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

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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Building a better working world

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of National Petrochemical Company - A Saudi Joint Stock Company - ("Petrochem") and its subsidiaries as at 31 December 2013 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of Petrochem's and its subsidiaries management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion

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

i) present fairly, in all material respects, the consolidated financial position of Petrochem and its subsidiaries as at 31 December 2013 and its consolidated results of operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) Comply with the requirements of the Regulations for Companies and Petrochem's By-Laws, in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

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

Riyadh: 23 Rabi Al-Thani 1435H
(23 February 2014)

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2013
(Amounts in SR '000)

	Note	**2013**	2012
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	**672,708**	168,050
Receivables, cash margin and other assets	5	**791,726**	313,908
Amounts due from related parties	6	**152,916**	172,117
Inventory	7	**930,957**	429,100
TOTAL CURRENT ASSETS		**2,548,307**	1,083,175
NON-CURRENT ASSETS			
Employees loan	5	**13,388**	11,445
Project under construction	8	**-**	889,504
Deferred charges	9	**74,786**	107,183
Property, plant and equipment	10	**18,369,244**	18,295,302
TOTAL NON-CURRENT ASSETS		**18,457,418**	19,303,434
TOTAL ASSETS		**21,005,725**	20,386,609
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Payables, accrued expenses and other liabilities	11	**607,586**	427,838
Amounts due to related parties	6	**121,697**	50,510
Current portion of term loans	12	**925,504**	565,043
Short term loan	13	**600,000**	-
Zakat	14	**74,898**	40,389
TOTAL CURRENT LIABILITIES		**2,329,685**	1,083,780
NON-CURRENT LIABILITIES			
Term loans	12	**11,967,831**	12,893,332
Subordinated loan from non-controlling partner in a subsidiary	15	**1,131,797**	764,297
Employees' terminal benefits		**21,694**	14,164
TOTAL NON-CURRENT LIABILITIES		**13,121,322**	13,671,793
TOTAL LIABILITIES		**15,451,007**	14,755,573
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	16	**4,800,000**	4,800,000
Statutory reserve		**1,780**	1,780
Accumulated losses		**(680,970)**	(614,842)
TOTAL SHAREHOLDERS' EQUITY		**4,120,810**	4,186,938
Non-controlling interests		**1,433,908**	1,444,098
TOTAL EQUITY		**5,554,718**	5,631,036
TOTAL LIABILITIES AND EQUITY		**21,005,725**	20,386,609

The accompanying notes from 1 to 27 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2013
(Amounts in SR '000)

	Note	2013	2012
Sales		**4,436,677**	857,875
Cost of sales		**(3,710,162)**	(1,336,737)
GROSS PROFIT (LOSS)		**726,515**	(478,862)
EXPENSES			
Selling and marketing	17	**(310,568)**	(52,936)
General and administrative	18	**(250,516)**	(150,495)
INCOME (LOSS) FROM MAIN OPERATIONS		**165,431**	(682,293)
Other income	19	**-**	50,776
Financial charges, net		**(203,439)**	(14,446)
LOSS BEFORE NON-CONTROLLING INTEREST AND ZAKAT		**(38,008)**	(645,963)
Non-controlling interest share in net loss of the subsidiaries		**10,190**	221,393
LOSS BEFORE ZAKAT		**(27,818)**	(424,570)
Zakat	14	**(38,310)**	(38,967)
NET LOSS FOR THE YEAR		**(66,128)**	(463,537)
EARNING (LOSS) PER SHARE FOR THE YEAR (SR)	20		
Attributable to income (loss) from main operations		**0.34**	(1.42)
Attributable to net loss		**(0.14)**	(0.97)

The accompanying notes from 1 to 27 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2013
(Amounts in SR '000)

	2013	2012
OPERATING ACTIVITIES		
Loss before zakat	**(27,818)**	(424,570)
Adjustments for:		
Employees' terminal benefits, net	**7,530**	6,528
Depreciation and amortization	**819,114**	201,644
Non-controlling interests share in net loss of the subsidiaries	**(10,190)**	(221,393)
Changes in operating assets and liabilities:		
Receivable, cash margin and others assets	**(479,763)**	(226,107)
Inventory	**(501,857)**	(373,000)
Payables, accrued expenses and other liabilities	**209,093**	182,325
Related parties, net	**90,388**	53,347
Zakat paid	**(3,801)**	(39,156)
Net cash from (used in) operating activities	**102,696**	(840,382)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(498)**	(127,623)
Project under construction	**-**	(1,442,039)
Net cash used in investing activities	**(498)**	(1,569,662)
FINANCING ACTIVITIES		
(Repayments) proceeds from term loans, net	**(565,040)**	121,597
Proceeds from short term loan	**600,000**	-
Subordinated loan from a non-controlling partner in a subsidiary	**367,500**	749,437
Net cash from financing activities	**402,460**	871,034
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**504,658**	(1,539,010)
Cash and cash equivalents at the beginning of the year	**168,050**	1,707,060
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**672,708**	168,050
SIGNIFICANT NON-CASH TRANSACTIONS		
Property, plant and equipment transferred from project under construction (note 10)	**860,161**	18,358,762
Project under construction transferred to affiliates (note 6)	**-**	208,553

The accompanying notes from 1 to 27 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013
(Amounts in SR '000)

	Attributable to the shareholders' equity					
	Share capital	*Statutory reserve*	*Accumulated losses*	*Shareholders' equity total*	*Non-controlling interest*	*Total*
Balance as at 31 December 2011	4,800,000	1,780	(151,305)	4,650,475	1,665,491	6,315,966
Net loss for the year	-	-	(463,537)	(463,537)	-	(463,537)
Non-controlling interest	-	-	-	-	(221,393)	(221,393)
Balance as at 31 December 2012	4,800,000	1,780	(614,842)	4,186,938	1,444,098	5,631,036
Net loss for the year	-	-	(66,128)	(66,128)		(66,128)
Non-controlling interest	-	-	-	-	(10,190)	(10,190)
Balance as at 31 December 2013	**4,800,000**	**1,780**	**(680,970)**	**4,120,810**	**1,433,908**	**5,554,718**

The accompanying notes from 1 to 27 form an integral part of these consolidated financial statements.

1. ORGANIZATION AND ACTIVITIES

National Petrochemical Company ("Petrochem") is a Saudi joint stock company registered in Riyadh, in the Kingdom of Saudi Arabia under commercial registration number 1010246363 dated 8 Rabi Awal 1429H (corresponding to 16 March 2008), and was formed pursuant to the ministry of commerce and industry's resolutions numbered 53Q dated 16 Safar 1429H, (corresponding to 24 February 2008).

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

2. BASIS OF CONSOLIDATION

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

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

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

The subsidiaries included in these financial statements are as follows:

		Shareholding %		Country of Incorporation
		2013	2012	
Saudi Polymers Company ("SPCo")	Subsidiary	**65**	65	Saudi Arabia
Gulf Polymers Distribution Company FZCO	Subsidiary	**65**	65	UAE

SAUDI POLYMERS COMPANY ("SPCo")
Is a mixed limited liability company, registered in Jubail in the Kingdom of Saudi Arabia under registration number 2055008886 dated 29 Dhul-Qadah 1428H (corresponding to 9 December 2007).
SPCo is engaged in production and sale of ethylene, propylene, hexene, gasoline, high and low density polyethylene, polypropylene and polystyrene. At 1 October 2012, SPCo completed its trial operation and announced the commercial production.
On 10 November 2012 SPCo announced unplanned shutdown due to some technical problems in some of its production units. On 19 January 2013 SPCo completed the maintenance process and resumed the commercial production.
On 30 June 2013, an unscheduled disruption of the production was announced due to technical fault in one of the units of the project. On 15 July 2013 SPCo completed the maintenance and resumed production.
In addition on 22 September 2013, announced an unscheduled disruption of SPCo production, However it has announced the resumption of the production on 4 October 2013.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The figures in these consolidated financial statements are rounded to nearest thousand. The significant accounting policies adopted are as follows.

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

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

Cash and cash equivalents
Cash and cash equivalents consists of bank balances, cash on hand, and short term deposits that are readily convertible into known amounts of cash and have a maturity of three months or less when placed.

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

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

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

Project under construction
Project under construction appears at cost until the asset is ready for its intended use, thereafter; they are 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 consolidated statement of income.

Property, plant and equipment / Depreciation
Property, plant and equipment are stated at cost net of accumulated depreciation except for Platinum (precious metal) which is stated at cost and is not depreciated. Expenditure for maintenance and repairs is expensed, while expenditure for improvement is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight- line method.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Zakat and income tax
Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final Zakat assessments are adjusted in the year of their finalization. Foreign shareholders in subsidiaries are subject to income tax which is included in non-controlling interest in the consolidated financial statements.
Zakat provision is calculated based on the individual zakat base of Petrochem and its subsidiaries.

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

4. CASH AND CASH EQUIVALENTS

(Amounts in SR '000)	*2013*	*2012*
Bank balances and cash in hand	**672,708**	65,800
Time deposits	**-**	102,250
	672,708	168,050

5. RECEIVABLES, CASH MARGIN AND OTHER ASSETS

(Amounts in SR '000)	*2013*	*2012*
Trade receivable	**688,024**	242,381
Cash margin	**53,093**	53,093
Prepaid expenses	**20,599**	3,667
Employees loan – current portion *	**14,098**	7,597
Other	**15,912**	7,170
	791,726	313,908

* Represents commission free housing loans provided to Saudi employees in Petrochem and its subsidiaries to buy or build housing unit and are secured by mortgage over property purchased under employee home ownership program. The loans are repayable in monthly installments within a maximum period of 15 years.

6. RELATED PARTIES TRANSACTIONS

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

(Amounts in SR '000)

Related party	Nature of transaction	Amount of transaction 2013	2012
Majority shareholder	Bank guarantee commission	1,020	1,285
	Finance commission	465	-
	Shared services provided	1,092	810
	Financing	25,018	-
Non-controlling partner in a subsidiary	Proceeds from subordinated loan	367,500	749,437
	Marketing fees	184,997	37,019
Committees, board of directors and Petrochem's senior executive	Expenses, remunerations, salaries and benefits	4,721	3,853
Affiliated companies	Services provided	600,101	214,369
	Projects under construction transferred to affiliates	-	208,553
	Sales	492,864	128,486
	Purchases	(1,037,914)	(568,684)

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

7. INVENTORY

(Amounts in SR '000)	2013	2012
Finished goods	**598,954**	101,988
Spare parts	**150,019**	150,015
Raw materials	**141,893**	154,031
Catalyst	**40,091**	23,066
	930,957	429,100

8. PROJECT UNDER CONSTRUCTION

This item comprises cost of construction works of Saudi Polymers Company project (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 December 2012, the balance represent cost of construction works of some units and additional facilities in the Saudi Polymers Company plant.

9. DEFERRED CHARGES

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

(Amounts in SR '000)	***2013***	*2012*
Cost		
At the beginning and ending of the year	**238,369**	238,369
Amortization		
At the beginning of the year	**131,186**	88,166
Capitalized on projects under construction during the year	**-**	33,308
Charged as expenses during the year	**32,397**	9,712
At the end of the year	**163,583**	131,186
Net book value	**74,786**	107,183

10. PROPERTY, PLANT AND EQUIPMENT

(Amounts in SR '000)	*Buildings*	*Platinum*	*Leasehold improvement*	*Furniture and office equipment*	*Computers and communication devices*	*Vehicles*	*Plant and equipment*	***Total 2013***	*Total 2012*
Cost:									
At the beginning of the year	676,091	24,758	461	138,259	339	27,853	17,620,642	**18,488,403**	2,018
Additions	-	-	-	-	9	489	-	**498**	127,623
Transferred from project under construction (note 8)	3,863	(296)	-	3,514	-	379	852,701	**860,161**	18,358,762
At the end of the year	679,954	24,462	461	141,773	348	28,721	18,473,343	**19,349,062**	18,488,403
Depreciation:									
At the beginning of the year	6,761	-	352	7,081	163	2,185	176,559	**193,101**	1,169
Charge for the year	27,049	-	92	28,000	98	5,567	725,911	**786,717**	191,932
At the end of the year	33,810	-	444	35,081	261	7,752	902,470	**979,818**	193,101
Net book amounts:									
At 31 December 2013	**646,144**	**24,462**	**17**	**106,692**	**87**	**20,969**	**17,570,873**	**18,369,244**	
At 31 December 2012	669,330	24,758	109	131,178	176	25,668	17,444,083		18,295,302

The plant is constructed on land leased from the Royal Commission for Jubail and Yanbu. The lease is initially for a period of 30 years commencing from 29 Thul-Qi'dah 1428H (corresponding 9 December 2007) and is renewable for further periods thereafter.

The machinery and equipment of the plant are pledged as collaterals against loan facilities (note 12).

11. PAYABLES, ACCRUED EXPENSES AND OTHER LIABILITIES

(Amounts in SR '000)	*2013*	*2012*
Trade payable	**299,040**	345,135
Accrued expenses	**287,099**	75,630
Accrued bank commission	**1,653**	-
Other liabilities	**19,794**	7,073
	607,586	427,838

12. TERM LOANS

Term loans represent the drawn portion out of loan facilities obtained from the following parties to finance the construction work in progress of plant:

(Amounts in SR '000)		*Outstanding Balance*	
	Nominal Value	*2013*	*2012*
Syndicated commercial banks	**7,045,875**	**6,693,585**	7,045,875
Syndicated commercial banks – guaranteed	**2,212,500**	**2,079,750**	2,212,500
Public Investment Fund ("PIF")	**3,000,000**	**2,970,000**	3,000,000
Saudi Industrial Development Fund	**1,200,000**	**1,150,000**	1,200,000
		12,893,335	13,458,375
Less: Current portion of term loans			
Syndicated commercial banks		**422,754**	352,294
Syndicated commercial banks – guaranteed		**132,750**	132,750
Public Investment Fund ("PIF")		**240,000**	30,000
Saudi Industrial Development Fund		**130,000**	49,999
Current portion of term loans		**925,504**	565,043
		11,967,831	12,893,332

The loan obtained from syndicated commercial banks carries commission at Libor plus 0.08% to 1.15%. The repayment of this loan commenced on 15 June 2013 and on 22 semi-annual installments with an amount ranges from 2 %– 20% of the utilized loan amount.

The US Ex-IM guaranteed loan obtained from syndicated commercial banks carries commission at Libor plus 0.06%. The repayment of this loan commenced on 15 June 2013 and on 22 semi-annual installments with an amount ranges from 3 – 8% of the utilized loan amount.

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

12. TERM LOANS – continued

The loans obtained from SIDF carries upfront commission at 7.5% of the nominal amounts of the loans. The repayment of this loan commenced on 18 December 2013 on 14 semi-annual installments with an amount ranges from 4.2% to 8.3% of the utilized loan amount.

The loans are secured by charge and assignment of residual proceeds of plant and equipment, charge and assignment over secured project documents, charge and assignment over SPCo's offshore bank accounts of the project and pledge and assignment over each of Petrochem and SPCo onshore bank accounts of the project, in addition, the assignment of insurance proceeds and the technology rights.

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

13. SHORT TERM LOAN

During 2013, Petrochem has obtained a short-term loan (Tawarq) from a local commercial bank. The loan carries commission at normal commercial rates. The loan is secured by promissory notes. The loan agreement contains covenants which provided that profit margin should be settled semi-annually and existing Tawarq finance should be extended every six months and for two years as a maximum.

14. ZAKAT

Charge for the year
Zakat charge for the year amounting to SR 38.3 million (2012: SR 38.9 million) consists of current year's provision. The provision for the year is based on individual zakat base of Petrochem and its subsidiaries.

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

(Amounts in SR '000)	*2013*	*2012*
At the beginning of the year	**40,389**	40,578
Provided during the year	**38,310**	38,967
Paid during the year	**(3,801)**	(39,156)
At the end of the year	**74,898**	40,389

Status of assessments
As for Petrochem, zakat returns, have been filed with DZIT for all prior years up to 2012, and zakat was settled accordingly. The DZIT has raised the zakat assessments for 2008 which showed zakat difference of SR 53 million. Petrochem has filed an appeal against this assessment which is still pending before the Higher Appeal Committee. Based on the zakat consultant`s opinion, the management believes that the ultimate outcome of this appeal will be 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.

As for SPCo, zakat returns have been filed with the DZIT for previous years up to 2012. The DZIT has raised the zakat assessment for 2008. Final assessments for the years from 2009 to 2012 have not been raised yet by DZIT.

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

15. SUBORDINATED LOAN FROM A NON-CONTROLLING PARTNER IN A SUBSIDIARY

Subordinated loan from Arabian Chevron Petrochemical Company Limited (the "non-controlling partner") is a commission free loan granted from the partners to SPCo in proportion of their shareholding in the company, and its settlement is subject to the minimum level required to be maintained by the terms of the loan facility agreements granted by SIDF (note 12).

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

(Amounts in SR '000)	*2013*	*2012*
At the beginning of the year	**764,297**	14,860
Proceeds received	**367,500**	749,437
	1,131,797	764,297

16. SHARE CAPITAL

Share capital of Petrochem is divided into 480 million shares of SR 10 each (2012: 480 million shares).

17. SELLING AND MARKETING EXPENSES

(Amounts in SR '000)	*2013*	*2012*
Marketing fees	**184,997**	37,019
Support services and general utilities	**64,268**	8,126
Warehouses rent and maintenance	**45,330**	5,985
Employees costs	**6,799**	1,373
Others	**9,174**	433
	310,568	52,936

18. GENERAL AND ADMINSTRATION EXPENSES

(Amounts in SR '000)	*2013*	*2012*
Employee salaries and benefits	**147,434**	106,429
Depreciation	**65,320**	23,765
Expenses and fees of committees and board of directors of Petrochem, salaries and benefits of senior executives	**4,721**	3,853
Bank commission	**4,531**	2,385
Professional fees	**3,181**	1,278
Utilities	**2,533**	438
Rent	**2,492**	1,550
Fees and subscription	**723**	768
Travel	**62**	254
Others	**19,519**	9,775
	250,516	150,495

19. OTHER INCOME

The balance in the year 2012 represent the net profit earned from sale of products in the trial production period.

20. EARNING (LOSS) PER SHARE

The earning (loss) per share are calculated by dividing income (loss) from main operations and net loss for the year by the number of shares during the year 2013 amounting to 480 million shares (2012: 480 million share).

21. SEGMENT INFORMATION

Petrochem's management is of the opinion that all activities and operations of Petrochem and its subsidiaries comprise single operational segment in respect of performance appraisal and allocation of resources. Consequently, financial reports are issued only for geographical segments.

Operating assets of Petrochem and its subsidiaries are located in the Kingdom of Saudi Arabia. Petrochem and its subsidiaries sales are geographically distributed between domestic sales in the Kingdom by 4% (2012: 4%), overseas sales to Asia by 67% (2012: 83%) and to European countries and Africa by 29% (2012: 13%).

22. CONTINGENT LIABILITIES

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

Petrochem and its subsidiaries local banks have issued, on their behalf and during the normal course of business cycle, bank guarantees of SR 913 million (2012: SR 913 million) which included SR 860 million (2012: SR 860 million) provided from SPCo to the benefit of Saudi Aramco Company for feedstock cost.

23. CAPITAL COMMITMENTS

The balance of unused capital expenditure approved by the board of directors in connection with the construction of the additional units and facilities for Saudi Polymers plant was SR 271.9 million (2012: SR 39.4 million related to the plant construction).

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The financial assets of Petrochem and its subsidiaries consist of cash and cash equivalents, trade receivable and other assets, and its financial liabilities consist of accrued expenses, trade payable, other liabilities, term loans and subordinated loan from a non-controlling partner. The fair values of financial instruments are not materially different from their carrying values.

25. RISK MANAGEMENT

Commission rate risk
Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. Petrochem and the subsidiaries are subject to commission rate risk on their commission bearing assets and liabilities, including time deposits and term loans.

Liquidity risk
Liquidity risk is the risk that Petrochem or the subsidiaries will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by ensuring the availability of bank facilities.

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Petrochem and its subsidiaries did not undertake significant transactions in currencies other the Saudi Riyals and US Dollars during the year. As the Saudi Riyal is pegged to the US Dollar, Petrochem and its subsidiaries are not subject to significant currency risk.

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. Petrochem and its subsidiaries seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and constantly monitoring outstanding receivables balances. As the balance sheet date, no significant concentration of credit risk where identified by management. .

26. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the board of directors on 23 Rabi al-thani 1435H (Corresponding to 23 February 2014).

27. COMPARATIVE FIGURES

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