

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)

(SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017
AND INDEPENDENT AUDITOR'S REVIEW REPORT

Saudi Kayan Petrochemical Company (SAUDI KAYAN)
(Saudi Joint Stock Company)

INTERIM CONDENSED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

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Independent auditor's review report on the interim condensed financial statements to shareholders of Saudi Kayan Petrochemical Company (Saudi Kayan)

Introduction:

We have reviewed the accompanying interim condensed statement of financial position of Saudi Kayan Petrochemical Company (Saudi Kayan) (Saudi Joint Stock Company) ("the Company") as at 31 March 2017, and the related interim condensed statements of income and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) and International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" (IFRS 1) that are endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review:

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

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements does not present fairly, in all material respects, the financial position of the Company as at 31 March 2017, and of its financial performance and its cash flows for the three-month period then ended in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) and International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" (IFRS 1) that are endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339

8 Sha'ban 1438H
4 May 2017

Al Khobar



Saudi Kayan Petrochemical Company (SAUDI KAYAN)
(Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

For the three-month period ended 31 March 2017

	Note	Three-month period ended 31	
		March	
		2017	2016
		SR '000	SR '000
		(un-audited)	(note 6.7)
Sales		2,667,179	1,692,591
Cost of sales		(1,940,482)	(1,507,383)
GROSS PROFIT		726,697	185,208
Selling and distribution expenses		(48,913)	(59,457)
General and administrative expenses		(122,867)	(114,198)
OPERATING PROFIT		554,917	11,553
Share in net results of an associate		12,601	2,450
Financial income		9,417	7,431
Other expenses, net		(55,010)	(23,912)
Financial charges		(234,819)	(170,472)
INCOME (LOSS) BEFORE ZAKAT		287,106	(172,950)
Zakat		(21,648)	(22,042)
NET INCOME (LOSS) FOR THE PERIOD		265,458	(194,992)
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) not to be reclassified to income in subsequent periods:</i>			
Re-measurement losses on defined benefit plans		-	(25,701)
OTHER COMPREHENSIVE LOSS		-	(25,701)
TOTAL COMPREHENSIVE INCOME (LOSS)		265,458	(220,693)
Earnings (loss) per share (Saudi Riyals)			
Basic and diluted earnings (loss) per share attributable to the equity holders of the Company	12	0.18	(0.13)

Designate member

Company's President

Finance Director

Mohammed Abdullah Al-Ghamdi

Nasser Abdulaziz Abanmi

Ayed Habib Al-Haider

The attached notes 1 to 17 form part of these interim condensed financial statements

Saudi Kayan Petrochemical Company (SAUDI KAYAN)
(Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	31 March 2017 SR '000 (Un-audited)	31 December 2016 SR '000 (note 6.1)	1 January 2016 SR '000 (note 6.3)
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment		33,623,474	34,140,903	35,566,725
Intangible assets		234,556	238,381	253,800
Investments in an associate and advances	7	330,931	318,330	298,484
Other non-current assets		258,161	270,540	416,922
TOTAL NON-CURRENT ASSETS		34,447,122	34,968,154	36,535,931
CURRENT ASSETS				
Inventories		1,337,564	1,500,979	1,645,239
Trade receivables	7	2,863,738	2,557,103	2,061,182
Prepayments, advances and other receivables	7	558,613	617,301	501,927
Cash and cash equivalents		2,077,124	1,387,001	1,706,476
TOTAL CURRENT ASSETS		6,837,039	6,062,384	5,914,824
TOTAL ASSETS		41,284,161	41,030,538	42,450,755
EQUITY AND LIABILITIES				
EQUITY				
Share capital	8	15,000,000	15,000,000	15,000,000
Statutory reserve		49,408	49,408	49,408
Other components of equity	9	620,874	620,874	620,874
Accumulated losses		(2,153,479)	(2,418,937)	(2,583,491)
TOTAL EQUITY		13,516,803	13,251,345	13,086,791
LIABILITIES				
NON-CURRENT LIABILITIES				
Term loans		21,189,364	21,184,258	22,042,852
Subordinated loans from a shareholder	7	2,625,434	2,602,863	2,524,072
Employee benefits	10	498,292	479,843	414,459
Other non-current liability		19,409	19,409	60,914
TOTAL NON-CURRENT LIABILITIES		24,332,499	24,286,373	25,042,297
CURRENT LIABILITIES				
Current portion of term loans		1,763,254	1,761,845	2,167,550
Trade payables, accruals and provisions	7	1,551,201	1,632,219	2,069,987
Zakat provision	11	120,404	98,756	84,130
TOTAL CURRENT LIABILITIES		3,434,859	3,492,820	4,321,667
TOTAL LIABILITIES		27,767,358	27,779,193	29,363,964
TOTAL EQUITY AND LIABILITIES		41,284,161	41,030,538	42,450,755
<u>Designate member</u>	<u>Company's President</u>	<u>Finance Director</u>		
Mohammed Abdullah Al-Ghamdi	Nasser Abdulaziz Abanmi	Ayed Habib Al-Haider		

The attached notes 1 to 17 form part of these interim condensed financial statements

Saudi Kayan Petrochemical Company (SAUDI KAYAN)
(Saudi Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended 31 March 2017

	Share capital	Statutory reserve	Other components of equity	Accumulated losses	Total
	SR '000	SR '000	SR '000	SR '000	SR '000
Balance as at 1 January 2016 (note 6.3)	15,000,000	49,408	620,874	(2,583,491)	13,086,791
Net loss for the period	-	-	-	(194,992)	(194,992)
Other comprehensive loss				(25,701)	(25,701)
Balance at 31 March 2016 (un-audited)	15,000,000	49,408	620,874	(2,804,184)	12,866,098
Balance as at 1 January 2017 (note 6.1)	15,000,000	49,408	620,874	(2,418,937)	13,251,345
Net income for the period	-	-	-	265,458	265,458
Balance at 31 March 2017 (un-audited)	15,000,000	49,408	620,874	(2,153,479)	13,516,803

Designate member

Mohammed Abdullah Al-Ghamdi

Company's President

Nasser Abdulaziz Abanmi

Finance Director

Ayed Habib Al-Haider

The attached notes 1 to 17 form part of these interim condensed financial statements

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UN-AUDITED)

For the three-month period ended 31 March 2017

	Three-month period ended 31 March	
	2017 SR '000 (un-audited)	2016 SR '000 (un-audited)
Cash flow from operating activities:		
Income (loss) before zakat	287,106	(172,950)
<i>Adjustments to reconcile income (loss) before zakat to net cash provided by operating activities:</i>		
Depreciation of property, plant and equipment	573,771	553,180
Amortisation of intangible assets	3,825	3,855
Employees' benefits and saving plans, net	18,449	45,997
Write-off of property, plant and equipment	68,778	22,638
Share in net results of an associate	(12,601)	(2,450)
Financial charges	234,819	170,472
Financial income	(9,417)	(7,431)
Re-measurement losses on defined benefit plans	-	(25,701)
	<u>1,164,730</u>	<u>587,610</u>
Changes in operating assets and liabilities:		
Inventories	163,415	74,117
Trade receivables	(306,635)	175,268
Prepayments, advances and other receivables	63,159	35,888
Other non-current assets	12,379	11,672
Trade payables, accruals and provisions	(210,101)	(492,963)
	<u>886,947</u>	<u>391,592</u>
Financial charges paid	<u>(83,165)</u>	<u>(32,413)</u>
Net cash flow provided by operating activities	<u>803,782</u>	<u>359,179</u>
Investing activities:		
Additions to property, plant and equipment	(125,120)	(209,455)
Financial income received	4,946	2,660
Net cash flow used in investing activities	<u>(120,174)</u>	<u>(206,795)</u>
Financing activity:		
Net movements on term loans	6,515	7,954
Net cash flow used in financing activity	<u>6,515</u>	<u>7,954</u>
Net increase in cash and cash equivalents	690,123	160,338
Cash and cash equivalents at the beginning of the period	1,387,001	1,706,476
Cash and cash equivalents at the end of the period	<u>2,077,124</u>	<u>1,866,814</u>

The attached notes 1 to 17 form part of these interim condensed financial statements

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UN-AUDITED) (continued)

NON-CASH TRANSACTIONS:

	Three month period ended 31 March	
	2017	2016
	SR '000	SR '000
	(un-audited)	(un-audited)
Financial charges for the fair value differential on loans from a shareholder	22,571	19,363
Financial income for the fair value differential on long term advances to an associate	4,471	4,771
Net of non-cash movement in accrued financial charges	129,083	118,696

Designate member

Company's President

Finance Director

Mohammed Abdullah Al-Ghamdi

Nasser Abdulaziz Abanmi

Ayed Habib Al-Haider

The attached notes 1 to 17 form part of these interim condensed financial statements

At 31 March 2017

1 Corporate information

Saudi Kayan Petrochemical Company (Saudi Kayan) ("the Company") is a Saudi Joint Stock Company registered under Commercial Registration No. 2055008450 issued in Al Jubail on 26 Jumada'l 1428 H (12 June 2007). The registered address of the Company is P.O. Box 10302, Al Jubail Industrial City, the Kingdom of Saudi Arabia. 35% of the Company's shares are owned by Saudi Basic Industries Corporation ("SABIC") and remaining held by general public.

The Company is incorporated to engage in investing in industrial projects both inside and outside the Kingdom of Saudi Arabia in the petrochemical and chemical fields. The Company is also providing support and maintenance of the utilities related to these plants.

The Company commenced commercial operations of majority of its plants including olefins, ethylene glycol, polypropylene, high density polyethylene, polycarbonate and phenolics from 1 October 2011. The Company's Amines plant commenced commercial operations on 15 August 2012. Low Density Polyethylene Plant commenced commercial operations on 1 April 2013 and Natural Detergent Alcohol (NDA) plant commenced commercial operation on 4 June 2015.

These interim condensed financial statements have been approved on 27 April 2017.

2 Basis of preparation

2.1 Statement of compliance

These interim condensed financial statements have been prepared in accordance with International Accounting Standard, "Interim Financial Reporting" ("IAS 34") as endorsed in Kingdom of Saudi Arabia ("KSA"). These are also the Company's first interim condensed financial statements in accordance with International Financial Reporting Standards ("IFRS") for part of the period covered by the first annual financial statements prepared in accordance with IFRS that are endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA"), and accordingly International Financial Reporting Standard, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") as endorsed in KSA has been applied. Refer to note 6 for information on the first time adoption of IFRS as endorsed in KSA, by the Company.

The interim condensed financial statements do not include all the information and disclosures required in annual financial statements to be prepared in accordance with IFRS that are endorsed in KSA and other standards and pronouncements that are issued by the SOCPA, which would be produced for the year ending 31 December 2017.

2.2 Basis of measurement

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

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

The interim condensed financial statements are presented in Saudi Riyals (SR) which is also the functional currency of the Company.

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

At 31 March 2017

3 Significant accounting estimates, assumptions and judgments

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

3.1 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material carrying amounts of assets and liabilities within the financial year include:

3.1.1 Impairment test of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing off the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The management believes, that all constructed plants were pre-conditioned with gas allocation agreement, and the Company does not have the option to curtail/discontinue any one of these plants, accordingly the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or group of assets is the cash inflows generated by all plants together. Therefore, the Company as whole considered as single cash generating unit for the purpose of impairment calculation testing.

3.1.2 Provisions

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's judgment in estimating the expected cash outflows for severance payments and site closures or other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

3.1.3 Long-term assumptions for employee benefits

Post-employment defined benefits, end-of-service benefits and indemnity payment represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets, if any. The accounting standard requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

At 31 March 2017

3 Significant accounting estimates, assumptions and judgments (continued)

3.2 Critical judgments in applying accounting standards

The following critical judgments have the most significant effect on the amounts recognized in the interim condensed financial statements:

3.2.1 Component parts of property, plant and equipment

The Company's assets, classified within property, plant and equipment, are depreciated on a straight-line basis over their economic useful lives. When determining the economic useful life of an asset, it is broken down into significant component parts such that each significant component part is depreciated separately. Judgement is required in ascertaining the significant components of a larger asset, and while defining the significance of a component, management considers quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to mother asset, its pattern of consumption, and its replacement cycle/maintenance schedule.

4 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's interim condensed financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Company does not expect to adopt the new standard before 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The International Accounting Standard Board (IASB) has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

At this stage, the Company is not able to estimate the effect of the new rules on the Company's interim condensed financial statements. The Company will make more detailed assessments of the effect during the year of 2017. The Company does not expect to adopt the new standard before 1 January 2018.

At 31 March 2017

4 Standards issued but not yet effective (continued)

IFRS 16 Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – ‘Leases’
- IFRIC 4 – ‘Whether an arrangement contains a lease’
- SIC 15 – ‘Operating leases – Incentives’
- SIC-27 – ‘Evaluating the substance of transactions involving the legal form of a lease’

Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and lease assets; however, this exemption can only be applied by lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The mandatory date for adoption for the standard is 1 January 2019.

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

At 31 March 2017

5 Summary of significant accounting policies

Current versus non-current classification

The Company presents assets and liabilities in the interim condensed statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met. Where such assets are constructed in-house, their cost includes all amounts necessary to bring the asset to the present condition and location to be ready for intended use by management and excludes all costs such as general and administrative expenses and training costs. Any feasibility study costs are expensed as incurred unless they relate to specifically identifiable asset being constructed in-house and are directly attributable to it. Pre-operating costs during startup period net of proceeds from sale of trial production, are included as part of cost of the relevant item of property, plant and equipment, provided it is a directly attributable cost which meets the recognition criteria, and only up to the point the asset is in a condition ready for intended use.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/components have a useful life different than other parts and are required to be replaced at different intervals, the Company shall recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection (turnaround/shutdown, planned) is performed, its directly attributable cost is recognized in the carrying amount of the property, plant and equipment if the recognition criteria are satisfied. This is recorded as a separate component with a useful life generally equal to the time period up to the next scheduled major inspection (turnaround). If the next turnaround occurs prior to the planned date, any existing book value of the previous turnaround is expensed immediately. All other repair and maintenance costs are recognized in the interim condensed statement of income and other comprehensive income as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. The Company will periodically assess the expectation and estimation for the decommissioning liability.

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

At 31 March 2017

5 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Environment, health, safety and security (EHS&S) related expenditures, including contamination treatment costs, are capitalized if they meet the recognition criteria, mainly, that such costs are required by prevailing applicable legislation and are required to continue the license to operate or is imposed by the Company's own mandatory requirements relating to EHS&S. These are capitalized together with the cost of the relevant item of property, plant and equipment to which they relate.

Depreciation is calculated from the date the item of property, plant and equipment are available for its intended use or in respect of self-constructed assets, from the date such assets are ready for the intended use.

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings	13-40 years
Plant and equipment	4-50 years
Capital spares	4-50 years
Other	1.5-20 years

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year-end.

Assets under construction, which are not ready for its intended use, are not depreciated.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the interim condensed statement of income and other comprehensive income.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Leased assets

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. This may indicate existence of a potential embedded lease in a transaction which may prima facie not be in the nature of a lease agreement. All leases, whether an explicit lease agreement or an embedded lease within any other agreements or arrangements, shall be assessed for classification as finance lease or operating lease.

Leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, shall be classified as finance lease and shall be capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the interim condensed statement of income and other comprehensive income.

A leased asset will be depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the interim condensed statement of income and other comprehensive income on a straight-line basis over the period of the lease.

5 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the interim condensed statement of income and other comprehensive income in the expense category consistent with the function of the intangible asset.

The amortization period for intangible assets with a finite useful life is as follows:

License	3-20 years
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Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and are recognized in the interim condensed statement of income and other comprehensive income when the asset is derecognized.

Associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. This is generally the case where the Company holds between 20% and 50% of the voting rights.

Equity method of accounting is used for the investment in an associate. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses of the investee in the statement of income, and the Company's share of movements in other comprehensive income (OCI) of the investee in other comprehensive income.

Dividends received or receivable from associate are recognized as a reduction in the carrying amount of the investment.

The interim condensed statement of income and other comprehensive income reflects the Company's share of the results of operations of the associate. Any change in OCI of this associate is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity.

When the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

5 Summary of significant accounting policies (continued)

Associate (continued)

The aggregate of the Company's share in net result of an associate is shown on the face of the interim condensed statement of income and other comprehensive income outside operating profit.

The financial statements of the associate should be for the same reporting period as the Company. If not, then adjustments are made to bring the balances and transactions to be at / for the reporting period similar to the Company. Adjustments shall also be made to bring the balances and transactions in line with the accounting policies of the Company, in case the accounting policies of such associate differ from those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as 'Share in net result of an associate' in the interim condensed statement of income and other comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the interim condensed statement of income and other comprehensive income.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (pre-zakat) that reflects current market assessment of the time value of money and the risks specific to the asset.

The Company's impairment calculation is based on detailed budgets and forecast calculations which are prepared for the Company as whole, as the Company considered as single CGU. These budgets and forecast calculations are generally covering a five-year period. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the budget period.

Impairment losses of continuing operations, including impairment on working capital, if applicable, are recognized in the interim condensed statement of income and other comprehensive income in those expense categories consistent with the function of the impaired asset.

Irrespective of whether there is any indication of impairment, the Company shall also test intangible assets with an indefinite useful life (including goodwill) or intangible assets not yet available for use for impairment annually by comparing their carrying amount with respective recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.

At 31 March 2017

5 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

For assets other than above, an assessment is made at each financial year-end as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. This reversal is limited such that the recoverable amount doesn't exceed what the carrying amount would have been, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income and other comprehensive income.

Inventories

Inventories, including raw materials, finished goods and consumables (spares) are valued at the lower of cost i.e. historical purchase prices based on the weighted average principle plus directly attributable costs (primarily duty and transportation), or the net realizable value.

Inventories of finished goods include cost of materials, labor and an appropriate proportion of variable and fixed direct overheads.

Abnormal inventory losses due to quality or other issues and overheads incurred during unplanned maintenance / shut down period are excluded from inventory costs. The allocation of overheads at period end for the purpose of inventory valuation are based on the higher of normal capacity or actual production for the period. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

Scrap inventory, co-product and by-product

Production process in the Company sometimes results in production of co-product simultaneously, or may result in some by-products or scraps (either non-usable or recyclable). When the costs of conversion of such co/by-product and/or scrap are not separately identifiable from the main product cost, they are allocated on a rational and consistent basis to such products and co/by-product and scrap. The allocation is based on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.

Where by-products and scrap are immaterial and where costs cannot be allocated to them or it is inefficient to do so, these items are measured under inventory at net realizable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product inventory is not materially different from its cost.

In the interim condensed statement of income other comprehensive income, the net realizable value for the by-products and scrap reduces the cost of sales for the period. Upon subsequent sale of such by-product, the proceeds is recorded as revenue with a corresponding cost of sale being recorded based on earlier recorded net realizable value, while for scrap, the proceeds, net of cost is recorded as other income.

Consumable spare parts

Consumables are ancillary materials which are consumed in the production of semi-finished and finished products. Consumables may include engineering materials, one-time packaging materials and certain catalysts.

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

At 31 March 2017

5 Summary of significant accounting policies (continued)

Inventories (continued)

Consumable spare parts (continued)

Spare parts are the interchangeable parts of property, plant and equipment, which are considered to be essential to support routine maintenance, repair and overhaul of plant and equipment or to be used in emergency situations for repairs. The Company maintains the following different types of spare parts:

- Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalized as part of property, plant and equipment and depreciated from purchase date over a period which is shorter of the component's useful life or the remaining useful life of the plant in which it is to be utilized. These do not form part of inventory provided capitalization criteria under property, plant and equipment is met.
- Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalized as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the related property, plant and equipment in which it is installed. These do not form part of inventory.
- General spares and other consumables items which are not of a critical nature and are of a general nature, i.e., not plant specific and can be used in multiple plants or production lines and any other items which may be required at any time for facilitating plant operations. They are generally classified as 'consumables and spare parts' under inventory, unless they exceed the capitalisation threshold and have a useful life of more than one year, under which case they are recorded under property, plant and equipment. Items recorded under inventory are subject to assessment for obsolescence provision and are charged to the interim condensed statement of income and other comprehensive upon their installation or use. Where such items meet criteria for capitalization, their depreciation method is similar to repairable items as noted above.

Trade receivables

Trade receivables are stated at the amortized cost, which generally correspond to face value (original invoice amount), do not bear interest, and generally have a 30 to 90 days term, less any provision for doubtful debts and impairment. An allowance for doubtful debts is made based upon Company's best estimate of expected credit losses related to those receivables. Such estimate is based on customers' financial status and historical write-off experience. Account balances are written off against such allowance after all means of collection have been exhausted and potential of recovery is remote. Bad debts written off as such are recorded in the interim condensed statement of income and other comprehensive income as incurred.

Other receivables include supplier advances, employee receivables and other such receivables which are not 'trade' receivables. Other receivables are stated at amortized cost which generally corresponds to their face value. Allowance for doubtful receivables is assessed as per methodology noted above.

Cash and cash equivalents

Cash and cash equivalents include bank balances and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

At 31 March 2017

5 Summary of significant accounting policies (continued)

Employee end of service benefits and post-employment benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves, air fare, child education allowance, furniture allowance that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in interim condensed statement of financial position.

Other long-term employee benefit obligations

Other long-term employee benefit obligations (including continuous service awards, long service leave and annual leave which are not expected to be settled wholly within twelve months after the end of the period in which the employees render the related service) are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method and recorded as non-current liabilities. Consideration is given to expect future wage and salary levels, experience of employee departures, historic attrition rates and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognized in the interim condensed statement of income and other comprehensive income.

The obligations are presented as current liabilities in the interim condensed statement of financial position if the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

Post-employment obligation

The Company operates various post-employment schemes, including both defined benefit and defined contribution plans and post-employment medical plans for eligible employees and their dependents.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions in to a separate entity and will have no legal or constructive obligation to pay amounts. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Eligible employees who participate in defined contribution plan may also invest a portion of their earnings in various program funds.

The Company operates a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Company's normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance and for purpose of presentation in the interim condensed financial statements, it is offset with the related liability under the savings plan and net liability to employees is reported under the employee benefits liability.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company primarily has end of service benefits, pension plans and post-retirement medical and life insurance plans which qualify as defined benefit plans.

At 31 March 2017

5 Summary of significant accounting policies (continued)

Employee end of service benefits and post-employment benefits (continued)

(a) End of service pension awards

The net pension asset or liability recognized in the interim condensed statement of financial position in respect of defined benefit post-employment plans is the fair value of plan assets, if any, less the present value of the projected defined benefit obligation (DBO) at the reporting date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the interim condensed statement of income and other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur as other comprehensive income (OCI) in the statement of income and other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in the interim condensed statement of income and other comprehensive income as past service costs.

Valuations of the obligations under these plans are carried out by independent actuaries based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in the statement of income and other comprehensive income while unwinding of the liability at discount rates used are recorded as financial cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement as other comprehensive income in the statement of income and other comprehensive income.

The actuarial valuation process takes into account the provisions of the Saudi Arabian Labor and Workmen law as well as Company policy.

(b) Medical life insurance

The Company provides post-retirement healthcare and life insurance benefits to its eligible retirees and their dependents. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit plans. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited as other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

The accounting for these plans requires that management makes certain assumptions relating to discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trend rates, mortality and other assumptions. These estimates are highly susceptible to change from period to period based on the performance of plan assets (if any), actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends, future estimates based on economic and market conditions at the time of valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions used.

5 Summary of significant accounting policies (continued)

Employee end of service benefits and post-employment benefits (continued)

Short-term and long-term incentive plans (profit sharing or bonus plans)

The Company recognizes a liability and an expense for bonuses and incentive plans based on a formula that takes into consideration the estimated expected payable amount given the performance of the Company. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation, and where the amount is accrued over the period based on the target expectation and a reliable estimate of the obligation can be made.

Termination benefits (early retirement program)

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

Employee Home Ownership Program (HOP)

The Company has established employee's home ownership programs (HOP) that offer eligible employees the opportunity to buy residential units constructed by the Company through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment.

Under the HOP, the amounts paid by the employee towards the house are repayable back to the employee in case the employee discontinues employment and the house is returned back to the Company. The requirements relating to financial instruments do not apply to such accumulated balance as paragraph 2(c) of IAS 39 specifically excludes employers' rights and obligations under employee benefit plans. Repayment of such amount in the event that an employee leaves before entitlement to the house has vested represents a potential employer's obligation to which IAS 19 applies. IAS 19 requires measuring such an obligation on an expected outcome basis.

Employee Home Loan Program (HLP)

The Company provides interest free home loan to its eligible employees for one time only during the period of the service for purposes related to purchase or building of a house or apartment. The loan is repaid in monthly instalment by deduction of employee's housing allowances.

HLP is recognized as a non-current financial asset at fair value and measured at amortized cost using the effective interest rate method. The difference between the fair value and the actual amount of cash given to the employee is recognized as a "non-current prepaid employee benefits" and is amortized as an expense equally over the period of service. The same amount is also amortized as interest income against the receivable from employees.

Executive vehicles

The Company grants eligible employees a Company owned vehicle up to a specific value. The benefit is provided to employees against their services for a fixed period of years. The employee also has an option to opt for a higher value vehicle and the difference in value is contributed by the employee. The vehicle shall remain the property of the Company. The Company's Human Resource policy governs the arrangement with the employee and may define conditions under which such vehicle can be transferred to employee.

At 31 March 2017

5 Summary of significant accounting policies (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in interim condensed statement of income and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and on accruals basis and is based on the period share of the estimated zakat for the whole year. The provision is charged to the interim condensed statement of income and other comprehensive income.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loan and receivables, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified as:

- Loan and receivables

5 Summary of significant accounting policies (continued)

Financial assets (continued)

Loans and receivables (long-term)

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the interim condensed statement of income and other comprehensive income.

Derecognition

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

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

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified under either of the two classes at initial recognition:

- Financial liabilities at fair value through profit or loss
- Other financial liabilities measured at amortized cost using the effective interest rate method.

The category of financial liability at fair value through profit or loss has two subcategories:

- Designated: a financial liability that is designated by the entity as a liability at fair value through profit or loss upon initial recognition
- Held for trading: a financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

At 31 March 2017

5 Summary of significant accounting policies (continued)

Financial liabilities (continued)

All financial liabilities are recognized initially when the Company becomes party to a contractual provisions and obligations under the financial instrument. The liabilities are recorded at fair value, and in the case of loans and borrowings and payables, the proceeds received net of directly attributable transaction costs.

Subsequent measurement

Financial liabilities at fair value through profit and loss will continue to be recorded at fair value with changes being recorded in the interim condensed statement of income and other comprehensive income.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. Gain and losses are recognized in interim condensed statement of income and other comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortization is included as finance costs in the interim condensed statement of income and other comprehensive income.

De-recognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the interim condensed statement of income and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the interim condensed statement of financial position if there is a currently enforceable legal right to offset recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in the interim condensed statement of income and other comprehensive income.

5 Summary of significant accounting policies (continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the interim condensed financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the interim condensed financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The policies and procedures for both recurring fair value measurement are evaluated periodically.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value of shareholder's subordinated loans

The fair value of shareholder's subordinated loan is determined based on the valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as discount rate, liquidity risk, credit risk and volatility.

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

At 31 March 2017

5 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding any taxes or duty. Amounts disclosed as revenue are net of returns.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenues represent the invoiced value of goods shipped by the Company during the period, net of any trade and quantity discounts.

Where the Company assesses itself as the principal, it records all relevant sales and costs of sale for the goods sold.

Expenses

Cost of sales

All expenses are recognized on an accrual basis. Operating costs are recognized on a historical cost basis. Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material, direct labor and other attributable overhead costs. Other costs such as selling costs are recorded as selling and distribution expenses while all remaining other costs are presented as general and administrative expenses.

Selling and distribution expenses

These include any costs incurred to carry out or facilitate all selling activities at the Company. These costs typically include marketing and distribution and logistics expenses as well as commissions. These also include allocations of certain general overheads.

General and administrative expenses

These pertain to operation expenses which are not directly related to the production of any goods or services. These also include allocations of general overheads which are not specifically attributed to cost of sales or selling and distribution expenses.

Allocation of overheads between cost of sales, selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis based on predetermined rates as appropriate by the Company.

Finance income

For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the interim condensed statement of income and other comprehensive income. Earnings on time deposits are recognized on an accrual basis.

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

At 31 March 2017

5 Summary of significant accounting polices (continued)

Earnings per share

Basic earnings per share is calculated by dividing:

- the net income attributable to Equity holders of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

6 First-time adoption of IFRS

For all periods up to and including the year ended 31 December 2016, the Company prepared and published its financial statements only in accordance with generally accepted accounting standards in Kingdom of Saudi Arabia ("SOCPA GAAP"). These are the Company's first interim condensed financial statements in accordance with IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of International Financial Reporting Standards" that are endorsed in Kingdom of Saudi Arabia.

Accordingly, the Company has prepared financial statements, which comply with IFRS that are endorsed in Kingdom of Saudi Arabia applicable for periods beginning on or before 1 January 2017, together with the comparative period data. In preparing the accompanying interim condensed financial statements, the Company's opening statement of financial position was prepared as at 1 January 2016 after incorporating certain adjustments made as required due to the first time adoption of IFRS that are endorsed in Kingdom of Saudi Arabia.

In preparing its opening statement of financial position as at 1 January 2016 in accordance with IFRS as endorsed in Kingdom of Saudi Arabia, the financial statements for the year ended 31 December 2016 and the interim condensed financial statements for the three-month period ended 31 March 2016, the Company has analyzed the impact and noted following adjustments are required to the amounts reported previously in the financial statements prepared in accordance with SOCPA GAAP.

The notes below explain the principal adjustments made by the Company in restating its SOCPA financial statements to IFRS:

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.1 The following is a reconciliation of the Company's statement of financial position reported in accordance with SOCPA to its statement of financial position under IFRS at 31 December 2016:

		SOCPA as at 31 December 2016 SR '000 (Audited)	Re- classificati ons SR '000	Re- measurements SR '000	IFRS as at 31 December 2016 SR '000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	A	34,007,080	(238,421)	372,244	34,140,903
Intangible assets		89,499	182,033	(33,151)	238,381
Investment in an associate and advances	B	252,701	-	65,629	318,330
Other non-current assets		193,329	77,211	-	270,540
TOTAL NON-CURRENT ASSETS		34,542,609	20,823	404,722	34,968,154
CURRENT ASSETS					
Inventories	C	1,531,275	(2,431)	(27,865)	1,500,979
Trade receivables		2,554,672	2,431	-	2,557,103
Prepayments, advances and other receivables	E	648,018	(20,823)	(9,894)	617,301
Cash and cash equivalents	F	1,390,978	(3,977)	-	1,387,001
TOTAL CURRENT ASSETS		6,124,943	(24,800)	(37,759)	6,062,384
TOTAL ASSETS		40,667,552	(3,977)	366,963	41,030,538
EQUITY AND LIABILITIES					
EQUITY					
Share capital		15,000,000	-	-	15,000,000
Statutory reserve		49,408	-	-	49,408
Other components of equity	I	-	-	620,874	620,874
Accumulated losses		(2,108,767)	-	(310,170)	(2,418,937)
TOTAL EQUITY		12,940,641	-	310,704	13,251,345
LIABILITIES					
NON-CURRENT LIABILITIES					
Term loans		21,073,668	21,366	89,224	21,184,258
Subordinated loans from a shareholder	I	2,875,000	-	(272,137)	2,602,863
Employee benefits	H	304,336	(3,977)	179,484	479,843
Other non-current liability		19,409	-	-	19,409
TOTAL NON-CURRENT LIABILITIES		24,272,413	17,389	(3,429)	24,286,373
CURRENT LIABILITIES					
Current portion of term loans		1,782,590	(21,366)	621	1,761,845
Trade payables, accruals and provisions		1,573,152	-	59,067	1,632,219
Zakat provision		98,756	-	-	98,756
TOTAL CURRENT LIABILITIES		3,454,498	(21,366)	59,688	3,492,820
TOTAL LIABILITIES		27,726,911	(3,977)	56,259	27,779,193
TOTAL EQUITY AND LIABILITIES		40,667,552	(3,977)	366,963	41,030,538

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.2 Reconciliation of accumulated losses as at 31 December 2016

Following is the analysis of the impact of IFRS re-measurements on accumulated losses:

	<i>Note</i>	<i>Impact on accumulated losses at 31 December 2016</i>
		<u>SR '000</u>
Accumulated losses as per SOCPA		2,108,767
IFRS adjustments related to:		
Employee benefits	<i>H</i>	17,049
Actuarial valuations of employee benefits	<i>H</i>	(12,497)
Employees' end-of-service-benefits	<i>H</i>	191,189
Net realizable value		10,910
Fair value differentials for evaluating the loans (shareholder's subordinated loans and an associate advances)	<i>I</i>	295,877
Componentization of property, plant and equipment	<i>13</i>	(301,767)
Embedded lease		2,618
Adjustments for employee benefits (SSO and SOLA)	<i>D</i>	39,937
Other adjustments, net		<u>66,854</u>
Accumulated losses as per IFRS		<u>2,418,937</u>

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.3 The following is a reconciliation of the Company's statement of financial position reported in accordance with SOCPA to its statement of financial position under IFRS at the transition date 1 January 2016:

	Note	SOCPA as at 1 January 2016 SR '000 (Audited)	Re- classificatio ns SR '000	Re- measureme nts SR '000	IFRS as at 1 January 2016 SR '000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	A	35,499,228	(253,900)	321,397	35,566,725
Intangible assets		127,936	177,958	(52,094)	253,800
Investment in an associate and advances	B	341,070	(95,446)	52,860	298,484
Other non-current assets		207,278	209,644	-	416,922
TOTAL NON-CURRENT ASSETS		36,175,512	38,256	322,163	36,535,931
CURRENT ASSETS					
Inventories	C	1,679,778	13,625	(48,164)	1,645,239
Trade receivables		2,061,182	-	-	2,061,182
Prepayments, advances and other receivables	E	564,366	(38,256)	(24,183)	501,927
Cash and cash equivalents	F	1,719,526	(13,050)	-	1,706,476
TOTAL CURRENT ASSETS		6,024,852	(37,681)	(72,347)	5,914,824
TOTAL ASSETS		42,200,364	575	249,816	42,450,755
EQUITY AND LIABILITIES					
EQUITY					
Share capital		15,000,000	-	-	15,000,000
Statutory reserve		49,408	-	-	49,408
Other components of equity	I	-	-	620,874	620,874
Accumulated losses		(2,243,493)	-	(339,998)	(2,583,491)
TOTAL EQUITY		12,805,915	-	280,876	13,086,791
LIABILITIES					
NON-CURRENT LIABILITIES					
Term loans		21,914,249	27,544	101,059	22,042,852
Subordinated loans from a shareholder	I	2,875,000	-	(350,928)	2,524,072
Employee benefits	H	257,016	(13,050)	170,493	414,459
Other non-current liability		60,914	-	-	60,914
TOTAL NON-CURRENT LIABILITIES		25,107,179	14,494	(79,376)	25,042,297
CURRENT LIABILITIES					
Current portion of term loans		2,194,521	(27,544)	573	2,167,550
Trade payables, accruals and provisions		2,008,619	13,625	47,743	2,069,987
Zakat provision		84,130	-	-	84,130
TOTAL CURRENT LIABILITIES		4,287,270	(13,919)	48,316	4,321,667
TOTAL LIABILITIES		29,394,449	575	(31,060)	29,363,964
TOTAL EQUITY AND LIABILITIES		42,200,364	575	249,816	42,450,755

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.4 Reconciliation of accumulated losses as at 1 January 2016

Following is the analysis of the impact of IFRS re-measurements on accumulated losses:

	<i>Note</i>	<i>Impact on accumulated losses at 1 January 2016</i>
		<u>SR '000</u>
Accumulated losses as per SOCPA		2,243,493
IFRS adjustments related to:		
Employee benefits	<i>H</i>	17,950
Actuarial valuations of employee benefits	<i>H</i>	170,493
Net realizable value		20,398
Fair value differentials for evaluating the loans (shareholder's subordinated loans and an associate advances)	<i>I</i>	244,715
Componentization of property, plant and equipment	<i>13</i>	(245,959)
Embedded lease		2,475
Adjustments for employee benefits (SSO and SOLA)	<i>D</i>	26,347
Other adjustments, net		103,579
Accumulated losses as per IFRS		<u>2,583,491</u>

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.5 The following is a reconciliation of the Company's statement of interim condensed financial position reported in accordance with SOCPA to its statement of interim condensed financial position under IFRS as at 31 March 2016:

	Note	SOCPA as at 31 March 2016 SR '000	Re- classificatio ns SR '000	Re- measureme nts SR '000	IFRS as at 31 March 2016 SR '000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	A	35,115,489	(249,945)	334,818	35,200,362
Intangible assets		117,971	179,332	(47,358)	249,945
Investment in an associate and advances	B	343,820	(95,445)	57,330	305,705
Other non-current assets		176,765	228,460	25	405,250
TOTAL NON-CURRENT ASSETS		35,754,045	62,402	344,815	36,161,262
CURRENT ASSETS					
Inventories	C	1,572,535	18,525	(19,938)	1,571,122
Trade receivables		1,885,914	-	-	1,885,914
Prepayments, advances and other receivables	E	552,540	(62,402)	(24,099)	466,039
Cash and cash equivalents	F	1,880,932	(14,118)	-	1,866,814
TOTAL CURRENT ASSETS		5,891,921	(57,995)	(44,037)	5,789,889
TOTAL ASSETS		41,645,966	4,407	300,778	41,951,151
EQUITY AND LIABILITIES					
EQUITY					
Share capital		15,000,000	-	-	15,000,000
Statutory reserve		49,408	-	-	49,408
Other components of equity	I	-	-	620,874	620,874
Accumulated losses		(2,459,762)	-	(344,422)	(2,804,184)
TOTAL EQUITY		12,589,646	-	276,452	12,866,098
LIABILITIES					
NON-CURRENT LIABILITIES					
Term loans		21,924,756	26,136	98,494	22,049,386
Subordinated loans from a shareholder	I	2,875,000	-	(331,565)	2,543,435
Employee benefits	H	269,049	(14,118)	205,525	460,456
Other non-current liability		60,914	-	-	60,914
TOTAL NON-CURRENT LIABILITIES		25,129,719	12,018	(27,546)	25,114,191
CURRENT LIABILITIES					
Current portion of term loans		2,194,521	(26,136)	585	2,168,970
Trade payables, accruals and provisions		1,625,908	18,525	51,287	1,695,720
Zakat provision		106,172	-	-	106,172
TOTAL CURRENT LIABILITIES		3,926,601	(7,611)	51,872	3,970,862
TOTAL LIABILITIES		29,056,320	4,407	24,326	29,085,053
TOTAL EQUITY AND LIABILITIES		41,645,966	4,407	300,778	41,951,151

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.6 Reconciliation of accumulated losses as at 31 March 2016

Following is the analysis of the impact of IFRS re-measurements on accumulated losses:

	<i>Note</i>	<i>Impact on accumulated losses at 31 March 2016</i>
		<u>SR '000</u>
Accumulated losses as per SOCPA		2,459,762
IFRS adjustments related to:		
Employee benefits	<i>H</i>	21,391
Actuarial valuations of employee benefits	<i>H</i>	25,701
Employees' end-of-service-benefits	<i>H</i>	179,826
Net realizable value		676
Fair value differentials for evaluating the loans (shareholder's subordinated loans and an associate advances)	<i>I</i>	257,403
Componentization of property, plant and equipment	<i>13</i>	(260,695)
Embedded lease		2,515
Adjustments for employee benefits (SSO and SOLA)	<i>D</i>	28,621
Other adjustments, net		88,984
Accumulated losses balance as per IFRS		<u><u>2,804,184</u></u>

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.7 The following is a reconciliation of the Company's interim condensed statement of income and other comprehensive income for the three-month period ended 31 March 2016 from SOCPA to IFRS:

	Note	SOCPA for the three month period ended 31 March 2016 SR '000	Re- measurements SR '000	IFRS for the three month period ended 31 March 2016 SR '000
Sales		1,692,591	-	1,692,591
Cost of sales	A,C,H	(1,578,150)	70,767	(1,507,383)
GROSS PROFIT		114,441	70,767	185,208
Selling and distribution expenses		(59,457)	-	(59,457)
General and administrative expenses	H	(79,308)	(34,890)	(114,198)
OPERATING (LOSS) PROFIT		(24,324)	35,877	11,553
Share in net results of an associate		2,450	-	2,450
Financial income	B	757	6,674	7,431
Other expenses, net		(23,912)	-	(23,912)
Financial charges	I	(149,198)	(21,274)	(170,472)
INCOME (LOSS) BEFORE ZAKAT		(194,227)	21,277	(172,950)
Zakat		(22,042)	-	(22,042)
NET (LOSS) INCOME FOR THE PERIOD		(216,269)	21,277	(194,992)
OTHER COMPREHENSIVE LOSS				
<i>Other comprehensive income (loss) not to be reclassified to income in subsequent periods:</i>				
Re-measurement losses on defined benefit plans	H	-	(25,701)	(25,701)
Other comprehensive loss		-	(25,701)	(25,701)
TOTAL COMPREHENSIVE LOSS		(216,269)	(4,424)	(220,693)

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.8 The following is a reconciliation of the Company's interim condensed statement of income and other comprehensive income for the year ended 31 December 2016 from SOCPA to IFRS:

	Note	SOCPA for year ended 31 December 2016 SR '000	Re- measurements SR '000	IFRS for the year ended 31 December 2016 SR '000
Sales		8,608,817	-	8,608,817
Cost of sales	A,C,H	(7,211,403)	215,867	(6,995,536)
GROSS PROFIT		1,397,414	215,867	1,613,281
Selling and distribution expenses		(210,334)	(6,456)	(216,790)
General and administrative expenses	H	(202,451)	(134,844)	(337,295)
OPERATING PROFIT		984,629	74,567	1,059,196
Share in net results of an associate		35,951	-	35,951
Financial income	B	16,639	27,628	44,267
Other expenses, net		(22,275)	-	(22,275)
Financial charges	I	(783,502)	(84,864)	(868,366)
INCOME BEFORE ZAKAT		231,442	17,331	248,773
Zakat		(96,716)	-	(96,716)
NET INCOME FOR THE PERIOD		134,726	17,331	152,057
Other comprehensive income (loss)				
<i>Other comprehensive income (loss) not to be reclassified to income in subsequent periods:</i>				
Re-measurement gain on defined benefit plans	H	-	12,497	12,497
Other comprehensive income		-	12,497	12,497
Total comprehensive income		134,726	29,828	164,554

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

6.9 The following table illustrates the reconciliation of statement of income and other comprehensive income from SOCPA to IFRS for Company on adoption of IFRS:

Reconciliation of statement of income and other comprehensive income

	Note	For the year ended 31 December 2016	For the period ended 31 March 2016
		SR '000	SR '000
Net income (loss) under SOCPA		134,726	(216,269)
IFRS adjustments related to:			
Employee benefits	<i>H</i>	902	(3,440)
Employees' end-of-service-benefits	<i>H</i>	(21,488)	(9,333)
Net realizable value		9,487	19,721
Fair value differentials for evaluating the loans (shareholder's subordinated loans and an associate advances)	<i>I</i>	(51,162)	(12,689)
Componentization of property, plant and equipment	<i>13</i>	55,807	14,735
Embedded lease		(143)	(40)
Adjustments for employee benefits (SSO and SOLA)	<i>D</i>	(12,798)	(2,276)
Other adjustments, net		36,726	14,599
Income (loss) under IFRSs		152,057	(194,992)
Other comprehensive income (loss)			
Re-measurement gain (loss) on defined benefit plans	<i>H</i>	12,497	(25,701)
Total comprehensive income (loss) under IFRS		164,554	(220,693)

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

A Property, Plant and equipment

- i) Under SOCPA, the Company capitalized the cost of capital spare parts under inventory, which used to serve for more than one accounting year. However, under IFRS, such cost is capitalized under property, plant and equipment, and therefore the depreciation has been estimated for such cost with retrospective effect and recognized through the retained earnings.
- ii) Under IFRS, an arrangement that comprises a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments qualifies for recognition as a finance lease. Certain lease arrangements entered into by the Company qualify for recognition as finance leases under IFRS. This resulted in an increase in finance lease obligations, an increase in related property, plant and equipment and a decrease in retained earnings
- iii) Under IFRS, property, plant and equipment needs to be componentized and their useful lives separately identified. Historically, there was no such requirement. Accordingly, an assessment was made by the Company which resulted in adjusted accumulated depreciation and retained earnings on the IFRS transition date reflecting the change in classification and useful lives.

B Investment in an associate

Under SOCPA, the Company does not value the loans and advances to an associate using the fair market value for loans and advances that bears an off-market interest rate. The equity classification by the borrower allows the lender to recognise the fair value differential, as an asset as required by IAS 39. This would be reflected as part of the investment in an associate. Further, The additional amount lent (or the "fair value differential") is the difference between the amount of the loan and its fair value.

C Inventory

Refer to 6A (i) for adjustments impacting inventory.

D Payables

Adjustments related to employee costs by using actuarial assumptions as required by IFRS were recharged by a shareholder to the Company.

E Prepayments and other assets

Current portion of furniture allowance which is amortized over five years has been separated from non-current assets.

F Cash and cash equivalents

Adjustment relates to savings (thrift) plan for which contributions have been recorded as an employee contribution payable. The cash contributed in respect of this liability is held in separate bank account not used in Company's operations.

G Obligations under finance lease

Refer to 6A for adjustments impacting property, plant and equipment.

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

At 31 March 2017

6 First-time adoption of IFRS (continued)

H Employee benefits and accrued and other liabilities

- (i) Under IFRS, end of service benefits (“EOSB”), post-employment medical benefits and service awards are required to be calculated using actuarial assumptions. Historically, the Company has calculated these obligations based on the current provision. This change resulted in an increase in the EOSB and post-employment medical benefits and service awards liabilities balances on the transition date and as at the current period and a decrease in retained earnings and current period income.
- (ii) Under IFRS, accumulating paid absences are those that are carried forward and can be used in future periods if the current period’s entitlement is not used in full. The obligation arising in respect of these accumulating absences is required to be recognized under IFRS irrespective of whether the absences are vesting or non-vesting. This change has resulted in an increase in accrual for vacation pay and a decrease in retained earnings and current period income.

I Interest bearing loans from a shareholder

Under SOCPA, shareholder’s subordinated loans were recognized initially at actual loan proceeds. However under IAS 39, these loans should have been recognized initially at fair value, and subsequently shall be measured at amortized costs by using effective interest rate. Accordingly, the Company has restated shareholder’s subordinated loans. Fair value differential being, in substance, additional capital introduced by the shareholders in the form of the present value of future forgiven cash flows (interest payments). The fair value differential is classified as contributed surplus under other components of equity.

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

At 31 March 2017

7 Related party transactions and balances

The following table provides the total amount of transactions that have been entered into with related parties during the three-month period ended 31 March 2017 and 2016 and related parties balances as at 31 March 2017, 31 December 2016 and 1 January 2016.

<i>Related party</i>	<i>Relationship</i>	<i>Nature of transaction</i>	<i>Three-month period</i>		<i>Ending balance</i>		
			<i>Amount of transaction</i>		<i>31 March</i>	<i>31 December</i>	<i>1 January</i>
			<i>31 March</i>	<i>31 March</i>	<i>2017</i>	<i>2016</i>	<i>2016</i>
			<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
a. Trade accounts receivable due from related parties							
SABIC	Shareholder	Sales to related parties	2,666,746	1,692,223	2,842,204	2,530,437	2,023,544
SABIC affiliates	Affiliate	Sales to related parties	296	-	-	-	-
					2,842,204	2,530,437	2,023,544
b. Advances and other receivables due from related parties							
SABIC	Shareholder		-	-	324,953	324,953	251,239
SABIC affiliates	Affiliate		-	-	9,438	79,433	4,370
					334,391	404,386	255,609
c. Advances to an associate							
Saudi Butanol Company	Affiliate						
Current portion			-	-	105,702	101,231	195,460
Non-current portion			-	-	54,801	54,801	95,445
					160,503	156,032	290,905

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

At 31 March 2017

7 Related party transactions and balances (continued)

<i>Related party</i>	<i>Relationship</i>	<i>Nature of transaction</i>	<i>Three-month period</i>		<i>Ending balance</i>		
			<i>Amount of transaction</i>		<i>31 March</i>	<i>31 December</i>	<i>1 January</i>
			<i>31 March</i>	<i>31 March</i>	<i>2017</i>	<i>2016</i>	<i>2016</i>
			<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
d. Amounts due to related parties							
SABIC	Shareholder	Purchases and other services from related parties	89,675	70,525	167,194	449,008	747,863
		Shipping and storage costs	34,789	28,415			
		SSO charges	22,397	25,386			
		Research and technology charges	53,335	35,091			
		Purchase of insurance policies through the shareholder	5,128	5,377			
Other	Affiliate	Finance cost charges	92,002	59,649			
		Costs charged to an associate	41,647	-			
		Purchase of inventory, capital goods and services	61,829	46,375	1,161	5,261	4,696
					168,355	454,269	752,559
e. Subordinated loans from shareholders							
SABIC	Shareholder				2,625,434	2,602,863	2,524,072

7 Related party transactions and balances (continued)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period ended 31 March 2017 are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the period ended 31 March 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Significant transaction with related parties was as follows:

- (i) The Company has a service level agreement with SABIC (Shared Services Organization – SSO) for the provision of accounting, warehousing, human resources, information technology (ERP/SAP), transporting and arranging for delivery of materials related to the Company's spare parts, engineering, procurement and related services and other general services to the Company. The company has also logistic service agreement with SABIC.
- (ii) Advances to SABIC represent the amount paid by the Company according to shared service agreement to finance the purchase of the Company's materials and services.
- (iii) SABIC has provided long term advance to the Company which carries commission, and is subordinated to certain term loans obtained from commercial banks.
- (iv) The Company's annual contribution to SABIC for research and technology is 2% of total sales, which is charged to general and administrative expenses in the statement of income and other comprehensive income.
- (v) SABIC also charged finance charges, guarantee fees and commitment fees to the Company in relation to the subordinated loans.
- (vi) The majority of Company's products are sold to SABIC ("the Marketer") under marketing and off-take agreements. Upon delivery of the product, sales are recorded at net provisional price which are subsequently adjusted, on a monthly basis, to actual selling prices received by SABIC from its customers after deducting shipping, distribution and selling cost, and a marketing fee to cover all other marketing expenses.

Prices and terms of payments for the above transactions are approved by the Company's management.

8. Share capital

The authorised, issued and paid up share capital is SR 15,000 million, which is divided into 1,500 million shares (31 December and 1 January 2016: 1,500 million shares) of SR 10 each.

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

At 31 March 2017

9. Other components of equity

Other components of equity of SR 620.87 million represents contribution surplus for the fair value differential in respect of subordinated loans from a shareholder.

10. Employee benefits

	31 March 2017	31 December 2016	1 January 2016
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Defined benefits obligation	456,268	438,341	391,732
Others	42,024	41,502	22,727
	<u>498,292</u>	<u>479,843</u>	<u>414,459</u>

The following table represents the movement of the defined benefits obligations as at 31 March 2017:

	31 March 2017	31 December 2016	1 January 2016
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Defined benefit obligation at beginning of the period	438,341	391,732	190,704
Current service cost	14,904	61,080	51,142
Past service cost	-	-	166,977
Interest cost	4,286	15,868	-
Payments during the period	(1,263)	(6,923)	(13,158)
Adjustments during the period	-	(23,416)	(3,933)
Defined benefit obligation at end of the period	<u>456,268</u>	<u>438,341</u>	<u>391,732</u>

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

At 31 March 2017

11. Zakat provision

The zakat is based on the condensed financial statements of the Company.

The movement in Company's zakat provision is as follows:

	31 March 2017	31 December 2016	1 January 2016
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
At beginning of the period	98,756	84,130	77,106
Provided during the period	21,648	96,716	83,047
Paid during the period	<u>-</u>	<u>(82,090)</u>	<u>(76,023)</u>
At the end of the period	<u>120,404</u>	<u>98,756</u>	<u>84,130</u>

Zakat returns of the Company are submitted to the General Authority of Zakat and Tax (GAZT) based on financial statements prepared for zakat purposes only.

The Company has filed its zakat returns with GAZT, received the zakat certificates, settled the zakat dues and cleared its zakat assessments with GAZT up to the year ended 31 December 2011.

12. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares during the period.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	31 March 2017	31 March 2016
Net profit (loss) attributable to equity holders (SR'000)	265,458	(194,992)
Number of shares outstanding (in thousands)	1,500,000	1,500,000
Earnings (loss) per share for the period	<u>0.18</u>	<u>(0.13)</u>

There has been no item of dilution affecting the weighted average number of ordinary shares.

13. Component change for the property, plant and equipment

Under IFRS, the property, plant and equipment should be componentized and the components' useful lives identified separately. The componentization concept was not a followed practice in Saudi Arabia. It was not practically possible for the Company to clearly distinguish adjustments related to the change in useful lives from those relating to applying the componentization. As part of the transition to IFRS, the Company has applied the concept of assets components and accounted for its impact on the useful lives, which resulted in an increase in property, plant and equipment and a decrease in accumulated loss on the IFRS transition date amounting to SR 246 million. The net impact has been booked as part of the transition adjustments.

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

At 31 March 2017

14. Fair value measurement

The Company measures financial instruments at each balance sheet date. Fair-value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed in this note.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 March 2017, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- Fair values of the Company's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 March 2017 was assessed to be insignificant.

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15. Contingencies and commitments

The Company contingently liable for bank guarantees issued on behalf of the Company in the normal course of business amounting to SR 8 milion.

The capital expenditure contracted by the Company but not incurred till year end was approximately SR 870.9 million.

16. Segment information

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

Substantial portion of the Company's sales are made to one customer and all of the Company's operations are related to one operating segment which is petrochemicals. Accordingly, segmental analysis by geographical and operating segment has not been presented.

17. Subsequent events

In the opinion of management, there have been no significant subsequent events since the period ended 31 March 2017 that would have a material impact on the financial position of the Company as reflected in these interim condensed financial statements.