

**National Petrochemical Company (Petrochem)  
and its Subsidiaries**

**(A Saudi Joint Stock Company)**

**INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS (UNAUDITED)**

**FOR THE THREE MONTH PERIOD ENDED  
31 MARCH 2014**

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

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INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2014

<b>INDEX</b>	<b>PAGE</b>
Auditors' limited review report	1
Interim consolidated balance sheet	2
Interim consolidated statement of income	3
Interim consolidated statement of cash flows	4
Interim consolidated statement of changes in equity	5
Notes to the interim consolidated financial statements	6-11

## REVIEW REPORT

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


### Scope of review

We have reviewed the accompanying interim consolidated balance sheet of National Petrochemical Company -a Saudi Joint Stock Company- ("Petrochem") and its subsidiaries as at 31 March 2014, and the related interim consolidated statements of income, cash flows and changes in equity for the three month period then ended. These interim consolidated financial statements are the responsibility of Petrochem's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organisation for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Conclusion

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

For Ernst & Young



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



Riyadh: 17 Jumada Al-Thani 1435H  
(17 April 2014)

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

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 March 2014

(Amounts in SR'000)

	Notes	31 March 2014	31 March 2013
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		706,151	405,544
Receivables, cash margins and other assets		1,058,370	368,122
Amount due from related parties		77,471	186,904
Inventories		1,025,010	773,749
<b>TOTAL CURRENT ASSETS</b>		<b>2,867,002</b>	<b>1,734,319</b>
<b>NON-CURRENT ASSETS</b>			
Employee loans		39,340	22,695
Project under construction	4	33,485	870,464
Deferred charges		68,413	99,978
Property, plant and equipment		18,230,546	18,104,151
<b>TOTAL NON-CURRENT ASSETS</b>		<b>18,371,784</b>	<b>19,097,288</b>
<b>TOTAL ASSETS</b>		<b>21,238,786</b>	<b>20,831,607</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payables, accrued expenses and other liabilities		569,951	494,901
Amount due to related parties		150,680	255,386
Current portion of term loans	5	925,504	565,044
Short term loan	6	600,000	-
Zakat provision	7	85,900	50,458
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,332,035</b>	<b>1,365,789</b>
<b>NON-CURRENT LIABILITIES</b>			
Term loans	5	11,967,831	12,893,331
Subordinated loan from a non-controlling partner in a subsidiary	8	1,131,798	928,361
Employees' terminal benefits		24,897	13,647
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,124,526</b>	<b>13,835,339</b>
<b>TOTAL LIABILITIES</b>		<b>15,456,561</b>	<b>15,201,128</b>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	4,800,000	4,800,000
Statutory reserve		1,780	1,780
Accumulated losses		(539,953)	(616,175)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,261,827</b>	<b>4,185,605</b>
Non controlling interest		1,520,398	1,444,874
<b>TOTAL EQUITY</b>		<b>5,782,225</b>	<b>5,630,479</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>21,238,786</b>	<b>20,831,607</b>

The attached notes 1 to 15 form an integral part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the three month period ended 31 March 2014

(Amounts in SR'000)

	<i>Note</i>	<i>For the three month period ended 31 March 2014</i>	<i>For the three month period ended 31 March 2013</i>
Sales		1,709,954	689,103
Cost of sales		(1,253,797)	(516,710)
<b>GROSS PROFIT</b>		<b>456,157</b>	<b>172,393</b>
<b>EXPENSES</b>			
Selling and distribution		(116,198)	(52,772)
General and administration		(59,108)	(58,317)
<b>TOTAL EXPENSES</b>		<b>(175,306)</b>	<b>(111,089)</b>
<b>INCOME FROM MAIN OPERATIONS</b>		<b>280,851</b>	<b>61,304</b>
Financial charges		(41,897)	(51,687)
<b>INCOME BEFORE NON-CONTROLLING INTEREST AND ZAKAT</b>		<b>238,954</b>	<b>9,617</b>
Non-controlling interest share in net income of the subsidiaries		(86,490)	(776)
<b>INCOME BEFORE ZAKAT</b>		<b>152,464</b>	<b>8,841</b>
Zakat	7	(11,447)	(10,174)
<b>NET INCOME (LOSS)</b>		<b>141,017</b>	<b>(1,333)</b>
<b>EARNING (LOSS) PER SHARE (SR)</b>	10		
Attributable to the income from main operations		0.59	0.13
Attributable to the net income (loss)		0.29	(0.003)

The attached notes 1 to 15 form an integral part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the three month period ended 31 March 2014

(Amounts in SR'000)

	<i>For the three month period ended 31 March 2014</i>	<i>For the three month period ended 31 March 2013</i>
<b>OPERATING ACTIVITIES</b>		
Income before zakat	152,464	8,841
Adjustments for:		
Employees' terminal benefits, net	3,204	(517)
Depreciation and amortization	206,927	197,619
Non-controlling interest share in net income of the subsidiaries	86,490	776
Changes in operating assets and liabilities:		
Receivables, cash margins and other assets	(292,594)	(64,434)
Inventories	(94,053)	(344,645)
Accounts payable, accrued expenses and other liabilities	(37,635)	86,293
Related parties, net	104,428	190,090
Zakat paid	(445)	(105)
<b>Net cash from operating activities</b>	<b>128,786</b>	<b>73,918</b>
<b>INVESTING ACTIVITY</b>		
Purchase of property, plant and equipment	(95,343)	(489)
<b>Net cash used in investing activity</b>	<b>(95,343)</b>	<b>(489)</b>
<b>FINANCING ACTIVITY</b>		
Subordinate loan from a non-controlling partner	-	164,065
<b>Net cash from financing activity</b>	<b>-</b>	<b>164,065</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>33,443</b>	<b>237,494</b>
Cash and cash equivalents at the beginning of the period	672,708	168,050
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>706,151</b>	<b>405,544</b>

The attached notes 1 to 15 form an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

(Amounts in SR'000)

The attached notes 1 to 15 form an integral part of these interim consolidated financial statements.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -CONTINUED  
31 March 2014

## 1. ORGANIZATION AND ACTIVITIES

National Petrochemical Company ("Petrochem") is a Saudi joint stock company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010246363 dated 8 Rabi Al Awal 1429H (corresponding to 16 March 2008), and was formed pursuant to the ministry of commerce and industry's resolutions numbered 53/Q dated 16 Safar 1429H (corresponding to 23 February 2008).

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

## 2. BASIS OF CONSOLIDATION

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

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

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

The subsidiaries included in these interim consolidation financial statements are as follows:

Subsidiaries companies	Shareholding %		Country of Incorporation
	2014	2013	
Saudi Polymers Company ("SPCo")	65	65	Saudi Arabia
Gulf Polymers Distribution Company FZCO	65	65	UAE

### SAUDI POLYMERS COMPANY ("SPCo")

Is a mixed limited liability company, registered in Jubail in the Kingdom of Saudi Arabia under registration numbered 2055008886 dated 29 Dhu Al Qedah 1428H (corresponding to 9 December 2007). SPCo is engaged in production and sale of ethylene, propylene, hexene, gasoline, high and low density polyethylene, polypropylene and polystyrene. At 1 October 2012, SPCo completed its trial operation and announced the commercial production.

Saudi Polymers' has faced certain interruption in production during 2013 due to certain technical problems in certain production units. Further, an unscheduled disruption of production has been announced during March 2014.

### GULF POLYMERS DISTRIBUTION COMPANY FZCO ("GPDCo")

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -CONTINUED  
31 March 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements have been prepared in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted by Petrochem in preparing its interim consolidated financial statements, summarized below, are consistent with those used in the preparation of the last audited consolidated financial statements for the year ended 31 December 2013. The interim consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the related notes for the year ended 31 December 2013.

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

### *Accounting convention*

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

### *Use of estimates*

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

### *Cash and cash equivalents*

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

### *Accounts receivable*

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

### *Inventories*

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

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

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

Property, plant and equipment are stated at cost net of accumulated depreciation. Expenditure for maintenance and repairs is expensed, while expenditure for improvement is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight- line method.

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

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

### *Project under construction*

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

### *Deferred charges / amortization*

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -CONTINUED  
31 March 2014

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

### *Impairment of non-current assets*

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

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

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

### *Accounts payable and accruals*

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

### *Provisions*

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

### *Zakat and income tax*

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

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

### *Employees' terminal benefits*

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

### *Borrowing costs*

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

### *Statutory reserve*

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

### *Revenue recognition*

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

### *Expenses*

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -CONTINUED  
31 March 2014

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

*Foreign currencies*

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

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

*Segment reporting*

A segment is a distinguishable component of Petrochem and its subsidiaries that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

*Fair value*

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

**4. PROJECT UNDER CONSTRUCTION**

This item comprises cost of construction works of Saudi polymers plant (the "Plant"). The plant has completed its trial operation and announced its commercial production during the fourth quarter of 2012. Therefore, the balances related to the plant construction after this announcement have been transferred to the property, plant and equipment.

As at 31 March 2014 and 2013, the balance represent cost of construction works of some additional units and facilities in the plant

**5. TERM LOANS**

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

**6. SHORT TERM LOAN**

During the fourth quarter of 2013, Petrochem has obtained a short-term Tawarq financing from a local commercial bank. The loan carries commission at normal commercial rates. The loan is secured by promissory notes, also the loan agreement contains covenants which provides that profit margin should be settled semi-annually and outstanding Tawarq financing should be extended every six months and for two years as a maximum.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -CONTINUED  
31 March 2014

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**7. ZAKAT**

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

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

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

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

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

This represent subordinated loan from Arabian Chevron Petrochemical Company Limited (the “non-controlling partner”), which is a commission free loan granted from the partners to SPCo in proportion of their shareholding in the company, and its settlement is subject to the minimum level required to be maintained by the terms of the loan facility agreements granted by SIDF (Note 5).

**9. SHARE CAPITAL**

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

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

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

**11. INTERIM RESULTS**

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

**12. CONTINGENT LIABILITIES**

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

Petrochem’s and its subsidiaries local bankers have issued, on their behalf and during the normal course of business cycle, bank guarantees of SR 910 million which included SR 857 million from SPCo to the benefit of Saudi Aramco Company for feedstock cost (2013: SR 913 million).

National Petrochemical Company (Petrochem) and its Subsidiaries  
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -CONTINUED  
31 March 2014

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**13. SEGMENTAL INFORMATION**

In respect of performance appraisal and allocation of resources, Petrochem's management is of the opinion that all activities and operations of Petrochem and its subsidiaries comprise single operating segment i.e. petrochemical sector. Therefore, financial reports are issued only for geographical segments.

Operating assets of Petrochem and its subsidiaries are located in the Kingdom of Saudi Arabia. Petrochem and its subsidiaries sales are geographically distributed between domestic sales in the Kingdom by 4% (2013: 5%), overseas sales to Asia by 67% (2013 : 76%) and to European countries and Africa by 29% (2013 : 19%).

**14. CAPITAL COMMITMENTS**

The balance of unused capital expenditure approved by the board of directors in connection with the construction of additional units and facilities for Saudi Polymers plant was SR 47 million (2013: SR Nil).

**15. COMPARATIVE FIGURES**

Certain of the prior period amounts have been reclassified to conform with the presentation in the current period.