals Company | | | | **51,570** | 51,570 |
| | | | | **131,644** | 131,644 |
| | | | | **2,593,951** | 2,806,525 |

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

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

Expressed in Saudi Arabian Riyals in thousands

## 9. INVESTMENTS IN AND ADVANCES TO EQUITY ACOUNTED INVESTEES (continued)

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

d) The Group has provided long term advances to equity accounted investees to finance the construction of their production facilities. Such advances are not repayable during 2015 and, accordingly, classified as non-current in these consolidated financial statements.

e) Movement summary on equity accounted investees are as follows:

| | **2015** | 2014 |
|---|---|---|
| Balance as at January 1 | **2,674,881** | 2,805,014 |
| Share of (loss)/ income | **(29,366)** | 278,991 |
| Dividends | **(183,208)** | (411,725) |
| Share of change in fair value | **-** | 2,601 |
| Balance as at December 31 | **2,462,307** | 2,674,881 |

f) The summarized financial information of the equity accounted investees are as follows:

| Name | Country of incorporation | Effective equity interest % | Assets | Liabilities | Revenue | Net(loss)/ Profit |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| **TSOC** | **Saudi Arabia** | **32.55** | **17,381,086** | **9,282,484** | **5,421,740** | **549,211** |
| **SAMAPCO** | **Saudi Arabia** | **50.00** | **3,181,991** | **2,532,441** | **475,206** | **(183,264)** |
| **SAAC** | **Saudi Arabia** | **43.16** | **7,603,112** | **6,501,856** | **1,000,280** | **(529,557)** |
| 2014 | | | | | | |
| TSOC | Saudi Arabia | 32.55 | 18,223,480 | 9,829,692 | 6,395,618 | 1,169,810 |
| SAMAPCO | Saudi Arabia | 50.00 | 3,347,430 | 2,508,634 | 293,147 | (49,928) |
| SAAC | Saudi Arabia | 43.16 | 7,924,028 | 6,234,371 | 668,158 | (349,173) |

## 10. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments at December 31 are as follows:

| | **2015** | 2014 |
|---|---|---|
| Cost | **220,483** | - |
| Impairment loss | **-** | - |
| Revised cost | **220,483** | - |
| Unrealized gain/(loss) | **-** | - |
| Fair value | **220,483** | - |

## 11. PROJECT DEVELOPMENT COSTS

The movement in project development cost during the year ended December 31, is as follows:

| | **2015** | 2014 |
|---|---|---|
| Balance as at January 1 | **1,613** | 54,363 |
| Additions during the year | **1,334** | 14,954 |
| Transfers made during the year | **(1,372)** | (52,773) |
| Write offs made during the year | **-** | (14,931) |
| Balance as at December 31 | **1,575** | 1,613 |

Expressed in Saudi Arabian Riyals in thousands

## 12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, comprise of the following:

| | At January 1, 2015 | Additions | Transfers/ disposals | At December 31, 2015 |
|---|---|---|---|---|
| **Cost:** | | | | |
| Buildings and leasehold land improvements | 738,700 | 9,123 | - | **747,823** |
| Plant, machinery and equipment | 3,298,900 | 65,822 | (115,991) | **3,248,731** |
| Turnaround cost | 79,475 | 125,358 | (79,475) | **125,358** |
| Furniture, fixtures and office equipment | 26,046 | 226 | 407 | **26,679** |
| Vehicles | 3,162 | 486 | 393 | **4,041** |
| Capital work in progress | 73,835 | 327,962 | (186,392) | **215,405** |
| | 4,220,118 | 528,977 | (381,058) | **4,368,037** |
| **Accumulated Depreciation** | | | | |
| Buildings and leasehold land improvements | (85,131) | (22,510) | - | **(107,641)** |
| Plant, machinery and equipment | (577,767) | (128,205) | 97,080 | **(608,892)** |
| Turnaround cost | (59,160) | (34,195) | 79,274 | **(14,081)** |
| Furniture, fixtures and office equipment | (18,146) | (4,232) | (4) | **(22,382)** |
| Vehicles | (1,829) | (574) | (75) | **(2,478)** |
| | (742,033) | (189,716) | 176,275 | **(755,474)** |
| **Net book value as at December 31, 2015** | 3,478,085 | 339,261 | (204,783) | **3,612,563** |
| Net book value as at December 31, 2014 | 3,568,008 | (70,409) | (19,514) | 3,478,085 |

i) Administrative building of the Company and production and administration facilities of Al Waha are constructed on land leased under a renewable lease contract with the Royal Commission for Jubail and Yanbu (the "Royal Commission") to the Company. The lease term is for an initial period of 30 years commenced in 2006 and is renewable by mutual agreement of the parties. See Note 31.

ii) During the year, Al Waha has carried out major overhaul of the plant which has been transferred from Capital work in progress to “turnaround cost” during the year. Turnaround cost is depreciated over a period of 3 years from the date of transfer to Property, plant and equipment.

iii) Capital work in progress represents the projects which are not yet completed and under progress. This mainly includes housing project for the employees amounts to SR 199.7 million (2014: SR 44.6 million) and other projects. Transfers from CWIP mainly includes transfer to turnaround cost, cooling tower in plant, machinery and equipment, Management of change in plant, machinery and equipment, upgradation of software in intangibles and other projects amounting to SR 111.58 million, SR 43.67 million, SR 7 million and SR. 5 .4 million respectively.

iv) At December 31, 2015, Property, plant and equipment with net book value of SR 1,964 million (2014: SR 3,335 million) were pledged as collateral to certain credit facilities (Refer note 10).

v) Depreciation charge for the year ended December 31, has been allocated as follows:

| | **2015** | 2014 |
|---|---|---|
| Cost of sales | **182,190** | 188,484 |
| General and administrative | **7,526** | 6,784 |
| | **189,716** | 195,268 |

vi) The cost of fully depreciated assets which are currently in use amounts to SR 3.4 million (2014: SR 100.2 million).

Expressed in Saudi Arabian Riyals in thousands

## 13. INTANGIBLE ASSETS

Intangibles assets as at December 31, comprise of the following:

| | Software licenses | |
|---|---|---|
| | **2015** | 2014 |
| **Cost** | | |
| Balance as at January 1 | **32,606** | 25,267 |
| Additions during the year | **7,561** | 7,339 |
| Balance as at December 31 | **40,167** | 32,606 |
| **Accumulated amortization** | | |
| Balance as at January 1 | **7,874** | 5,689 |
| Charge for the year | **2,483** | 2,185 |
| Balance as at December 31 | **10,357** | 7,874 |
| | **29,810** | 24,732 |

## 14. SHORT TERM BORROWINGS

During November 2015, the Company's subsidiary - Al Waha signed an agreement with Saudi Export Program (SEP) for an invoice discounting facility of Saudi Riyals 281.3 million. As at December 31, 2015, this facility was not utilized.

## 15. LONG TERM BORROWINGS

Long term borrowings as at December 31 comprise of the following:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Islamic loan under Ijara arrangement | 15.1 | **1,846,160** | - |
| Advance against Islamic facilities | 15.2 | - | 835,186 |
| Public Investment Fund ("PIF") loan | 15.3 | - | 562,631 |
| Saudi Industrial Development Fund ("SIDF") loan | 15.4 | - | 200,000 |
| Loan from a commercial bank | 15.5 | **233,844** | 83,844 |
| Loan from non-controlling interest | 15.6 | - | 70,367 |
| | | **2,080,004** | 1,752,028 |
| Less: unamortized deferred financial charges | 15.7 | **(46,072)** | (18,643) |
| | | **2,033,932** | 1,733,385 |

Presented in the balance sheet as follows:

| | 2015 | 2014 |
|---|---|---|
| Current portion shown under current liabilities | **112,303** | 240,522 |
| Non-current portion shown under non-current liabilities: | | |
| - Long term borrowings | **233,844** | 1,492,863 |
| - Islamic loan under Ijara arrangement | **1,687,785** | - |
| | **2,033,932** | 1,733,385 |

**15.1 Islamic loan under Ijara arrangement**

During the year, Al-Waha has signed an Ijarah Facility Agreement with a syndication of commercial banks (the "lessor") for the purpose of converting all the commercial loans specified in 15.2, 15.3 and 15.4 into an Islamic mode of financing amounting to Saudi Riyals 1,964 million through a sale and lease back of certain plant facilities. The aggregate maturity of this loan is based on the rescheduled maturity profile and spread over the years from 2015 to 2026.

**15.2 Advance against Islamic facilities**

(a) During 2006, Al Waha signed an Islamic Facility Agreement with a syndication of commercial banks for US dollars 276.6 million (Saudi Riyals 1.04 billion) through which the commercial banks participated in the construction of the Al Waha's production facilities on the basis of co-ownership. On the completion of construction of Al Waha's production facilities, such assets were leased to Al Waha at an annual rental calculated at London Inter Bank Offered Rate ("LIBOR") plus 1.95%. The advances are primarily denominated in US dollars. The aggregate maturities of these advances, based on their repayment schedules, are spread over the years from 2010 to 2021.

(b) Al-Waha also entered into interest rate swap contracts with commercial banks to manage the exposure to volatility in interest rates for a notional amount of US dollars 73.5 million - Saudi Riyals 275.4 million with no upfront premium.

The facilities indicated in (a) and (b) above have been replaced with an Ijara Facility Agreement as explained in Note 15.1 above. Furthermore, as a result of entering into new Ijara Facility Agreement, Al Waha has extinguished its outstanding interest rate swap agreements with the commercial banks and have charged the negative fair values amounting to Saudi Riyals 18.3 million as at 31 December 2014, along with the unamortized balance of the upfront fee related to the previous loan amounting to Saudi Riyals 21.3 million as of 31 December 2014 to the statement of income for the year ended December 31, 2015.

**15.3 PIF loan**

The loan agreement with Public Investment Fund ("PIF") for an amount of USD 250 million (Saudi Riyal 937.9 million) was taken by Al-Waha to finance the construction of its plant facilities. This loan bore financial charges at LIBOR plus 0.5% and is repayable in twenty semi-annual equal instalments starting from May 2011. The loan was secured by mortgage on the property, plant and equipment of Al Waha. The PIF commercial loan has been replaced with an Ijara Facility Agreement as explained in Note 15.1 above.

**15.4 SIDF loan**

Al Waha had signed a loan agreement with Saudi Industrial Development Fund ("SIDF") loan for a loan of Saudi Riyals 400 million to finance the construction of its plant facilities. The loan bore no periodic financial charges. The loan was secured through a mortgage of property, plant and equipment, assignment of insurance proceeds, technology rights and corporate guarantees of the Company and minority shareholder of Al Waha. The SIDF commercial loan has been replaced with an Ijara Facility Agreement as explained in Note 15.1 above.

**15.5 Loan from a commercial bank**

During 2013, the Company signed a loan agreement of Saudi Riyals 500 million with a commercial bank to finance the employee housing scheme for the Company's employees and its subsidiary - Al Waha and Company's equity accounted investee - SAMAPCO). Out of the total facility, the Company has drawn Saudi Riyals 233.84 million as at December 31, 2015. The loan bears financial charges at Saudi Inter Bank Offered Rate ("SIBOR") plus 2% and is repayable in twenty equal semi-annual instalments commencing after three years from the draw down date.

Expressed in Saudi Arabian Riyals in thousands

### 15.6 Loan from non-controlling interest

Al Waha has also obtained a loan from Basell to finance the construction of production facilities of Al Waha. This loan bears financial charges at an agreed rate with no stated repayment date. The loan has been repaid during 2015. See Note 27.

### 15.7 Unamortized deferred financial charges

Movement in unamortized deferred financial charges are as follows:

| | **2015** | 2014 |
|---|---|---|
| Balance as at January 1 | **60,861** | 60,000 |
| Amortization | **(14,789)** | (41,357) |
| Balance as at December 31 | **46,072** | 18,643 |

### 15.8 Maturity profile of long term borrowings before the deduction of deferred financial charges

| | **2015** | 2014 |
|---|---|---|
| Years ended December 31: | | |
| 2015 | - | 246,522 |
| 2016 | **117,840** | 256,715 |
| 2017 | **129,532** | 231,278 |
| 2018 | **149,172** | 201,648 |
| 2019 | **168,812** | 217,204 |
| 2020 | **168,812** | 222,390 |
| Thereafter | **1,345,836** | 376,271 |
| | **2,080,004** | 1,752,028 |

## 16. TRADE PAYABLES

Trade payables as at December 31, comprise of the following:

| | **Note** | **2015** | 2014 |
|---|---|---|---|
| Trade payables | | **27,970** | 100,760 |
| Related parties balance | 27 | **3,041** | 12,934 |
| Retention payable | | **439** | - |
| Others | | **2,246** | 1,520 |
| | | **33,696** | 115,214 |

Retentions payable represent amount withhold from periodic contract billings from a contractor which are payable upon presentation of Zakat certificate and completion of certain contract milestone.

Expressed in Saudi Arabian Riyals in thousands

## 17. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as at December 31, comprise of the following:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Accrued purchases | | **93,632** | 96,376 |
| Accrued expenses | | **53,600** | 29,071 |
| Accrual for catalyst | | **16,901** | 12,514 |
| Advances from customers | | **8,753** | 3,590 |
| Current portion of deferred revenue | 20 | **3,678** | - |
| Accrued financial charges | | **3,575** | 30,751 |
| Others | | **6,345** | 13,376 |
| | | **186,484** | 185,678 |

## 18. EMPLOYEES' END OF SERVICE BENEFITS

The movement in employees' end of service benefits during the year ended December 31, is as follows:

| | 2015 | 2014 |
|---|---|---|
| Balance as at January 1 | **51,593** | 39,949 |
| Charge for the year | **17,689** | 16,688 |
| Payments/transfers made during the year | **(3,638)** | (5,044) |
| Balance as at December 31 | **65,644** | 51,593 |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

As noted in 15.2, during 2006, Al-Waha had entered into interest rate swap contracts with commercial banks, to manage the exposure of volatility in interest rates, for a notional amount ranging from US$ 16.7 million (Saudi Riyals 62.7 million) to US$ 503.8 million (Saudi Riyals 1,889.3 million) with no upfront premium. At December 31, 2014, Al-Waha had outstanding interest rate swap agreements with commercial banks with negative fair values of Saudi Riyals 18.3 million (2013: Saudi Riyals 31.9 million).

During 2015, as a result of entering into an Ijara Facility Agreement, Al Waha has extinguished its outstanding interest rate swap agreements with the commercial banks. The movement in fair value of the interest rate swap agreements from 31 December 2014 to the date of extinguishment was a negative fair value movement of Saudi Riyals 1.7 million. A payment of Saudi Riyals 16.6 million for extinguishing the interest rate swap agreements has been charged to Financial Charges in the consolidated statement of income for the year ended December 31, 2015.

## 20. DEFERRED REVENUE

Deferred revenue represents the revenue earned by Al Waha for usage of shared facilities by SAMAPCO. It has been amortized on straight line basis ending 2033 as defined in the agreement. (See Note 25). Deferred revenue as at December 31, comprise the following:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Current portion shown under current liabilities | 17 | **3,678** | - |
| Non-current portion shown under non-current liabilities | | **59,771** | - |
| | | **63,449** | - |

## 21. SHARE CAPITAL

As at December 2015, the share capital of the Company was SR **4,387,950,000** (2014: SR 4,387,950,000) divided into 438,795,000 shares (2014: 438,795,000 shares) of SR 10 each.

Expressed in Saudi Arabian Riyals in thousands

## 22. STATUTORY RESERVE

In accordance with Company's Articles of Association and Article 176 of Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer at least 10% of its net income each year to a statutory reserve until such reserve equals 50% of its share capital. This reserve is not available for distributions to the shareholders.

## 23. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the year ended December 31, comprise of:

| | 2015 | 2014 |
|---|---|---|
| Freight charges | **57,359** | 75,020 |
| Logistics cost | **8,375** | 13,697 |
| Sales commission | **8,188** | 9,503 |
| Packaging cost | **6,725** | 6,127 |
| Others | **4,631** | 2,713 |
| | **85,278** | 107,060 |

## 24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31, comprise of:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Salaries, wages and benefits | (a) | **117,361** | 84,615 |
| Depreciation and amortization | | **9,770** | 9,049 |
| Computer-related | | **8,071** | 5,968 |
| Professional services | | **6,147** | 1,157 |
| Maintenance | | **6,130** | 5,832 |
| Deferred charges written off | | **-** | 14,931 |
| Travelling | | **1,547** | 1,874 |
| Rent | | **235** | 204 |
| Others | | **14,692** | 18,616 |
| | | **163,953** | 142,246 |
| Shared service expenses charged to SAMAPCO | (b) | **(63,932)** | (44,894) |
| | | **100,021** | 97,352 |

(a) Salaries, wages and benefits include restructuring costs amounting to SR 18.01 million in respect of severance package to employees.

(b) It represents expenses related to salaries and wages of several departments which has been incurred by the Group and charged back to SAMAPCO on the basis of agreed percentage in the shared services agreement.

## 25. OTHERS - NET

Others, net for the year ended December 31, comprise of:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Proceeds from insurance claim | | **43,753** | - |
| Income from usage of shared facilities | 20-27 | **20,914** | 9,575 |
| Income from short term deposits | | **13,446** | 13,328 |
| Bank charges | | **(2,595)** | (1,123) |
| Foreign exchange loss | | **(12,180)** | (830) |
| Others | | **4,835** | 3,920 |
| | | **68,173** | 24,870 |

Proceeds from insurance claim represents insurance claim to compensate for the interruption of business operations during the turnaround period.

Expressed in Saudi Arabian Riyals in thousands

## 26. ZAKAT AND INCOME TAX

The Group is subject to Zakat and income tax in the Kingdom of Saudi Arabia in accordance with Saudi Arabia fiscal regulation. The Company and Al Waha file separate Zakat and income tax declarations on an unconsolidated basis.

a) Summary of the items included in the Company's Zakat base for the year ended 31 December is as follows:

| | **2015** | 2014 |
|---|---|---|
| Shareholders' equity at beginning of year | **7,318,023** | 5,421,189 |
| Adjusted net income | **167,299** | (15,551) |
| Provisions at the beginning of year | **51,593** | 20,354 |
| Non-current assets, as adjusted | **(6,778,119)** | (4,207,270) |
| Zakat base | **758,796** | 1,218,722 |

Zakat is payable at 2.5 percent of higher of the approximate zakat base and adjusted net income attributable to the Saudi shareholder.

b) The movement in the Zakat and income tax provision is as follows:

| | **Zakat for the Company** | **Zakat and income tax for Al Waha** | **Total** |
|---|---|---|---|
| Balance as at January 1, 2014 | 32,041 | 8,068 | 40,109 |
| Provisions: | | | |
| - Current year | 27,320 | 11,221 | 38,541 |
| - Prior year | - | 1,621 | 1,621 |
| Payments during the year | (28,989) | (9,968) | (38,957) |
| Balance as at December 31, 2014 | 30,372 | 10,942 | 41,314 |
| Provisions: | | | |
| - Current year | 29,500 | 8,150 | 37,650 |
| - Prior year | - | (621) | (621) |
| Payments during the year | (30,468) | (10,321) | (40,789) |
| **Balance as at December 31, 2015** | **29,404** | **8,150** | **37,554** |

c) Status of assessments:

The Company has received the zakat assessments for the years through 2011 which have been agreed with the DZIT except for the additional zakat assessment for the year 2010 amounting to Saudi Riyals 7.4 million. The Company has filed an appeal against such assessment and believes that the amount is immaterial to the overall financial statements and no material liability will arise upon ultimate settlement of such appeal and, accordingly, no provision has been recorded in the accompanying consolidated financial statements.

Al Waha has received zakat and income tax certificates from the DZIT for the years through 2014. No assessments were received by Al Waha from DZIT.

Expressed in Saudi Arabian Riyals in thousands

## 27. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties consist of the shareholders, their subsidiaries, affiliates and the Company's Board of Directors.

During the year ended December 31, 2015, the Group had the following significant transactions with its related parties:

| Related party | Relationship | Nature of transaction | 2015 | 2014 |
|---|---|---|---|---|
| Lyondell Basell | Affiliate | Sales | **1,022,902** | 1,524,292 |
| | | Financial charges on due to shareholder | **235** | 3,507 |
| Saudi Ethylene &Polyethylene Company | Affiliate | Purchases | **44,795** | 85,412 |
| Sahara & Ma'aden Petrochemicals Company | Affiliate | Costs and expenses | **88,280** | 61,933 |
| | | Other income from related party | **20,914** | 9,575 |
| Saudi Acrylic Acid Company | Affiliate | Interest income | **2,306** | 3,706 |

The above transactions resulted in the following balances with related parties as at December 31:

### a) Related parties included in trade receivable

| | 2015 | 2014 |
|---|---|---|
| Basell and its associates | **213,525** | 317,946 |
| | **213,525** | 317,946 |

### b) Advances to related parties

| | 2015 | 2014 |
|---|---|---|
| Saudi Acrylic Acid Company | **8,382** | 6,076 |
| Sahara & Ma'aden Petrochemicals Company | **5,197** | 47,971 |
| | **13,579** | 54,047 |

### c) Related parties included in trade payables

| | 2015 | 2014 |
|---|---|---|
| Tasnee & Sahara Olefins Company | **3,041** | 10,517 |
| Sahara & Ma'aden Petrochemicals Company | - | 2,417 |
| | **3,041** | 12,934 |

### d) Due to shareholders included in long term borrowings

| | 2015 | 2014 |
|---|---|---|
| Basell Arabia Investment Limited | - | 70,367 |
| | - | 70,367 |

Expressed in Saudi Arabian Riyals in thousands

## 28. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2015 and 2014 is calculated by dividing the operating income/(loss) and net income/(loss) for the year by weighted average number of shares outstanding at the year end. Weighted average number of shares is **438,795,000** as at December 2015 (2014: 438,795,000).

## 29. DIVIDEND

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

## 30. SEGMENT REPORTING:

The Group is engaged in a single business activity of petrochemicals and it does not have multiple operating segments. The petrochemicals business consists of manufacturing of petrochemical products and their subsequent sales. Both of these functional activities take place (and are managed) in the Kingdom of Saudi Arabia in an integrated manner.

In assessing performance, the management reviews financial information on an integrated basis for the Group as a whole, substantially in the form of, and on the same basis as, the Group's consolidated financial statements. Resources are allocated on a Group-wide basis according to need.

All sales originate in the Kingdom of Saudi Arabia. The following table shows sales made during the year to local and international customers.

| | **2015** | 2014 |
|---|---|---|
| **Saudi Arabia** | | |
| Export | **1,022,902** | 1,524,292 |
| Local | **401,470** | 379,913 |
| Total | **1,424,372** | 1,904,205 |

## 31. OPERATING LEASES

The Group has various operating leases for the land, equipment and machinery, pipeline facility, computers and car rentals. The leases, except land, are for initial period for one year to three years with options to renew the leases after lease terms. Lease payments are either fixed or increasing annually to reflect market rentals. Rental expenses for the year ended December 31, 2015 amounted to SR 9.21 million (2014: SR 9.23 million).

At December 31, the Group's obligations under non-cancellable operating leases are payable as follow:

| | **2015** | 2014 |
|---|---|---|
| Within one year | **4,231** | 4,171 |
| Between one to five years | **16,893** | 16,693 |
| More than five years | **66,972** | 70,952 |
| | **88,096** | 91,816 |

## 32. COMMITMENTS AND CONTINGENCIES

The Group has a contingent liability for bank guarantees under credit facility agreement with commercial banks issued in the normal course of the business amounting Saudi Riyals 457 million as at December 31, 2015 (2014: Saudi Riyals 455 million). The capital expenditure contracted by the Group but not yet incurred till December 31, 2015 was approximately Saudi Riyals 230 million (2014: Saudi Riyals 440 million).

## 33. FINANCIAL INSTRUMENTS

Financial instruments carried on the balance sheet principally include cash and cash equivalents, trade receivables, certain other receivables, due from and to related parties, trade payables, certain other payables and short-term borrowings.

**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. The Group has no significant concentration of credit risks. Cash and cash equivalents are placed with national banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and foreign related parties and are stated at their estimated realizable values.

**Fair value and cash flow interest rate risk**

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risk arise mainly from short term bank deposits and long term loans, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Group are not significant.

**Liquidity risk**

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

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyal, Australian dollars and United States dollar. Other transactions in foreign currencies are not material. Currency risk is managed on regular basis.

**Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As these financial statements are prepared under the historical cost method, except for the revaluation of the available-for-sale securities at fair value, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.