

# NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES

(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)  
FOR THE SIX-MONTH PERIOD ENDED ٢٠ JUNE ٢٠١٨  
AND INDEPENDENT AUDITOR'S REVIEW REPORT

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

Interim Condensed Consolidated Financial Statements and Independent Auditor's Review Report  
For the Six-month Period Ended 30 June 2018

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**Independent auditor's review report on the interim condensed consolidated financial statements to the shareholders of National Petrochemical Company  
(A Saudi Joint Stock Company)**

**Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Petrochemical Company, A Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2018, and the related interim condensed consolidated statement of income and other comprehensive income for the three and six month periods then ended and the related interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material aspects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Waleed G. Tawfiq  
Certified Public Accountant  
Registration No. 437

13 Dhul-Qadah 1439H  
26 July 2018

Alkhobar

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	30 June 2018 SR "000" (un-audited)	31 December 2017 SR "000" (audited)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	4	15,640,986	16,070,911
Employees' loans		115,312	113,849
<b>TOTAL NON-CURRENT ASSETS</b>		<b>15,756,298</b>	<b>16,184,760</b>
<b>CURRENT ASSETS</b>			
Trade receivables		1,104,996	1,108,947
Inventories	5	1,124,749	1,092,938
Prepayments and other receivables	6	109,266	83,501
Amounts due from related parties	7	239,255	228,510
Short term deposits		861,250	648,000
Bank balances	8	2,251,923	2,265,819
<b>TOTAL CURRENT ASSETS</b>		<b>5,691,439</b>	<b>5,427,715</b>
<b>TOTAL ASSETS</b>		<b>21,447,737</b>	<b>21,612,475</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	9	4,800,000	4,800,000
Statutory reserve		231,332	231,332
Retained earnings		2,147,125	1,765,169
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY</b>		<b>7,178,457</b>	<b>6,796,501</b>
Non-controlling interests		3,313,593	3,037,340
<b>TOTAL EQUITY</b>		<b>10,492,050</b>	<b>9,833,841</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Term loans	10	5,706,163	6,625,869
Non-controlling partner's subordinated loan	7	594,035	817,988
Sukuk	11	-	1,200,000
Deferred tax liabilities, net		302,458	276,040
Employees' benefits		179,726	165,379
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>6,782,382</b>	<b>9,085,276</b>
<b>CURRENT LIABILITIES</b>			
Trade payables		47,282	218,967
Amounts due to related parties	7	258,542	237,363
Current portion of term loans	10	1,389,759	1,368,027
Sukuk	11	1,200,000	-
Accrued expenses and other payables	12	756,070	388,499
Zakat and income tax provisions	13	521,652	480,502
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,173,305</b>	<b>2,693,358</b>
<b>TOTAL LIABILITIES</b>		<b>10,955,687</b>	<b>11,778,634</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>21,447,737</b>	<b>21,612,475</b>
Designated member		Chief accountant	
Abdulrahman Alismail		Marzoug Al-Shamari	

The attached notes 1 to 18 form part of these interim condensed consolidated financial statements

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

For the three and six-month periods ended 30 June 2018

	Three-month period ended 30 June		Six-month period ended 30 June	
	2018 SR "000" (un-audited)	2017 SR "000" (un-audited)	2018 SR "000" (un-audited)	2017 SR "000" (un-audited)
Sales	2,239,388	1,754,114	4,449,918	3,439,381
Cost of sales	(1,500,156)	(1,333,283)	(2,947,549)	(2,516,150)
<b>GROSS PROFIT</b>	<b>739,232</b>	420,831	<b>1,502,369</b>	923,231
Selling and distribution expenses	(114,746)	(102,245)	(229,742)	(201,568)
General and administrative expenses	(51,557)	(54,867)	(93,854)	(104,339)
<b>OPERATING PROFIT</b>	<b>572,929</b>	263,719	<b>1,178,773</b>	617,324
Other (losses) income, net	(7,982)	39,439	15,045	54,988
Financial charges	(81,533)	(69,227)	(159,459)	(122,945)
<b>INCOME BEFORE ZAKAT AND INCOME TAX</b>	<b>483,414</b>	233,931	<b>1,034,359</b>	549,367
Zakat and income tax:				
<i>Current tax</i>	(23,075)	2,336	(47,786)	(11,703)
<i>Deferred tax</i>	(12,296)	(6,469)	(26,418)	(24,170)
<i>Zakat</i>	(30,926)	(13,558)	(61,946)	(51,095)
<b>NET INCOME FOR THE PERIOD</b>	<b>417,117</b>	216,240	<b>898,209</b>	462,399
Other comprehensive income	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PRIOD</b>	<b>417,117</b>	216,240	<b>898,209</b>	462,399
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:</b>				
- Shareholders of the Company	288,018	132,275	621,956	300,175
- Non-controlling interests	129,099	83,965	276,253	162,224
	<b>417,117</b>	216,240	<b>898,209</b>	462,399
<b>EARNINGS PER SHARE (Saudi Riyals)</b>				
Number of share outstanding (in thousands)	480,000	480,000	480,000	480,000
Basic and diluted earnings per share attributable to the shareholders of the Company	0.60	0.28	1.30	0.63

Designate member

Abdulrahman Alismail

Chief accountant

Marzoug Al-Shamari

The attached notes 1 to 18 form part of these interim condensed consolidated financial statements.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2018

	<i>Attributable to the shareholders of the Company</i>				<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Total</i>		
	<i>SR "000"</i>	<i>SR "000"</i>	<i>SR "000"</i>	<i>SR "000"</i>		
Balance as 1 January 2018 (audited)	4,800,000	231,332	1,765,169	6,796,501	3,037,340	<b>9,833,841</b>
Income before zakat and income tax	-	-	683,902	683,902	350,457	<b>1,034,359</b>
Current tax	-	-	-	-	(47,786)	<b>(47,786)</b>
Deferred tax	-	-	-	-	(26,418)	<b>(26,418)</b>
Zakat	-	-	(61,946)	(61,946)	-	<b>(61,946)</b>
Comprehensive income for the period	-	-	621,956	621,956	276,253	<b>898,209</b>
Dividends	-	-	(240,000)	(240,000)	-	<b>(240,000)</b>
<b>Balance at 30 June 2018 (un-audited)</b>	<b>4,800,000</b>	<b>231,332</b>	<b>2,147,125</b>	<b>7,178,457</b>	<b>3,313,593</b>	<b>10,492,050</b>
As at 1 January 2017 (audited)	4,800,000	141,554	1,216,304	6,157,858	2,634,640	8,792,498
Income before zakat and income tax	-	-	351,270	351,270	198,097	549,367
Current tax	-	-	-	-	(11,703)	(11,703)
Deferred tax	-	-	-	-	(24,170)	(24,170)
Zakat	-	-	(51,095)	(51,095)	-	(51,095)
Comprehensive income for the period	-	-	300,175	300,175	162,224	462,399
Dividends	-	-	(240,000)	(240,000)	-	(240,000)
Balance at 30 June 2017 (un-audited)	4,800,000	141,554	1,276,479	6,218,033	2,796,864	9,014,897

Designated member

Sukuk

Chief accountant

Marzoug Al-Shamari

The attached notes 1 to 18 form part of these interim condensed consolidated financial statements.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2018

	Six-month period ended 30 June 2018 SR "000" (un-audited)	Six-month period ended 30 June 2017 SR "000" (un-audited)
<b>Cash flow from operating activities</b>		
Income before zakat and income tax	1,034,359	549,367
<i>Adjustments to reconcile income before zakat and income tax to net cash flows from operations:</i>		
Depreciation of property, plant and equipment	442,288	459,697
Financial charges	159,459	122,945
Employees' benefits, net	14,347	14,395
Loss on disposal of property, plant and equipment	110	-
	1,650,563	1,146,404
<b>Working capital adjustments:</b>		
Trade receivables	3,951	(313,537)
Inventories	(31,811)	(37,895)
Employees' loans, prepayments and other receivables	(27,228)	10,857
Amounts due from related parties	(10,745)	59,576
Amounts due to related parties	21,179	(126,400)
Trade payables	(171,685)	123,382
Accrued expenses and other payables	363,516	(250,696)
	1,797,740	611,691
<b>Net cash flows from operations</b>		
Financial charges paid	(122,509)	(94,818)
Zakat and income tax paid	(68,582)	(26)
	1,606,649	516,847
<b>Net cash flows from operating activities</b>		
<b>Investing activities</b>		
Purchase of property, plant and equipment	(13,044)	(48,152)
Net movement in short term deposits	(213,250)	251,000
Proceeds from disposal of property, plant and equipment	571	-
	(225,723)	202,848
<b>Net cash flows (used in) from investing activities</b>		
<b>Financing activities</b>		
Net movement in term loans	(897,974)	(665,623)
Net movement in non-controlling partner's subordinated loan	(256,848)	(17,159)
Dividends paid	(240,000)	(240,000)
	(1,394,822)	(922,782)
<b>Net cash flows used in financing activities</b>		
<b>Net decrease in bank balances</b>	(13,896)	(203,087)
<b>Bank balances at the beginning of the period</b>	2,265,819	2,621,298
<b>Bank balances at the end of the period</b>	2,251,923	2,418,211
	8	
<b>Non-cash transactions</b>		
Accrued interest on non-controlling partner's subordinated loan	32,895	22,420
Net movement of non-cash amount in accrued interest	4,055	5,707
	36,950	28,127

Designated member  
Abdulrahman Alismaail

Chief accountant  
Marzoug Al-Shamari

The attached notes 1 to 18 form part of these interim condensed consolidated financial statements.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UN-AUDITED)

At 30 June 2018

### 1 Corporate information

National Petrochemical Company (Petrochem) ("the Company") is a Saudi Joint Stock Company registered under Commercial Registration Number 1010246363 issued in Riyadh on 8 Rabie I 1429 H (corresponding to 16 March 2008), and it was established pursuant to the Ministry of Commerce and Industry's resolution number 53/Q dated 16 Safar 1429 H (corresponding to 23 February 2008).

The accompanying interim condensed consolidated financial statements include the activities of the Company and its following subsidiaries (collectively referred to as "the Group"):

	Country of incorporation	Percentage of ownership
Saudi Polymers Company (A Limited Liability Company)	Saudi Arabia	65
Gulf Polymers Distribution Company (A Free Zone Limited Liability Company)	United Arab Emirates	65

The Group is engaged in development and establishment, operation and management and maintenance of petrochemical factories, gas, petroleum and other industries, wholesale and retail trade in material and petrochemical products and its derivatives.

### 2 Basis of preparation

#### 2.1 Statement of compliance

These interim condensed consolidated financial statements for the six-month period ended 30 June 2018 have been prepared in accordance with International Accounting Standard, "Interim Financial Reporting" ("IAS 34") as endorsed in Kingdom of Saudi Arabia ("KSA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual consolidated financial statements to be prepared in accordance with IFRS that are endorsed in KSA and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018 (note 3). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018 and accounting policies for these new standards are disclosed in note 3.

#### 2.2 Basis of measurement

The interim condensed consolidated financial statements are prepared under the historical cost convention using the accruals basis of accounting.

For employee and other post-employment benefits, actuarial present value calculations are used.

The interim condensed consolidated financial statements are presented in Saudi Riyals (SR), which is also the functional currency of the Group except for the Gulf Polymers Distribution Company FZCO which is translated in these interim condensed consolidated financial statement from US Dollar currency to Saudi Riyals currency on a fixed rate of SR 3.75 to 1 US Dollar.

All values are rounded to the nearest thousand (SR '000'), except when otherwise indicated.



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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 30 June 2018

### 2 Basis of preparation (continued)

#### 2.3 Basis of consolidation

The interim condensed consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls investee if, and only if, the Group has all of the following three elements:

- a) Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee),
- b) exposure, or rights, to variable returns from its involvement with the investee and
- c) the ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group. It is deconsolidated from the date that control ceases. Intra-group investment, transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. The accounting policies of the subsidiaries are consistent with those adopted by the Group.

Non-controlling interests in the results and equity of not wholly owned subsidiaries are shown separately in the interim condensed consolidated statement of income and other comprehensive income and interim condensed consolidated statement of financial position and interim condensed consolidated statement of changes in equity, respectively.

#### 2.4 Approval of interim condensed consolidated financial statements

These interim condensed consolidated financial statements were approved on 13 Dhul-Qadah 1439H (corresponding to 26 July 2018).

### 3 Summary of changes to the Group's accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 9- Financial Instruments and IFRS 15- Revenue from Contracts with Customers from 1 January 2018. As required by IAS 34, the nature and effect of these changes are disclosed below.

#### 3.1 IFRS 9- Financial Instruments

##### 3.1.1 Financial Assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value; and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing its financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

#### Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets at fair value through profit or loss are expensed in profit or loss.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 30 June 2018

### 3 Summary of changes to the Group's accounting policies (continued)

#### 3.1 IFRS 9- Financial Instruments (continued)

##### 3.1.1 Financial Assets (continued)

###### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's condensed consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

###### Impairment of financial assets

For trade and other receivables, the Group applies the simplified approach which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

###### Finance income

For all financial instruments measured at amortised cost and interest-bearing financial assets as fair value through other comprehensive income, finance income is recorded using the Effective Interest Rate ("EIR"). EIR is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

##### 3.1.2 Financial Liabilities

There are no changes in the recognition and measurement of financial liabilities. Consequently, accounting policies in relation to financial liabilities is not presented.

#### 3.2 IFRS 15- Revenue from Contracts with Customers

The Group recognises revenue from contracts with customers based on a five-step out in applicable standards as adopted by SOCPA. This included:

- a) Identification of contract with a customer, i.e., agreements with the Group that creates enforceable rights and obligations.
- b) Identification of the performance obligations in the contract, i.e., promises in such contracts to transfer products or services.
- c) Determination of the transaction price which shall be the amount of consideration the Group will expect to be entitled to in exchange for fulfilling its performance obligations (and excluding any amounts collected on behalf of third parties).
- d) Allocation of the transaction price to each identified performance obligation based on the relative stand-alone estimated selling price of the products or services provided to the customer.
- e) Recognition of revenue when/as a performance obligation is satisfied, i.e., when the promised products or services are transferred to the customer and the customer obtains control. This may be over time or at a point in time.

Revenue shall be measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Group shall assess its revenue arrangements against specific criteria to determine if it is acting as a principal or agent.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 30 June 2018

### **3 Summary of changes to the Group's accounting policies (continued)**

#### **3.2 IFRS 15- Revenue from Contracts with Customers (continued)**

The specific recognition criteria described below must also be met before revenue is recognised. Where there is no specific criteria, above policy will apply and revenue is recorded as earned and accrued.

##### *Sales revenue:*

The Group manufactures and sells a wide range of products. For such products, sales shall be recognised when control of the products transfers to the customer, which shall be considered in the context of the following the five-steps approach mentioned previously and applying the applicable shipping terms (or 'incoterms').

##### *Financing components*

The Group currently does not have or expect to have any customer contracts in routine sales or products where the period between the transfer of the promised products or services to the customer and payment by the customer exceeds a period of one year. As a consequence, the Group currently does not adjust any of the transaction prices for the time value of money. However, if any such case is identified, the related amounts shall be re-measured to adjust for the time value of money.

#### **3.3 Impact of changes in accounting policies due to adoption of new standards**

Effective 1 January 2018, the Group has adopted the two new accounting standards mentioned above "IFRS 9 and IFRS 15" with no material impact on the interim condensed consolidated financial statements of the Group as elaborated below.

##### **3.3.1 IFRS 9- Financial Instruments**

The majority of the Group's financial assets are classified as financial assets carried at amortised cost. This category is the most important for the Group and is kept within a business model that meets the conditions mentioned above. This category includes cash and cash equivalents, time deposits, trade receivables and other current debtors. Consequently, there is no material impact on the interim condensed consolidated financial statements of the Group.

##### **3.3.2 IFRS 15- Revenue from Contracts with Customers**

The Group is engaged in the production of motor fuel mixture, fuel oil, ethylene, propylene, hexane, high and low density polyethylene and polypropylene styrene. The sale of the product is generally expected to be the sole obligation of implementation of the Group; therefore, the application of IFRS 15 does not have any impact on the Group's revenue, profit or loss.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

##### **3.3.3 Significant accounting estimates, assumptions and judgments**

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods except for the significant new judgments and significant sources of estimates and uncertainties related to the application of IFRS 9 and IFRS 15 as mentioned above in note 3.1 and note 3.2 respectively.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UN-AUDITED) (continued)

At 30 June 2018

**4 Property, plant and equipment**

The movements for the Group's property, plant and equipment were as follows:

	<b>For the six-month period ended 30 June 2018 SR "000" (un-audited)</b>	For the six-month period ended 30 June 2017 SR "000" (un-audited)
Net book value at the beginning of the period	<b>16,070,911</b>	16,898,302
Additions during the period	<b>13,044</b>	48,152
Net book value of the disposals during the period	<b>(681)</b>	-
Depreciation charged during the period	<b>(442,288)</b>	(459,697)
Net book value at the end of the period	<b>15,640,986</b>	16,486,757

Part of the Group's property, plant and equipment are secured by (i) liens against term loan from Saudi Industrial Development Fund and (ii) assignment of residual proceeds against term loans from consortium of commercial banks and Public Investments Fund ("PIF").

**5 Inventories**

	<b>30 June 2018 SR "000" (un-audited)</b>	31 December 2017 SR "000" (audited)
Finished goods	<b>553,963</b>	498,458
Raw materials	<b>2,391</b>	3,731
Spares	<b>421,317</b>	436,436
Catalyst, chemicals and additives	<b>147,078</b>	154,313
	<b>1,124,749</b>	1,092,938

**6 Prepayments and other receivables**

	<b>30 June 2018 SR "000" (un-audited)</b>	31 December 2017 SR "000" (audited)
Value added tax receivables, net	<b>40,246</b>	3,233
Employees' loans- current portion	<b>27,929</b>	25,860
Prepayments	<b>13,238</b>	26,105
Cash margin against issuance of Sukuk (note 11)	<b>16,455</b>	16,455
Cash margin against bank guarantee	<b>2,263</b>	2,505
Accrued interest income	<b>3,580</b>	1,453
Other receivables	<b>5,555</b>	7,890
	<b>109,266</b>	83,501

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UN-AUDITED) (continued)

At 30 June 2018

**7 Related parties' transactions and balances**

Related parties represent shareholders and entities controlled, jointly controlled or significantly influenced by such parties (affiliates).

**a The following are the major related parties' transactions:**

Related parties	Relationship	Nature of transactions	For the six-month period ended 30 June 2018 SR "000" (un-audited)	For the six-month period ended 30 June 2017 SR "000" (un-audited)
Saudi Industrial Investment Group Company	Shareholder	Support services	180	546
Saudi Chevron Phillips Company (note a.1)	Related party	Sales	137,662	105,081
		Purchases	(10,441)	(2,725)
		Support services	(189,778)	(196,358)
Jubail Chevron Phillips Company	Related party	Sales	166,430	86,904
		Purchases	(609,871)	(556,252)
Chevron Phillips Chemical Company LLC (note a.2)	Related party	Royalty	(25,440)	(21,407)
Chevron Phillips Chemical Global Employment Company LLC	Related party	Support services	(25,977)	(35,693)
Chevron Phillips Chemical International Sales LLC	Related party	Support services	(2,356)	(3,926)
		Marketing fees	(154,440)	(126,315)
Chemical Services Inc.	Related party	Support services	(575)	(21,863)

(note a.1) The Group entered into a common facilities agreement (the "Agreement") with Saudi Chevron Phillips Company pursuant to which, affiliate provides support services to the Group in operations and maintenance, management support and technical support.

(note a.2) The Group entered into a royalty agreement (the "Agreement") with Chevron Phillips Chemical Company LLC in prior years under which the related party charged the royalty for the use of polymerization processes.

(note a.3) The non-controlling partner of Saudi Polymers Company (a consolidated subsidiary) have provided non-interest bearing subordinated loan of SR 1,133 million in prior years to finance the construction of a petrochemical plant. The repayment of the loan is subject to certain covenants being met under the terms of commercial loan facilities (note 10). The Group has repaid SR 518 million in current and prior periods. The net impact of the accumulated unwinding financial charges and the remeasurement of the subordinated loan in current and prior periods was SR 20.6 million.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 30 June 2018

### 7 Related parties' transactions and balances (continued)

#### b The following are the related parties' ending balances:

Related parties	30 June 2018 SR "000" (un-audited)	31 December 2017 SR "000" (audited)
<i>b.1 Amounts due from related parties under current assets:</i>		
Saudi Chevron Phillips Company	173,635	186,375
Jubail Chevron Phillips Company	65,620	42,135
	<b>239,255</b>	<b>228,510</b>
<i>b.2 Amounts due to related parties under current liabilities:</i>		
Saudi Chevron Phillips Company	50,866	61,954
Jubail Chevron Phillips Company	145,316	116,775
Chevron Phillips Chemical Global Employment Company LLC	8,767	2,295
Chemical Services Inc.	-	203
Saudi Industrial Investment Group Company	3,467	3,287
Chevron Phillips Chemical International Sales LLC	50,126	52,849
	<b>258,542</b>	<b>237,363</b>

#### c The following are the key management personnel compensation:

Remuneration for the six-month period ended 30 June 2018 and 30 June 2017 of key management are detailed as follows:

	For the six-month period ended 30 June 2018 SR "000" (un-audited)	For the six-month period ended 30 June 2017 SR "000" (un-audited)
Short-term employees' benefits	7,162	7,653
Terminal benefits	1,626	501
	<b>8,788</b>	<b>8,154</b>

### 8 Bank balances

Part of the Group's bank balances amounting to SR 2,164 million (31 December 2017: SR 2,152 million) are assigned as security against loan facilities from consortiums of commercial banks and Public Investment Fund ("PIF") (see note 10). This includes SR 1,097 million (31 December 2017: SR 1,073 million) related to debt service requirements.

### 9 Share capital

The share capital amounting to SR 4,800 million is divided into 480 million shares of SR 10 each as of 30 June 2018 and 31 December 2017.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)

At 30 June 2018

### 10 Term loans

The term loans represent the utilised amounts from loan facilities obtained by the Group from a consortium of local and foreign commercial banks, PIF and Saudi Industrial Development Fund ("SIDF"). These facilities are secured by various guarantees including pledges over certain property, plant and equipment and bank accounts of the Group. 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-annually installments. The portion of term loans payable beyond 30 June 2019 has been reclassified under non-current liabilities. The Group is required to comply with the covenants stipulated for in all of the loan facility agreements.

### 11 Sukuk

On 25 Sha'aban 1435H (corresponding to 23 June 2014), the Group issued Sukuk amounting to SR 1.2 billion at par value of SR 1 million each without discount or premium. The Sukuk issuance bears a variable rate of return at SIBOR plus 1.7% margin, payable semi-annually. The Sukuk are due at par value on its maturity date of 20 Shawwal 1440H (corresponding to 23 June 2019). Consequently, the Sukuk considered from this period as a current liability.

In accordance with the Sukuk agreement dated 25 Sha'aban 1435H (corresponding to 23 June 2014), an amount of SR 16.5 million was deposited as a cash margin held by Riyadh Capital Company in an open account on behalf of the Sukukholders' Agent (note 6).

### 12 Accrued expenses and other payables

	<b>30 June 2018</b>	31 December 2017
	<b>SR "000"</b>	SR "000"
	<b>(un-audited)</b>	(audited)
Accrued expenses	<b>549,745</b>	256,106
Advances from customers	<b>75,818</b>	54,660
Other payables	<b>130,507</b>	77,733
	<b><u>756,070</u></b>	<u>388,499</u>

### 13 Zakat and income tax provisions

The Group is subject to zakat and income tax in accordance with the regulation of the General Authority of Zakat and Tax ("GAZT"). Provisions for zakat and income tax are charged to the interim condensed consolidated statement of income and other comprehensive income.

#### *Status of assessments*

#### *Status of assessments of National Petrochemical Company (Petrochem)*

The Company has filed its Zakat and Income Tax returns with the General Authority of Zakat and Tax ("GAZT") up to 2016. The Company has finalised its zakat status with the General Authority of Zakat and Tax ("GAZT") for all years up to 31 December 2009 on a standalone basis. Number of additional liability have been issued by GAZT as follows:

The GAZT raised an assessment for 2010 claiming additional zakat liability of SR 74.42 million. The Company has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC") and received revised zakat assessment for 2010 from the GAZT claiming additional zakat liability of SR 241,485 which accepted by the management.

The GAZT raised assessments for the years from 2011 to 2013 claiming additional zakat liability of SR 95.5 million. The Company has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC"). The Company received revised zakat assessments for the years from 2011 to 2013 from the GAZT claiming additional zakat liability of SR 5.74 million. The Company accepted and paid SR 3.47 million and filed an appeal for the remaining balance SR 2.27 million with the Higher Appeal Committee ("HAC") and the HAC's hearing is awaited.

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

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UN-AUDITED) (continued)

At 30 June 2018

#### **13 Zakat and income tax provisions (continued)**

##### *Status of assessments (continued)*

###### *Status of assessments of National Petrochemical Company (Petrochem) (continued)*

The GAZT raised an assessments for the years from 2014 to 2016 claiming additional zakat liability of SR 204.2 million. The Company has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC") and the PAC's hearing is awaited.

The Company's management believes that the provision made in the interim condensed consolidated statements of financial position is adequate to cover any additional zakat liability that may arise from the GAZT.

###### *Status of assessments of Saudi Polymers Company*

The subsidiary has filed its zakat and income tax returns with the General Authority of Zakat and Tax (the "GAZT") up to 2017. The assessment for the period ended 31 December 2008 has been finalised with the GAZT with nil liability. The assessments for the years from 2009 through 2017 have not yet been raised by the GAZT.

Zakat base has been computed based on the managements' understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations. The assessments to be raised by the GAZT could be different from the declarations filed by the Companies in Saudi Arabia.

###### *Status of assessments of Gulf Polymers Distribution Company FZCO*

The subsidiary registered in the Dubai Airport Free Zone and the subsidiary is exempted from income tax.

#### **14 Capital commitments**

The Board of Directors have authorised future capital expenditure amounting to SR 81 million (31 December 2017: SR 105 million) relating to certain expansion projects.

#### **15 Contingencies**

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

The Group's banker has issued guarantees, on behalf of the Group, amounting to SR 389 million (31 December 2017: SR 389 million) relating to uplift of feedstock for plant from a supplier.



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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UN-AUDITED) (continued)

At 30 June 2018

### 16 Segment information

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

#### *Geographical segments*

Operating assets are located in the Kingdom of Saudi Arabia. The sales are geographically distributed as follows:

	<i>For the period ended 30 June 2018 (un-audited)</i>	<i>For the period ended 30 June 2017 (un-audited)</i>
	%	%
Domestic/Middle East	21	17
Asia	50	50
Europe/Africa	29	33
	<b>100</b>	<b>100</b>

### 17 Subsequent events

On 19 Ramadan 1439H (corresponding to 3 June 2018), the Board of Directors resolved to re-purchase the issued Sukuk. Subsequent to the period end, the Group re-purchased part of the issued sukuk amounting to SR 122 million.

### 18 Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.