Saudi Industrial Investment Group

(A Saudi Joint Stock Company)

Consolidated Financial Statements

For the year ended December 31, 2016
and independent auditor's report

SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS INDEX
For the year ended 31 December 2016

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saudi Industrial Investment Group

Riyadh-Kingdom of Saudi Arabia

Scope of Audit

We have audited the accompanying consolidated balance sheet of **Saudi Industrial Investment Group Company –** a Saudi Joint Stock Company as of December 31, 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended, including the related notes from (1) to (27). The accompanying consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion:

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

- present fairly, in all material respects, the financial position of **Saudi Industrial Investment Group Company –** a Saudi Joint Stock Company as of December 31, 2016 and the consolidated results of its operations, cash flows and changes in equity for the year then ended in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia; and

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

For Dr. Mohamed Al-Amri & Co.,

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

Jumaada al- Akher 15, 1438H
March 14, 2017 G

Saudi Industrial Investment Group
(A Saudi Joint Stock Company)
CONSOLIDATED BALANCE SHEET
(By thousands Saudi Riyals)

	Note	*As of December 31,* **2016**	*2015*
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	**2,833,452**	2,505,820
Short term deposits		**794,800**	640,000
Accounts receivable		**562,830**	850,227
Prepayments and other debit balances	4	**109,646**	91,604
Due from related parties	5	**276,670**	222,777
Inventory	6	**923,702**	1,018,811
TOTAL CURRENT ASSETS		**5,501,100**	5,329,239
NON-CURRENT ASSETS			
Employees loans		**144,530**	61,214
Deferred costs , net	7	**496,831**	51,717
Subordinated loan to jointly controlled ventures	8	**900,000**	815,625
Investments in jointly controlled ventures	9	**3,117,263**	3,209,814
Projects under construction	10	**148,855**	311,347
Property, plant and equipment, net	11	**16,252,886**	16,755,423
TOTAL NON-CURRENT ASSETS		**21,060,365**	21,205,140
TOTAL ASSETS		**26,561,465**	26,534,379
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable		**59,296**	127,147
Accruals and other credit balances	12	**488,885**	369,039
Due to related parties	5	**288,100**	203,792
Current portion of long term loans	13	**1,340,670**	1,296,420
Zakat provision	14	**504,048**	371,889
TOTAL CURRENT LIABILITIES		**2,680,999**	2,368,287
NON-CURRENT LIABILITIES			
Sukuk	15	**1,070,000**	1,070,000
Non-current portion of long term loans	13	**8,164,785**	9,492,315
Subordinated loan from non-controlling partner	16	**1,066,172**	1,066,172
Employees end of service benefits		**83,971**	49,938
TOTAL NON-CURRENT LIABILITIES		**10,384,928**	11,678,425
TOTAL LIABILITIES		**13,065,927**	14,046,712
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	1	**4,500,000**	4,500,000
Statutory reserve		**649,612**	599,701
Retained earnings		**2,438,282**	1,989,080
TOTAL SHAREHOLDERS' EQUITY		**7,587,894**	7,088,781
Non-controlling interests		**5,907,644**	5,398,886
TOTAL EQUITY		**13,495,538**	12,487,667
TOTAL LIABILITIES AND EQUITY		**26,561,465**	26,534,379

The attached notes from (1) to (27) form part of these consolidated financial statements

Saudi Industrial Investment Group

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

(By thousands Saudi Riyals)

	Note	*For the year ended 31 December,* **2016**	2015
Sales	**20**	**6,066,505**	7,304,171
Cost of sales		**(4,469,066)**	(4,822,401)
GROSS PROFIT		**1,597,439**	2,481,770
Share in earnings of jointly controlled ventures	**9**	**338,699**	318,275
Selling and marketing expenses	**17**	**(381,019)**	(468,787)
General and administrative expenses	**18**	**(227,054)**	(262,742)
INCOME FROM MAIN OPERATIONS		**1,328,065**	2,068,516
Finance charges	**19**	**(187,944)**	(152,111)
Other income		**20,675**	5,804
INCOME BEFORE ZAKAT AND NON-CONTROLLING INTERESTS		**1,160,796**	1,922,209
Zakat	**14**	**(152,925)**	(162,484)
INCOME BEFORE NON-CONTROLLING INTERESTS		**1,007,871**	1,759,725
Non-controlling interests' share in net income of the subsidiaries		**(508,758)**	(1,032,590)
NET INCOME FOR THE YEAR		**499,113**	727,135
EARNINGS PER SHARE FROM (SR)			
Income from main operations	**20**	**2,95**	4.60
Net income		**1,11**	1.62

The attached notes from (1) to (27) form part of these consolidated financial statements

Saudi Industrial Investment Group

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

(By thousands Saudi Riyals)

	For the year ended 31 December,	
	2016	*2015*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before zakat and non-controlling interests	**1,160,796**	1,922,209
Adjustments to reconcile net income before zakat and non-controlling interests to net cash provided by operating activities:		
Depreciation	**808,346**	804,222
Amortization of deferred financial charges	**13,140**	17,877
Amortization of deferred costs	**9,648**	247
Employees end of service benefits, net	**34.033**	15,077
Loss (gain) on disposal of property, plant and equipment	**38**	(32)
Share in income of jointly controlled ventures	**(338,699)**	(318,275)
Movements in operating assets and liabilities:		
Accounts receivable, prepayments, other receivables and employees loans	**186,039**	156,941
Inventory	**95,109**	224,328
Related parties, net	**30,415**	(28,799)
Accounts payable, accrued expenses and other creditors	**(9,621)**	(21,659)
Zakat paid	**(20,766)**	(39,950)
Net cash provided by operating activities	**1,968,478**	2,732,186
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment, and projects under construction	**(163,324)**	(210,529)
Additions to deferred costs	**(373,799)**	(51,964)
Proceeds from disposal of property, plant and equipment	**622**	32
Dividends received from jointly controlled ventures	**431,250**	262,500
Short term deposits	**(154,800)**	(81,000)
Net cash used in investing activities	**(260,051)**	(80,961)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of short/long-term loans	**(1,296,420)**	(1,145,503)
Dividends paid	**-**	(450,000)
Board of Directors' remuneration	**-**	(1,800)
Subordinated loan to jointly controlled ventures	**(84,375)**	(281,250)
Repayment of subordinated loan from non-controlling partner	**-**	(65,625)
Net cash used in financing activities	**(1,380,795)**	(1,944,178)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**327,632**	707,047
Cash and cash equivalents at the beginning of the year	**2,505,820**	1,798,773
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**2,833,452**	2,505,820
NON-CASH TRANSACTION		
Transfer from projects under construction to property, plant and equipment	**257,907**	-
Additional deferred costs against accruals and other credit balances	**80,963**	-
Adjustments of property, plant and equipment against accruals and other credit balances	**19,247**	75,274

The attached notes from (1) to (27) form part of these consolidated financial statements

Saudi Industrial Investment Group

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(By thousands Saudi Riyals)

For the year ended 31 December 2016	*Share capital*	*Statutory reserve*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
Balance as at 1 January 2016	4,500,000	599,701	1,989,080	7,088,781	5,398,886	12,487,667
Net income for the year	-	-	499,113	499,113	508,758	1,007,871
Transferred to statutory reserve	-	49,911	(49,911)	-	-	-
Balance as at 31 December 2016	4,500,000	649,612	2,438,282	7,587,894	5,907,644	13,495,538
For the year ended 31 December 2015						
Balance as at 1 January 2015	4,500,000	526,987	1,786,459	6,813,446	4,366,296	11,179,742
Net income for the year	-	-	727,135	727,135	1,032,590	1,759,725
Outstanding Dividends (note 25)	-	-	(450,000)	(450,000)	-	(450,000)
Board of Directors' remuneration	-	-	(1,800)	(1,800)	-	(1,800)
Transferred to statutory reserve	-	72,714	(72,714)	-	-	-
Balance as at 31 December 2015	4,500,000	599,701	1,989,080	7,088,781	5,398,886	12,487,667

The attached notes from (1) to (27) form part of these consolidated financial statements

(All amounts are presented in thousands Saudi riyals unless otherwise indicated)

1. ORGANIZATION AND ACTIVITIES

Saudi Industrial Investment Group (the "Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration number 1010139946 dated 10 Sha'aban 1416H (corresponding to 1 January 1996G). The Company was formed pursuant to the Ministry of Commerce and Industry`s Resolution number 610 dated 10 Jumad Al-Ula 1416H (corresponding to 5 October 1995G).

The Company is engaged in enhancing the growth and development of the industrial base of the Kingdom, specifically the petrochemicals industry, opening more channels for the exportation of the products and more ways for the private sector in the Kingdom to enter into other industries by using petrochemical products after obtaining the required licenses from the relevant authorities.

The Company's share capital amounts to SR ,4500,000,000 and consists of 450,000,000 shares with par value of SR 10 each.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Consolidation
For the purposes of consolidation, intra-Group transactions and balances are eliminated between the Company and its subsidiary, and non-controlling interests (the Company's other partners in the subsidiary company) are calculated based on the subsidiary`s net assets and share of income. The following is a statement of subsidiary company which is included in the consolidated financial statements:

	Shareholding %		Country of
	2016	*2015*	Establishment
National Petrochemical Company ("Petrochem")	**50**	50	Saudi Arabia

The subsidiaries of Petrochem are as follows:

Saudi Polymers Company ("SPCo")	**65**	65	Saudi Arabia
Gulf Polymers Distribution Company FZCO	**65**	65	UAE

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

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

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

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

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

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, balances and deposits with banks, and all highly liquid investments that are convertible into recognized cash amounts with maturities of three months or less from the acquisition date.

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

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

Inventories
Inventories are stated at the lower of cost or net realizable value.

Cost is determined as follows:

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

Net realizable value is selling price less costs to sell.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation except the platinum catalyst, which is stated at cost. Expenditure on maintenance and repairs is expensed, while expenditure for improvements is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method and residual values. Assets sold or disposed and the related accumulated depreciation is removed from the accounts at the time of disposal. The estimated operational useful lives are as follows:

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

Projects Under Construction

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

Deferred Costs

Planned turnaround costs are deferred and amortized over the period until the next planned turnaround, which is 60 months. Should unplanned turnaround costs occur prior to the previously envisaged date of a planned turnaround, then the previously unamortized turnaround costs are immediately expensed and the new turnaround costs are deferred and amortized over the period likely to benefit from such costs. The amortization is charged to cost of sales in the consolidated statement of income.

Borrowings and Borrowings Costs

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

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

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

Investment in Jointly Controlled Ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, i.e. the strategic financial and operating policies and decisions relating to the activities require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each party has an interest are referred to as jointly controlled ventures. The Group`s share in the jointly controlled ventures is accounted for under the equity method whereby the Group`s share in the jointly controlled ventures is carried in the consolidated balance sheet at cost as adjusted by post-incorporation changes in the Group`s share in the net assets of the jointly controlled ventures, less impairment in the value of the investment, if any. The Group's share in the results of jointly controlled ventures is accounted for under the equity method.

Impairment of Non-Current Assets

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

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

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

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received or when the risks and rewards of associated with the goods are transferred to the Group, whether claimed by the suppliers or not.

Zakat and Income Tax

Zakat is provided for in accordance with the Regulations of the Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on the accruals basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final Zakat assessments are adjusted in the year of their finalization. Zakat charge is computed on the basis of the zakat base for the Company and the subsidiaries separately.

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

Provisions

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

Employees' End of Service Benefits

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

Statutory Reserve

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

Dividends
Final dividends are recorded as liabilities at the time of their approval by the Shareholders' General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

Revenue Recognition
Sales represent the invoiced value of goods supplied and are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably, normally on delivery to the customer.

Other income is recognized when earned.

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

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

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

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

Earnings per Share
Earnings per share are calculated by using the weighted average number of shares outstanding during the year. The Company's share capital consists of 450 million common shares only.

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

(All amounts are presented in thousands Saudi riyals unless otherwise indicated)

3. CASH AND CASH EQUIVALENTS

	As at December	
	2016	*2015*
Bank balances and cash in hand	**2,641,702**	2,419,570
Time deposits of less than 3 months	**191,750**	86,250
	2,833,452	2,505,820

Bank balances of Saudi Polymers (Petrochem subsidiary company) amounting to SR 2,537 million (31 December 2015: SR 2,325 million) are assigned as security against loan facilities from the Public Investment Fund and consortium of commercial banks (note 13).

4. PREPAYMENTS AND OTHER DEBIT BALANCES

	2016	*2015*
Cash margins against letters of guarantee	**52,016**	52,016
Prepayments	**22,440**	30,151
Current portion of employees loans	**21,581**	7,087
Advances to suppliers	**157**	50
Other assets	**13,452**	2,300
	109,646	91,604

5. RELATED PARTIES TRANSACTIONS AND BALANCES

The following are the details of major related parties transactions during the year:

		Amount of transactions	
Related party	***Nature of transactions***	***2016***	*2015*
Arabian Chevron Phillips Petrochemical Company (non-controlling partner in a subsidiary company)	Repayment of subordinated loan	**-**	(65,625)
Board of Directors, Committees and Senior Executives	Salaries and benefits	**7,491**	8,358
Saudi Chevron Phillips Company (affiliated company)	Sales	**133,616**	174,709
	Purchases	**(23,693)**	(38,618)
	Cost of sales – services support (note 18)	**(277,343)**	(282,476)
	General and administration – services support (note 18)	**(124,339)**	(116,377)
Jubail Chevron Philips Company (affiliated company)	Sales	**134,194**	94,215
	Purchases	**(910,009)**	(857,198)
Other affiliated parties	Cost of sales – services support	**(71,025)**	(90,649)
	General and administration – services support (note 18)	**(165)**	(357)
	Sales and distribution – services support (note 17)	**(334)**	(1,879)
	Marketing fees	**(223,800)**	(293,258)

(All amounts are presented in thousands Saudi riyals unless otherwise indicated)

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

Amounts due from related parties:

	As of 31 December,	
	2016	*2015*
Saudi Chevron Phillips Company (jointly controlled venture)	**236,239**	180,774
Jubail Chevron Phillips Company (jointly controlled venture)	**40,425**	41,997
Petrochemical Conversion Company (jointly controlled venture)	**6**	6
	276,670	222,777

Amounts due to related parties:

	2016	*2015*
Saudi Chevron Phillips Company (jointly controlled venture)	**155,139**	88,208
Jubail Chevron Phillips Company (jointly controlled venture)	**106,902**	71,953
Chevron Phillips Chemical International Sales LLC (affiliated party)	**26,059**	43,631
	288,100	203,792

As set out in note (16), a non-controlling partner has provided a loan to one of the Group's subsidiaries, the amount outstanding as at December 31, 2016 being SR 1,066,172 thousand (2015: SR 1,066,172 thousand).

A substantial portion of sales of Saudi Chevron Phillips and Jubail Chevron Phillips (jointly controlled ventures) and GPDCo were marketed through an affiliated company of the non-controlling partner ("the Marketer") under a marketing agreement. Upon delivery of the products to the Marketer, sales are recorded at provisional prices. The provisional prices are subsequently adjusted to actual selling prices as received by the Marketer from its customers. Adjustments are recorded on a quarterly basis as they are reported by the Marketer. The prices and terms of the transactions are approved by the management of the relevant companies.

6. INVENTORIES

Spare parts	**382,560**	354,052
Finished goods	**372,149**	549,840
Catalysts	**162,041**	113,201
Raw materials	**6,952**	1,718
	923,702	1,018,811

7. Deferred Costs , Net

Cost:		
At the beginning of the year	**51,964**	18,563
Additions	**454,762**	33,401
At the end of the year	**506,726**	51,964
Accumulated amortization :		
At the beginning of the year	**247**	-
Amortization for the year	**9,648**	247
At the end of the year	**9,895**	247
Net book value	**496,831**	51,717

(All amounts are presented in thousands Saudi riyals unless otherwise indicated)

8. SUBORDINATED LOANS TO JOINTLY CONTROLLED VENTURES

Subordinated loans to jointly controlled ventures represent the Company's contribution of commission-free loans for projects managed by the partners according to their ownership shares. Loan repayments are not subject to commission. Subordinated loans balances were as follows:

	2016	*2015*
Petrochemical Conversion Company	**900,000**	740,625
Jubail Chevron Phillips Company	**-**	75,000
	900,000	815,625

9. INVESTMENTS IN JOINTLY CONTROLLED VENTURES

Investments in jointly controlled ventures comprise the Company's investments in the following companies which are incorporated as Limited Liability Companies and operating in the Kingdom of Saudi Arabia:

Joint venture	**Shareholding %**
Saudi Chevron Phillips Company ("SCP")	50
Jubail Chevron Phillips Company ("JCP")	50
Petrochemical Conversion Company ("PCC") (*)	50

The following summarizes the investments movement during the year ended 31 December:

	Saudi Chevron Phillips	**Jubail Chevron Phillips Company**	**Petrochemical Conversion Company**	**Total 2016**	Total 2015
At the beginning of the year	**1,012,746**	**1,380,815**	**816,253**	**3,209,814**	3,154,039
Share of income (losses)	**234,339**	**307,363**	**(203,003)**	**338,699**	318,275
Dividends	**(346,875)**	**(84,375)**	**-**	**(431,250)**	(262,500)
At the end of the year	**900,210**	**1,603,803**	**613,250**	**3,117,263**	3,209,814

10. PROJECTS UNDER CONSTRUCTION

Projects under construction amounting to SR 148,855 thousand as of 31 December 2016 (2015: SR 311,347 thousand). related to the cost of construction of additional units and facilities for the plant in SPCo.

(All amounts are presented in thousands Saudi riyals unless otherwise indicated)

11. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings	*Leasehold improvements*	*Plant & equipment*	*Platinum catalysts*	*Furniture and office equipment*	*Vehicles*	*Total*
Cost:							
At the beginning of the year	681,289	1,048	18,460,653	24,462	145,780	30,456	19,343,688
Additions	105	-	37,286	-	11,310	161	48,862
Transferred from projects under construction	-	-	253,178	-	3,105	1,624	257,907
Disposals	-	-	(1,324)	-	-	(120)	(1,444)
Adjustments	-	-	-	-	-	(300)	(300)
At the end of the year	681,394	1,048	18,749,793	24,462	160,195	31,821	19,648,713
Depreciation:							
At the beginning of the year	88,261	1,048	2,385,567	-	94,062	19,327	2,588,265
Charge for the year	27,248	-	745,833	-	29,073	6,192	808,346
Disposals	-	-	(705)	-	-	(79)	(784)
At the end of the year	115,509	1,048	3,130,695	-	123,135	25,440	3,395,827
Net book amounts:							
31 December 2016	**565,885**	**-**	**15,619,098**	**24,462**	**37,060**	**6,381**	**16,252,886**
31 December 2015	593,028	-	16,075,086	24,462	51,718	11,129	16,755,423

The buildings are situated on lands leased from the Royal Commission for Jubail and Yanbu, for an initial period of 30 years and are renewable for further similar periods.

The machinery and equipment of the SPCo plant are pledged as collateral against loan facilities (note 13).

(All amounts are presented in thousands Saudi riyals unless otherwise indicated)

12. ACCRUALS AND OTHER CREDIT BALANCES

	As of December 31	
	2016	*2015*
Accrued expenses	**431,442**	313,620
Dividends	**11,696**	11,732
Compensation for priority rights subscription	**3,187**	3,187
Other liabilities	**42,560**	40,500
	488,885	369,039

13. TERM LOANS

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

	Note	***2016***	*2015*
Syndicated commercial banks	**13.1**	**5,284,406**	5,848,076
Syndicated commercial banks – guaranteed	**13.2**	**1,681,500**	1,814,250
Public Investment Fund ("PIF")	**13.3**	**1,890,000**	2,310,000
Saudi Industrial Development Fund ("SIDF")	**13.4**	**670,000**	850,000
		9,525,906	10,822,326
Less: current portion of term loans			
Syndicated commercial banks		**563,670**	563,670
Syndicated commercial banks – guaranteed		**177,000**	132,750
Public Investment Fund ("PIF")		**420,000**	420,000
Saudi Industrial Development Fund		**180,000**	180,000
Current portion of term loans		**1,340,670**	1,296,420
		8,185,236	9,525,906
Less: unamortized deferred charges		**(20,451)**	(33,591)
Long term portion of term loans		**8,164,785**	9,492,315

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

	2016	*2015*
Cost		
At the beginning and end of the year	**238,369**	238,369
Amortization		
At the beginning of the year	**(204,778)**	(186,901)
Amortization for the year (note 19)	**(13,140)**	(17,877)
At the end of the year	**(217,918)**	(204,778)
	20,451	33,591

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

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

(All amounts are presented in thousands Saudi riyals unless otherwise indicated)

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

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

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

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

The maturities of the loans are as follows:

(Amounts in SR '000)	
2017	**1,340,670**
2018	**1,380,671**
2019	**1,420,669**
2020	**1,424,921**
2021	**829,170**
After 2021	**3,129,805**
	9,525,906

14. ZAKAT

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

	As at December	
	2016	*2015*
At the beginning of the year	**371,889**	249,355
Provided during the year	**152,925**	162,484
Paid during the year	**(20,766)**	(39,950)
At the end of the year	**504,048**	371,889

Status of assessments

The Company has filed zakat returns with the Department of Zakat and Income Tax ("DZIT") for all prior years up to 2015. The DZIT has raised zakat assessments up to 2006 and the Company has agreed on DZIT`s assessments up to 2001.

The Company has filed an appeal against the assessments for the years 2002 and 2003 before the Higher Appeal Committee against certain items disallowed by the DZIT which resulted in a difference of SR 24.4 million. The Higher Appeal Committee issued its ruling, reducing the claim amount to SR 12.4 million and the Company has filed an appeal against the ruling before the Board of Grievances.

The Company also appealed before The Preliminary Appeal Committee ("PAC") against zakat assessments for the years 2004 to 2006 against disallowance of certain items which resulted in a difference of SR 17.5 million. The PAC issued its ruling, reducing the claim to SR 16.8 million. The Company has paid the amount of SR 5.7 million and appealed before the Higher Appeal Committee against the amount of SR 11.1 million. As per the management's assessment, the Company has made adequate provision against items under appeals.

Status of assessments and tax for subsidiaries

As for Petrochem Zakat returns have been filed by Petrochem with the Department of Zakat & Income Tax (DZIT) up to the year 2015, Zakat has been settled accordingly and Petrochem has received a restricted certificate.

A number of assessments have been issued by the DZIT regarding Petrochem:

- DZIT has issued an assessment to the Company for the year 2014 that claim paying additional Zakat differences amounted to SR 52.5 million. The Company has provided an appeal against the claim with the allowed period. The management believes that the provision made in the consolidated financial statements is adequate to cover any differences that may arise from this claim.
- DZIT has issued an assessment to the Company for the year 2012 that claim paying additional Zakat differences amounted to SR 35.5 million. The Company has provided an appeal against the claim within the legal period. Since then, the DZIT has claimed for the years of 2011, 2012 and 2013, which combined, resulted in a difference of SR 95.5 million. This claim includes the 2012 difference that was appealed against by the Company. Petrochem is working on appealing against this claim during the allowed period.
- The DZIT Elementary Committee has issued a decision for the year 2010 and claimed an additional Zakat difference of SR 74.42 million. The Elementary Committee has issued its ruling, reducing the claim by the amount of SR 74.10 million and claims additional Zakat amounting SR 241,485 only. The Company and the DZIT appealed against the ruling before the Higher Appeal Committee, the company still wait for decision for committee held on January 4, 2017 The management believes that the ultimate outcome of this appeal will be in the favor of Petrochem.

SPCo has filed zakat returns with the DZIT for all years up to the year 2015. The zakat assessment for the year 2008 has been finalized, however, final assessments for the years from 2009 to 2015 have not yet been raised by the DZIT. No income tax has been recognized in prior years due to taxable losses at SPCo.

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

(All amounts are presented in thousands Saudi riyals unless otherwise indicated)

15. SUKUK

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

The Sukuk balance in these consolidated financial statements amounting to SR 1,070 million represents the value of Sukuk issued after eliminating the value of the Group`s investment in these Sukuk.

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

The subordinated loan from Arabian Chevron Phillips Petrochemical Company Limited is a commission-free loan granted to SPCo; its repayment is subject to certain covenants being met and minimum cash balances being maintained by SPCo under the terms of the commercial loan facility agreements granted by SIDF and term loan agreements (note 13). The movement of the loan during the year ended December 31 , was as follows:

	2016	*2015*
At the beginning of the year	**1,066,172**	1,131,797
Repayments made	**-**	(65,625)
At the end of the year	**1,066,172**	1,066,172

17. SELLING AND MARKETING EXPENSES

	For the year ended 31 December,	
	2016	***2015***
Marketing fees (note 5)	**223,800**	293,258
Warehouses rent and maintenance	**92,509**	91,354
Distribution and freight	**46,511**	47,479
Employees salaries and benefits	**8,640**	7,365
Currency exchange	**3,375**	20,767
Technical and support services for affiliated parties (note 5)	**334**	1,879
Others	**5,850**	6,685
	381,019	468,787

18. GENERAL AND ADMINSTRATIVE EXPENSES

	For year ended 31 December,	
	2016	*2015*
Technical and support services for affiliated parties (note 5)	**124,504**	116,734
Employees salaries and benefits	**36,200**	27,853
Depreciation	**29,625**	66,573
Bank charges	**7,871**	9,165
Expenses and remuneration of the Board of Directors and Committees, and salaries and benefits of Senior Executives	**7,491**	6,558
Professional and consulting fees	**3,871**	1,105
Technical and support services	**3,600**	3,304
Others	**13,892**	31,450
	227,054	262,742

(All amounts are presented in thousands Saudi riyals unless otherwise indicated)

19. FINANCE CHARGES

Interest on term loans	**134,903**	104,437
Amortization of deferred charges (note 13)	**13,140**	17,877
Other service charges	**39,901**	29,797
	187,944	152,111

20. EARNINGS PER SHARE

The weighted average of outstanding common shares for the year is 450,000,000 (2015 is 450,000,000 shares), The loss per shares from the other activities was SR (1.84) (2015 :SR (2.98) It is calculated based on dividing total financial charges, other income, Zakat and Non-controlling interests share in net income of the subsidiaries on the average outstanding common shares.

21. SEGMENTAL INFORMATION

Results and balances are attributable to the business segment approved by management to be used as a basis for the financial reporting and are consistent with the internal reporting process. The Group`s operations consist of the following business segments:

a. Petrochem: development, establishment, operation, management and maintenance of petrochemical, gas, petroleum and other industrial plants, and wholesale and retail trading in petrochemical materials and products.

b. Saudi Chevron Philips Company (“SCP”): producing and selling of aromatics, solvents and cyclohexane.

c. Jubail Chevron Philips Company (“JCP”): manufacturing and selling styrene, mogas blend stock, aromatic benzene, fuel oil, ethyl benzene, ethylene, propylene, liquefied petroleum gas and aromax feed.

d. Petrochemical Conversion Company (“PCC”): nylon 6.6 production, nylon compounding, and various plastics conversion operations.

For the year ended 31 December 2016

	Petrochem	SCP	JCP	PCC	Head Office	Adjustments	Total
Sales	**6,066,505**	**-**	**-**	**-**	**-**	**-**	**6,066,505**
Gross profit	**1,597,439**	**-**	**-**	**-**	**-**	**-**	**1,597,439**
Net income (loss)	**406,845**	**234,339**	**307,363**	**(203,003)**	**(43,009)**	**(203,422)**	**499,113**
Total assets	**22,073,870**	**900,210**	**1,603,803**	**613,250**	**7,722,564**	**(6,352,232)**	**26,561,465**
Total liabilities	**13,061,730**	**-**	**-**	**-**	**134,669**	**(130,472)**	**13,065,927**

For the year ended 31 December 2015

	Petrochem	SCP	JCP	PCC	Head Office	Adjustments	Total
Sales	7,304,171	-	-	-	-	-	7,304,171
Gross profit	2,481,770	-	-	-	-	-	2,481,770
Net income (loss)	906,888	236,964	171,441	(90,129)	(44,584)	(453,445)	727,135
Total assets	,22,360591	1,012,746	1,380,815	816,253	7,205,135	(6,241,161)	,26,534379
Total liabilities	,14,060632	-	-	-	116,437	(130,357)	,14,046712

22. CAPITAL COMMITMENTS

The balance of unused capital expenditure approved by the Board of Directors in connection with the construction of the additional units and facilities for SPCo's plant and other Group projects was SR 161 million (2015: SR **216** million).

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

Fair Value of Financial Instruments
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash at banks, accounts receivable, due from related parties and staff loans. The Group's financial liabilities consist of term loans, Sukuk, subordinated loan from non-controlling partner, accounts payable, other liabilities and amounts due to related parties. The fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

24. CONTINGENT LIABILITIES

During the normal course of business, the Group's local banks have issued, bank guarantees amounting to SR 893 million (2015: SR 1.3 billion), which include SR 857.3 million (31 December 2015: SR 857.3 million) from SPCo to the benefit of Saudi Aramco Company for covering the feedstock cost.

During 2010, Petrochem and the non-controlling partner agreed to increase the capital of SPCo by SR 3,394 million through the conversion of subordinated shareholder loans and this cause additional costs to non-controlling shareholder as a result of decreasing in cash available for distributed to SPCo. The management of Petrochem agreed to keep the non-controlling partner whole by agreeing to make annual payments to the non-controlling partner in the future, as needed, based on the future earnings of SPCo and non-distributable cash resulting from the capital increase.

25. BOARD OF DIRECTORS' RECOMMENDATION OF DIVIDENDS

On 19 Rabi II 1438H (corresponding to 17 January 2017G) the Board of Directors recommended to the General Assembly to distribute cash dividends at 5% of the par value of each share (SR 0.5 per share) with total dividends of SR 225 million for the year 2016.

On 26 Safar 1436H (corresponding to 18 December 2014G), the Board of Directors recommended to the General Assembly to distribute cash dividends at 10% of the par value of each share (SR 1 per share) with total dividends of SR 450 million for the year ended 31 December 2014 The Shareholders approved this proposal during the General Assembly dated 18 Jumaada al-Thani 1436H (corresponding to 8 April 2015G).

26. COMPARATIVE FIGURES

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

27. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 14 Jumaada al-Akher 1438H (corresponding to 14 March 2017G).