

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

**Interim consolidated financial
Statements**

**For the three and six month periods
ended 30 June 2015
and limited review report**

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTH PERIODS ENDED 30 JUNE 2015

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LIMITED REVIEW REPORT

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

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of **National Petrochemical Company ("Petrochem")** as at 30 June 2015, the related interim consolidated statement of income for the three and six months then ended, and the related interim consolidated statements of cash flows and changes in equity for the six months then ended, including the related notes from 1 to 13. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and presented to us together with all the information and explanations which we required.

We conducted our limited review in accordance with Saudi Organization for Certified Public Accountants (SOCPA) standards on interim financial information. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of a limited review is substantially less than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia, 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.

Review 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 generally accepted accounting principles in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.,



Gihad Al-Amri
Certified Public Accountant
Registration No. 362



Ramadan 28, 1436 H
July 15, 2015 G

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

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2015

(Amounts in SR'000)

	<i>Note</i>	2015	2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,868,265	1,718,976
Short term deposits		530,000	450,000
Receivables, prepayments and other receivables		1,058,091	929,426
Due from related parties	3	219,352	154,029
Inventories	4	1,102,371	1,153,952
TOTAL CURRENT ASSETS		4,778,079	4,406,383
NON-CURRENT ASSETS			
Employee loans		62,771	51,413
Deferred charges		44,155	62,522
Property, plant and equipment		17,414,717	18,049,303
TOTAL NON-CURRENT ASSETS		17,521,643	18,163,238
TOTAL ASSETS		22,299,722	22,569,621
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable, accrued expenses and other accruals		610,260	707,043
Due to related parties	3	214,735	173,429
Current portion of term loans	5	1,225,961	1,135,500
Short term loan		-	600,000
Zakat	6	205,588	94,317
TOTAL CURRENT LIABILITIES		2,256,544	2,710,289
NON-CURRENT LIABILITIES			
Sukuk	7	1,200,000	1,200,000
Non-current portion of term loans	5	10,174,116	11,400,080
Subordinated loan from a non-controlling partner in a subsidiary	8	1,131,797	1,131,797
Employees end of service benefits		54,055	28,562
TOTAL NON-CURRENT LIABILITIES		12,559,968	13,760,439
TOTAL LIABILITIES		14,816,512	16,470,728
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	1	4,800,000	4,800,000
Statutory reserve		11,128	1,780
Retained earnings (losses)		491,362	(342,919)
TOTAL SHAREHOLDERS' EQUITY		5,302,490	4,458,861
Non-controlling interests		2,180,720	1,640,032
TOTAL EQUITY		7,483,210	6,098,893
TOTAL LIABILITIES AND EQUITY		22,299,722	22,569,621

The attached notes from 1 to 13 form an integral part of these interim consolidated financial statements.

National Petrochemical Company (Petrochem)

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the three and six month periods ended 30 June 2015

(Amounts in SR'000)

	<i>For the three month period ended 30 June</i>		<i>For the six month period ended 30 June</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Net sales	1,967,024	1,965,813	3,737,777	3,675,767
Cost of sales	(1,228,880)	(1,404,824)	(2,560,068)	(2,658,621)
GROSS PROFIT	738,144	560,989	1,177,709	1,017,146
EXPENSES				
Selling and distribution	(106,177)	(113,072)	(248,912)	(229,270)
General and administrative	(66,970)	(82,706)	(130,694)	(141,814)
INCOME FROM MAIN OPERATIONS	564,997	365,211	798,103	646,062
Financial charges	(43,035)	(40,109)	(74,702)	(82,006)
Other income	977	-	1,956	-
INCOME BEFORE NON- CONTROLLING INTERESTS AND ZAKAT	522,939	325,102	725,357	564,056
Non-controlling interest share in net income of the subsidiaries	(187,555)	(119,634)	(262,055)	(206,124)
INCOME BEFORE ZAKAT	335,384	205,468	463,302	357,932
Zakat	(29,993)	(8,434)	(56,073)	(19,881)
NET INCOME FOR THE PERIOD	305,391	197,034	407,229	338,051
EARNINGS PER SHARE FROM (SR)				
Income from main operations	1.18	0.76	1.66	1.35
Net income	0.64	0.41	0.85	0.70

The attached notes from 1 to 13 form an integral part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six month period ended 30 June 2015

(Amounts in SR'000)

	For the six month period ended 30 June	
	2015	2014
OPERATING ACTIVITIES		
Income before zakat	463,302	357,932
Adjustments to reconcile net income before zakat and non-controlling interest to net cash provided by operating activities:		
Employees end of service benefits, net	19,614	6,868
Depreciation	401,263	400,922
Amortization	9,672	12,264
Non-controlling interest share in net income of the subsidiaries	262,055	206,124
(Increase) decrease in operating assets and liabilities:		
Receivables, prepayments and other receivables	1,564	(175,724)
Inventories	140,768	(222,995)
Accounts payable, accrued expenses and other accruals	34,699	99,457
Related parties, net	(14,587)	50,619
Zakat paid	-	(462)
Net cash provided by operating activities	1,318,350	735,005
INVESTING ACTIVITIES		
Short term deposit	29,000	(450,000)
Deferred charges	(2,359)	-
Additions of property, plant and equipment	(80,825)	(80,982)
Net cash used in investing activities	(54,184)	(530,982)
FINANCING ACTIVITIES		
Sukuk	-	842,245
Current portion of term loans	80,458	-
Non-current portion of term loans	(648,212)	-
Net cash (used in) provided by financing activities	(567,754)	842,245
NET INCREASE IN CASH AND CASH EQUIVALENTS	696,412	1,046,268
Cash and cash equivalents at the beginning of the period	1,171,853	672,708
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,868,265	1,718,976

The attached notes from 1 to 13 form an integral part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended 30 June 2015

(Amounts in SR'000)

	Attributable to the shareholders' equity				Non- controlling interests	Total
	Share capital	Statutory reserve	Retained earnings (losses)	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 period	-	-	407,229	407,229	262,055	669,284
Balance as at 30 June 2015	4,800,000	11,128	491,362	5,302,490	2,180,720	7,483,210
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 period	-	-	338,051	338,051	206,124	544,175
Balance as at 30 June 2014	4,800,000	1,780	(342,919)	4,458,861	1,640,032	6,098,893

The attached notes from 1 to 13 form an integral part of these interim consolidated financial statements.

National Petrochemical Company (Petrochem)

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2015

1. **ORGANIZATION AND ACTIVITIES**

National Petrochemical Company ("Petrochem") 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 2008 G), and was formed pursuant to the Ministry of Commerce and Industry's resolution number 53Q dated 16 Safar 1429H (corresponding to 23 February 2008 G).

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 benefit.

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.

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 interim consolidated financial statements have been prepared under the historical cost convention, except for investments which are stated in the following paragraphs, on the accruals basis of accounting in accordance with generally accepted accounting principles applicable in the Kingdom of Saudi Arabia. The Company has applied the same accounting policies and principles for preparing these interim consolidated financial statements. Significant accounting policies adopted in the preparation of these interim 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 figures in these interim consolidated financial statements are rounded to the nearest thousand.

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

<u>Subsidiaries companies</u>	<u>Shareholding %</u>		<u>Country of Incorporation</u>
	<u>2015</u>	<u>2014</u>	
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 2007). SPCo is engaged in production and sale of ethylene, propylene, hexene, gasoline, polyethylene, polypropylene and polystyrene. At 1 October 2012, SPCo completed its trial operation and announced the commercial production.

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 1432 H (corresponding to 15 February 2011) with a capital of AED 2 million. GPDCo's activity is restricted to selling and storing SPCo's polymer products.

National Petrochemical Company (Petrochem)

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2015

Accounting Estimates

The preparation of interim 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 interim 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 interim 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 areas of estimation uncertainty and critical adjustments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

- estimated useful economic lives and residual values of property, plant and equipment
- estimated cost of long term contracts
- provisions for doubtful debts
- provisions and accruals

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 90 days 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.

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

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. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. 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:

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

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2015

Deferred Charges

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.

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 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 statement of income.

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 interim consolidated statement of income on an 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, if applicable.

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

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.

Employees' End of Service Benefits

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

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, are charged to the interim consolidated statement of income.

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

Revenue is recognized when the service is provided and an invoice is issued to the client; other income is recognized when incurred.

National Petrochemical Company (Petrochem)

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2015

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, administrative and selling distribution expenses, and are made on a consistent basis.

Foreign Currencies Transaction

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 the shareholders' equity.

Earnings per share

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

3. **RELATED PARTIES TRANSACTIONS**

The following are the details of related parties transactions during the period ended 30 June:

(Amounts in SR '000)

Related party	Nature of transaction	Amount of transaction	
		2015	2014
Majority shareholder (Saudi Industrial Investment Group)	Bank guarantee commissions charged	698	698
	Finance commissions charged	-	114
	Shared services provided	546	546
Non-controlling partner in a subsidiary	Marketing fees	(97,368)	(98,446)
Affiliated companies	Services provided	(166,756)	(166,010)
	Sales	126,643	256,578
	Purchases	(451,950)	(686,962)

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

National Petrochemical Company (Petrochem)

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2015

4. INVENTORIES

(Amounts in SR '000)	2015	2014
Finished goods	592,409	709,108
Spare parts	328,309	291,315
Raw materials	127,171	153,529
Catalyst	54,482	-
	<u>1,102,371</u>	<u>1,153,952</u>

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 pledges over the machinery and equipment and bank accounts of the project. These loans carry varying interest rates in excess of LIBOR and are consistent with the terms of each loan facility agreement. These loans are to repaid in semi-annual installments. SPCo is required to comply with covenants stipulated in all of the loan facility agreements.

6. 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 the year end.

Zakat returns have been filed with the Department of Zakat & Income Tax (DZIT) for all prior years up to 2014, and zakat has been settled accordingly.

Petrochem and its zakat consultant have filed an appeal against the claim for the year 2010 which resulted in a difference of SR 74.42 million. The Committee has issued its ruling, reducing the claim by the amount of SR 74.10 million. The Company and 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.

Petrochem and its zakat consultant have also 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.

7. SUKUK

On 25 Shaban 1435H, (corresponding to 23 June 2014), Petrochem issued Sukuk amounting to SR 1.2 billion at a 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 1440 H (corresponding to 23 June 2019).

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

The subordinated loan is a commission free loan from Arabian Chevron Philips Petrochemical Company Limited (the "non-controlling partner"), to SPCo. The loan is part of a total loan granted to SPCo by the partners of SPCo in proportion to the shareholding in that company. Repayment is subject to the minimum level required to be maintained by the terms of the loan facility agreements granted by SIDF (Note 5).

National Petrochemical Company (Petrochem)

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2015

9. **INTERIM RESULTS**

All necessary adjustments have been made by the Company's management to present fairly the interim consolidated financial statements for the Company and its Subsidiaries as at 30 June 2015 and the results of its interim consolidated operations for the six months then ended. The results of operations for the interim period may not be an accurate indication of the actual consolidated results for the full year.

10. **CONTINGENT LIABILITIES**

During 2010, Petrochem and the non-controlling partner resolved to increase the capital of SPCo by SR 3,394 million, which may cause of 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, and 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 860.24 million (2014: SR 860 million).

11. **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 one single operating segment, the 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 12% (2014: 7%), overseas sales to Asia by 58% (2014: 58%) and to European countries and Africa by 30% (2014: 35%).

12. **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 Saudi Polymers plant was SR 238 million (2014: SR 232 million).

13. **COMPARATIVE FIGURES**

Certain comparatives figures have been reclassified to reflect the current year presentation.