

**NAMA CHEMICALS COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
YEAR ENDED DECEMBER 31, 2016**

**NAMA CHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
**YEAR ENDED DECEMBER 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the stockholders  
NAMA Chemicals Company  
Al-Jubail, Kingdom of Saudi Arabia

### Scope of Audit

We have audited the accompanying consolidated balance sheet of NAMA Chemicals Company ("the Company"), (a Saudi Joint Stock Company) and subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and the related consolidated statements of income, cash flows, and changes in stockholders' equity for the year then ended, and notes 1 to 29 which form an integral part of these consolidated financial statements as prepared by the Group in accordance with the provisions of Regulations for Companies and presented to us with all the necessary information and explanations which we required. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated 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 management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

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

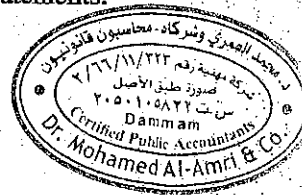
- present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia, and
- comply, in all material respects, with the relevant provisions of the Regulations for Companies and the Articles of the Group as these relate to the preparation and presentation of these consolidated financial statements.

### Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the accompanying consolidated financial statements which indicates that due to weak financial fundamentals of one of the subsidiaries of the Group, the Group has incurred a net loss during the year amounted to SR 837.2 million. As at December 31, 2016, the accumulated losses has reached to SR 1,070.5 million exceeding three fourth of share capital of the Company and the Group's current liabilities exceeded its current assets by SR 571.9 million. These conditions, along with other matters mentioned in Note 1, indicate the existence of a reasonable doubt about the Group's ability to continue as a going concern. The continuity of the Group as a going concern is dependent on the completion of the plans which were made by the management for reconstruction of its capital including issuance of right shares as mentioned in note 1 to these consolidated financial statements.

For Dr. Mohamed Al-Amri & Co.

Gihad M. Al-Amri  
Certified Public Accountant  
Registration No. 362



March 15, 2017-G  
Jumada 'II, 16, 1438-H

**NAMA CHEMICALS COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2016**

	Notes	2016 SR 000	2015 SR 000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	47,558	119,225
Time deposits	4	81,250	81,250
Accounts receivables	5	92,547	93,214
Inventories	6	56,606	77,810
Advances, prepayments and other receivables		18,730	19,862
<b>Total current assets</b>		<b>296,691</b>	<b>391,361</b>
<b>Non-current assets</b>			
Time deposits	4	76,656	78,900
Available for sale investments	7	108,994	83,759
Other non-current assets	8	5,604	8,185
Cost of projects under development	9	200,902	163,456
Property, plant and equipment	10	946,881	1,649,763
Intangible assets	11	-	31,912
<b>Total non-current assets</b>		<b>1,339,037</b>	<b>2,015,975</b>
<b>TOTAL ASSETS</b>		<b>1,635,728</b>	<b>2,407,336</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short term borrowings	12	94,072	72,059
Current portion of long term borrowings	13	606,555	283,579
Accounts payable		65,963	63,488
Interest rate swap	14	-	849
Accrued expenses and other payables		102,058	77,591
<b>Total current liabilities</b>		<b>868,648</b>	<b>497,566</b>
<b>Non-current liabilities</b>			
Long-term borrowings	13	421,500	777,600
End-of-service indemnities	15	43,173	35,860
<b>Total non-current liabilities</b>		<b>464,673</b>	<b>813,460</b>
<b>Stockholders' equity</b>			
Share capital	1	1,285,200	1,285,200
Statutory reserve	16	-	-
Available - for- sale reserve		88,455	45,084
Foreign currency translation reserve		(696)	(664)
Accumulated losses		(1,070,552)	(233,310)
<b>Total stockholders' equity</b>		<b>302,407</b>	<b>1,096,310</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>1,635,728</b>	<b>2,407,336</b>
<b>Contingencies and commitments</b>	21 & 23		

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements

**NAMA CHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2016**

	Notes	2016 SR 000	2015 SR 000
Sales		432,165	459,670
Cost of sales		<u>(1,137,616)</u>	<u>(484,619)</u>
<b>Gross loss</b>		<b>(705,451)</b>	<b>(24,949)</b>
Selling and marketing expenses	18	(43,208)	(37,192)
General and administrative expenses	19	<u>(84,880)</u>	<u>(30,757)</u>
<b>Loss from operations</b>		<b>(833,539)</b>	<b>(92,898)</b>
Financial charges	12,13	(33,100)	(30,099)
Change in interest rate swap position	14	849	2,128
Investment income, net		7,823	31,517
Other income, net	20	<u>31,759</u>	<u>20,464</u>
<b>Net loss before Zakat</b>		<b>(826,208)</b>	<b>(68,888)</b>
Zakat	17	<u>(11,034)</u>	<u>(5,622)</u>
<b>NET LOSS</b>		<b><u>(837,242)</u></b>	<b><u>(74,510)</u></b>
<b>(Loss) /earnings per share</b>	24		
Loss per share from net loss (in SR)		<u>(6.51)</u>	<u>(0.58)</u>
Loss per share from continuing main operations (in SR)		<u>(6.83)</u>	<u>(1.00)</u>
Earnings per share from other operations (in SR)		<u>0.31</u>	<u>0.42</u>
Weighted average number of shares	1	<u>128,520,000</u>	<u>128,520,000</u>

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements

**NAMA CHEMICALS COMPANY**  
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**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**

	2016 SR 000	2015 SR 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss before zakat	(826,208)	(68,888)
Adjustments for:		
Depreciation	97,913	98,722
Amortization	7,958	7,083
End-of-service indemnities provision	8,292	7,349
Loss on disposal of fixed assets	481	430
Available for sale investments written off	18,136	-
Provision for other non-current assets	2,395	-
Provision for doubtful receivables	4,071	-
Impairment loss	655,000	-
Surplus realized on disposal of available for sale investments	-	(25,163)
Change in interest rate swap position	(849)	(2,128)
<b>Changes in operating assets and liabilities</b>		
Accounts receivables	(3,405)	52,941
Inventories	21,204	(10,518)
Advances, prepayments and other receivables	1,133	1,340
Accounts payable, accrued expenses and other payables	20,955	(45,172)
<b>Cash from operations</b>	<b>7,076</b>	<b>15,996</b>
End-of-service indemnities paid	(979)	(3,126)
Zakat paid	(5,047)	(6,404)
<b>Net cash from operating activities</b>	<b>1,050</b>	<b>6,466</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(26,582)	(2,640)
Proceeds from disposal of property, plant and equipment	24	-
Additions to cost of projects under development	(37,446)	(75,118)
Changes in other non-current assets	186	692
Change in time deposits	2,244	(3,250)
Proceeds from sale of available for sale investments	-	48,988
<b>Net cash used in investing activities</b>	<b>(61,574)</b>	<b>(31,328)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in short term borrowings	22,013	(6,523)
Drawdown of long term borrowings	-	5,000
Repayment of long term borrowings	(33,124)	(23,400)
<b>Net cash used in financing activities</b>	<b>(11,111)</b>	<b>(24,923)</b>
<b>Net change in cash and cash equivalents</b>	<b>(71,635)</b>	<b>(49,785)</b>
Foreign currency exchange differences on foreign operations	(32)	(61)
Cash and cash equivalents, January 1	119,225	169,071
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>47,558</b>	<b>119,225</b>
<b>Non-cash transactions:</b>		
Capital spares transferred to property, plant and equipment	-	5,720

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements

**NAMA CHEMICALS COMPANY**  
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**CONSOLIDATED STATEMENT OF PARTNERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2016**

	Share capital SR 000	Available- for –sale reserve SR 000	Foreign currency translation reserve SR 000	Accumulated losses SR 000	Total SR 000
January 1, 2015	1,285,200	101,452	(603)	(158,800)	1,227,249
Net loss for the year	-	-	-	(74,510)	(74,510)
Fair value loss on investments	-	(31,205)	-	-	(31,205)
Realized gain on sale of investments	-	(25,163)	-	-	(25,163)
Foreign currency translation adjustments	-	-	(61)	-	(61)
December 31, 2015	1,285,200	45,084	(664)	(233,310)	1,096,310
Net loss for the year	-	-	-	(837,242)	(837,242)
Fair value gain on investments	-	43,371	-	-	43,371
Foreign currency translation adjustments	-	-	(32)	-	(32)
<b>December 31, 2016</b>	<b>1,285,200</b>	<b>88,455</b>	<b>(696)</b>	<b>(1,070,552)</b>	<b>302,407</b>

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements

**NAMA CHEMICALS COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**

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**1 ORGANIZATION AND ACTIVITIES**

NAMA Chemicals Company ("the Company") ("NAMA") is a Saudi Joint Stock Company registered in Al-Jubail Industrial City under the commercial registration number 2055007420. The share capital of the Company amounts to SR 1,285.2 million divided into 128.52 million shares of SR 10 each.

The subsidiaries of NAMA are as follows:

Al-Jubail Chemical Industries Company ("JANA"), a limited liability company, is owned 95% by NAMA and 5% by NAMA Industrial Investment Company, a subsidiary of NAMA.

Arabian Alkali Company ("SODA"), a limited liability company, is owned 90% by NAMA and remaining 10% by JANA.

NAMA Industrial Investment Company, a limited liability company, is owned 95% by NAMA and 5% by SODA.

NAMA Europa GMBH, a limited liability company incorporated in Switzerland, is owned 99% by NAMA Industrial Investment Company and 1% by NAMA. The shareholding was notified in the commercial registry in Bern vide - CH-036.4.041.685-8.

NAMA Germany GMBH, a limited liability company incorporated in Germany, is fully owned by NAMA Europa GMBH.

The principal activities of NAMA and its subsidiaries ("the Group"), each of which operates under individual commercial registration, are to own, establish, operate and manage industrial projects in the petrochemical and chemical fields. The Group incurs costs on projects under construction and development and subsequently establishes a separate company for each project that has its own commercial registration. Costs incurred by the Group are transferred to the separate company when it is established.

The Board of Directors of NAMA has decided in the Extraordinary Assembly Meeting held on December 27, 2016, to reduce the Company's share capital from SR 1,285,200,000 to SR 235,200,000 at a reduction rate of 81.7% for the purpose of reconstruction of the share capital of the Company. As a result, total number of shares of the Company will be reduced from 128,520,000 to 23,520,000 by way of cancellation. The said capital reduction is pending upon completion of certain legal requirements.

Due to weak financial fundamentals of one of the subsidiaries, JANA, the Group has incurred a net loss during the year amounted to SR 837.2 million (2015: SR 74.5 million). As at December 31, 2016, the accumulated losses has reached to SR 1,070.5 million (2015: SR 233.3 million) and the Group's current liabilities exceeded its current assets by SR 571.9 million (2015: SR 106.2 million). Further, as mentioned in note 13, the Group has restructured its loans and has not complied with the covenant requirements of its loan agreements to maintain certain financial ratios. However, in 2016, the shareholders of JANA has unanimously resolved the continuation of the Company as a going concern, together with providing it financial support to cover these losses as required by the Article 181 of the Regulation for Companies. Therefore, these consolidated financial statements have been prepared on going concern basis.

Further, in order to improve the profitability and financial position, the Group has entered into a long term agreement with Huntsman Europe to supply its products for an initial period of 5 years which can be renewed for further periods. Huntsman is a global leader in Epoxy resin market and the Group is confident to significantly benefit from this association especially in Europe and America resulting in substantial increase in revenues in the future.



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The cost of one of the main products of the Group has decreased by 18% on average in the first two months of 2017. The management expects the same trend to be continued for the remaining year and thereby is confident to end up with the gross profits in the year 2017. The Group also has embarked on a cost reduction plan and has initiated various cost cutting initiatives to improve its operational efficiency. Better utilization of available resources, improvements in logistics and procurement functions, financial restructuring etc. all are expected to provide the Group with substantial improvements in its cost structure. These measures are expected to improve the Groups competitiveness in the local as well as global market.

The Group has initiated a financial restructuring plan (capital reconstruction), and has already received necessary consent letters from some of the commercial banks in support of the capital reduction exercise and expects to get the same from other lenders very soon. The management is confident that the lenders will support the Group's initiatives by agreeing to further reschedule its loans. With the new financial structure, the Group's liquidity ratio is expected to be normalized. The management is in discussion with the lenders to explore ways of reducing the interest exposure in the future.

In addition, the Group has decided to produce special grade products as well as import substitution products to the Kingdom of Saudi Arabia. These plans are expected to substantially improve the margins of the group. Many of the products are used by the existing customers and hence marketing the products will be easy and hassle-free. To raise the necessary funds for this project, the Group has decided to increase its share capital through a rights issue.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The following is a summary of significant accounting policies applied by the Group:

**Accounting convention**

The consolidated financial statements are prepared under the historical cost convention, except for derivatives and available for sale investments which are stated at fair value.

**Basis of consolidation**

Investments in subsidiaries are consolidated where the Group has control, which usually represents over 50% of their capitals. For the purposes of consolidation, material inter-company transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated, and non-controlling interests (the Company's other partners in the consolidated subsidiary) are calculated based on the subsidiary's net assets and net income.

**Accounting estimates**

The preparation of consolidated financial statements in accordance with generally accepted accounting standards requires the use of estimates and judgments which might affect the valuation of recorded assets, liabilities and the disclosure of contingencies in the notes to the 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 time of issuing the consolidated financial statements, the actual results might differ from those estimates.

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

- Estimate of useful lives of and residual value of property, plant and equipment
- estimate of recoverable amount of property, plant and equipment and intangible assets for impairment
- provision for doubtful debts
- provisions and accruals
- provision for slow moving inventories

**Accounts receivable**

Accounts receivable are carried at their original amount less provision made for doubtful accounts. A provision for doubtful accounts is established when there is significant doubt that the Group will be able to collect all amounts due according to the original terms of accounts receivable.

**Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost of finished goods include cost of materials, labor and an appropriate proportion of direct overheads. All other inventories are valued on a weighted average cost basis.

**Investments**

Investments in financial instruments are classified according to Group's intent with respect to these securities.

Investments in companies whose shares are not readily marketable and in which the Group owns less than 20% of the share capital are accounted for at cost. Impairment in value is recorded in the year in which the impairment is determined and charged to the consolidated statement of income. Dividends are recorded when received.

Investments in investment funds and marketable securities classified as available for sale are stated at market value. Changes in market value are credited or debited to the available-for-sale reserve included in consolidated stockholders' equity. The carrying amount of such investments is reduced to recognize any impairment in the value of the individual investment.

**Property, plant and equipment**

Property, plant and equipment, except for capital work in progress, are stated at cost less accumulated depreciation less impairment. Expenditure on 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. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. Capital works in progress are stated at cost less impairment, if any and transferred to relevant property, plant and equipment category when such assets are available for use.

The estimated useful lives of the principal classes of assets are as follows:

	<u>Years</u>
Buildings and leasehold improvements	20 - 40
Plant and machinery	5 - 30
Vehicles	4
Furniture, fixtures and office equipment	5 - 10

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Upon disposal, the cost and the related accumulated depreciation are derecognized and the resulting gain or loss is taken to the consolidated statement of income.

**Borrowing costs**

Borrowing costs directly attributable to cost of projects under development are added to the cost of the project until such time as the project is ready for its intended use. Investment income earned on temporary investments of specific borrowings pending their expenditure on the project under construction is deducted from the borrowing costs eligible for capitalization.

**Impairment**

As of each balance sheet date, the Group reviews the carrying amounts of non-current assets 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 asset is estimated in order to determine the extent of the impairment loss (if any). 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 losses are recognized as an expense 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 so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

**Intangible assets**

Intangible assets principally represent loan front-end fees and enterprise resource planning (ERP) solution program implementation costs. The pre-operating costs and ERP solution program implementation costs are amortized on the straight-line method over 5 to 7 years. The front-end fees charged by lenders of loans are amortized over the term of the loans.

**Foreign currency translation**

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the balance sheet date. Exchange gains or losses are credited or charged to the consolidated statement of income.

The Company's books of accounts are maintained in Saudi Riyals. Assets and liabilities of foreign subsidiary are translated in Saudi Riyals at the exchange rate in effect at the date of consolidated balance sheet. The components of foreign subsidiary's equity accounts, except retained earnings are translated at the exchange rates in effect at the dates of the related items originated. The elements of foreign subsidiary's statement of income are translated using the weighted average exchange rate for the period. Adjustments resulting from the translation of foreign subsidiary's financial statements into Saudi Riyals are reported as a separate component of equity attributable to the stockholders of the Group in the consolidated financial statements.

**Provision for obligation**

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Derivative financial instruments**

Derivative financial instruments are initially recorded at cost and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the consolidated statement of income as they arise.

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the consolidated balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated statement of income. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which is also immediately recognized in the consolidated statement of income.

A cash flow hedge is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability, an unrecognized firm commitment or a forecasted transaction. To the extent that the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in equity. Subsequently, the amount is included in the consolidated statement of income in the same period or periods during which the hedged item affects net profit or loss. For hedges of forecasted transactions, the gain or loss on the hedging instrument will be recognized as an adjustment to recorded carrying amount of the acquired asset or liability.

**End-of-service indemnities**

End-of-service indemnities, required by Saudi Arabian labor law, are provided in the consolidated financial statements based on the employees' length of service.

**Zakat and income tax**

The Group is subject to the regulations of the General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on accruals basis and are charged to the consolidated statement of income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**Leasing**

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the operating lease.

**Revenue recognition**

Sales are recognized upon delivery of goods to customers. Investment income and commissions on time deposits, is recognized on an accrual basis.

**Expenses**

Selling and marketing expenses principally comprise of costs incurred in the sale and marketing of the Group's products and services. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under generally accepted accounting principles. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

**Segmental 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. Because the Group carries out its activities in the Kingdom of Saudi Arabia and abroad reporting is provided by products and geographical segment.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**

**3 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash and time deposits with original maturities of three months or less. As of December 31, cash and cash equivalents consist of the followings:

	2016 SR 000	2015 SR 000
Cash and bank balances	47,558	80,975
Time deposits	-	38,250
	<u>47,558</u>	<u>119,225</u>

**4 TIME DEPOSITS**

Time deposits represent collateral cash deposit of around 65% of the Murabaha loan amount of SR 125 million and collateral cash deposit of around 30% of the Tawarruq loan amount of SR 253 million (Refer note 13). These deposits carry profit at the rate of 1.85% to 2.40 % per annum (2015: 0.70% to 0.84%).

	2016 SR 000	2015 SR 000
Time deposits	157,906	160,150
Less : current portion	(81,250)	(81,250)
Non-current portion	<u>76,656</u>	<u>78,900</u>

**5 ACCOUNTS RECEIVABLES**

	2016 SR 000	2015 SR 000
Trade debtors	98,925	95,521
Less : provision for doubtful receivables	(6,378)	(2,307)
	<u>92,547</u>	<u>93,214</u>

Movement in provision for doubtful receivables is as follows:

	2016 SR 000	2015 SR 000
January 1	2,307	2,307
Additions	4,071	-
December 31	<u>6,378</u>	<u>2,307</u>

**6 INVENTORIES**

	2016 SR 000	2015 SR 000
Raw materials	24,037	32,746
Finished products and work-in-process	18,141	28,181
Spare parts	14,428	16,883
	<u>56,606</u>	<u>77,810</u>

The inventories include a provision for obsolete and slow moving inventory items amounting to SR 18.8 million (2015: SR 17.1 million).

The spare parts inventory primarily relates to plant and machinery and accordingly, these are expected to be utilized over a period exceeding one year.

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**7 AVAILABLE FOR SALE INVESTMENTS**

	Note	2016 SR 000	2015 SR 000
Investment in quoted shares		108,350	64,982
Investment in unquoted shares		18,136	18,136
Investment in mutual funds		644	641
		<u>127,130</u>	<u>83,759</u>
Less : Impairment in investment in unquoted shares	19	<u>(18,136)</u>	-
		<u>108,994</u>	<u>83,759</u>

The fair value gain recognized on the quoted investments during the year is SR 43.3 million (2015: fair value loss amounted to SR 31.2 million).

**8 OTHER NON-CURRENT ASSETS**

Other non-current assets represent balances related to Employee Share Program ("ESP"). During 2010, the Board of Directors approved an ESP which provides a 5 year service awards to eligible employees. These employees, subject to their subscription to ESP and meeting the underlying conditions, are given an option to buy 1,130,339 shares of NAMA, at an agreed exercise price of SR 8.85 per share, at a future date (the "vesting date") once they become fully entitled to the shares. The entitlement to the shares will be in different stages ranging from 10% to 40% based on the vesting period.

In relation to ESP, NAMA purchased its shares at SR 10 million in 2009 through a local financial institution ("Custodian") under a custody arrangement and these shares are held by the custodian. The value of such shares has been recorded under other non-current assets and will be repaid to NAMA at the vesting date of ESP by the eligible employees. As at the balance sheet date, approximately 20% of the total shares have been subscribed by the employees. The shares transferred to employees or sold in 2016 on behalf of them are 21,065 shares (2015: 79,380 shares). The balance is shown net of provision of SR. 2.3 million (2015: nil) for any claim of loss sustained by the subscribers due to price decrease from cost of shares.

**9 COST OF PROJECTS UNDER DEVELOPMENT**

Cost of projects under development as of December 31, 2016 represents the cost of employees' housing project.

Construction related costs as of December 31, 2016 comprise construction costs under various agreements and directly attributable costs to bring the asset to the location and working condition necessary for it to be capable of operating in a manner intended by the management. Directly attributable costs include employee benefits, site preparation costs, construction costs and borrowing costs. Borrowing cost capitalized during the year amounted to SR 5.43 million (2015: SR 4.00 million). This project will be completed in 2017. However, the terms and conditions of selling house units to the employees are yet to be determined.

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**10 PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings and leasehold improvements</b>	<b>Plant and machinery</b>	<b>Vehicles</b>	<b>Furniture, fixtures and office equipment</b>	<b>Capital work-in- progress</b>	<b>Total</b>
	<b>SR 000</b>	<b>SR 000</b>	<b>SR 000</b>	<b>SR 000</b>	<b>SR 000</b>	<b>SR 000</b>
<b>Cost</b>						
January 1, 2016	144,403	2,020,255	4,081	13,576	29,051	2,211,366
Additions	-	9,029	501	409	16,643	26,582
Disposals	-	(9,571)	(727)	-	-	(10,298)
Transfers	-	1,430	-	18	(1,448)	-
<b>December 31, 2016</b>	<b>144,403</b>	<b>2,021,143</b>	<b>3,855</b>	<b>14,003</b>	<b>44,246</b>	<b>2,227,650</b>
<b>Depreciation</b>						
January 1, 2016	24,787	521,102	3,911	11,803	-	561,603
Charge for year	4,470	92,339	136	968	-	97,913
Impairment	14,527	591,178	-	443	24,898	631,046
Disposals	-	(9,066)	(727)	-	-	(9,793)
<b>December 31, 2016</b>	<b>43,784</b>	<b>1,195,553</b>	<b>3,320</b>	<b>13,214</b>	<b>24,898</b>	<b>1,280,769</b>
<b>Net book value</b>						
<b>December 31, 2016</b>	<b>100,619</b>	<b>825,590</b>	<b>535</b>	<b>789</b>	<b>19,348</b>	<b>946,881</b>
December 31, 2015	119,616	1,499,153	170	1,773	29,051	1,649,763

- (i) The Group has leased land for factory buildings and other premises from the Royal Commission for Al-Jubail and Yanbu for a period of 25 Hijra years commencing from November, 1997 and September 2005.
- (ii) As of December 31, 2016, the capital work in progress represents the machineries under installation and related works.
- (iii) One of the buildings of the Group has been given to Saudi Basic Industries Corporation (SABIC) on rental basis.
- (iv) One of the subsidiaries of the Group, JANA has carried out an impairment testing, with the assistance of an external consultant due to continuous operating losses over the years. The value in use was determined as on December 31, 2016, based on various assumptions approved by the Group's management. Based on the said impairment testing, the Group's management determined the value in use of JANA as SR 970 million which has resulted in the impairment loss of SR 531 million as of December 31, 2016. However, the impairment loss that has already been recorded in the fourth quarter of 2016 based on impairment testing carried out as of September 30, 2015 was SR 655 million. Based on prudence, the management did not reverse the excess amount of SR 124 million and kept the same impairment loss of SR 655 million in these consolidated financial statements for the year ended December 31, 2016. Accordingly, in 2016, an impairment loss amounting to SR 630 million (including SR 24 million impairment related to intangible assets, note 11) has been recognized in cost of sales, whereas SR 25 million has been recognized in general and administrative expenses in the consolidated statement of income (2015: Nil).

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**11 INTANGIBLE ASSETS**

	2016 SR 000	2015 SR 000
January 1	31,912	38,995
Less: amortization	(7,958)	(7,083)
Less: Impairment	(23,954)	-
<b>December 31</b>	<b>-</b>	<b>31,912</b>

The impairment loss on intangible assets is recognized in cost of sales in the consolidated statement of income (refer note 10).

**12 SHORT TERM BORROWINGS**

JANA, one of the subsidiaries of the Group, obtained bank facilities from local banks for short-term loans and letters of credits. These facilities bear interest at rate based on SIBOR plus a margin. These facilities are secured by a corporate guarantee from NAMA.

**13 LONG TERM BORROWINGS**

	2016 SR 000	2015 SR 000
Saudi Industrial Development Fund ("SIDF")	(i) 591,279	591,279
Murabaha loans	(ii) 183,500	206,900
Tawarruq financing	(iii) 253,276	263,000
	1,028,055	1,061,179
Less: current portion	(606,555)	(283,579)
<b>Long term borrowings</b>	<b>421,500</b>	<b>777,600</b>

**(i) SIDF loans**

**For Epoxy plant - JANA**

In 2007, SIDF approved a term loan of SR 37.4 million to finance the expansion project of the Epoxy plant, which was fully withdrawn by JANA. In 2008, SIDF approved additional term loan of SR 210 million to finance the subsequent expansion of the Epoxy plant out of which SR 179.32 million was disbursed till 31 December 2013.

During 2014, SIDF cancelled the undisbursed portion of the loan and revised the repayment schedule to be of 10 unequal semi-annual installments starting February 15, 2014. Up to December 31, 2014, JANA had repaid SR 42.4 million. In 2016, SIDF revised the repayment schedule to be of 4 unequal semi-annual installments starting January 14, 2017. As of December 31, 2016, the outstanding balance of the loan is SR 174.32 million (2015: SR 174.32 million).

**For Hassad plant - JANA**

In 2006, SIDF approved a term loan facility of SR 315 million to finance the Hassad project, which was fully utilized by JANA as of December 31, 2010. Repayment of the loan was in 15 unequal semi-annual installments commencing from October 4, 2009. Up to December 31, 2013, the Company had repaid



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SR 65 million. In 2012, the SIDF approved additional term loan of SR 208.7 million to finance the cost overrun of Hassad project, out of which SR 166.96 million was disbursed till 31 December 2013. During 2014, SIDF cancelled the undisbursed portion of the loan and revised the repayment schedule to be of 13 unequal semi-annual installments starting August 11, 2014. During 2016, SIDF revised the repayment schedule to be of 8 unequal semi-annual installments starting January 14, 2017. As of December 31, 2016, the outstanding balance of the loan is SR 416.96 million (2015: 416.96 million).

SIDF loan covenants include maximum limits for capital expenditure and maintenance of certain financial ratios during the period of the loan. The loan is secured against the mortgage of the property, plant and equipment of JANA and personal and/or corporate guarantees of the Partners.

**(ii) Murabaha loans**

In 2012, JANA entered into a Master Murabaha Agreement ("the Agreement") with a local bank to finance the capacity expansion projects. The total facility amounting to SR 117 million is in the form of Islamic Murabaha to sell and repurchase certain commodities from the Agent in accordance with Shariah principles. JANA has fully drawn down the Murabaha facility in 2012. Repayment was in 20 equal quarterly installments of SR 5.85 million commencing from September 13, 2014. The margin was 2.75% per annum. The outstanding balance as on December 31, 2016 was SR 58.50 million (2015: 81.90 million). The bank loan covenants include maintenance of certain financial ratios during the period of the loan.

In 2013, NAMA Industrial Investment Company entered into Master Murabaha Agreement ("the Agreement") with a local bank to finance the construction of Employees' Housing Project. The total facility amounting to SR 125 million is in the form of Islamic Murabaha to sell and repurchase certain commodities from the Agent in accordance with Shariah principles. The outstanding balance as on December 31, 2016 is SR 125 million (2015: SR 125 million). The loan is secured by promissory note, corporate guarantee and cash deposit guarantee of 65% of the loan amount and is repayable in 2017.

**(iii) Tawarruq financing**

In 2011, NAMA obtained Tawarruq financing facility of SR 263 million from a local bank. The loan was fully withdrawn in 2011. The loan is repayable in five equal annual installments of SR 52.6 million commencing from June 13, 2014, with a grace period of two years. The interest rate is based on 6 months SIBOR plus a margin. The loan is secured against promissory note, corporate guarantee and collateral cash deposit of 30% of the loan amount, which will be adjusted from loan repayment installments. In 2014, the loan was rescheduled for a period of two year and in 2016, the bank again revised the repayment schedule to be of 8 semi-annual installments starting June 30, 2017. The outstanding balance as on December 31, 2016 is SR 253.2 million (2015: SR 263 million). The bank loan covenants include maintenance of certain financial ratios during the period of the loan.

**iv) Bank covenants**

JANA has not complied with the covenant requirements of maintaining certain financial ratios of its loan agreements because of incurring losses during the current and prior years. However, the management has classified these loans as current liabilities and classified the SIDF loan as current and non-current in accordance with the original loan repayment schedule.

**14 CHANGES IN CASH FLOW HEDGE POSITION**

This represents the difference arising from fair value measurements of the effective portion of derivative financial instruments (interest rate swap contracts) as of balance sheet date, which is a hedging instrument against the designated hedged item, being foreign currency loans based on LIBOR rates. The Group has derecognized the derivative financial instrument during the year as the contract period expired in 2016.

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**15 END-OF-SERVICE INDEMNITIES**

	2016 SR 000	2015 SR 000
January 1	35,860	31,637
Charge for the year	8,292	7,349
Payments during the year	(979)	(3,126)
<b>December 31</b>	<b>43,173</b>	<b>35,860</b>

**16 STATUTORY RESERVE**

In accordance with Articles of Association, the Group is required to allocate 10% of its net income each year to form a statutory reserve until such reserve equals 50% of its share capital. This reserve is not available for dividend distributions.

The stockholders in their general assembly meeting dated April 9, 2012 resolved to use the statutory reserve to absorb the accumulated losses. Accordingly, Board of Directors in their meeting dated December 5, 2012 resolved to offset the accumulated losses of SR 273.38 million against statutory reserves.

**17 ZAKAT**

**Components of zakat base**

The significant components of the Group's zakat base are comprised of shareholders' equity at the beginning of the year, provisions at the beginning of the year, borrowings and adjusted net income, less deduction for the net book value of property and plant and equipment adjusted as per the GAZT regulations, and certain other items.

**Provision for zakat at December 31**

	2016 SR 000	2015 SR 000
January 1	21,554	22,336
Charge for the year	11,034	5,622
Payment during the year	(5,047)	(6,404)
<b>December 31</b>	<b>27,541</b>	<b>21,554</b>

**Outstanding assessments**

Pursuant to the requirements of Circular No. 36025/9/1437 issued by the GAZT in 2016, the Group will file combined zakat declaration based on the combined audited financial statements combining the results of parent company and its wholly owned subsidiaries for the financial year ended December 31, 2016. Further, the Group will also file information returns for its wholly owned subsidiaries for the same year.

The Group is yet to receive the final zakat assessments for the years from 2000 to 2015 as these are still under review by the GAZT, except for subsidiaries (JANA) and (SODA) for which the final zakat assessments for the years from 2003 to 2015 and from 2008 to 2015 respectively are under review by the GAZT.

Management of the Group is confident that final assessments of the Group for the above outstanding years will be favorable and will not result in significant additional liabilities to the Group.

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**18 SELLING AND MARKETING EXPENSES**

	2016	2015
	SR 000	SR 000
Freight and delivery expenses	30,710	26,932
Salaries, wages and benefits	5,354	4,743
Sales commissions	1,049	1,043
Others	6,095	4,474
	<u>43,208</u>	<u>37,192</u>

**19 GENERAL AND ADMINISTRATIVE EXPENSES**

	2016	2015
	SR 000	SR 000
Salaries, wages and benefits	15,917	14,394
Amortization of intangible assets	7,958	7,083
Consultancy fees	1,628	528
Depreciation	2,429	2,917
Impairment of available for sale investments	18,136	-
Impairment losses	29,125	-
Other expenses	9,687	5,835
	<u>84,880</u>	<u>30,757</u>

**20 OTHER INCOME, NET**

In December 2014, a fire broke out in the plant of SODA, a subsidiary of the Group, due to which the production had to be shut down. The production was restarted subsequent to the year end. The loss of SR. 8.2 million has been recognized in the previous year's financial statements as a result of this fire, for which a claim has been lodged with the insurance company. Remaining payment of SR. 3.5 million has been received from insurance company during the year and included in the other income.

**21 OPERATING LEASE ARRANGEMENTS**

	2016	2015
	SR 000	SR 000
Payments under operating leases recognized as an expense during the year	<u>1,909</u>	<u>2,108</u>

Operating lease payments represent rentals payable by the Group for leased land for certain factory buildings and other premises for a period of 25 years and also for leased port facilities for a period of 20 years. Rentals are fixed for the terms of the lease.

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Commitments for minimum lease payments under non-cancelable operating leases are as follows:

	2016 SR 000	2015 SR 000
Year 1	1,450	2,125
Year 2	1,048	1,491
Year 3	924	1,060
Year 4	892	924
Year 5	10,685	892
After five years	1,430	12,114
Net minimum lease payments	<u>16,429</u>	<u>18,606</u>

**22 SEGMENTAL ANALYSIS**

(a) As of December 31, analysis of sales, operating loss and net assets by activities:

	Sales		Operating loss		Net assets	
	2016 SR 000	2015 SR 000	2016 SR 000	2015 SR 000	2016 SR 000	2015 SR 000
Epoxi resin products	280,558	342,765	(322,027)	(37,619)	(71,460)	268,422
Chlor Alkali products	170,134	163,321	(480,598)	(45,931)	(419,504)	73,014
Others	-	-	(30,914)	(9,348)	365,544	1,141,675
	450,692	506,086	(833,539)	(92,898)	(125,420)	1,483,111
Inter-company eliminations	(18,527)	(46,416)	-	-	427,827	(386,801)
Total	<u>432,165</u>	<u>459,670</u>	<u>(833,539)</u>	<u>(92,898)</u>	<u>302,407</u>	<u>1,096,310</u>

Nama Chemicals Company and NAMA Industrial Investment Company have been grouped as part of "Others" as these are mainly holding companies.

The total impairment during the year under review amounting to SR 655 million was recognized under Epoxy resin products segment.

(b) As of December 31, analysis of sales and operating loss by geographical location:

	Sales		Operating loss	
	2016 SR 000	2015 SR 000	2016 SR 000	2015 SR 000
Export sales	282,194	289,175	(489,688)	(44,775)
Local sales	168,498	216,911	(312,937)	(38,775)
Others	-	-	(30,914)	(9,348)
	450,692	506,086	(833,539)	(92,898)
Inter-company eliminations	(18,527)	(46,416)	-	-
Total	<u>432,165</u>	<u>459,670</u>	<u>(833,539)</u>	<u>(92,898)</u>

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**23 COMMITMENTS AND CONTINGENCIES**

As of December 31, 2016, the Group has outstanding letters of credit and letters of guarantee of SR 21.19 million (2015: SR 12.10 million) issued in the normal course of the business.

As of December 31, the Group had the following capital commitments:

	<b>2016</b>	<b>2015</b>
	<b>SR 000</b>	<b>SR 000</b>
Commitments for the acquisition of property, plant and equipment	<b>22,840</b>	<b>41,680</b>

**24 (LOSS)/ EARNINGS PER SHARE**

(Loss)/earnings per share from net (loss)/earnings are computed by dividing net (loss)/earnings for the year by the weighted average number of shares outstanding during the year.

(Loss)/earnings per share from continuing main operations is computed by dividing (loss)/earnings from operations after deducting finance charges and zakat for the year by the weighted average number of shares outstanding during the year.

(Loss)/earnings per share from other operations are computed by dividing the total investment income, change in interest rate swap provision and other income, net over the weighted average number of shares outstanding during the year.

**25 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the consolidated balance sheet principally include cash and cash equivalent, time deposits, trade receivables, investments and other assets, accounts payable, borrowings and accrued and other liabilities.

**Credit risk** is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Cash is substantially placed with banks with sound credit ratings. Trade receivable are carried net of provision for doubtful debts and are stated at their estimated realizable values.

**Fair value and cash flow interest rate risks** are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risk arises mainly from those short-term bank deposits, short term borrowings and long-term debts, which are at floating rates of interest. All deposits and debts with floating rates of interest are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Group are not significant.

**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 financial assets quickly at an amount close to their fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet future commitments.

**Currency risk** is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, United States Dollars and Euro.

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Management monitors the fluctuations in currency exchange rates and manages its effect on the consolidated financial statements accordingly.

**26 FAIR VALUES**

The fair values of the Group's financial assets and liabilities approximate their carrying amounts.

**27 COMPARATIVE FIGURES**

Certain comparative figures of prior year have been classified to conform to the current year's presentation.

**28 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS IFRS**

SOCPA has approved a plan for transition to International Financial Reporting Standards. The plan requires that effective from January 1, 2017 all the companies listed on Saudi Stock Exchange ("Tadawul") shall prepare their financial statements in accordance with the International Financial Reporting Standards as endorsed in Saudi Arabia and other standards and pronouncements endorsed by the SOCPA ("IFRS"). Accordingly, effective from January 1, 2017, the Group shall prepare its financial statements in accordance with IFRS.

**29 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements have been approved by the Board of Directors on March 15, 2017.

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