

**YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)**

**(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

## AUDITORS' REPORT TO THE SHAREHOLDERS OF YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB) - A SAUDI JOINT STOCK COMPANY

### Scope of audit

We have audited the accompanying balance sheet of Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company - (the "Company") as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the requirements 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 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 financial statements.

### Unqualified opinion

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and the results of its 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 the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Ahmed I. Reda  
Certified Public Accountant  
Licence No. 356

19 Jumad Awal 1438H  
16 February 2017

Jeddah



# Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

## BALANCE SHEET

As at 31 December 2016

	<i>Note</i>	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	<b>1,685,822</b>	679,024
Murabaha commodity placements	4	<b>1,737,298</b>	2,733,675
Accounts receivable and prepayments	5	<b>2,127,118</b>	2,089,350
Inventories	6	<b>861,511</b>	825,504
<b>TOTAL CURRENT ASSETS</b>		<b>6,411,749</b>	6,327,553
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	<b>13,557,085</b>	14,356,900
Intangible assets	8	<b>27,245</b>	80,491
Other non-current assets	9	<b>196,684</b>	203,313
<b>TOTAL NON-CURRENT ASSETS</b>		<b>13,781,014</b>	14,640,704
<b>TOTAL ASSETS</b>		<b>20,192,763</b>	20,968,257
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals	10	<b>1,058,750</b>	1,308,409
Current portion of long term loans	11	<b>1,464,011</b>	1,464,011
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,522,761</b>	2,772,420
<b>NON-CURRENT LIABILITIES</b>			
Long term loans	11	<b>1,132,130</b>	2,596,141
Employees' benefits	13	<b>291,925</b>	247,702
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,424,055</b>	2,843,843
<b>TOTAL LIABILITIES</b>		<b>3,946,816</b>	5,616,263
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	1	<b>5,625,000</b>	5,625,000
Statutory reserve	14	<b>1,606,507</b>	1,376,347
Retained earnings		<b>9,014,440</b>	8,350,647
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>16,245,947</b>	15,351,994
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>20,192,763</b>	20,968,257

The attached notes 1 to 28 form part of these financial statements.

Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

STATEMENT OF INCOME

For the year ended 31 December 2016

	<i>Note</i>	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Sales	12	<b>6,970,752</b>	6,911,416
Cost of sales		<b>(4,273,047)</b>	(5,153,818)
<b>GROSS PROFIT</b>		<b>2,697,705</b>	1,757,598
Selling, general and administration expenses	15	<b>(210,972)</b>	(217,537)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>2,486,733</b>	1,540,061
Other income, net	16	<b>99,580</b>	25,894
Financial charges		<b>(139,114)</b>	(182,380)
<b>INCOME BEFORE ZAKAT</b>		<b>2,447,199</b>	1,383,575
Zakat	17	<b>(145,596)</b>	(176,251)
<b>NET INCOME FOR THE YEAR</b>		<b>2,301,603</b>	1,207,324
<b>EARNINGS PER SHARE</b>			
Weighted average number of outstanding ordinary shares (in thousands)	18	<b>562,500</b>	562,500
Earnings per share on income from main operations (in SR per share)	18	<b>4.42</b>	2.74
Earnings per share on net income for the year (in SR per share)	18	<b>4.09</b>	2.15

The attached notes 1 to 28 form part of these financial statements.

# Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	<i>Note</i>	<b>2016</b> <b>SR'000</b>	<b>2015</b> <b>SR'000</b>
<b>OPERATING ACTIVITIES</b>			
Income before zakat		<b>2,447,199</b>	1,383,575
Adjustments for:			
Depreciation	7	<b>1,081,804</b>	1,036,687
Amortisation of intangible assets	8	<b>53,246</b>	83,609
Provision for slow moving inventories	6 (b)	-	151,831
Provision for employees' end of service benefits	13 (a)	<b>40,864</b>	42,987
Provision for employees' savings plan	13 (b)	<b>9,287</b>	8,287
Loss on disposal of property, plant and equipment	16	<b>1,404</b>	4,957
Financial charges		<b>139,114</b>	182,380
		<b>3,772,918</b>	2,894,313
Changes in operating assets and liabilities:			
Receivables		<b>(37,768)</b>	437,377
Inventories		<b>(36,007)</b>	338,316
Other non-current assets		<b>6,629</b>	12,928
Payables		<b>(259,426)</b>	98,257
Cash from operations		<b>3,446,346</b>	3,781,191
Financial charges paid		<b>(139,114)</b>	(182,380)
Employees' end of service benefits paid	13 (a)	<b>(12,551)</b>	(4,160)
Employees' savings benefits paid	13 (b)	<b>(623)</b>	(396)
Zakat paid	17	<b>(131,471)</b>	(161,513)
Board of directors' remuneration paid		<b>(1,400)</b>	(1,400)
Net cash from operating activities		<b>3,161,187</b>	3,431,342
<b>INVESTING ACTIVITIES</b>			
Murabaha commodity placements, net		<b>996,377</b>	(1,769,925)
Purchase of property, plant and equipment	7	<b>(283,393)</b>	(793,984)
Additions to intangible assets	8	-	(13,726)
Net cash from / (used in) investing activities		<b>712,984</b>	(2,577,635)
<b>FINANCING ACTIVITIES</b>			
Repayment of long term loans		<b>(1,464,011)</b>	(1,462,448)
Dividends paid		<b>(1,403,362)</b>	(1,403,648)
Net cash used in financing activities		<b>(2,867,373)</b>	(2,866,096)
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>1,006,798</b>	(2,012,389)
Cash and cash equivalents at the beginning of the year		<b>679,024</b>	2,691,413
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>3</b>	<b>1,685,822</b>	679,024

The attached notes 1 to 28 form part of these financial statements.

Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

	<i>Share capital SR '000</i>	<i>Statutory reserve SR '000</i>	<i>Retained earnings SR '000</i>	<i>Total SR '000</i>
Balance at 31 December 2014	5,625,000	1,255,615	8,671,705	15,552,320
Net income for the year	-	-	1,207,324	1,207,324
Transfer to statutory reserve	-	120,732	(120,732)	-
Dividends (note 19)	-	-	(1,406,250)	(1,406,250)
Board of directors' remuneration	-	-	(1,400)	(1,400)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2015	5,625,000	1,376,347	8,350,647	15,351,994
Net income for the year	-	-	2,301,603	2,301,603
Transfer to statutory reserve	-	230,160	(230,160)	-
Dividends (note 19)	-	-	(1,406,250)	(1,406,250)
Board of directors' remuneration	-	-	(1,400)	(1,400)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2016</b>	<b>5,625,000</b>	<b>1,606,507</b>	<b>9,014,440</b>	<b>16,245,947</b>

The attached notes 1 to 28 form part of these financial statements.

# Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 1 ACTIVITIES

Yanbu National Petrochemical Company (YANSAB) (the "Company") is a Saudi Joint Stock Company registered in Yanbu, Kingdom of Saudi Arabia under Commercial Registration number 4700009432 dated 14 Muharram 1427H (corresponding to 13 February 2006) in accordance with the Ministerial Resolution No. 49 dated 12 Muharram 1427H (corresponding to 11 February 2006) for the incorporation of the Company. The Company obtained its Industrial Licence number S/1367 on 18 Rajab 1426H (corresponding to 23 August 2005) and is engaged in the manufacturing of petrochemical products in accordance with the Company's By-laws and other Saudi Arabian applicable regulations. The Company commenced commercial operations on 1 March 2010.

The Company's authorized, issued and fully paid share capital is SR 5,625 million which is divided into 562.5 million shares of SR 10 par value each. The Company is 51% owned by Saudi Basic Industries Corporation ("SABIC") (the "majority shareholder"), and 49% owned by others or publicly traded.

### 2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The financial statements are expressed in Saudi Riyals, being the functional currency of the Company and have been rounded off to the nearest thousand, unless otherwise specified.

The significant accounting policies adopted are as follows:

#### **Accounting convention**

The financial statements are prepared under the historical cost convention.

#### **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise bank balances, cash in hand and Murabaha commodity placements with an original maturity of three months or less.

Murabaha commodity placements with original maturity of three months or less are stated at cost, with accrued income being captioned under prepayments and other receivables. Income from Murabaha commodity placements is accrued on time apportionment basis over the period from disbursement of funds to the redemption date.

#### **Accounts receivable**

Accounts receivable are stated at the original invoice amount less provision for any uncollectible amounts. Adjustments are recorded as they become known to the Company. An estimate provision for doubtful debts is made when the collection of the accounts receivable amount is considered doubtful. Bad debts are written-off as incurred.

#### **Inventories**

Finished goods, chemicals and raw materials are stated at the lower of cost or net realizable value. The cost of finished goods, chemicals, spare parts and supplies is determined on a weighted average cost basis. Inventories of finished goods include cost of materials, direct labour and an appropriate portion of indirect overheads.

Net realizable value represents the estimated selling price for inventories less the costs necessary to make the sale.

Inventory items that are considered as essential to ensure continuous plant operations are treated as capital spare parts and are classified as property, plant and equipment and are depreciated using the depreciation rate relevant to the corresponding plant and equipment, over the remaining useful life.

# Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Capital work in progress is not depreciated. The cost of other property, plant and equipment is depreciated on straight-line basis over the estimated useful lives of the assets.

Depreciation on additions or extensions forming an integral part of existing plants is provided over the remaining estimated useful life of the respective plants. The estimated rates of depreciation of the principal classes of assets are stated in note 7 to the financial statements.

Capital work in progress represents all costs being incurred relating to ongoing projects in progress and will be capitalized as property, plant and equipment when the project is completed.

The carrying amount of all property, plant and equipment is reduced to recognize other than temporary diminution in value, if any.

Costs, which are directly attributable to turnarounds and eligible for capitalization, are recognized under property, plant and equipment. Such costs once capitalized are depreciated over the period to the occurrence of next such turnaround.

#### **Intangible assets**

Intangible assets anticipated to provide identifiable future benefits are classified as non-current assets, and are amortized using the straight-line method over their estimated useful lives.

#### **Employees' home ownership program**

The Company has a home ownership program that offers eligible Saudi employees home ownership opportunities.

Unallocated housing units constructed/bought for eligible employees are included under buildings and depreciated over 33 years.

When the houses are allocated to the employees, the cost of houses constructed and sold to the employees under the program is transferred from property, plant and equipment to other non-current assets. Down payments and instalments of purchase price received from employees are set-off against the other non-current assets.

The cost of the houses and the related purchase price is removed from other non-current assets when the title of the houses is transferred to the employees, at which time, no significant gain or loss is expected to result to the Company.

#### **Impairment of non-current assets**

At each balance sheet date, the Company assesses whether there are any indications, whether internal or external, of impairment in the value of non-current assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss. The recoverable amount of an asset is the higher of its value in use and fair value less cost to sell.

A non-current asset is considered impaired if its carrying amount is higher than its recoverable amount. To determine impairment, the Company compares the non-current asset's carrying amount with the undiscounted estimated cash flow from the asset's use. If the carrying amount exceeds the undiscounted cash flow from the asset, the Company estimates the present value of the estimated future cash flows from the asset. The excess of the carrying amount over the present value of the estimated future cash flows from the assets is considered as an impairment loss.

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



# Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Accounts payable and accruals**

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

#### **Provisions**

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### **Employee benefits**

##### *a) Employees' end of service benefits*

Employees' end-of-service benefits, required by Saudi Arabian Labour Law and the Company's policy, are provided in the financial statements based on the employees' length of service.

##### *b) Employees' early retirement costs*

Employees' early retirement costs are provided for in accordance with the Company's policies and are charged to the statement of income in the year the employee retires.

##### *c) Employees' savings plan*

The Company maintains an employee savings plan. The contributions from the participants are deposited in a separate bank account and provision is established for the Company's contribution.

#### **Zakat**

The Company is subject to the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat estimate is provided on an accruals basis and charged to the statement of income. The zakat charge is computed at 2.5% on the zakat base or adjusted net income, whichever is higher. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

#### **Revenue recognition**

The majority of product sales are made to the marketing unit of SABIC, the majority shareholder under a marketing agreement. Upon delivery to the marketing unit, sales are recorded at provisional prices. These prices are later adjusted based upon actual selling prices received by the marketing unit from third parties, and are recorded net of actual selling and distribution costs incurred by the marketing unit and the marketing fees. Adjustments are recorded as they become known to the Company.

#### **Selling, general and administration expenses**

Selling, general and administration expenses include direct and indirect costs not specifically part of cost of sales as required under accounting standards generally accepted in the Kingdom of Saudi Arabia. Allocations between selling, general and administration expenses and cost of sales, when required, are made on a consistent basis.

#### **Foreign currency translation**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

#### **Leasing**

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the statement of income on a straight line basis over the term of the operating lease.

# Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Dividends

Final dividends are recognized as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

#### Segmental analysis

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

#### Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense are not offset in the statement of income unless required or permitted by accounting principles generally accepted in Kingdom of Saudi Arabia.

#### Current versus non-current classification

An asset and a liability are classified as current when it is expected to be realized or paid within twelve months after the balance sheet date, except for derivatives designated as a hedge, which are classified consistent with the underlying hedged item.

#### Derivative financial instruments

The Company uses derivative financial instruments, namely interest rate swap to hedge its interest rate risk on term loans obtained from banks. This arrangement is done for strategic hedging purposes and does not qualify for special hedge accounting rules. The derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of income as other income or other expenses.

### 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and bank balances and Murabaha investments with original maturities of three months or less.

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Murabaha commodity placements and time deposits	1,646,745	608,250
Bank balances	39,077	70,774
	<u>1,685,822</u>	<u>679,024</u>

Cash and cash equivalents and murabaha commodity placements (note 4) include employees' saving plan deposits held separately amounting to SR 20.1 million (2015: SR 14.7 million), which are not available for the Company use.

### 4 MURABAHA COMMODITY PLACEMENTS

Murabaha commodity placements represent placements with original maturity exceeding three months and maintained with local and foreign banks.

Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 31 December 2016

**5 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Trade accounts receivable:		
Related parties (note 12 (a))	<b>1,881,806</b>	1,844,106
Others	<b>534</b>	72
	<b>1,882,340</b>	1,844,178
Amounts due from related parties (note 12 (a))	<b>171,201</b>	163,995
Prepayments and others	<b>73,577</b>	81,177
	<b>2,127,118</b>	2,089,350

As at 31 December 2016, all trade accounts receivables are fully recoverable and considered unimpaired by the management.

**6 INVENTORIES**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Finished goods	<b>504,566</b>	407,146
Spare parts (a)	<b>387,378</b>	441,370
Raw materials	<b>133,325</b>	145,797
Goods in transit	<b>18,365</b>	13,314
	<b>1,043,634</b>	1,007,627
Less: Provision for slow moving spare parts (b)	<b>(182,123)</b>	(182,123)
	<b>861,511</b>	825,504

a) The spare parts inventory is primarily used in the upkeep of plant and machinery.

b) Movement in the provision for slow moving spare parts is as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At the beginning of the year	<b>182,123</b>	30,292
Charge for the year	<b>-</b>	151,831
At the end of the year	<b>182,123</b>	182,123



# Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

### 7 PROPERTY, PLANT AND EQUIPMENT (continued)

- a) The plants are situated on land leased from the Royal Commission, of Jubail and Yanbu, for 35 Hijra years commencing 1 Dhul Al-Hija 1426H (corresponding to 1 January 2006). The lease is renewable for further similar periods at the option of the parties.
- b) The Company's property, plant and equipment with original cost amounting to SR 3,175 million are leased under Ijara financing arrangement with certain banks (note 11).
- c) Capital work in progress represents cost being incurred on existing plants regarding ongoing turnaround and equipment maintenance.
- d) Plant includes costs incurred to capture the planned turnaround cost. This cost will be depreciated over the period until the date of next planned turnaround. The net book value of such costs as at 31 December 2016 amounted to SR 264 million (2015: SR 363 million).

### 8 INTANGIBLE ASSETS

	<i>Deferred charges SR '000</i>	<i>Pre-operating expenses SR '000</i>	<b>Total 2016 SR '000</b>	<i>Total 2015 SR '000</i>
<b>Cost:</b>				
At the beginning of the year	211,432	200,000	<b>411,432</b>	391,560
Additions	-	-	-	13,726
Transfer from property, plant and equipment (note 7)	-	-	-	6,146
At the end of the year	<u>211,432</u>	<u>200,000</u>	<u><b>411,432</b></u>	<u>411,432</u>
<b>Amortization:</b>				
At the beginning of the year	130,941	200,000	<b>330,941</b>	247,332
Charge for the year	53,246	-	<b>53,246</b>	83,609
At the end of the year	<u>184,187</u>	<u>200,000</u>	<u><b>384,187</b></u>	<u>330,941</u>
<b>Net book amounts:</b>				
<b>At 31 December 2016</b>	<u><b>27,245</b></u>	<u>-</u>	<u><b>27,245</b></u>	
At 31 December 2015	<u>80,491</u>	<u>-</u>		<u>80,491</u>

a) **Deferred charges**

These include financial legal advisory, arrangement fees and other intangible assets totalling SR 143.2 million (2015: SR 143.2 million), relating to long term financing arrangements to finance the partial construction of the Company's plant. These fees were included in the initial recognition of the related financing arrangements and are being amortized, using the effective interest rate, over the period of long term financing agreements. The amortized portion relating to the construction period amounting to SR 35.6 million as at 28 February 2010 is capitalized. Amortization charged to the statement of income has started on 1 March 2010, which represents the date of commencement of the Company's operations. These financial legal advisory, arrangement fees and other intangible assets were fully amortized during the current year.

b) **Pre-operating expenses**

These represent a contribution of SR 200 million to the Centennial Fund and Higher Plastic Institute that will financially support small and medium sized projects in the related industry. The pre-operating expenses were fully amortized during last year.

Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

**9 OTHER NON-CURRENT ASSETS**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Employees' home ownership program (note (a))	<b>189,184</b>	195,813
Advance to a related party (note 12 (a))	<b>7,500</b>	7,500
	<b>196,684</b>	203,313

a) Current portion under the employees' home ownership program is included in prepayments and others amounted to SR 19.9 million at 31 December 2016 (2015: SR 19.6 million).

**10 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Trade accounts payable:		
Related parties (note 12 (b))	<b>142,783</b>	160,629
Others (see note (a) below)	<b>151,891</b>	40,624
	<b>294,674</b>	201,253
Accrued expenses	<b>438,738</b>	783,012
Provision for zakat (note 17)	<b>169,879</b>	155,754
Amounts due to related parties (note 12 (b))	<b>141,692</b>	157,511
Dividends payable	<b>13,767</b>	10,879
	<b>1,058,750</b>	1,308,409

a) Others includes payables for major suppliers.

**11 LONG TERM LOANS**

Long term loans comprise of:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Term loans	<b>1,947,386</b>	2,978,896
Ijara Financing Agreements ("IFAs")	<b>648,755</b>	1,081,256
	<b>2,596,141</b>	4,060,152
Less: Current portion of long term loans	<b>(1,464,011)</b>	(1,464,011)
	<b>1,132,130</b>	2,596,141

Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 31 December 2016

**11 LONG TERM LOANS (continued)**

*Term loans*

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Public Investment Fund (PIF) (see notes (b) and (d) below)	<b>1,000,311</b>	1,400,438
Commercial and Export Credit Agencies (ECA) (see notes (c) and (d) below)	<b>947,075</b>	1,578,458
	<b>1,947,386</b>	2,978,896
Less: Current portion (see notes (a), (b), (c) and (d) below)	<b>(1,031,509)</b>	(1,031,509)
	<b>915,877</b>	1,947,387

a) The aggregate repayment schedule of long term loans is as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
2016	-	1,031,509
2017	<b>1,031,509</b>	1,031,509
2018	<b>715,815</b>	715,816
2019	<b>200,062</b>	200,062
	<b>1,947,386</b>	2,978,896

- b) The PIF term loan obtained in 2007 to finance partial construction of the plants, is limited to SR 4,001 million. The term loan carries charges at commercial rates and is repayable in equal semi-annual instalments of SR 200 million. The first instalment was paid on 31 December 2009, and the last instalment is payable on 30 June 2019.
- c) These loans were obtained in 2007 from a consortium of banks in three loans, of which two loans limited to SR 5,948 million and guaranteed by ECA, Servizi Assicurativi Del Commercio Estero and Export Credits Guarantee Department (ECGD) to finance partial construction of plants and working capital. The loans carry commissions at commercial rates and are repayable in semi-annual variable instalments with the first instalment paid on 30 June 2009 and the last instalment payable on 30 June 2018.
- d) The term loans are secured against the proceeds of projects. In addition, the Company has signed an Equity Support, Subordination and Retention Agreement with the majority shareholder (SABIC) under which SABIC shall maintain its ownership in YANSAB at 51% for the life of the loans.

***Ijara Financing Agreements ("IFAs")***

In 2009, the Company entered into the IFAs pursuant to which the commercial banks will participate in the procurement of a portion of the project assets on the basis of a co-ownership structure.

On the completion of the project, the co-owned assets will be leased to the Company at an annual rental as agreed plus margin.

A special-purpose vehicle (the "Custodian"), incorporated in the Kingdom of Saudi Arabia, holds, as agent, the financiers' interest in the co-owned assets.

Under the Forward Lease Agreement and the other IFAs, the Company will purchase from the Custodian, the financiers' ownership interest in the above assets over a period of twelve years commencing from 18 June 2006. Commission on obligation under these arrangements is based on the commercial rate.

Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company  
NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2016

**11 LONG TERM LOANS (continued)**

***Ijara Financing Agreements ("IFA") (continued)***

As of 31 December, the following balances were outstanding in respect of these facilities:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Obligations under Ijara Financing Agreements	<b>648,755</b>	1,081,256
Less: Current portion	<b>(432,502)</b>	(432,502)
	<b>216,253</b>	648,754

In accordance with supply agreement a portion of the project equivalent in amount to the share of Original Facility Participants in Financing Facility as at completion of withdrawal date of 22 November 2010 amounting to SR 2,775 million has been transferred to the name of the Custodian (Company owned by Original Participants). In accordance with the Ijara arrangements, the last instalment is repayable on 30 June 2018.



Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

12 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties. Following are details of major related party transactions during the year ended 31 December and the balances thereof at 31 December:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transactions for the year ended 31 December</i>		<i>Balance As at 31 December</i>	
		<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
		<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<b>a) Amounts due from related parties</b>					
Saudi Basic Industries Corporation (SABIC) – (majority shareholder)	Sale of products	6,970,752	6,911,416	1,881,758	1,843,686
	Advances for purchase of materials, product sales and other transactions	6,042	21,795	164,951	158,909
	Long term advance for logistics	-	-	7,500	7,500
Other affiliates	Exchange of products	1,164	3,387	48	420
	Others	9,806	8,216	6,250	5,086
		<u>6,987,764</u>	<u>6,944,814</u>	<u>2,060,507</u>	<u>2,015,601</u>
<b>b) Amounts due to related parties</b>					
Saudi Basic Industries Corporation (SABIC) – (majority shareholder)	Payments on behalf of the Company and other services rendered by the majority shareholder	1,392,654	1,588,889	176,919	195,619
	Research and development fees	139,432	139,287	36,988	36,606
Other affiliates	Tolling, storage services, purchase of gases and others	561,340	296,226	70,568	85,915
Board of directors	Remuneration	1,400	1,400	-	-
		<u>2,094,826</u>	<u>2,025,802</u>	<u>284,475</u>	<u>318,140</u>

Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

**13 EMPLOYEES' BENEFITS**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Employees' end of service benefits (a)	<b>258,480</b>	222,921
Employees' savings plan (b)	<b>33,445</b>	24,781
	<b>291,925</b>	247,702

a) The movement in employees' end of service benefits is as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At the beginning of the year	<b>222,921</b>	182,808
Charge for the year	<b>40,864</b>	42,987
Transferred from related parties, net	<b>7,246</b>	1,286
Payments during the year	<b>(12,551)</b>	(4,160)
At the end of the year	<b>258,480</b>	222,921

b) The movement in employees' savings plan is as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At the beginning of the year	<b>24,781</b>	16,890
Charge for the year	<b>9,287</b>	8,287
Payments during the year	<b>(623)</b>	(396)
At the end of the year	<b>33,445</b>	24,781

**14 STATUTORY RESERVE**

In accordance with the Company's By-laws, the Company must set aside 10% of its net income in each year until it has built up a reserve equal to one half of share capital. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution.

**15 SELLING, GENERAL AND ADMINISTRATION EXPENSES**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Research and development fees	<b>139,432</b>	139,287
Distribution costs	<b>57,049</b>	67,962
Salaries and related costs	<b>8,742</b>	5,142
Others	<b>5,216</b>	3,978
Board of directors' expenses	<b>533</b>	1,168
	<b>210,972</b>	217,537

Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

**16 OTHER INCOME, NET**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Financial income	77,753	22,728
Foreign exchange gain, net	1,151	2,705
Loss on disposal of property, plant and equipment	(1,404)	(4,957)
Others, net	22,080	5,418
	<u>99,580</u>	<u>25,894</u>

**17 ZAKAT**

**Charge for the year**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Provided during the year	145,596	155,754
Provision relating to previous years	-	20,497
	<u>145,596</u>	<u>176,251</u>

The zakat provision for the year, is based on the following zakat base:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Equity	15,562,895	14,534,080
Non-current liabilities and other adjustments	3,010,530	4,431,391
Non-current assets and other deductions	(15,574,811)	(15,072,315)
	<u>2,998,614</u>	<u>3,893,156</u>
Zakatable income for the year	2,602,386	1,473,676
	<u>5,601,000</u>	<u>5,366,832</u>

The differences between the financial and the zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

**Movement in provision**

The movement in the zakat provision during the year is as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At the beginning of the year	155,754	141,016
Provided during the year	145,596	176,251
Payments during the year	(131,471)	(161,513)
	<u>169,879</u>	<u>155,754</u>

**Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
31 December 2016

**17 ZAKAT (continued)**

**Status of assessments**

Zakat assessments have been agreed with the General Authority of Zakat and Tax ("GAZT") for all previous years upto 2012. The Company has submitted the zakat returns for the years 2013 to 2015. However, the final assessments of these years have not yet been raised by the GAZT.

**18 EARNINGS PER SHARE**

Earnings per share on income from main operations is calculated by dividing income from main operations by weighted average number of shares in issue during the year.

Earnings per share on net income is calculated by dividing the net income by the weighted average number of shares in issue during the year.

The calculation of diluted earnings per share is not applicable on the Company.

**19 DIVIDENDS**

On 4 December 2014, the Board of Directors recommended to the General Assembly a distribution of cash dividend amounting SR 843.75 million (SR 1.5 per share) for the second half of the year 2014 which represents 15% of the nominal value of the shares. The eligibility for this dividend distribution was to shareholders listed on the Saudi Stock Exchange (Tadawul) by the end of trading day of the General Assembly meeting which was on 19 March 2015. This was approved by the General Assembly in their meeting held on 19 March 2015. The total dividends for the year ended 31 December 2014 were SR 1,687.5 million (SR 3 per share).

On 9 June 2015, the Board of Directors announced the distribution of SR 562.5 million as cash dividend (SR 1 per share) for the first half of the year 2015 which representing 10% of the nominal value of the shares. The date of eligibility for this dividend distribution was to shareholders listed on Tadawul by the end of trading on 25 June 2015 with the payment of cash dividend on 13 July 2015.

On 24 December 2015, the Board of Directors recommended to the General Assembly a distribution of cash dividend amounting SR 562.5 million (SR 1 per share) for the second half of the year 2015 which represents 10% of the nominal value of the shares. The eligibility for this dividend distribution was to shareholders listed on Tadawul by the end of trading day of the General Assembly meeting which was on 31 March 2016. This was approved by the General Assembly in their meeting held on 31 March 2016. The total dividends for the year ended 31 December 2015 were SR 1,125 million (SR 2 per share).

On 30 May 2016, the Board of Directors announced the distribution of SR 843.75 million as cash dividend (SR 1.5 per share) for the first half of the year 2016 which representing 15% of the nominal value of the shares. The date of eligibility for this dividend distribution was to shareholders listed on Tadawul by the end of trading on 15 June 2016 with the payment of cash dividend on 30 June 2016.

On 22 December 2016, the Board of Directors recommended to the General Assembly a distribution of cash dividend amounting SR 843.75 million (SR 1.5 per share) for the second half of the year 2016 which represents 15% of the nominal value of the shares. Subject to the approval of the General Assembly, the eligibility for this dividend distribution will be to shareholders listed on the Tadawul by the end of trading day of the General Assembly meeting which is expected in March 2017. The total dividends for the year ended 31 December 2016 would be SR 1,687.5 million (SR 3 per share).

Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

**20 NON-CASH TRANSACTIONS**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Dividends	<u>2,888</u>	<u>2,602</u>
Capital work in progress transferred to other non-current assets	<u>-</u>	<u>27,061</u>
Capital work in progress transferred to intangible assets	<u>-</u>	<u>6,146</u>
Employees' end of service benefits transferred from related parties, net	<u>7,246</u>	<u>1,286</u>

**21 COMMITMENTS AND CONTINGENCIES**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Capital commitments	<u>247,050</u>	<u>207,100</u>
Letters of guarantee	<u>10,298</u>	<u>14,798</u>
	<u>257,348</u>	<u>221,898</u>

**22 OPERATING LEASES**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Lease rentals charged during the year	<u>35,601</u>	<u>38,870</u>

**Operating lease commitments**

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Less than one year	<u>21,255</u>	<u>21,255</u>
More than one year but less than five years	<u>88,628</u>	<u>104,467</u>
More than five years	<u>56,673</u>	<u>58,534</u>
	<u>166,556</u>	<u>184,256</u>

The Company has leasehold land from the Royal Commission of Jubail and Yanbu at a nominal rent. These leases commenced from 1 Dhul Hijjah 1426H (corresponding to 1 January 2006) and shall be in force for a period of 35 years. The renewal of the lease for an additional period upon such terms and conditions may be agreed upon by the two parties.

The Company has a lease agreement for employee housing which commenced from 15 April 2012 for a period of 10 years. Further, the Company has a lease agreement for employee housing which commenced from 1 February 2008 for a period of 10 years.

## Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company

### NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

#### 23 RISK MANAGEMENT

##### **Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is subject to interest rate risk on its interest bearing bank deposits, Murabaha commodity placements, long term loans and Ijara financing. The Company manages its exposure to interest rate risk by continuously monitoring movements in interest rates.

In compliance with the requirements of loan agreements, the Company has entered into interest rate swap with local and foreign banks to manage the interest rate risk associated with term loans. Under the arrangement, the Company pays fixed interest rate and receives floating interest rate for a portion of the loan amounting to SR 1,512 million (2015: SR 2,308 million).

##### **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. The Company seeks to manage its credit risk with respect to banks by dealing with reputable banks and with respect to customers by monitoring outstanding receivables and ensuring close follow-ups.

The Company sells its products mainly to its majority shareholder (SABIC), which accounts for 99.9% of outstanding trade accounts receivable as at 31 December 2016 (2015: 99.9%).

##### **Liquidity risk**

Liquidity risk is the risk that the Company 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 at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments and are ensured through various bank facilities availed by the Company.

##### **Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not subject to material fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

#### 24 KEY SOURCES OF ESTIMATION UNCERTAINTY

##### **Impairment of accounts receivable**

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of the past due.

##### **Useful lives of property, plant and equipment**

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

#### 25 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. Financial instruments comprise of financial assets and financial liabilities.

The Company's financial assets consist of cash and cash equivalents, Murabaha commodity placements, receivables, and its financial liabilities consist of payables, accrued expenses and long term loans.

The fair values of financial instruments are not materially different from their carrying values.

**Yanbu National Petrochemical Company (YANSAB) - a Saudi Joint Stock Company**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2016

**26 SEGMENT INFORMATION**

All of the Company's operations are related to one operating segment which is petrochemicals and sell its products to one customer, the majority shareholder. Accordingly, segmental analysis by operating and geographic segment has not been presented.

**27 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors on 19 Jumad Awal 1438H (corresponding to 16 February 2017).

**28 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Effective 1 January 2017, the Company will prepare their financial statements in accordance with under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). Upon IFRS adoption, the Company will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards for the reporting periods starting 1 January 2017, where in general, a Company is required to determine its IFRS accounting policies and apply these retrospectively to determine its financial position under IFRS.