

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

**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**

**FOR THE SIX MONTH PERIOD
ENDED 30 JUNE 2014**

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

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REVIEW REPORT

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

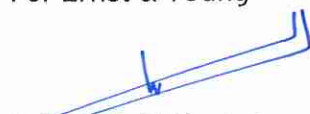
Scope of review

We have reviewed the accompanying interim consolidated balance sheet of National Petrochemical Company - a Saudi Joint Stock Company - ("Petrochem") and its subsidiaries as at 30 June 2014, the related interim consolidated statement of income for the three and six month periods ended 30 June 2014 and interim consolidated statement of cash flows and changes in equity for the six-month period then ended. These interim consolidated financial statements are the responsibility of Petrochem's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

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

For Ernst & Young



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



Riyadh: 20 Ramadan 1435H
(17 July 2014)

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

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2014

(Amounts in SR'000)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,718,976	639,275
Short term deposit		450,000	-
Receivables, cash margins and other assets		929,426	532,976
Due from related parties		154,029	165,341
Inventories		1,153,952	836,498
TOTAL CURRENT ASSETS		4,406,383	2,174,090
NON-CURRENT ASSETS			
Employee loans		51,413	27,836
Project under construction		17,482	565
Deferred charges		62,522	91,054
Property, plant and equipment		18,031,821	18,779,986
TOTAL NON-CURRENT ASSETS		18,163,238	18,899,441
TOTAL ASSETS		22,569,621	21,073,531
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payables, accrued expenses and other liabilities		707,043	588,486
Amount due to a related party		173,429	71,823
Current portion of term loans	4	1,135,500	357,751
Short term loan	5	600,000	430,000
Zakat	6	94,317	60,319
TOTAL CURRENT LIABILITIES		2,710,289	1,508,379
NON-CURRENT LIABILITIES			
Sukuk and term loans	4	12,600,080	12,893,331
Subordinated loan from a non-controlling partner in a subsidiary	7	1,131,798	1,000,548
Employees' terminal benefits		28,561	16,193
TOTAL NON-CURRENT LIABILITIES		13,760,439	13,910,072
TOTAL LIABILITIES		16,470,728	15,418,451
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	8	4,800,000	4,800,000
Statutory reserve		1,780	1,780
Accumulated losses		(342,919)	(605,336)
TOTAL SHAREHOLDERS' EQUITY		4,458,861	4,196,444
Non-controlling interest		1,640,032	1,458,636
TOTAL EQUITY		6,098,893	5,655,080
TOTAL LIABILITIES AND EQUITY		22,569,621	21,073,531

The attached notes 1 to 14 form part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the three and six month periods ended 30 June 2014

(Amounts in SR'000)

	Note	For the three month period ended 30 June		For the six month period ended 30 June	
		2014	2013	2014	2013
Sales		1,965,813	1,144,228	3,675,767	1,833,331
Cost of sales		(1,404,824)	(921,377)	(2,658,621)	(1,438,087)
GROSS PROFIT		560,989	222,851	1,017,146	395,244
EXPENSES					
Selling and distribution		(113,072)	(78,744)	(229,270)	(131,516)
General and administrative		(82,706)	(60,639)	(141,814)	(118,956)
INCOME FROM MAIN OPERATIONS		365,211	83,468	646,062	144,772
Financial charges, net		(40,109)	(49,024)	(82,006)	(100,711)
INCOME BEFORE NON-CONTROLLING INTEREST AND ZAKAT		325,102	34,444	564,056	44,061
Non-controlling interest share in net income of the subsidiaries		(119,634)	(13,762)	(206,124)	(14,538)
INCOME BEFORE ZAKAT		205,468	20,682	357,932	29,523
Zakat	6	(8,434)	(9,843)	(19,881)	(20,017)
NET INCOME FOR THE PERIOD		197,034	10,839	338,051	9,506
EARNINGS PER SHARE FOR THE PERIOD (SR)	9				
Attributable to the income from main operations		0,76	0,17	1,35	0,30
Attributable to the net income		0,41	0,02	0,70	0,02

The attached notes 1 to 14 form part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six month period ended 30 June 2014

(Amounts in SR'000)

	For the six month period ended 30 June	
	2014	2013
OPERATING ACTIVITIES		
Income before zakat	357,932	29,523
Adjustments for:		
Employees' terminal benefits, net	6,868	2,030
Depreciation and amortization	413,186	420,880
Non-controlling interest share in net income of the subsidiaries	206,124	14,538
Changes in operating assets and liabilities:		
Receivables, cash margins and other assets	(175,724)	(235,466)
Inventories	(222,995)	(407,394)
Accounts payable, accrued expenses and other liabilities	99,457	160,649
Related parties, net	50,619	28,004
Zakat paid	(462)	-
Net cash from operating activities	735,005	12,764
INVESTING ACTIVITIES		
Short term deposit	(450,000)	-
Project under construction	(17,482)	-
Addition of property, plant and equipment	(63,500)	(498)
Net cash used in investing activities	(530,982)	(498)
FINANCING ACTIVITIES		
Proceeds from sukuk and (repayment of) term loans, net	842,245	(207,293)
Short term loan received	-	430,000
Subordinate loan from a non-controlling partner	-	236,252
Net cash from financing activities	842,245	458,959
INCREASE IN CASH AND CASH EQUIVALENTS	1,046,268	471,225
Cash and cash equivalents at the beginning of the period	672,708	168,050
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,718,976	639,275

The attached notes 1 to 14 form part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended 30 June 2014

(Amounts in SR'000)

	Attributable to the shareholders' equity				Non- controlling interest	Total
	Share capital	Statutory reserve	Accumulated losses	Total		
Balance as at 31 December 2012 (Audited)	4,800,000	1,780	(614,842)	4,186,938	1,444,098	5,631,036
Net income for the period	-	-	9,506	9,506	14,538	24,044
Balance as at 30 June 2013 (Unaudited)	4,800,000	1,780	(605,336)	4,196,444	1,458,636	5,655,080
Balance as at 31 December 2013 (Audited)	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 (Unaudited)	4,800,000	1,780	(342,919)	4,458,861	1,640,032	6,098,893

The attached notes 1 to 14 form part of these interim consolidated financial statements.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2014

1. ORGANIZATION AND ACTIVITIES

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

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

2. BASIS OF CONSOLIDATION

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

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

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

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

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

SAUDI POLYMERS COMPANY ("SPCo")

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

Saudi polymers plant (the "Plant") has faced certain interruption in production during 2013 due to certain technical problems in certain production units. Further, an unscheduled disruption of production has been announced during March 2014.

GULF POLYMERS DISTRIBUTION COMPANY FZCO ("GPDCo")

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-CONTINUED
30 June 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Accounting convention

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

Use of estimates

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

Cash and cash equivalents

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

Accounts receivable

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

Inventories

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

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

Property, plant and equipment/Depreciation

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

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

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

Project under construction

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

Deferred charges/ amortization

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-CONTINUED
30 June 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-current assets

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

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

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

Accounts payable and accruals

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

Provisions

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

Zakat and income tax

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

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

Employees' terminal benefits

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

Borrowing costs

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

Statutory reserve

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

Revenue recognition

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

Expenses

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-CONTINUED
30 June 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Segment reporting

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

Fair value

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

4. SUKUK AND TERM LOANS

- **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 23 June 2019).

- **TERM LOAN:**

The balance of term loans represents the utilized amounts from loan facilities obtained by SPCo from a syndication of local and foreign commercial banks, Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF). These facilities are secured by various guarantees including pledges over the machinery and equipment 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. Those loans should be repaid on semi-annual installments. SPCo is required to comply with covenants stipulated for in all of the loan facility agreements.

5. SHORT TERM LOAN

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2014

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 year end.

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

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

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

7. SUBORDINATED LOAN FROM THE NON-CONTROLLING PARTNER

This represent subordinated loan from Arabian Chevron Petrochemical Company Limited (the “non-controlling partner”), which is a commission free loan granted from the partners to SPCo in proportion of their shareholding in the company, and its settlement is subject to the minimum level required to be maintained by the terms of the loan facility agreements granted by SIDF (Note 4).

8. SHARE CAPITAL

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

9. EARNINGS PER SHARE

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

10. INTERIM RESULTS

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

11. CONTINGENT LIABILITIES

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

Petrochem's and its subsidiaries local bankers have issued, on their behalf and during the normal course of business cycle, bank guarantees of SR 860 million from SPCo to the benefit of Saudi Aramco Company for feedstock cost (2013: SR 913 million included SR 860 million from SPCo to the benefit of Saudi Aramco Company for feedstock cost).

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2014

12. SEGMENTAL INFORMATION

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

Operating assets of Petrochem and its subsidiaries are located in the Kingdom of Saudi Arabia. Petrochem and its subsidiaries sales are geographically distributed between domestic sales in the Kingdom by 7% (2013: 4%), overseas sales to Asia by 58% (2013 : 73%) and to European countries and Africa by 35% (2013 : 23%).

13. CAPITAL COMMITMENTS

The balance of unused capital expenditure approved by the board of directors in connection with the construction of additional units and facilities for Saudi Polymers plant was SR 232 million (2013: SR Nil).

14. COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to conform within the current period's presentation.