

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITORS' REPORT

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Page
Independent auditors' report	2
Balance sheet	3
Income statement	4
Cash flow statement	5
Statement of changes in shareholders' equity	6
Notes to the financial statements	7 - 29



INDEPENDENT AUDITORS' REPORT

February 22, 2017

To the Shareholders of Rabigh Refining and Petrochemical Company:
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying balance sheet of Rabigh Refining and Petrochemical Company (the "Company") as of December 31, 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 32 which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Bylaws with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

By: _____
Ali A. Alotaibi
License Number 379



RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Balance sheet
(All amounts in Saudi Riyals thousands unless otherwise stated)

		December 31,	
	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	5	1,381,795	932,396
Time deposits	6	1,286,250	1,370,180
Trade receivables	7	3,696,687	823,894
Inventories	8	2,258,973	2,002,494
Current portion of long-term loans	13	393,372	295,400
Prepayments and other receivables	9	578,661	275,635
		9,595,738	5,699,999
Non-current assets			
Property, plant and equipment	10	43,389,614	40,535,527
Leased assets	11	445,182	473,005
Intangible assets	12	249,263	267,232
Investment	13	16,412	16,412
Long-term loans	13	4,433,844	4,348,874
		48,534,315	45,641,050
Total assets		58,130,053	51,341,049
Liabilities			
Current liabilities			
Short term borrowings	16	3,105,675	3,255,130
Current maturity of liabilities against capital leases	11	17,352	16,380
Trade and other payables	14	7,256,457	3,510,534
Accrued expenses and other liabilities	15	886,579	1,072,600
Zakat and income tax payable	25	67,071	17,489
		11,333,134	7,872,133
Non-current liabilities			
Loans, borrowings and other long-term liability	16	37,674,856	34,425,507
Liabilities against capital leases	11	499,278	515,615
Provision for deferred employee service	19	8,207	10,725
Employees benefits	17	236,705	165,671
		38,419,046	35,117,518
Total liabilities		49,752,180	42,989,651
Shareholders' equity			
Share capital	18	8,760,000	8,760,000
Statutory reserve	18	87,343	87,343
Employee share ownership plan	19	(8,207)	(10,979)
Accumulated deficit		(461,263)	(484,966)
Total shareholders' equity		8,377,873	8,351,398
Total liabilities and shareholders' equity		58,130,053	51,341,049
Commitments	28		

The accompanying notes 1 to 32 form an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Income statement
(All amounts in Saudi Riyals thousands unless otherwise stated)

		December 31,	
	Note	2016	2015
Sales	4,27	25,146,130	25,513,860
Cost of sales	20,27	(24,038,699)	(25,218,530)
Gross profit		1,107,431	295,330
Operating expenses			
Selling and marketing	21	(68,775)	(74,157)
General and administrative	22	(929,940)	(981,268)
Income (loss) from operations		108,716	(760,095)
Other income (expenses)			
Financial charges	23	(389,259)	(281,707)
Other income, net	24	317,208	283,295
Net income (loss) for the year		36,665	(758,507)
Earnings (loss) per share (Saudi Riyals):	26		
▪ Operating income (loss)		0.12	(0.87)
▪ Net income (loss)		0.04	(0.87)

The accompanying notes 1 to 32 form an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Cash flow statement
(All amounts in Saudi Riyals thousands unless otherwise stated)

		December 31,	
	Note	2016	2015
Cash flows from operating activities			
Net income (loss) for the year		36,665	(758,507)
<u>Adjustments for non-cash items</u>			
Depreciation	10,11	2,401,289	2,148,577
Amortization	12	18,611	26,308
Bad debts	22	-	107,010
Provision for slow moving inventories	8	8,274	7,131
Loss on disposal of property and equipment	24	4,089	-
Provision for deferred employee service	19	254	338
		2,469,182	1,530,857
<u>Changes in working capital</u>			
Trade receivables		(2,872,793)	5,571,180
Inventories		(264,753)	789,772
Prepayments and other receivables		(248,917)	149,286
Trade and other payables		3,745,923	(6,108,838)
Accrued expenses and other liabilities		(186,012)	695,748
Zakat and income tax payable		(17,489)	(83,103)
Employees benefits		71,034	59,045
Net cash generated from operating activities		2,696,175	2,603,947
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(5,231,642)	(18,130,194)
Additions to intangible assets	12	(642)	(120,627)
Investment	13	-	(7,856)
Time deposits	6	83,930	(72,544)
Net movement in loans balances		(182,942)	(2,175,646)
Net cash utilized in investing activities		(5,331,296)	(20,506,867)
Cash flows from financing activities			
Repayments of loans and borrowings		(5,900,069)	(2,086,343)
Proceeds from loans and borrowings		8,879,084	19,124,133
Other net movement in loans, borrowings and other long-term liability		120,879	3,987
Repayment of capital leases		(15,365)	(14,461)
Dividends paid		(9)	(437,597)
Net cash generated from financing activities		3,084,520	16,589,719
Net change in cash and cash equivalents		449,399	(1,313,201)
Cash and cash equivalents at beginning of the year	5	932,396	2,245,597
Cash and cash equivalents at end of the year	5	1,381,795	932,396
Supplemental schedule of non-cash information			
Accrued zakat debited to shareholders' equity net of reimbursements		12,962	12,477
Dividends payable	29	394	403

The accompanying notes 1 to 32 form an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Statement of changes in shareholders' equity
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Employee share ownership plan (ESOP)	Accumulated deficit	Total
January 1, 2016		8,760,000	87,343	(10,979)	(484,966)	8,351,398
Vesting of shares under ESOP	19	-	-	2,772	-	2,772
Net income for the year		-	-	-	36,665	36,665
Zakat and income tax	25	-	-	-	(67,071)	(67,071)
Zakat and income tax reimbursements		-	-	-	54,109	54,109
December 31, 2016		8,760,000	87,343	(8,207)	(461,263)	8,377,873
January 1, 2015		8,760,000	87,343	(15,498)	724,018	9,555,863
Vesting of shares under ESOP	19	-	-	4,519	-	4,519
Net loss for the year		-	-	-	(758,507)	(758,507)
Zakat	25	-	-	-	(23,333)	(23,333)
Zakat reimbursements		-	-	-	10,856	10,856
Dividends declared	29	-	-	-	(438,000)	(438,000)
December 31, 2015		8,760,000	87,343	(10,979)	(484,966)	8,351,398

The accompanying notes 1 to 32 form an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

1 General information

Rabigh Refining and Petrochemical Company (the "Company" or "PetroRabigh") is a company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4602002161 issued by the Ministry of Commerce, Jeddah, on Shaaban 15, 1426H (September 19, 2005) subsequently revised by Ministry of Commerce, Riyadh on Shawal 22, 1428H (November 3, 2007).

The Company is engaged in the development, construction and operation of an integrated refining and petrochemical complex, including the manufacturing and sales of refined and petrochemical products.

The Company's registered address is P.O. Box 666, Rabigh 21911, Kingdom of Saudi Arabia.

During the three-month period ended March 31, 2015, the Company acquired the Expansion Project of its existing integrated petroleum refining and petrochemical complex ("Phase II Expansion Project") from Saudi Arabian Oil Company and Sumitomo Chemical Company (Founding shareholders of the Company), upon completion of the formalities underlying the novation of relevant contracts and fulfillment of precedent conditions. The aggregate cost of the Phase II Expansion Project is currently estimated at Saudi Riyals 34 billion. Currently, Phase II Expansion Project is under construction stage, the mechanical completion of which is estimated to be during second quarter of 2017. Also see Note 10.

2 Summary of significant accounting policies

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

2.1 Statement of compliance

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

2.2 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention, except for available for sale investment which is stated at fair value, using the accrual basis of accounting and the going concern concept.

Effective January 1, 2017, the Company's financial statements will be prepared under International Financial Reporting Standards ("IFRS") as endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). Upon adoption of IFRS, the Company will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards which will result in certain adjustments.

2.3 Functional and presentation currency

The functional currency of the Company has been determined by the management as the United States Dollars (US Dollars). However, these accompanying financial statements are presented in Saudi Arabian Riyals (Saudi Riyals).

2.4 Critical accounting estimates and judgments

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

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

(a) Provision for doubtful debts

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. 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 that the trade receivable is impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time and the past recovery rates.

(b) Provision for slow moving inventories

Provision for slow moving inventories is maintained at a level considered adequate to provide for potential loss on inventory items. The level of allowance is determined and guided by the Company's policy and other factors affecting the obsolescence of inventory items. An evaluation of inventories, designed to identify potential charges to provision, is performed by the management on regular intervals. Management uses judgment based on the best available facts and circumstances including, but not limited to, evaluation of individual inventory items' age and obsolescence and its expected utilization and consumption in future. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made.

(c) 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 or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

(d) Impairment of non-financial assets

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

(e) Provision for pre-novation withholding tax

The management determines withholding tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Due to the nature and complexity of the services and transactions involved as part of the novation of the contracts related to Phase II Expansion Project, the assessment of withholding tax thereon involves estimates and judgments. Management, with the assistance of its advisors, uses estimates and judgment based on the best available facts and circumstances and interpretations and determines the amount of provision.

2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date.

2.6 Time deposits

Time deposits, with original maturity of more than three months but not more than one year from the purchase date, are initially recognized in the balance sheet at fair value and are subsequently measured at amortized cost using the effective yield method, less any impairment in value.

2.7 Trade receivables

Trade receivables are carried at original amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is a significant doubt that the Company will be able to collect all amounts due according to the original terms of agreement.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
 (All amounts in Saudi Riyals thousands unless otherwise stated)

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is determined using weighted average basis and includes all cost incurred in the normal course of business in bringing each product to its present condition and location. In the case of work in process and finished goods, cost is the purchase cost, the cost of refining and processing, including the appropriate proportion of depreciation and production overheads based on normal operating capacity.

The net realisable value of inventories is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation except capital projects in progress which is carried at cost. Cost includes expenditure that is directly attributable to the acquisition or construction of each asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognized in the income statement when incurred.

Spare parts that are considered essential to ensure continuous plant operation are capitalized and classified as plant, machinery and operating equipment.

Expenditure incurred on testing and inspection are capitalized as part of the respective items of property, plant and equipment and amortized over the period of four years.

Depreciation is calculated on a straight-line basis to write off the cost of property, plant and equipment over their estimated useful lives, which are as follows:

	Number of years
Buildings and infrastructure	8 - 25
Plant, machinery and operating equipment	2 - 23
Vehicles and related equipment	3 - 6
Furniture and IT equipment	3 - 14

2.10 Leased assets

The Company accounts for property, plant and equipment acquired under capital leases 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 income statement applying the straight-line method at the rates applicable to the related assets as follows:

	Number of years
Community facilities	25
Marine terminal facilities	23
Desalination plant	17

2.11 Intangible assets

Intangible assets, having no physical existence however separately identifiable and providing future economic benefits, are initially recognized at purchase price and directly attributable costs. Intangible assets are stated at cost less accumulated amortization and impairment loss, if any.

Software and licenses

Software and licenses procured for various business use and having finite useful lives are presented as intangible assets. Software and licenses are amortized on a straight-line basis over their estimated useful lives.

Deferred charges

Deferred charges primarily relate to consultancy services for obtaining long term financing being used to finance the expansion project of Company's integrated petroleum refining and petrochemical complex. Deferred charges will be amortized on a straight-line basis over their estimated useful lives from commencement of commercial operations of Phase II Expansion Project.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

Establishment expenses

Establishment expenses are charged to income statement unless attributable future benefits are determined in which case these are amortized over the shorter of seven years or estimated useful lives.

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

2.12 Investment - available for sale

The Company has an investment in equity securities which is not for trading purposes and the Company does not have significant influence or control and accordingly is classified as available for sale. The investment is initially recognized at cost, being the fair value of the consideration given including associated acquisition charges.

Subsequent to initial recognition, it is measured at fair value and net unrealized gains or losses (if any) other than impairment losses, are recognized in the shareholders' equity. In case fair value is not readily available, the cost is taken as reliable basis for subsequent measurement of fair value of security.

Impairment losses are recognized through the income statement. Impairment is not reversed through the income statement and subsequent gains are recognized in shareholders' equity.

2.13 Trade and other payables

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

2.14 Borrowings

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

2.15 Provisions

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

2.16 Zakat and income tax

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholder and to income taxes attributable to the foreign shareholder. Provisions for zakat and income taxes are charged to the equity accounts of the Saudi and the foreign shareholders, respectively. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. Income taxes paid in advance are also charged to the foreign shareholder's equity account. The payments made by the Company in respect of zakat and income tax on behalf of Saudi and foreign shareholders, except for general public shareholders, are reimbursed by the respective shareholders and are accordingly adjusted in their respective equity accounts.

Deferred income taxes are recognized on all major temporary differences between financial income and taxable income during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax assets on carry forward losses are recognized to the extent that it is probable that future taxable income will be available against which such carry-forward tax losses can be utilized. Deferred income taxes are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2.17 End of service benefits

The Company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employee's length of service and the completion of a minimum service period. Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date and is charged to the income statement.

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

2.18 Employee savings program

The Company operates a thrift savings program (the "Program") on behalf of its employees and the Company matches the employee contribution with an equal, or lesser, contribution towards the Program that is commensurate with the employee's participation seniority in the Program. Participation in the Program by the regular employees who have completed their probationary period is optional and employee may choose the option to invest or not to invest in the Program. The contributions from the Company are recognized as employee expenses and are charged to the income statement. The Company has arranged with the local bank, being the custodian bank, to manage the Program on behalf of the Company in accordance with Islamic Shari'ah Law.

2.19 Employee Share Ownership Plan

The employee service cost of share options granted to employees under the Employee Share Ownership Plan (ESOP) is measured by reference to the fair value of the Company's shares on the date on which the options are granted. This cost is recognized as an employee expense, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of shares that will ultimately vest. The income statement charge for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Shares purchased in the IPO by the bank acting as trustee for the ESOP are carried at cost as a deduction from shareholders' equity until the options vest and the underlying shares are transferred to the employee.

On the vesting date of an individual option, the difference between the employee service cost and the purchase cost of the shares is taken directly to retained earnings as an equity adjustment.

2.20 Revenue

Revenue from sale of products is recognized when significant risks and rewards of ownership have been transferred to the customer upon delivery or shipments of products and in accordance with the offtake agreements and other relevant arrangements with the Company's customers.

Revenue from port services is recognized when services are rendered.

2.21 Selling, marketing, general and administrative expenses

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

2.22 Operating leases

Rental expenses under operating leases are charged to the income statement over the period of the respective lease.

2.23 Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for year ended December 31, 2016 and 2015, are recognized in the income statement.

For the purpose of preparation of these financial statements in Saudi Riyals, the Company uses the conversion rate from US Dollars to Saudi Arabian Riyals at a fixed exchange rate of Saudi Riyals 3.75 / US Dollar 1.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.24 Segment reporting

(a) Business segment

A business segment is group of assets and operations:

- (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.

(b) Geographical segment

A geographical segment is group of assets and operations 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.

3 Agreements with founding shareholders

The Founding Shareholders of the Company are Saudi Arabian Oil Company ("Saudi Aramco") and Sumitomo Chemical Company Limited ("Sumitomo Chemical"), with each having 37.5% equity interest in the share capital of the Company. The Company has entered into various agreements with Founding Shareholders including, among others:

3.1 Crude oil feedstock supply agreement

On January 28, 2006, the Company entered into a Crude Oil Feedstock Supply Agreement (COSA) with Saudi Aramco for the supply to the Company of its crude oil feedstock requirements, up to a maximum supply of 400,000 bpd, solely for use in the integrated refining and petrochemical complex. The price at which Saudi Aramco sells the crude oil feedstock to the Company is based, amongst other variable market factors, on the international crude oil prices. The COSA is valid for 30 years commencing from October 1, 2008.

3.2 Refined products lifting and marketing agreement

On March 11, 2006, the Company signed a Refined Products Lifting & Marketing Agreement (RPLMA) with Saudi Aramco as sole "Marketer" of refined products from the Rabigh Refinery. The RPLMA is valid for 10 years from October 1, 2008, and is further extendable for another 5 years. Pursuant to this agreement, Saudi Aramco will lift and market globally, on behalf of the Company as "Seller", the refined products from the integrated refining and petrochemical complex.

3.3 Petrochemical products lifting and marketing agreement

On March 11, 2006 as amended on April 1, 2014, the Company signed a Petrochemical Products Lifting & Marketing Agreement (PPLMA) with founding shareholders as "Marketers" of petrochemical products from the integrated refining and petrochemical complex. The PPLMA is valid for 10 years from accumulated production date, and is further extendable for another 5 years. Pursuant to this agreement, Marketers will lift and market globally, on behalf of the Company as "Seller", the petrochemical products from the integrated refining and petrochemical complex. An Assignment and Assumption Agreement dated February 23, 2009 assigns Sumitomo Chemical Asia PTE Limited as the "Marketer" on behalf of Sumitomo Chemical Company Limited.

3.4 Credit facility agreement

On March 18, 2006, the Company entered into a Credit Facility Agreement (CFA) with both of its Founding Shareholders. Under the provisions of this agreement, the Founding Shareholders agreed to grant to the Company a loan facility up to a maximum aggregate amount of Saudi Riyals 6,206 million for the development, design and construction of the integrated refining and petrochemical complex. The commitment of Founding Shareholders in respect of this facility expired on July 1, 2013.

3.5 Rabigh refinery complex lease agreement

The Company has entered into Rabigh Refinery Complex Lease Agreement with Saudi Aramco dated November 1, 2005 for the lease of approximately 11.8 million square meters for a period of 99 years, with effect from November 1, 2005, and may be renewed thereafter for consecutive additional periods as agreed. The Company shall pay to Saudi Aramco rent in an amount equal to Saudi Riyals 1 per square meter per annum starting from October 1, 2008. Also see Notes 10.2 and 11.2.

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

3.6 Terminal lease agreement

The Company entered into a Terminal Lease Agreement with Saudi Aramco on March 2, 2006 in respect of the existing Rabigh Marine Terminal. Under this agreement, the Company has been granted exclusive rights by Saudi Aramco to use and operate the Rabigh Terminal Facilities and the Rabigh Terminal Site for a term of 30 years effective from October 1, 2008. Also see Note 11.1.

3.7 Rabigh community agreement

The Company has entered into Rabigh community agreement with Saudi Aramco, effective October 1, 2014 for a term of 25 years, in respect of leases of land and infrastructure facilities at yearly lease rentals of Saudi Riyals 16.5 million and Saudi Riyals 18.2 million respectively. Also see Notes 11.1 and 11.2.

3.8 Secondment agreements

The Company has entered into Secondment Agreements with each of its Founding Shareholders; with Saudi Aramco dated June 12, 2006, and with Sumitomo Chemical dated July 1, 2006. Each of these agreements has a continuous term to apply until the date on which a Founding Shareholder ceases to be a shareholder of the Company. These agreements cover the requirement of the Company from time to time for the secondment of certain personnel to assist in the conduct of business and operations.

3.9 Services agreements

The Company has entered into services agreements with founding shareholders and their affiliates covering various operational and logistics support services. These agreements cover the provision of various support services to and by the Company such as human resources, training and recruitment, legal, utilities, information Technology, General Management, Technical Support and Pre-marketing Support. These agreements also cover the ongoing technical support needed for continuous operations and ongoing enhancements such as refining and petrochemical process know-how provided by Saudi Aramco and Sumitomo Chemical respectively and marketing technical services, engineering and safety best practices and training provided by both founding shareholders. The Company shall pay for these services at mutually agreed prices specified in each agreement for the services to be provided.

4 Segment information**4.1 Business segment**

The Company operates an integrated refinery and petrochemical complex. The primary format for segment reporting is based on business segments and is determined on the basis of management's internal reporting structure.

The Company's business segments comprise of refined products and petrochemicals.

2016	Refined products	Petrochemicals	Total
Sales	19,423,911	5,722,219	25,146,130
Gross (loss) profit	(250,296)	1,357,727	1,107,431
(Loss) income from operations	(665,326)	774,042	108,716
Net (loss) income for the year	(722,425)	759,090	36,665
2015	Refined products	Petrochemicals	Total
Sales	19,500,612	6,013,248	25,513,860
Gross (loss) profit	(1,213,989)	1,509,319	295,330
(Loss) income from operations	(1,675,601)	915,506	(760,095)
Net (loss) income for the year	(1,687,788)	929,281	(758,507)

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

2016	Refined products	Petrochemicals	Unallocated	Total
Total assets	15,178,259	40,209,333	2,742,461	58,130,053
Total liabilities	12,680,628	35,879,484	1,192,068	49,752,180

2015	Refined products	Petrochemicals	Unallocated	Total
Total assets	13,696,988	35,311,001	2,333,060	51,341,049
Total liabilities	9,212,370	32,656,262	1,121,019	42,989,651

Cash and cash equivalents, zakat and tax and certain financial assets and liabilities are not allocated to business segments as they are also managed on a Company basis.

4.2 Geographical segment

The segment information relating to the year ended December 31, is as follows:

2016	Middle East	Asia Pacific	Others	Total
Sales				
Refined products	19,423,911	-	-	19,423,911
Petrochemicals	2,926,666	2,773,600	21,953	5,722,219
Total	22,350,577	2,773,600	21,953	25,146,130

2015	Middle East	Asia Pacific	Others	Total
Sales				
Refined products	19,500,612	-	-	19,500,612
Petrochemicals	3,249,530	2,763,718	-	6,013,248
Total	22,750,142	2,763,718	-	25,513,860

5 Cash and cash equivalents

	Note	2016	2015
Cash in hand		266	304
Cash at banks - current accounts		1,335,811	139,455
Short term deposits	6	45,718	792,637
		1,381,795	932,396

Short term deposits are held by commercial banks and yield financial income at prevailing market rates.

6 Time deposits

	Note	2016	2015
Time deposits		1,331,968	2,162,817
Less: Deposits with maturity of less than three months	5	(45,718)	(792,637)
		1,286,250	1,370,180

7 Trade receivables

	Note	2016	2015
Trade		82,136	87,537
Less: provision for doubtful debts		(28,410)	(28,410)
		53,726	59,127
Related parties	27	3,642,961	764,767
		3,696,687	823,894

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

8 Inventories

	2016	2015
Raw materials	359,737	311,643
Work in process	598,169	312,861
Finished goods	672,931	757,554
Spare parts and consumables - not held for sale	686,595	662,776
Goods in-transit	8,875	16,720
	2,326,307	2,061,554
Less: provision for slow moving spare parts and consumables	(67,334)	(59,060)
	2,258,973	2,002,494

Movement in provision for slow moving spare parts and consumables is as follows:

	Note	2016	2015
January 1		59,060	51,929
Additions	20	8,274	7,131
December 31		67,334	59,060

9 Prepayments and other receivables

	Note	2016	2015
Prepayments		111,311	75,143
Advances to suppliers		342,331	138,780
Deposits		662	662
Advance income tax		19,991	19,991
Other receivables, net		25,403	17,158
		499,698	251,734
Due from related parties	27	78,963	23,901
		578,661	275,635

Movement in provision for customs duty is as follows:

	Note	2016	2015
January 1		-	-
Additions		-	107,010
Write-off	22	-	(107,010)
December 31		-	-

RABIGH REFINING AND PETROCHEMICAL COMPANY

(A Saudi Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

10 Property, plant and equipment

	Buildings and infrastructure	Plant, machinery and operating equipment	Vehicles and related equipment	Furniture and IT equipment	Capital projects in progress	Total
Cost						
January 1, 2016	4,717,113	31,867,307	90,272	320,455	16,871,323	53,866,470
Additions	-	106,701	-	-	5,124,941	5,231,642
Transfers	24,589	348,309	400	3,634	(376,932)	-
Disposals	-	(5,993)	-	-	-	(5,993)
December 31, 2016	4,741,702	32,316,324	90,672	324,089	21,619,332	59,092,119
Accumulated depreciation						
January 1, 2016	1,778,471	11,297,966	67,843	186,663	-	13,330,943
Charge for the year	243,919	2,103,308	5,065	21,174	-	2,373,466
Released on disposals	-	(1,904)	-	-	-	(1,904)
December 31, 2016	2,022,390	13,399,370	72,908	207,837	-	15,702,505
Carrying Value:						
At December 31, 2016	2,719,312	18,916,954	17,764	116,252	21,619,332	43,389,614
At December 31, 2015	2,938,642	20,569,341	22,429	133,792	16,871,323	40,535,527

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

10.1 Depreciation for the year has been allocated as follows:

	Note	2016	2015
Cost of sales	20	2,287,296	2,048,212
General and administrative expenses	22	86,170	72,543
		2,373,466	2,120,755

10.2 The Company has leased land for the refining and petrochemical facilities from Saudi Aramco for a period of 99 years. Also see Note 3.5.**10.3 Planned periodic maintenance**

During the three-month period ended December 31, 2015, the Company conducted planned periodic maintenance activity for operational facilities. This planned periodic maintenance activity required complete shutdown of all plants which commenced from October 11, 2015 till December 31, 2015. Property, plant and equipment includes an amount of Saudi Riyals 1,235 million incurred on such planned periodic maintenance activity.

10.4 Capital projects-in-progress

The capital projects-in-progress at December 31, 2016 mainly represents cost relating to the acquisition and ongoing construction of Phase II Expansion Project (also see Note 1). As part of Phase II Expansion Project, identifiable assets acquired and liabilities assumed by the Company as of the date of novation were as follows:

Cost of work executed	12,451,311
Intangible assets	118,798
Advances to suppliers	151,508
Retentions	(533,070)
Trade and other payables	(8,832,288)
Accrued liabilities	(3,378,016)

The Company has secured various financing facilities amounting to Saudi Riyals 26,880 million from various commercial banks and financial institutions in order to finance Phase II Expansion Project (also see Note 16.2). The Company had also acquired administrative expenses amounting to Saudi Riyals 21,757 thousands from founding shareholders. These expenses have been included as part of General and administrative expenses in the income statement for the year ended December 31, 2015.

10.5 Capitalization of borrowing costs

During the year ended December 31, 2016, the Company has capitalized borrowing costs amounting to Saudi Riyals 427 million (2015: Saudi Riyals 702.9 million) in capital projects-in-progress relating to the construction of the Phase II Expansion Project. Borrowing costs capitalized during the year ended December 31, 2015 of Saudi Riyals 702.9 million include Saudi Riyals 403.9 million of capitalized borrowing costs acquired as part of acquisition of Phase II Expansion Project and Saudi Riyals 299 million of upfront fees incurred in respect of financing arrangements.

10.6 Pre-commissioning income

Capital projects in progress includes pre-commissioning income amounting to Saudi Riyals 192.6 million (2015: Nil) related to Phase II Expansion Project.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

11 Leases

11.1 Capital leases

11.1.1 Leased assets acquired under capital leases, at December 31, are detailed as under:

	Community facilities	Marine terminal facilities	Desalination plant	Total
Cost				
December 31, 2016 and 2015	225,715	288,820	106,015	620,550
Accumulated depreciation				
January 1, 2016	11,286	91,040	45,219	147,545
Charge for the year	9,029	12,557	6,237	27,823
December 31, 2016	20,315	103,597	51,456	175,368
Carrying value:				
At December 31, 2016	205,400	185,223	54,559	445,182
At December 31, 2015	214,429	197,780	60,796	473,005

11.1.2 Capital lease obligations at December 31 are as follows:

	2016		2015
	Future minimum lease payments	Interest	Present value of minimum lease payments
Community facilities	399,595	199,387	200,208
Marine terminal facilities	415,929	166,439	249,490
Desalination plant	84,988	18,056	66,932
	900,512	383,882	516,630

At December 31, the capital lease obligations are presented in the balance sheet as follows:

	2016	2015
Current portion	17,352	16,380
Non-current portion	499,278	515,615
	516,630	531,995

11.1.3 The future minimum lease payments as of December 31 are as follows:

Year	2016	2015
2016	-	47,024
2017	46,997	46,997
2018	46,997	46,997
2019	46,997	46,997
2020	47,024	47,024
2021	46,997	46,997
2022 and thereafter	665,500	665,500
	900,512	947,536

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

11.1.4 Community facilities were acquired under a capital lease agreement from Saudi Aramco over a period of 25 years (Also see Note 3.7). The total undiscounted minimum lease payments are Saudi Riyals 399.6 million (2015: Saudi Riyals 417.8 million).

11.1.5 Marine terminal facilities were acquired under a capital lease agreement from Saudi Aramco over a period of 30 years (Also see Note 3.6). The total undiscounted minimum lease payments are Saudi Riyals 415.9 million (2015: Saudi Riyals 435.1 million).

11.1.6 On October 1 2008, the Company has taken over the interest and obligations of Saudi Aramco in respect of the Desalination plant for the Refinery Complex, with a remaining term of 17 years. The aggregate present value of this leased asset was estimated to be Saudi Riyals 106 million which has also been capitalized as leased assets cost. The total undiscounted minimum lease payments are Saudi Riyals 85 million (2015: Saudi Riyals 94.7 million).

11.1.7 Depreciation for the year has been allocated as follows:

	Note	2016	2015
Cost of sales	20	6,237	6,236
General and administrative expenses	22	21,586	21,586
		27,823	27,822

11.2 Operating leases

11.2.1 The Company has entered into operating leases for land, water and energy conversion plant, vehicles and site facilities, with options to renew the leases on expiry of relevant lease periods. Operating lease rental charged to the income statement for the year ended December 31, 2016 amounts to Saudi Riyals 527.2 million (2015: Saudi Riyals 552.5 million).

11.2.2 Future minimum rentals payable under non-cancellable operating leases as at December 31 are as follows:

Year	2016	2015
2016	-	569,061
2017	654,294	556,017
2018	542,896	545,217
2019	533,756	528,554
2020	528,186	529,871
2021	527,352	523,858
2022 and thereafter	7,567,304	7,755,176
	10,353,788	11,007,754

12 Intangible assets

	Softwares	Licenses	Deferred charges	Establishment expenses	Total
Cost					
January 1, 2016	230,512	209,114	113,645	5,154	558,425
Additions	642	-	-	-	642
December 31, 2016	231,154	209,114	113,645	5,154	559,067
Amortization					
January 1, 2016	217,645	73,548	-	-	291,193
Amortization for the year	7,812	10,799	-	-	18,611
December 31, 2016	225,457	84,347	-	-	309,804
Carrying value:					
December 31, 2016	5,697	124,767	113,645	5,154	249,263
December 31, 2015	12,867	135,566	113,645	5,154	267,232

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

Amortization for the year has been allocated as follows:

	Note	2016	2015
Cost of sales	20	17,140	25,185
General and administrative expenses	22	1,471	1,123
		18,611	26,308

13 Investment and long term loans

	Note	2016	2015
Investment - available for sale:			
January 1	13.1	16,412	8,556
Additions	13.2	-	7,856
December 31		16,412	16,412

13.1 The Company holds 1% shares in the capital of Rabigh Arabian Water and Electricity Company ("RAWEC"), a Saudi limited liability company.

13.2 During the three-month period ended March 31, 2015, pursuant to Equity Support Agreement dated March 28, 2006 as amended subsequently on March 9, 2015, the Company has made equity participation in RAWEC which shall be converted into share capital of RAWEC on completion of certain formalities currently expected by second quarter of 2017.

Long-term loans:	Note	2016	2015
RAWEC			
January 1	13.3	4,474,793	2,343,370
Additions	13.4	451,996	2,338,906
Repayments		(295,802)	(207,483)
December 31		4,630,987	4,474,793
Less: current portion		(377,368)	(281,965)
Non-current portion		4,253,619	4,192,828
Loans to employees	13.5	196,229	169,481
Less: current portion		(16,004)	(13,435)
Non-current portion		180,225	156,046
Total non-current portion		4,433,844	4,348,874

13.3 The Company has entered into various agreements namely WECA, Facility Agreement and RAWEC Shareholders' Agreement (the "Agreements"), dated August 7, 2005 as amended on October 31, 2011, with RAWEC and other developers, to develop a plant, on build, own and operate basis, to supply desalinated water, steam and power to the Company. Pursuant to these agreements, the Company provided a loan to RAWEC amounting to Saudi Riyals 3.9 billion carrying interest rate of 5.76% per annum settled through offsetting of monthly utilities payments to RAWEC from June 30, 2008 to November 30, 2023.

13.4 During the year ended December 31, 2015, pursuant to Amended and Restated Agreement, dated March 28, 2006 as amended subsequently on March 9, 2015, the Company will provide RAWEC a portion of project finance, in the total amount of Saudi Riyals 3.3 billion carrying interest rate of 5.7% per annum to expand the existing independent water, steam and power facilities to meet the requirements of Phase II expansion project. The loan is being settled through offsetting of monthly utilities payments to RAWEC from July 31, 2016 to June 30, 2031. The loan is secured by the assets of RAWEC.

13.5 The Company's eligible employees are provided with loans under an employees' home ownership program. The cost of the land is advanced to employees free of interest cost provided the employee serves the Company for a minimum period of four years while the construction cost of the house is amortized and repayable free of interest to the Company to the extent of 90% over a period of seventeen years. The remaining 10% is amortized over the term of the loan (seventeen years). These loans are secured by mortgages on the related housing units. Ownership of the housing unit is transferred to the employee upon full payment of the loan.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

14 Trade and other payables

	Note	2016	2015
Trade payables:			
- Related parties	27	5,813,821	1,249,085
- Others		1,344,389	2,193,266
		7,158,210	3,442,351
Other payables - related parties	27	98,247	68,183
		7,256,457	3,510,534

Other payables principally relate to payments made by Founding Shareholders on behalf of the Company in respect of seconded employees and other charges (see Note 3.8 and 3.9).

15 Accrued expenses and other liabilities

	Note	2016	2015
Accrued bonus		30,462	50,721
Provision for customer rebates		20,187	40,670
Customer advances		8,254	5,927
Social security payable		7,853	7,356
Withholding tax payable		66,535	14,657
Accrued interest on loans and borrowings		28,330	15,407
Accrued expenses	1,10	623,012	691,950
Dividend payable	29	394	403
Other		7,285	12,787
		792,312	839,878
Due to related parties	27	94,267	232,722
		886,579	1,072,600

16 Loans, borrowings and other long-term liability

	Note	2016	2015
Loans from banks and financial institutions:			
January 1	16.1	32,449,887	15,412,097
Additions	16.2, 16.3	8,879,084	19,124,133
Repayments		(5,900,069)	(2,086,343)
December 31		35,428,902	32,449,887
Less: current portion		(3,105,675)	(3,255,130)
Non-current portion		32,323,227	29,194,757
Loans from founding shareholders	16.4	5,331,716	5,213,936
Other long term liability	16.5	19,913	16,814
Total non-current portion		37,674,856	34,425,507

16.1 The Company has entered into Consortium Loan Agreement with commercial banks and financial institutions for development, design, and construction of integrated refining and petrochemical complex. The facilities available under this loan agreement have been utilized in full and drawdowns made which finished on July 1, 2008. The loan is payable in semi-annual repayments which commenced from June 2011 and will run up to December 2021.

16.2 During the year ended December 31, 2015, the Company has further entered into Loan Agreements with commercial banks and financial institutions for Phase II Expansion Project. The facilities available under these loan agreements amount to Saudi Riyals 26,880 million out of which drawdowns amounting to Saudi Riyals 23,049 million have been made by the Company. The loans amounting to Saudi Riyals 18,368 million are repayable in semi-annual repayments commencing from June 2018 and will run up to June 2031, whereas the loan of Saudi Riyals 4,681 million has final maturity of July 1, 2019.

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

The aforementioned loans are denominated in US Dollars and Saudi Riyals and bear financial charges based on prevailing market rates. The loan agreements include financial and operational covenants which among other things; require certain financial ratios to be maintained. The loans are secured by property, plant and equipment, cash and cash equivalents and time deposits of the Company with a carrying value of Saudi Riyals 43,389 million and Saudi Riyals 2,668 million, respectively.

16.3 During the three-month period ended December 31, 2015, the Company entered into a short term loan with a local commercial bank to finance its working capital requirements. The facility available under this loan agreement amounted to Saudi Riyals 1,875 million of which Saudi Riyals 1,104 million was utilized as of December 31, 2015. During the year, drawdowns and repayments amounting to Saudi Riyals 3,770 million and Saudi Riyals 3,749 million, respectively have been made by the Company. The loan is repayable by March 1, 2017. This loan is denominated in Saudi Riyals and bears financial charges based on prevailing market rates.

16.4 Loans from founding shareholders

	2016	2015
Loans:		
Saudi Arabian Oil Company	2,287,500	2,287,500
Sumitomo Chemical Company Limited	2,287,500	2,287,500
Accumulated interest:		
Saudi Arabian Oil Company	378,358	319,468
Sumitomo Chemical Company Limited	378,358	319,468
	5,331,716	5,213,936

Loans from the founding shareholders are availed as part of the Credit Facility Agreement and bear financial charges. Repayment shall be made on demand on achieving the conditions set by the financial institutions under the Inter-creditor Agreement. The loan is secured by promissory note issued by the Company in favour of each shareholder equivalent to drawdowns.

16.5 Other long-term liability

Other long-term liability represents withholding tax on accumulated interest relating to Sumitomo Chemical in accordance with Saudi Arabian Income Tax Law.

17 Employees benefits

At December 31, the employees' benefits are presented in the balance sheet as follows:

	2016	2015
Current portion (included in accrued expenses and other liabilities)	14,324	16,732
Non-current portion	236,705	165,671
	251,029	182,403

Employees' benefits comprise of employees savings program and end of service benefits amounting to Saudi Riyals 69.4 million (2015: Saudi Riyals 54.9 million) and Saudi Riyals 181.6 million (2015: Saudi Riyals 127.5 million), respectively.

17.1 End of service benefits

	2016	2015
January 1	127,468	85,028
Provisions	62,453	49,804
Payments	(8,285)	(7,364)
December 31	181,636	127,468

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

18 Share capital and statutory reserve

The Company's share capital of Saudi Riyals 8.76 billion at December 31, 2016 and 2015 consists of 876 million fully paid and issued shares of Saudi Riyals 10 each.

In accordance with the Regulation for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer each year at least 10% of its net income, after absorbing accumulated deficit, to a statutory reserve until such reserve equal 30% of its share capital.

19 Employee share ownership plan

During the year ended December 31, 2008, the Board of Directors approved the implementation and operation of an Employee share ownership plan ("ESOP"), which provides 5 year service awards to certain levels of staff.

The Company arranged with a commercial bank to subscribe for 1.5 million shares during the IPO at the offer price of Saudi Riyals 21 per share. These ESOP shares are held by the bank in trust for the staff that will become eligible for an award under the plan. Any of the ESOP shares that do not become issuable to eligible employees will be dealt with by the bank in accordance with the Company's instructions, and any disposal proceeds will be for the account of the Company. The Company recognized the liability through provision by amortizing the total cost of the ESOP shares on a straight line basis over a period of 5 years.

Until the ESOP shares become vested and are transferred to staff they are accounted for as a deduction from shareholders' equity.

During 2016, the Company has vested 132,000 shares to eligible employees due for entitlement (2015: 215,200 shares).

20 Cost of sales

	Note	2016	2015
Raw materials, crude oil and spare parts consumed		20,223,745	20,654,873
Depreciation	10,11	2,293,533	2,054,448
Utilities consumed		688,056	668,453
Personnel costs		544,718	530,078
Repair and maintenance		374,621	374,773
Contracted services		81,824	60,329
Amortization	12	17,140	25,185
Insurance		33,909	26,937
Provision for slow moving spare parts and consumables	8	8,274	7,131
Lease rentals		16,272	12,644
Other overheads		21,360	13,907
		24,303,452	24,428,758
(Increase) decrease in inventories		(264,753)	789,772
		24,038,699	25,218,530

21 Selling and marketing expenses

	2016	2015
Freight charges	63,608	71,861
Other	5,167	2,296
	68,775	74,157

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

22 General and administrative expenses

	Note	2016	2015
Personnel costs		614,155	564,935
Depreciation	10,11	107,756	94,129
Repair and maintenance		83,673	78,512
Bad debts	9	-	107,010
IT, networking and data communication		52,918	38,776
Amortization	12	1,471	1,123
Travelling		20,803	22,364
Rent		24,185	22,619
Professional fees		3,135	7,463
Insurance		3,619	5,441
Stationery, telex and telephone		5,203	4,936
Other		13,022	33,960
		929,940	981,268

23 Financial charges

	Note	2016	2015
Interest on loans and borrowings	16	347,764	244,580
Interest on capital leases	11	31,594	32,473
Other		9,901	4,654
		389,259	281,707

24 Other income, net

	2016	2015
Interest income on long term loans	269,711	224,695
Port services	42,017	25,635
Gain on sale of scrap sales	19,029	18,600
Miscellaneous income	13,479	15,487
Loss on disposal of property and equipment	(4,089)	-
Other expense, net	(22,939)	(1,122)
	317,208	283,295

24.1 Other expense, net of Saudi Riyals 22.9 million includes pre-novation withholding tax related to the Phase II Expansion Project amounting to approximately Saudi Riyals 21.7 million (see Note 2.4(e)).

25 Zakat and income tax

25.1 Charge for the year

Zakat and income tax charge for the year is as follows:

Current year:	2016	2015
Zakat	31,452	17,489
Income tax	35,619	-
	67,071	17,489
Previous years:		
Zakat	-	5,844
Income tax	-	(15,044)
	-	(9,200)
Total	67,071	8,289

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

Zakat and income tax charge is computed in accordance with the zakat and income tax regulations in Saudi Arabia. The zakat and income tax charge for the year is based on the following components:

	2016	2015
Equity and reserves	9,491,224	8,175,936
Liabilities	39,603,891	36,540,578
Book value of assets	(31,017,044)	(28,382,830)
Carried forward losses	(16,045,287)	(15,214,413)
Zakat base	2,032,784	1,119,271
Zakat base attributable to Saudi founding shareholder and general public	1,258,090	699,545
Zakat charge for the year	31,452	17,489

25.2 The movement in zakat and income tax provision for the year is as follows:

	2016	2015
January 1	17,489	77,259
Provision for the current year	67,071	17,489
Adjustment for previous years	-	(9,200)
Payments	(17,489)	(68,059)
December 31	67,071	17,489

The difference between the financial and zakatable / taxable results is mainly due to certain adjustments in accordance with the relevant local zakat / tax regulations and mainly includes depreciation, repair and maintenance costs, employees benefits, provisions for inventories and doubtful debts.

No deferred tax has been recognized as management believes that the deferred tax asset arising from unused carried forward tax losses, is expected to offset the deferred tax liabilities arising from temporary differences.

25.3 Status of assessments

The Company has filed its Zakat and income tax returns with the General Authority for Zakat and Tax (GAZT) up to the financial year 2015. The Company's zakat and tax assessments have been finalized by GAZT up to and inclusive of the financial year 2008.

The GAZT has issued assessments for the years 2009 and 2010 by raising additional liability of Saudi Riyals 43.7 million and Saudi Riyals 80.7 million for zakat and income tax, respectively. The Company filed an objection for the additional liability raised which was partially accepted and additional liability was reduced to Saudi Riyals 43.5 million for which the Company has filed an appeal with Preliminary Appeal Committee (PAC). Management believes its position to be robust in the area of interpretation. The additional zakat liability is recoverable from Saudi Arabian Oil Company to the extent of Saudi Riyals 26.1 million.

The GAZT has further issued queries for financial years 2011 through 2013 requiring certain information which the Company has duly submitted.

26 Earnings (loss) per share

Earnings (loss) per share for the year ended December 31, 2016 and 2015 have been computed by dividing the operating income (loss) and net income (loss) for the year by the weighted-average number of ordinary shares issued and outstanding at each year end.

27 Related party transactions and balances**27.1 Related party transactions**

Transactions with related parties arise mainly from purchases, sales of refined and petrochemical products, credit facilities, terminal lease, secondments and community lease agreements. Also see Note 10.4.

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

Related party transactions are undertaken at contractual terms and are approved by the Company's management and management of the following entities:

<u>Name of entity</u>	<u>Relationship</u>
Saudi Arabian Oil Company	Founding Shareholder
Sumitomo Chemical Company Limited	Founding Shareholder
Yanbu Aramco Sinopec Refining Company	Associate of Founding Shareholder
Aramco Overseas Co. BV	Associate of Founding Shareholder
Aramco Asia Japan	Associate of Founding Shareholder
Aramco Services Company	Associate of Founding Shareholder
Saudi Aramco Products Trading Company	Associate of Founding Shareholder
Sumitomo Chemical Engineering Company Limited	Associate of Founding Shareholder
Sumitomo Chemical Polymer Compounds Saudi Arabia Co. Limited	Associate of Founding Shareholder
Sumitomo Chemical Asia Pte. Limited	Associate of Founding Shareholder
Rabigh Conversion Industry Management Services Company	Associate of Founding Shareholder
Sumika Alchem Company Limited	Associate of Founding Shareholder
Sumika Chemical Analysis Service Limited	Associate of Founding Shareholder
Sumika Middle East Co. Limited	Associate of Founding Shareholder
Sumika Chemtex Co. Ltd.	Associate of Founding Shareholder

The related party transactions are summarized as follows:

	2016	2015
Nature of transactions for the year ended December 31		
Saudi Aramco and its associated companies		
Sale of refined products and petrochemical products	21,741,222	21,946,412
Purchase of goods including LPG shortfall and through-put fee	19,708,849	19,812,749
Dividend	-	164,250
Secondees' costs	77,611	78,279
Financial charges	86,526	75,521
Rentals	47,267	44,188
Services provided to shareholders	800	16,985
Services and other cost charges (credit), net	32,852	15,515
Sumitomo Chemical and its associated companies		
Sale of petrochemical products	2,449,226	2,741,071
Purchase of goods	172,888	51,903
Dividend	-	156,038
Secondees' costs	160,271	83,308
Financial charges	58,891	47,323
Rentals	709	709
Services provided to shareholders	800	13,047
Services and other cost charges (credit), net	43,156	22,140

27.2 Related party balances

Significant year end balances arising from transactions with related parties are as follows:

	Note	2016	2015
Saudi Aramco and its associated companies			
Trade and other payables	14	5,876,908	1,308,140
Trade and other receivables	7, 9	3,310,352	696,243
Loans and borrowings	16	2,665,858	2,606,968
Accrued expenses and other liabilities	15	56,370	198,943
Employees benefits		2,351	1,534
		2016	2015
Sumitomo Chemical and its associated companies			
Loans and borrowings	16	2,665,858	2,606,968
Trade and other receivables	7, 9	411,572	92,425
Accrued expenses and other liabilities	15	37,897	33,779
Trade and other payables	14	35,160	9,128
Employees benefits		6,710	3,387

RABIGH REFINING AND PETROCHEMICAL COMPANY

(A Saudi Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

27.3 Transactions with key management personnel

Key management personnel of the Company comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. Transactions with key management personnel on account of salaries and other short-term benefits amounted to Saudi Riyals 9.9 million (2015: Saudi Riyals 9.4 million) and are included in secondees' cost above.

The remuneration paid to independent directors amounted to Saudi Riyals 0.2 million (2015: Saudi Riyals 0.75 million).

28 Commitments

- (i) As at December 31, 2016, letters of credit issued on behalf of the Company in the normal course of business amounted to Saudi Riyals 10.03 million (2015: Saudi Riyals 4.9 million).
- (ii) As at December 31, 2016, capital commitments contracted for but not incurred for the construction and expansion of the existing facilities amounted to Saudi Riyals 1,442 million (2015: Saudi Riyals 4,678 million).

Also, see Note 11.2 for operating lease commitments.

29 Dividends

On July 1, 2015, the Board of Directors approved the distribution of Saudi Riyals 438 million, as cash dividends (Saudi Riyal 0.5 per share) for the first half of 2015 representing 5% of the nominal share value. The eligibility for dividend distribution was to shareholders listed on Tadawul (Saudi Stock Exchange) on the end of trading day of July 27, 2015. Accordingly, the dividend amounting to Saudi Riyals 437.6 million was paid on August 18, 2015. The remaining unpaid amount of Saudi Riyals 0.4 million is included in accrued expenses and other liabilities. Dividend paid to the independent directors amounted to Saudi Riyals Nil (2015: Saudi Riyals 0.04 million).

30 Financial risk management objectives and policies

Financial risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing operations and each individual within the Company is accountable for the risk exposures relating to respective responsibilities. The Company's policy is to monitor business risks through strategic planning process.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Board Audit committee

The board audit committee is appointed by the Board of Directors. The board audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company.

Internal audit

All key operational, financial and risk management processes are audited by internal audit. Internal audit examines the adequacy of the relevant policies and procedures and the Company's compliance with internal policies and regulatory guidelines. Internal audit discusses the results of all assessment with management and reports its findings and recommendations to board audit committee.

The risks faced by the Company and the way these risks are mitigated are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals thousands unless otherwise stated)

Credit risk mainly comprises of cash and cash equivalents, time deposits, trade receivables, loans and other receivables. Cash and cash equivalents and time deposits are placed with banks with sound credit ratings. The majority of trade receivables (98%) is from founding shareholders with historically strong credit ratings, and is stated at respective realizable values. For trade receivables from third parties, the Company has a credit insurance policy with a reputable insurance service provider. The Company does not obtain collaterals over receivables. As at December 31, 2016, there were minimal overdue debts equivalent to 1.9% (2015: 10.3%) of the trade receivables of Company's allowed credit periods. The loans are receivable from utility service provider and employees and are secured by utility payments and mortgages on the related housing units, respectively. The Company is not exposed to significant credit risk on other receivables.

Commodity price risk

The Company is exposed to the risk of fluctuations in the prevailing market prices on the refined and petrochemical products it produces. The Company's policy is to manage these risks through the use of contract-based prices with major customers, based on the agreements entered by the Company (Note 3). The Company does not enter into commodity price hedging arrangements.

Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risks arise mainly from its short-term deposits, loans from banks and financial institutions and loans from founding shareholders, which are at floating rate of interest and are subject to re-pricing on a regular basis.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US Dollars. The Company's management monitors the fluctuation in currency exchange rates and believes that currency risk is not significant to the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on regular basis and the Company ensures that sufficient liquid funds are available to meet any commitments as they arise. The Company aims to maintain sufficient level of its cash and cash equivalents to meet expected cash outflows of financial liabilities.

The Company's financial liabilities consist of trade and other payables, loans and borrowings, capital lease liabilities and certain other liabilities. All financial liabilities except for loans and borrowings, capital lease liabilities and certain employee related liabilities which are non-current in nature, are non-commission bearing and expected to be settled within 12 months from the date of balance sheet.

The following analysis provides the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant, except for liabilities against capital leases which is stated at future minimum lease payments.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
2016				
Loans and borrowings	3,105,675	3,637,489	20,763,175	13,274,192
Liabilities against capital leases	46,997	46,997	141,018	665,500
Trade and other payables	7,256,457	-	-	-
Accrued expenses and other liabilities	886,579	-	-	-
2015				
Loans and borrowings	3,255,130	7,211,424	14,357,747	12,856,336
Liabilities against capital leases	47,024	46,997	141,018	712,497
Trade and other payables	3,510,534	-	-	-
Accrued expenses and other liabilities	1,072,600	-	-	-

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

31 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consists of cash and cash equivalents and time deposits, trade receivables, investment, loan and other receivables and its financial liabilities consist of trade and other payables, loans and borrowings, capital lease liabilities and other liabilities. The fair values of the financial instruments are not materially different from their carrying values.

32 Approval and authorization for issue

These financial statements were approved and authorized for issue by the Board of Directors of the Company in their meeting held on Jumada Awwal 25, 1438H (February 22, 2017).