National Petrochemical Company
("Petrochem")
(A Saudi Joint Stock Company)

Consolidated Financial Statements

For the year ended 31 December, 2015
and independent auditor's report

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of National Petrochemical Company ("Petrochem")
(A Saudi Joint Stock Company)
Riyadh-Kingdom of Saudi Arabia

Scope of Audit:
We have audited the accompanying consolidated balance sheet of **National Petrochemical Company ("Petrochem" or "the Company")** as of December 31, 2015 and the related consolidated statements of income, cash flows and changes in equity for the year then ended, including the related notes from 1 to 24. The accompanying consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and presented 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 generally accepted auditing standards in the Kingdom of Saudi Arabia. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

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

- present fairly, in all material respects, the consolidated financial position of **National Petrochemical Company ("Petrochem")** as of December 31, 2015 and the consolidated results of its operations, cash flows and changes in equity for the year then ended in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia; and

- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

For Dr. Mohamed Al-Amri & Co.

M. A. Al-Amri

Dr. Mohamed Al-Amri
Certified Public Accountant
Registration No. 60

Jumada al-Awaal 13, 1437 H
February 22, 2016 G

National Petrochemical Company ("Petrochem")
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET
As at 31 December, 2015
(Amounts in SR'000)

	Note	***2015***	*2014*
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	**2,395,126**	1,171,853
Short term deposits		**640,000**	559,000
Accounts receivable		**850,227**	988,614
Prepayments and other receivables	4	**118,410**	85,261
Due from related parties	5	**222,771**	221,688
Inventories	6	**1,018,811**	1,243,139
TOTAL CURRENT ASSETS		**5,245,345**	4,269,555
NON-CURRENT ASSETS			
Employees loans	4	**48,625**	48,551
Projects under construction	7	**311,347**	104,224
Property, plant and equipment, net	8	**16,754,952**	17,630,931
TOTAL NON-CURRENT ASSETS		**17,114,924**	17,783,706
TOTAL ASSETS		**22,360,269**	22,053,261
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable		**127,147**	205,104
Accruals and other credit balances	9	**350,021**	370,448
Due to related parties	5	**204,148**	231,669
Current portion of term loans	11	**1,296,420**	1,145,503
Zakat	10	**274,755**	149,515
TOTAL CURRENT LIABILITIES		**2,252,491**	2,102,239
NON-CURRENT LIABILITIES			
Non-current portion of term loans	11	**9,492,315**	10,770,858
Sukuk	12	**1,200,000**	1,200,000
Subordinated loan from a non-controlling partner in a subsidiary	13	**1,066,172**	1,131,797
End of service benefits	14	**49,331**	34,441
TOTAL NON-CURRENT LIABILITIES		**11,807,818**	13,137,096
TOTAL LIABILITIES		**14,060,309**	15,239,335
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	1	**4,800,000**	4,800,000
Statutory reserve		**101,817**	11,128
Retained earnings		**900,332**	84,133
TOTAL SHAREHOLDERS' EQUITY		**5,802,149**	4,895,261
Non-controlling interests		**2,497,811**	1,918,665
TOTAL EQUITY		**8,299,960**	6,813,926
TOTAL LIABILITIES AND EQUITY		**22,360,269**	22,053,261

The attached notes from 1 to 24 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December, 2015
(Amounts in SR'000)

	Note	*For the year ended 31 December* 2015	2014
SALES		**7,304,171**	7,858,516
Cost of sales		**(4,822,401)**	(5,559,454)
GROSS PROFIT		**2,481,770**	2,299,062
EXPENSES			
Selling and marketing	15	**(467,651)**	(492,555)
General and administrative	16	**(251,544)**	(300,896)
INCOME FROM MAIN OPERATIONS		**1,762,575**	1,505,611
Finance charges	17	**(155,539)**	(174,191)
Other income		**4,300**	2,886
INCOME BEFORE ZAKAT AND NON-CONTROLLING INTERESTS		**1,611,336**	1,334,306
Zakat	10	**(125,302)**	(75,098)
INCOME BEFORE NON-CONTROLLING INTERESTS		**1,486,034**	1,259,208
Non-controlling interests share in net income of the subsidiaries		**(579,146)**	(484,757)
NET INCOME FOR THE YEAR		**906,888**	774,451
EARNINGS PER SHARE (SR)			
Income from main operations	**18**	**3.67**	3.14
Net income		**1.89**	1.61

The attached notes from 1 to 24 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December, 2015
(Amounts in SR'000)

	For the year ended 31 December	
	2015	*2014*
OPERATING ACTIVITIES		
Income before zakat and non-controlling interests	**1,611,336**	1,334,306
Adjustments to reconcile income before zakat and non-controlling interests to net cash provided by operating activities:		
End of service benefits, net	**14,890**	12,747
Depreciation	**804,001**	802,250
Amortization of deferred charges	**17,877**	23,318
Gain from disposal of property, plant and equipment	**-**	(125)
Movements in operating assets and liabilities:		
Accounts receivable	**138,387**	(300,590)
Prepayments and other receivables and employee loans	**(33,223)**	(16,722)
Inventories	**224,328**	(312,182)
Accounts payable	**(77,957)**	(39,158)
Accruals and other credit balances	**54,847**	7,124
Related parties, net	**(28,604)**	41,200
Zakat paid	**(62)**	(481)
Net cash provided by operating activities	**2,725,820**	1,551,687
INVESTING ACTIVITIES		
Short term deposit	**(81,000)**	(559,000)
Additions to property, plant and equipment and projects under construction	**(210,419)**	(168,161)
Proceeds from disposal of property, plant and equipment	**-**	125
Net cash used in investing activities	**(291,419)**	(727,036)
FINANCING ACTIVITIES		
Proceeds from Sukuk issuance	**-**	1,200,000
Term loans and short term loans repaid	**(1,145,503)**	(1,525,504)
Repayment of subordinated loan from a non-controlling partner in a subsidiary	**(65,625)**	-
Net cash used in financing activities	**(1,211,128)**	(325,504)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,223,273**	499,145
Cash and cash equivalents at the beginning of the year	**1,171,853**	672,708
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**2,395,126**	1,171,853

Non cash transactions

Adjustments to property, plant and equipment against accruals	**75,274**	-

The attached notes from 1 to 24 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December, 2015
(Amounts in SR'000)

	Share capital	*Statutory reserve*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total*
Balance as at 1 January, 2015	**4,800,000**	**11,128**	**84,133**	**4,895,261**	**1,918,665**	**6,813,926**
Net income for the year	**-**	**-**	**906,888**	**906,888**	**579,146**	**1,486,034**
Transfer to statutory reserve	**-**	**90,689**	**(90,689)**	**-**	**-**	**-**
Balance as at 31 December, 2015	**4,800,000**	**101,817**	**900,332**	**5,802,149**	**2,497,811**	**8,299,960**
Balance as at 1 January, 2014	4,800,000	1,780	(680,970)	4,120,810	1,433,908	5,554,718
Net income for the year	-	-	774,451	774,451	484,757	1,259,208
Transfer to statutory reserve	-	9,348	(9,348)	-	-	-
Balance as at 31 December, 2014	4,800,000	11,128	84,133	4,895,261	1,918,665	6,813,926

1. ORGANIZATION AND ACTIVITIES

National Petrochemical Company ("Petrochem" or "the Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration number 1010246363 dated 8 Rabi Al Awal, 1429H (corresponding to 16 March, 2008G), and was formed pursuant to the Ministry of Commerce and Industry`s resolution number 53Q dated 16 Safar, 1429H (corresponding to 23 February, 2008G).

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, and owning land, real estate and buildings for its own benefit. Details of the Group's operations are set out in note 2 below.

The Company's share capital amounts to SR 4,800,000,000 and consists of 480,000,000 shares with par value of SR 10 each.

The financial year of the Company and its subsidiaries starts on January 1 and ends on December 31 of each calendar year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention on the accruals basis of accounting in accordance with generally accepted accounting principles applicable in the Kingdom of Saudi Arabia. The figures in these consolidated financial statements are rounded to the nearest thousand. Significant accounting policies adopted in the preparation of these consolidated financial statements are summarized below:

Basis of Consolidation

For the purposes of consolidation, intra-Group transactions and balances are eliminated between the Company and its subsidiaries, and non-controlling interests (the Company's other partners in consolidated subsidiaries) are calculated based on the subsidiaries' net assets and net income.

The subsidiaries included in these consolidated financial statements are as follows:

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

Saudi Polymers Company ("SPCo")
SPCo is a Mixed Limited Liability Company, registered in Jubail in the Kingdom of Saudi Arabia under Commercial Registration number 2055008886 dated 29 Dhu Al Qedah, 1428H (corresponding to 9 December, 2007G). SPCo is engaged in production and sale of ethylene, propylene, hexene, gasoline, polyethylene, polypropylene and polystyrene.

Gulf Polymers Distribution Company FZCO ("GPDCo")
GPDCo is a Free Zone Limited Liability Company registered in the Dubai Airport Free Zone, in the United Arab Emirates, dated 12 Rabi Awal, 1432H (corresponding to 15 February, 2011G). GPDCo`s activity is restricted to selling and storing SPCo's polymer products.

Accounting Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgments which might affect the valuation of recorded assets, liabilities and the disclosure of contingencies in the notes to the consolidated financial statements at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the best information available to the management at the date of issuing the consolidated financial statements, the actual end results might differ from those estimates.

Accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years. The significant items of estimation uncertainty and critical adjustments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

- estimated useful economic lives and residual values of property, plant and equipment
- estimated costs of long term contracts
- allowances for doubtful debts
- provisions and accruals
- allowances for slow moving inventory

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, balances and deposits with banks, and all highly liquid investments with maturity of three months or less from their acquisition date.

Accounts Receivable
Accounts receivable is stated net of provisions. Provision is made for accounts receivable where recovery is considered doubtful by the management.

Employee Home Ownership Program
The Company has a home ownership program that offers home ownership opportunities for its Saudi employees. The Company provides interest-free housing loans for eligible employees to purchase or construct their own residential units. Such loans are repayable in installments over a maximum period of 15 years and are secured by mortgage over property purchases. The installments repayable within one year are classified as other receivables under current assets.

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

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

Net realizable value is selling price less costs to sell.

Investments in subsidiaries
Investments in subsidiaries are consolidated where the Company has control, which usually represents over 50% of their capitals.

Property, Plant and Equipment
Property, plant and equipment are stated at cost less accumulated depreciation except the platinum catalyst , which is stated at cost. Expenditure on 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 and residual values. Assets sold or otherwise disposed of and the related accumulated depreciation is removed from the accounts at the time of disposal. The estimated operational useful lives are as follows:

Buildings	25 years
Lease improvement	The lesser of lease period or 5 years
Plant and equipment	4 - 25 years
Office equipment and furniture	4 - 10 years
Computers and communications devices	4 years
Vehicles	4 - 5 years

Projects Under Construction
Projects under construction are accounted for at cost until the asset is ready for its intended use, thereafter they are capitalized in the relevant assets categories. Projects under construction include the cost of contractors, materials, services, borrowing costs, salaries and other direct costs and overheads allocated on a systematic basis. Projects under construction are not depreciated.

Turnaround costs

Planned turnaround costs are deferred and amortized over the period until the next planned turnaround. Should unplanned turnaround costs occur prior to the previously envisaged date of a planned turnaround, then the previously unamortized turnaround costs are immediately expensed and the new turnaround costs are deferred and amortized over the period likely to benefit from such costs. The amortization is charged to cost of sales in the consolidated statement of income.

Borrowings and Borrowing Costs

Borrowings are recognized at the proceeds received less transaction costs (deferred charges – see below). Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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, are charged to the consolidated statement of income.

Deferred charges comprise agency and upfront fees on term loans and are amortized over the period of the related loans using the effective rate method. 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.

Impairment of Non-Current Assets

At each balance sheet date, 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 any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates 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 loss is recognized as an expense in the consolidated statement of income immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss 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 or when the risks and rewards associated with the goods are transferred to the Group, whether invoice by the suppliers or not.

Zakat and Income Tax

Zakat is provided for in accordance with the Regulations of the Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on the accruals 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. The zakat charge is computed on the basis of the zakat base for each of the Company and its subsidiaries separately.

Foreign partners in subsidiaries are subject to income tax, which is included in non-controlling interests in the consolidated financial statements, if applicable.

Provisions

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

Employees' End of Service Benefits

Employees' end of service benefits, required by Saudi Arabian Labor Law, are provided in the consolidated financial statements based on the employees' length of service.

Statutory Reserve

In accordance with the Company's Articles of Association, 10% of annual net income is required to be set aside to form a statutory reserve until such reserve equals 50% of paid-in capital, at which time the Company may discontinue such transfers. The reserve is not currently available for distribution to the Shareholders.

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

All direct expenses related to revenue recognition including salaries, wages, cost of goods and indirect costs which are related to revenue, are recorded as cost of revenues. Selling and marketing expenses includes salaries, marketing and distribution expenses and indirect costs which are related to selling and marketing. All other expenses are recorded as general and administrative and expenses. Shared expenses are allocated between cost of revenues and general and administrative, and selling and marketing expenses, on a consistent basis as determined by management.

Foreign Currencies

The Company maintains its accounts in Saudi Riyals. Transactions denominated in foreign currencies are converted into Saudi Riyals at rates prevailing at the dates of such transactions. Monetary assets and liabilities recorded in foreign currencies are converted into Saudi Riyals at rates prevailing on the balance sheet date. Gains and losses from settlement and translation of foreign currencies are included in the consolidated statement of income.

Financial statements of foreign subsidiaries of the Company are translated into Saudi Riyals by using exchange rates prevailing on the balance sheet date for assets and liabilities, and average exchange rates for revenues, expenses, gains and losses. The remaining shareholders' equity, except retained earnings, is translated into Saudi Riyals using the prevailing exchange rate at the inception date for each item. Translation differences are recognized as a separate line item within shareholders' equity in the consolidated financial position.

Earnings per Share

Earnings per share are calculated by using the weighted average number of shares outstanding during the year. The Company's share capital consists of common shares only.

Segment reporting

A segment is a distinguishable component of the Group 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 values of commission-bearing items are estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

3. CASH AND CASH EQUIVALENTS

Bank balances of Saudi Polymers (Subsidiary Company) amounting to SR 2,325 million (31 December 2014: SR 1,124 million) are assigned as security against loan facilities from The Public Investment Fund and a consortium of commercial banks (note 11).

4. PREPAYMENTS AND OTHER RECEIVABLES

(Amounts in SR '000)	2015	2014
Prepaid expenses	**29,744**	29,995
Advances to suppliers	**51,734**	20,996
Cash margins	**16,455**	16,455
Employees loans - current portion	**18,577**	15,148
Others	**1,900**	2,667
	118,410	85,261
Non-current portion of employee loans	**48,625**	48,551

5. RELATED PARTIES TRANSACTIONS AND BALANCES

The following are the details of related parties transactions during the year ended 31 December:

(Amounts in SR '000)

Related party	Nature of transaction	Amount of transaction 2015	2014
Saudi Industrial Investment Group (majority shareholder)	Bank guarantee commissions charged	**698**	1,397
	Finance commissions charged	**-**	116
	Shared services provided	**1,092**	1,092
	Finance payments	**-**	(25,018)
	Investment in Sukuk		130,000
Arabian Chevron Phillips Petrochemical Company (non-controlling partner in a subsidiary)	Repayment of subordinated loan	**(65,625)**	-
Committees, Board of Directors and Petrochem's Senior Executives	Expenses, remunerations, salaries and benefits	**6,092**	5,253
Saudi Chevron Phillips Company (affiliated company)	Sales	**174,709**	290,843
	Purchases	**(38,616)**	(61,234)
	Cost of sales - services provided	**(282,476)**	(159,559)
	General & administration expenses - services provided	**(116,377)**	(126,514)
Jubail Chevron Phillips Company (affiliated company)	Sales	**94,215**	181,248
	Purchases	**(857,198)**	(1,357,410)
Chevron Phillips Chemical International Sales LLC (affiliated company)	General & administration expenses - services provided	**(157,654)**	(142,425)
	Marketing fees	**(293,258)**	(317,708)

The amounts due from and due to related parties were as follows:

Amounts due from related parties:

(Amounts in SR '000)	2015	2014
Saudi Chevron Phillips Company	**180,775**	185,581
Jubail Chevron Phillips Company	**41,996**	36,107
	222,771	221,688

Amounts due to related parties:

(Amounts in SR '000)	2015	2014
Saudi Industrial Investment Group	**356**	161
Saudi Chevron Phillips Company	**88,208**	72,196
Jubail Chevron Phillips Company	**71,953**	72,841
Chevron Phillips Chemical International Sales LLC	**43,631**	86,471
	204,148	231,669

Saudi Industrial Investment Group owns SR 130 million of the Company's Sukuk (2014: SR 130 million).

As set out in note 13, a non-controlling partner has provided a loan to one of the Group's subsidiaries, the amount outstanding as at December 31, 2015 being SR 1,066,172 thousand (2014: SR 1,131,797 thousand).

6. INVENTORIES

(Amounts in SR '000)	*2015*	*2014*
Finished goods	**549,840**	761,744
Spare parts	**354,052**	354,788
Raw materials	**1,718**	2,014
Catalysts	**113,201**	124,593
	1,018,811	1,243,139

7. PROJECTS UNDER CONSTRUCTION

Projects under construction amounting to SR 311,347 thousand as of 31 December 2015 related to the cost of construction of additional units and facilities for the plant in SPCo (2014: SR 104,224 thousand).

8. PROPERTY, PLANT AND EQUIPMENT, NET

(Amounts in SR '000)	*Buildings*	*Plant and equipment*	*Platinum catalyst*	*Furniture and office equipment*	*Computers and communication devices*	*Vehicles*	*Total*
Cost:							
At the beginning of the year	679,954	18,533,966	24,462	144,012	385	29,536	**19,412,315**
Transfer from projects under construction	1,770	1,526	-	-	-	-	**3,296**
Adjustments	(435)	(74,839)	-	-	-	-	**(75,274)**
At the end of the year	681,289	18,460,653	24,462	144,012	385	29,536	**19,340,337**
Depreciation:							
At the beginning of the year	61,013	1,643,253	-	63,925	313	12,880	**1,781,384**
Charge for the year	27,248	742,313	-	28,475	38	5,927	**804,001**
At the end of the year	88,261	2,385,566	-	92,400	351	18,807	**2,585,385**
Net book amounts:							
At 31 December 2015	**593,028**	**16,075,087**	**24,462**	**51,612**	**34**	**10,729**	**16,754,952**
At 31 December 2014	618,941	16,890,713	24,462	80,087	72	16,656	17,630,931

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 to 9 December 2007) and is renewable for further periods thereafter. The machinery and equipment of the plant are pledged as collateral against various loan facilities (note 11).

9. ACCRUALS AND OTHER CREDIT BALANCES

(Amounts in SR '000)	*2015*	*2014*
Accrued liabilities	**312,206**	340,142
Other liabilities	**37,815**	30,306
	350,021	370,448

10. ZAKAT AND INCOME TAX

The movement in the zakat provision for the year ended December 31 was as follows:

(Amounts in SR '000)	*2015*	*2014*
Balance at the beginning of the year	**149,515**	74,898
Zakat provision for the year	**125,302**	75,098
Payments during the year	**(62)**	(481)
Balance at the end of the year	**274,755**	149,515

Status of Zakat assessments of the Company

Zakat returns have been filed with the Department of Zakat & Income Tax (DZIT) up to the year 2014, zakat has been settled accordingly and the Company has received a restricted certificate. A number of assessments have been issued by the DZIT:

- DZIT has issued an assessment to the Company for the year 2014 claiming additional Zakat of SR 52.5 million. The Company has provided an appeal against the claim within the allowed period. The management believes that the provision made in the consolidated financial statements is adequate to cover any differences that may arise from this claim.
- DZIT has issued an assessment to the Company for the year 2012 claiming additional Zakat of SR 35.5 million. The Company has provided an appeal against the claim within the legal period. Since then, the DZIT has claimed for the years of 2011, 2012 and 2013, which combined, resulted in a difference of SR 95.5 million. This claim includes the 2012 difference that was appealed against by the Company. Petrochem is working on appealing against this claim during the allowed period.
- The DZIT Elementary Committee has issued a decision for the year 2010 and claimed an additional Zakat amount of SR 74.42 million. The Elementary Committee has issued its ruling, reducing the claim by the amount of SR 74.10 million and now claims additional Zakat amounting to SR 241,485. The Company and the DZIT appealed against the ruling before the Higher Appeal Committee. The management believes that the ultimate outcome of this appeal will be in the favor of Petrochem.

Status of Zakat and Income Tax Assessments for the Subsidiaries Companies

SPCo has filed zakat returns with the DZIT for all years up to the year 2014. The zakat assessment for the year 2008 has been finalized; however, final assessments for the years from 2009 to 2014 have not yet been raised by the DZIT.

SPCo has recorded a provision for income tax related to its non-Saudi partner for the year ended 31 December 2015 of SR 298 thousand. No income tax has been recognized in prior years due to taxable losses at SPCo.

GPDCo, which is registered in the Dubai Airport Free Zone, is exempt from income tax.

11. TERM LOANS

Term loans which were obtained from the following parties to finance the construction work of the plant at SPCo were outstanding as follows:

(Amounts in SR '000)		2015	2014
Syndicated commercial banks	11.1	**5,848,076**	6,270,829
Syndicated commercial banks – guaranteed	11.2	**1,814,250**	1,947,000
Public Investment Fund ("PIF")	11.3	**2,310,000**	2,730,000
Saudi Industrial Development Fund	11.4	**850,000**	1,020,000
		10,822,326	11,967,829
Less: Current portion of term loans			
Syndicated commercial banks		**563,670**	422,753
Syndicated commercial banks – guaranteed		**132,750**	132,750
Public Investment Fund ("PIF")		**420,000**	420,000
Saudi Industrial Development Fund		**180,000**	170,000
Current portion of term loans		**1,296,420**	1,145,503
		9,525,906	10,822,326
Less: deferred charges		**(33,591)**	(51,468)
Long term portion of term loans		**9,492,315**	10,770,858

The movement in unamortized deferred charges in respect of these financing facilities is as follows:

(Amounts in SR '000)	2015	2014
Cost		
At the beginning and ending of the year	**238,369**	238,369
Amortization		
At the beginning of the year	**(186,901)**	(163,583)
Amortization of the year	**(17,877)**	(23,318)
At the end of the year	**(204,778)**	(186,901)
Net book value	**33,591**	51,468

Unamortized deferred charges consist of agency and upfront fees on the term loans from the PIF and SIDF.

11.1 The loan facility of SR 7,046 million obtained from a consortium of commercial banks is subject to annual commission of LIBOR plus a margin progressively increasing from 0.8% to 1.15% over the life of the loan. The repayment of this loan is by 22 semi-annual installments which commenced on 15 June 2013 and with amounts ranging from 2 % – 20% of the utilized loan amount. The loan is secured by the assignment of residual proceeds in project bank accounts of SPCo, and a pledge and assignment over onshore bank accounts of SPCo.

11.2 The loan facility of SR 2,212 million obtained from a consortium of commercial banks is guaranteed by the Export-Import Bank of the USA, and is subject to commission at LIBOR plus 0.06% per annum. The repayment of this loan is by 22 successive semi-annual instalments which commenced on 15 June 2013, with amounts ranging from 3% to 8% of the utilized loan amount. The loan is secured by the assignment of residual proceeds of plant and equipment at SPCo, a charge and assignment over secured project documents of SPCo, a charge and assignment over offshore project bank accounts of SPCo, and a pledge and assignment over onshore project bank accounts of SPCo.

11.3 The loan facility of SR 3,000 million obtained from the PIF is subject to annual commission of LIBOR plus 0.5%, together with an upfront fee of 0.50% of the nominal amount of the loan which has been paid (deferred charges). The repayment of this loan is by 15 semi-annual installments which commenced on 31 December 2013, whereby 1% of the utilized loan amount was repaid for the first two installments and the remaining 13 payments ranging from 7% to 9% thereafter. The loan is secured by residual proceeds of plant and equipment of SPCo, a charge and assignment over secured project documents of SPCo, a charge and assignment over offshore project bank accounts of SPCo, and a pledge and assignment over onshore project bank accounts of SPCo.

11.4 The two equal loans obtained from SIDF of SR 1,200 million each, were subject to an upfront commission at LIBOR and 7.5% of the nominal amounts of the loans and were drawn-down to finance the construction of the SPCo petrochemical plant. The repayment of these loans is by 14 semi-annual installments which commenced on 18 December 2013 with amounts ranging from 4.17% to 8.33% of the utilized loan amount. The loans are secured by liens on SPCo's plant and equipment for the Ethylene, Metathesis, 1-hexane, and Polyethylene units, and assignment of insurance proceeds and technology rights of SPCo.

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

The maturities of the loans are as follows:

(Amounts in SR '000)	
2016	**1,296,420**
2017	**1,340,670**
2018	**1,380,671**
2019	**1,420,669**
2020	**1,424,921**
After 2020	**3,958,975**
	10,822,326

12. SUKUK

On 25 Shaban, 1435H, (corresponding to 23 June, 2014G), Petrochem issued Sukuk amounting to SR 1.2 billion at par value of SR 1,000,000 each with no discount or premium. The Sukuk issuance bears a variable rate of return at SIBOR plus 1.7 % margin, payable semi-annually. The Sukuk is due at maturity at par value on its expiry date of 20 Shawal, 1440H (corresponding to 23 June, 2019G).

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

The subordinated loan from Arabian Chevron Phillips Petrochemical Company Limited ("non-controlling partner") is a commission-free loan granted to SPCo; its repayment is subject to the minimum level required to be maintained by the terms of the commercial loan facility agreements (note 11).

The movement of the loan during the year was as follows:

(Amounts in SR '000)	***2015***	*2014*
At the beginning of the year	**1,131,797**	1,131,797
Repayments made	**(65,625)**	-
At the end of the year	**1,066,172**	1,131,797

14. END OF SERVICE BENEFITS

(Amounts in SR '000)	2015	2014
At the beginning of the year	**34,441**	21,694
Provisions for the year	**18,146**	13,906
Payments during the year	**(3,256)**	(1,159)
At the end of the year	**49,331**	34,441

15. SELLING AND MARKETING EXPENSES

(Amounts in SR '000)	2015	2014
Marketing fees	**293,258**	317,708
Warehousing rent and maintenance	**91,354**	94,060
Shipping and distribution	**47,479**	43,235
Employees costs	**8,258**	7,065
Currency exchange losses	**19,631**	27,133
Others	**7,671**	3,354
	467,651	492,555

16. GENERAL AND ADMINSTRATION EXPENSES

(Amounts in SR '000)	2015	2014
Employees costs	**132,297**	181,270
Depreciation	**66,351**	66,360
Professional fees	**897**	10,794
Bank commissions	**7,425**	6,622
Expenses and fees of Committees and the Board of Directors of the Company, and salaries and benefits of Senior Executives	**6,092**	5,253
Support services and general utilities	**3,304**	3,416
Others	**35,178**	27,181
	251,544	300,896

17. FINANCE CHARGES

(Amounts in SR '000)	2015	2014
Interest on term loans	**104,437**	118,140
Amortization of deferred charges (note 11)	**17,877**	23,318
Other service charges	**33,225**	32,733
	155,539	174,191

18. EARNINGS PER SHARE

The weighted average of outstandings common shares for the years 2015 and 2014 is 480,000,000 shares. The loss per shares from the Other Activities is SR (-1.78) and SR (-1.52) respectively, it is calculated based on dividing total financial charges, other income, Zakat and Non-controlling interests share in net income of the subsidiaries on the average outstanding common shares.

19. CONTINGENT LIABILITIES

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

The Group's local banks have issued on behalf of the Group and during the normal course of business cycle, bank guarantees of SR 857.3 million (2014: SR 857.3 million).

20. SEGMENTAL INFORMATION

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

The operating assets of the Group are located in the Kingdom of Saudi Arabia. Sales of the Group by geographical segment were as follows:

	2015	*2014*
	%	%
Domestic	**9**	9
Asia	**58**	57
Europe/Africa	**33**	34
	100	100

21. 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 the SPCo plant was SR192.4 million (2014: SR 332 million).

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Commission Rate Risk
Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market commission rates. The Group is subject to commission rate risk on deposits and loans that the Group has received or incurred, including deposits, bank facilities and Sukuk. The Group aims to minimize commission rate risk through monitoring fluctuations in commission rates and taking precautions when needed.

Liquidity Risk
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount cost to its fair value. Financial liabilities of the Group consist of various loan and Sukuk, accounts payable, other liabilities and amounts due to related parties. The Group tries to minimize liquidity risk by ensuring the availability of bank facilities, plus managing the accounts receivable collection period and other debtors and the payments period for suppliers and other creditors.

Credit Risk
Credit risk represents the possibility of default of any party in repaying the liability of financial instruments and causing financial loss to the Group. The Group's financial instruments that may expose to it to credit risk are mainly represented by cash at banks and accounts receivable. The Group deposits its cash in financial institutions with high credit ratings; in addition, the Group has a policy regarding the sum of money deposited in a single bank. The Group does not expect that there is any significant credit risk caused by this policy. The Group does not expect any significant credit risk from accounts receivable as the Group has a large base of clients which operate in several fields, in addition, the Group follows up accounts receivable balances on a regular basis.

Foreign Currency Risk
Foreign currency risk arises from fluctuations in financial instruments value due to fluctuations in prevailing exchange rates. The Group does not perform any material transactions in currencies other than Saudi Riyals and US Dollars which have a fixed exchange rate between each other. The Group monitors fluctuations in other foreign currency exchange rates in which it trades and does not expect any material foreign currency risk relating thereto.

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 Group’s financial assets consist of cash on hand and at banks, accounts receivable, and due from related parties. The Group’s financial liabilities consist of term loans, Sukuk, subordinated loan from non-controlling partner, accounts payable, other liabilities and amounts due to related parties. The fair values of the Company’s financial assets and liabilities are not materially different from their carrying values.

23. COMPARATIVE FIGURES

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

24. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on Jumada al-Awaal 13 1437H (corresponding to 23 February 2016G).