

**SAUDI INTERNATIONAL  
PETROCHEMICAL COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)  
DECEMBER 31, 2016



**KPMG Al Fozan & Partners**  
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License No. 46/11/323 issued 11/3/1992

**REVIEW REPORT ON INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**The Shareholders**  
**Saudi International Petrochemical Company**  
**(A Saudi Joint Stock Company)**  
**Kingdom of Saudi Arabia**

***Scope of review:***

We have reviewed the accompanying interim consolidated balance sheet of Saudi International Petrochemical Company ("the Company") as at December 31, 2016, the related interim consolidated statement of income for the three months and twelve months periods then ended, and the interim consolidated statement of cash flows for the twelve months period then ended and the attached notes 1 through 8 which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to provide a conclusion on the review of these interim consolidated financial statements based on our review.

We conducted our review in accordance with Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of the Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

***Review conclusion:***

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

**For KPMG Al Fozan & Partners**  
Certified Public Accountants

**Ebrahim Oboud Baeshen**  
License No: 382



Al Khobar, January 18, 2017G  
Corresponding to: Rabi'II, 20 1438H

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)**

**AS AT DECEMBER 31, 2016**

(Expressed in Saudi Arabian Riyals)

	<b>Note</b>	<b>At December 31, 2016</b>	<b>At December 31, 2015</b>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents		1,815,653,353	2,124,558,823
Accounts receivable, prepayments and other receivables		701,216,595	752,485,797
Inventories		782,232,792	698,344,835
<b>Total Current Assets</b>		<b>3,299,102,740</b>	<b>3,575,389,455</b>
<b>Non-current Assets:</b>			
Property, plant and equipment		13,030,616,123	13,293,725,235
Projects' development costs		19,060,780	29,464,693
Intangible assets		103,733,502	131,134,567
Goodwill		29,543,923	29,543,923
<b>Total Non-current Assets</b>		<b>13,182,954,328</b>	<b>13,483,868,418</b>
<b>TOTAL ASSETS</b>		<b>16,482,057,068</b>	<b>17,059,257,873</b>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS</b>			
<b>Current Liabilities:</b>			
Short term loans		200,000,000	300,000,000
Current portion of long term loans		751,741,160	711,319,128
Accounts payable, accrued expenses and other liabilities		781,852,944	696,008,855
Short term advances from partners		10,902,035	82,476,894
<b>Total Current Liabilities</b>		<b>1,744,496,139</b>	<b>1,789,804,877</b>
<b>Non-current Liabilities:</b>			
Long term loans	5	5,910,492,469	5,488,283,977
Sukuk	5	997,590,797	1,800,000,000
Long term advances from partners		101,108,591	59,953,703
Employees' benefits payable		182,003,261	165,818,715
Other non-current liabilities		52,241,076	50,602,500
<b>Total Non-current Liabilities</b>		<b>7,243,436,194</b>	<b>7,564,658,895</b>
<b>Total Liabilities</b>		<b>8,987,932,333</b>	<b>9,354,463,772</b>

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED) (continued)**

**AS AT DECEMBER 31, 2016**

(Expressed in Saudi Arabian Riyals)

	<b>Note</b>	<b>At December 31, 2016</b>	<b>At December 31, 2015</b>
<b>Shareholders' equity and non-controlling interests:</b>			
Share capital	1	3,666,666,660	3,666,666,660
Statutory reserve		1,205,397,395	1,198,394,633
Reserve for the results of sale of shares in subsidiaries without losing control		12,949,042	48,893,677
Retained earnings		966,439,804	905,614,950
Foreign currency translation reserve		(7,914,949)	(7,194,646)
<b>Total shareholders' equity</b>		<b>5,843,537,952</b>	<b>5,812,375,274</b>
Non-controlling interests		1,650,586,783	1,892,418,827
<b>Total shareholders' equity and non-controlling interests</b>		<b>7,494,124,735</b>	<b>7,704,794,101</b>
<b>TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS</b>		<b>16,482,057,068</b>	<b>17,059,257,873</b>

The interim consolidated financial statements appearing on pages 1 to 15 were approved by the management on behalf of Board of Directors of the Company on January 18, 2017, and have been signed on their behalf by:

\_\_\_\_\_  
**Ahmad Al-Ohali**  
 CEO

\_\_\_\_\_  
**Kevin Hayes**  
 VP Corporate Finance

The accompanying notes 1 through 8 form an integral part of these interim consolidated financial statements.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**  
**FOR THREE MONTHS AND TWELVE MONTHS PERIODS ENDED DECEMBER 31, 2016**  
(Expressed in Saudi Arabian Riyals)

	Period from October 1 to December 31		Period from January 1 to December 31	
	2016	2015	2016	2015
Sales	914,196,826	871,773,038	3,367,475,412	3,514,839,542
Cost of sales	(702,473,552)	(769,626,689)	(2,678,941,508)	(2,681,846,577)
<b>Gross profit</b>	<b>211,723,274</b>	<b>102,146,349</b>	<b>688,533,904</b>	<b>832,992,965</b>
Selling and marketing expenses	(10,771,799)	(16,267,707)	(57,188,792)	(68,321,501)
General and administrative expenses	(66,704,052)	(73,486,439)	(214,758,565)	(191,302,474)
<b>Operating income</b>	<b>134,247,423</b>	<b>12,392,203</b>	<b>416,586,547</b>	<b>573,368,990</b>
Finance income	10,666,635	4,552,681	38,223,703	10,012,414
Finance charges	(60,542,376)	(47,872,042)	(245,541,339)	(173,897,287)
Write-off of property, plant and equipment	-	-	(31,321,936)	-
Other (expenses) / income – net	(1,541,355)	(22,123)	8,754,132	(39,964,883)
<b>Income / (loss) before zakat, foreign income tax and non- controlling interests</b>	<b>82,830,327</b>	<b>(30,949,281)</b>	<b>186,701,107</b>	<b>369,519,234</b>
Zakat and foreign income tax	(2,122,980)	(1,998,549)	(55,422,469)	(30,409,934)
<b>Income / (loss) before non- controlling interests</b>	<b>80,707,347</b>	<b>(32,947,830)</b>	<b>131,278,638</b>	<b>339,109,300</b>
Non-controlling interests	(28,395,606)	58,925,089	(61,251,022)	(50,868,280)
<b>Net income</b>	<b>52,311,741</b>	<b>25,977,259</b>	<b>70,027,616</b>	<b>288,241,020</b>
<b>Earning per share</b>				
Net income	0.14	0.07	0.19	0.79
Operating income	0.37	0.03	1.14	1.56
Number of shares	366,666,666	366,666,666	366,666,666	366,666,666

The accompanying notes 1 through 8 form an integral part of these interim consolidated financial statements.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE TWELVE MONTHS PERIOD ENDED DECEMBER 31, 2016**  
(Expressed in Saudi Arabian Riyals)

	<u>Period from January 1, 2016 to December 31, 2016</u>	<u>Period from January 1, 2015 to December 31, 2015</u>
<b>Cash flow from operating activities:</b>		
Net income before non-controlling interests, zakat and foreign income tax	186,701,107	369,519,234
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortisation	715,964,561	690,933,494
Loss on disposal of property, plant and equipment	-	1,935,304
Write-off of property, plant and equipment ( <i>refer note 7</i> )	31,321,936	-
Finance charges	245,541,339	173,897,287
Provision for employees' benefits	38,848,061	38,072,004
Finance income	(38,223,703)	(10,012,414)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, prepayments and other receivables	51,223,437	318,422,054
Inventories	(83,887,957)	(166,336,426)
Accounts payable, accrued expenses and other liabilities	37,069,718	(251,162,470)
Finance charges paid	(209,567,518)	(173,005,023)
Zakat and income tax paid	(57,669,947)	(56,522,041)
Employee's benefits paid	(22,663,515)	(8,981,738)
<b>Net cash provided by operating activities</b>	<u>894,657,519</u>	<u>926,759,265</u>
<b>Cash flow from investing activities:</b>		
Purchase of property, plant and equipment	(330,069,409)	(711,404,756)
Additions to intangible assets	-	(16,096,079)
Projects' development costs	(113,483,342)	(307,829,163)
Finance income received	38,269,468	8,555,423
Proceeds from disposal of property, plant and equipment	-	143,040
Purchases of additional shares in subsidiaries	(375,332,604)	-
<b>Net cash used in investing activities</b>	<u>(780,615,887)</u>	<u>(1,026,631,535)</u>
<b>Cash flow from financing activities:</b>		
Proceeds from short term loans	924,997,980	849,995,419
Repayments of short term loans	(1,024,997,980)	(549,995,419)
Proceeds from long term loans	4,159,129,572	1,081,178,194
Repayments of long term loans	(3,699,318,704)	(1,040,632,731)
Proceeds from Sukuk	997,590,797	-
Repayment of Sukuk	(1,800,000,000)	-
Repayment of advances from partners – net	(10,395,000)	-
Additions / (dividend paid) to non-controlling interest	29,550,000	(113,570,668)
Dividend paid	-	(458,333,333)
Board of Directors' remuneration	(2,200,000)	(2,200,000)
<b>Net cash used in financing activities</b>	<u>(425,643,335)</u>	<u>(233,558,538)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(311,601,703)</u>	<u>(333,430,808)</u>
Cash and cash equivalents at the beginning of the period	2,124,558,823	2,458,750,403
Effects of exchange rate changes on cash held	2,696,233	(760,772)
<b>Cash and cash equivalents at the end of the period</b>	<u>1,815,653,353</u>	<u>2,124,558,823</u>

The accompanying notes 1 through 8 form an integral part of these interim consolidated financial statements.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE MONTHS AND TWELVE MONTHS PERIODS ENDED DECEMBER 31, 2016**  
(Expressed in Saudi Arabian Riyals)

**1. ORGANIZATION AND ACTIVITIES:**

Saudi International Petrochemical Company (the "Company" or "Sipchem") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010156910 dated 14 Ramadan, 1420, corresponding to December 22, 1999. The Company's head office is in the city of Riyadh with one branch in Al-Khobar, where the office for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal, 1420H, corresponding to February 6, 2000G, and a branch in Jubail Industrial City which is registered under commercial registration number 2055007570 dated 4 Jumada I, 1427H, corresponding to June 1, 2006G.

The principal activities of the Company are to own, establish, operate and manage industrial projects related to chemical and petrochemical industries. The Company incurs costs on projects under development and subsequently establishes a separate Company for each project that has its own commercial registration. Costs incurred by the Company are transferred to the separate companies when they are established.

The interim results of the operations for the three and twelve months periods ended December 31, 2016 may not represent a proper indication for the annual results of operations. These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2015.

As of December 31, 2016 and 2015, share capital of the Company amounted to SR 3,666,666,660 divided into 366,666,666 shares of SR 10 each.

As of December 31, the Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as the "Group"):

	<b>Effective ownership (%)</b>	
	<b>2016</b>	<b>2015</b>
International Methanol Company ("IMC")	65%	65%
International Diol Company ("IDC")	53.91%	53.91%
International Acetyl Company ("IAC")	87%	76%
International Vinyl Acetate Company ("IVC")	87%	76%
International Gases Company ("IGC")	72%	72%
Sipchem Marketing Company ("SMC")	100%	100%
International Utility Company ("IUC")	68.58%	68.58%
International Polymers Company ("IPC")	75%	75%
Sipchem Chemical Company ("SCC")	100%	100%
Sipchem Europe Cooperative U. A and its subsidiaries	100%	100%
Gulf Advanced Cable Insulation Company ("GACI") (note 1.1)	50%	50%
Saudi Specialized Products Company ("SSPC")	75%	75%
Sipchem Asia PTE. Ltd. (note 1.2)	100%	100%

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
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**1. ORGANIZATION AND ACTIVITIES (continued)**

In February 2016, the Company acquired an additional 11% shares from a minority shareholder (Ikarus Petroleum Industries Company) in each of IAC and IVC, increasing its ownership from 76% to 87% for a consideration of SR 375.3 million. The Group recognized a reduction in non-controlling interests of SR 339.4 million and a reduction of SR 35.9 million in the equity attributable to the shareholders.

The principal activity of IMC is the manufacturing and sale of methanol. IMC commenced its commercial operations in 2004.

The principal activity of IDC is the manufacturing and sale of maleic anhydride, butanediol and tetrahydro furan. IDC commenced its commercial operation in 2006.

The principal activities of IAC and IVC are the manufacturing and sale of acetic acid and vinyl acetate monomer respectively. IAC and IVC commenced their commercial activities in 2009.

The principal activity of IGC is the manufacturing and sale of carbon monoxide. IGC commenced its commercial operations in 2009.

The principal activities of SMC and its subsidiary Sipchem Europe Cooperative U.A are to provide marketing services for the products manufactured by the group companies and other petrochemical products. Other services provided by Sipchem, SMC and SMC's affiliates include purchasing and trading of petrochemical products with Sipchem affiliates and third party entities.

The principal activity of IUC is to provide industrial utilities to the group companies.

The principal activity of IPC is to manufacture and sale of low density polyethylene (LDPE), polyvinyl acetate (PVAC) and polyvinyl alcohol (PVA). IPC commenced its commercial operation from April 1, 2015 after successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activity of SCC is the manufacture and sale of ethyl acetate, butyl acetate and polybutylene terephthalate. Ethyl acetate plant commenced its commercial operations in 2013 while polybutylene terephthalate plant is under trial production and expected to commence its commercial production in 2017.

The principal activity of GACI is the manufacture and sale of cross linked polyethylene and electrical connecting wire products. GACI commenced its commercial operation from June 1, 2015 after the successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activities of SSPC which was established in 2014, is the manufacture and sale of molds and dies and related services as well as production of EVA films. SSPC is under development stage and expected to commence its commercial production in the first quarter of 2017.



**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
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(Expressed in Saudi Arabian Riyals)

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**1. ORGANIZATION AND ACTIVITIES (continued)**

1.1: Although the Company has only 50% share in GACI, the operations of Gulf Advances Cable Insulation Company are controlled by the Company effectively from the date of its commercial registration. Accordingly, the investee company is treated as a subsidiary of the Company.

1.2: The investee company was incorporated during 2013 in Singapore. Its article of association is dated 13 Jumada I, 1434H, corresponding to March 25, 2013G.

**2. SIGNIFICANT ACCOUNTING POLICIES:**

These interim consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The significant accounting policies adopted by the Group are as follows:

**a) Accounting convention:**

These interim consolidated financial statements are prepared under the historical cost convention using the accrual basis of accounting modified to include the measurement at fair value for the forward currency exchange contracts and the going concern concept.

**b) Use of estimates and judgements:**

The preparation of the Group's interim consolidated financial statements in conformity with generally accepted principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amount of the revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimated uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are reflected in the following notes:

Note 2(e) – Provision for doubtful debts

Note 2(f) – Provision for inventories

Note 2(g) – Useful life of property, plant and equipment

Note 2(k) – Impairment

Note 2(u) – Fair value of derivative financial instruments

Note 2 (r) –Provisional price

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY  
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THREE MONTHS AND TWELVE MONTHS PERIODS ENDED DECEMBER 31, 2016

(Expressed in Saudi Arabian Riyals)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Basis of consolidation:**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2016 and 2015. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, and using consistent accounting policies.

*Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

*Non-controlling interests*

The Company measures any non-controlling interests at its proportionate interest in the identifiable net assets of the acquiree.

*Transactions eliminated on consolidation*

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group/Company transactions that are recognized in assets, are eliminated in full. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

**d) Cash and cash equivalents:**

For the purpose of the statement of cash flows, cash and cash equivalents consists of bank balances, demand deposits, cash on hand and investments that are readily convertible into known amounts of cash and have maturity of three months or less when purchased.

**e) Accounts receivable:**

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**f) Inventories:**

Inventories comprise spare parts, finished goods and raw materials, and are stated at the lower of cost or net realisable value. Costs of manufactured goods include raw materials, direct labour and manufacturing overheads. The cost of spare parts, finished goods and raw materials are arrived at using the weighted average cost method. Appropriate provisions are made for slow moving items and damaged inventories.

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY  
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
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(Expressed in Saudi Arabian Riyals)

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

g) **Property, plant and equipment:**

Property, plant and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Leasehold land and construction work in progress are not depreciated. Expenditure on maintenance and repairs is expensed while expenditure for improvement is capitalized.

Plant and machinery include planned turnaround costs which are depreciated over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the net book value of planned turnaround costs are immediately expensed and the new turnaround costs are depreciated over the period likely to benefit from such costs.

Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated useful lives of the principal classes of assets are as follows:

	<u>Years</u>
Plant and machinery	10-25
Buildings	2-33.3
Vehicles	4
Catalyst and tools	1-10
Computer, furniture, fixtures and office equipment	1-10

h) **Projects' development costs:**

Projects' development costs represent mainly legal and feasibility related costs incurred by the Company in respect of developing new projects. Upon successful development of the projects, costs associated with the projects are transferred to the respective company subsequently established for each project. Projects' development costs relating to the projects determined to be non-viable are written off immediately.

i) **Intangible assets:**

Intangible assets mainly represent ERP costs and a long term off-take agreement. Intangible assets are amortized over the following useful life.

	<u>Years</u>
ERP costs	5
Deferred expenses	5-10

j) **Goodwill:**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Goodwill (continued):**

amount of any goodwill allocated to the unit and then to the other assets of the unit prorata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognized directly as loss in the interim consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**k) Impairment:**

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

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

**l) Provision:**

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, and the settlement of such obligations is probable and can be measured reliably.

**m) Zakat and income tax:**

The Group is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat and income taxes are provided on an accrual basis. The zakat charge is computed on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. The zakat and foreign income tax charge in the interim consolidated statement of income represents the zakat and income tax for the Company and the Company's share of zakat in subsidiaries and the foreign income tax on foreign shareholders' income.

The zakat and income tax assessable on the non-controlling shareholders are included in non-controlling interests. Foreign income tax is provided for in accordance with foreign fiscal regulations in which the Group's foreign subsidiaries operate.

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(Expressed in Saudi Arabian Riyals)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n) Employees' end of service benefits:**

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the interim Consolidated Statement of Income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

**o) Statutory reserve:**

In accordance with Company's articles of association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

**p) Employees' saving plan:**

The Group maintains an employee's saving plan for Saudi employees. The contribution from the participants are deposited in separate bank account and liability is established for this contribution. The Company's contribution under the saving plan is charged to the interim consolidated statement of income.

**q) Reserve for the results of sale of shares in subsidiaries:**

The gains or losses resulting from sale of shares in subsidiaries, when the Group continues to exercise control over the respective subsidiary, are recorded in the reserve for the results of sale of shares in subsidiaries.

**r) Revenue recognition:**

The Group markets their products through marketers. Sales are made directly to final customers and also to the marketers' distribution platforms. The sales through the distribution platforms are recorded at provisional prices at the time of shipments, which are later adjusted based on actual selling prices received by the marketers from their final customers, after deducting the cost of shipping and distribution. Adjustments are made as they become known to the Group. Both export and local sales are recognized at the time of delivery of the products.

**s) Expenses:**

All period and marketing expenses other than costs of sales, finance charges and other expenses, net are classified as selling, marketing, general and administrative expenses.

**t) Dividends:**

Dividends are recorded in the interim consolidated financial statements in the period in which they are approved by the Annual General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

**u) Derivative financial Instruments:**

Derivative financial instruments are recorded at fair value. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the interim consolidated statement of income as they arise.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**u) Derivative financial Instruments (continued):**

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

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

**v) Foreign currency transactions:**

These interim consolidated financial statements are presented in Saudi Arabian Riyals, which is the functional and reporting currency of the Company. Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the interim consolidated balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the interim consolidated statement of income.

The results and financial position of foreign subsidiaries having reporting currency other than Saudi Riyals are translated into Saudi Riyals as follows:

(i) Assets and liabilities for the balance sheet are translated at the closing exchange rate at the date of that interim consolidated balance sheet;

(ii) Income and expenses for interim consolidated statement of income are translated at average exchange rates; and

(iii) Components of the shareholders' equity accounts are translated at the exchange rates in effect at the dates of the related items originated.

Cumulative adjustments resulting from the translations of the financial instruments of the foreign subsidiaries into Saudi Riyals are reported as a separate component of consolidated stockholders' equity.

Dividends received from the foreign subsidiary are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the interim consolidated statement of income.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**w) Leasing:**

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. Other leases are classified as operating leases. Assets held under capital leases are recognized as assets of the Group at the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease. Finance costs, which represent the difference between the total leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the interim consolidated statement of income over the term of the relevant lease in order to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Rentals payable under operating leases are charged to the interim consolidated statement of income on a straight-line basis over the term of the operating lease.

**x) Segmental analysis:**

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

**y) Earnings per share:**

Earnings per share are computed by dividing net income for the period by the weighted average number of shares outstanding during the period. Weighted average number of outstanding shares as of December 31, 2016 and 2015 were 366,666,666 shares.

**3. COMMITMENTS AND CONTINGENCIES**

As of December 31, 2016, the capital expenditure contracted by the Group but not yet incurred is SR 687 million (December 31, 2015: SR 344 million).

As of December 31, 2016, the Group has outstanding letters of guarantee and credit amounting to SR 505.2 million (December 31, 2015: SR 594.2 million).

As of December 31, 2016, the Group has entered into forward contracts for EUR 24.08 million to cover against foreign currency risk due to fluctuations in Euros (December 31, 2015: EUR 30.69 million).

**4. CONTINGENT LIABILITIES**

The Company has received zakat assessments for the years 2007 to 2010 with additional zakat liability of SR 118.3 million. The Company does not agree with the additional liability and has filed appeals against these assessments.

During 2013, IMC (a subsidiary of the company) received withholding tax assessment for the years 2007 to 2012 amounting to SR 17.7 million in relation to delays. IMC does not agree with the delay fines and has filed an appeal against this assessment.

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**5. REFINANCING OF DEBT AND SUKUK**

During the quarter ended June 30, 2016, the Company exercised their option for early settlement of its old Mudaraba Sukuk amounting to SR 1.8 billion. Subsequently, it issued new Mudaraba/Murabaha Sukuk amounting to SR 1 billion with a maturity of five years and with commissions payable semi-annually at a rate of SIBOR plus 2.35% per annum, incurring transaction costs of SR 3.7 million. Further, certain new loans were procured and repaid for purposes of bridging the Sukuk repayment and supporting the reduction in the replacement Sukuk amount.

Additionally, the company obtained certain new long term commercial notes to extinguish the short term loans requiring repayment during the fourth quarter.

All of the new loans obtained in the second and third quarters have similar debt covenants and undertakings as those used on other drawdowns from the Islamic Tawarruq facility. They carry financial charges at SIBOR plus a fixed margin.

**6. DIVIDENDS**

The Board of Directors in their meeting held on November 30, 2014, proposed to distribute final cash dividends for the year ended December 31, 2014 amounting to SR 238.3 million or SR 0.65 per share, which is equivalent to 6.5% of the share capital. This dividend was approved by the shareholders in the General assembly meeting held on March 31, 2015. The Company distributed such dividends during the quarter ended June 30, 2015.

On June 29, 2015, the Board of directors approved to distribute interim cash dividends for the half year ended June 30, 2015 amounting to SR 220 million or SR 0.6 per share which is equivalent to 6% of the share capital. The Company distributed such dividends during the quarter ended September 30, 2015. This was ratified by the shareholders in the Extraordinary General Meeting held on March 27, 2016.

**7. PROPERTY, PLANT AND EQUIPMENT**

As of December 31, 2016, capital work-in-progress is included in property, plant and equipment and is stated at cost. It is comprised of construction cost of plants and assets and any directly attributable costs to bring the assets for their intended use, including costs of testing to ensure the assets is functioning properly, after deducting net proceeds from the sale of production generated during the testing phase. Directly attributable costs includes employee benefits, site preparation costs, installation costs, licensing fees, professional fees and borrowing costs. The Group capital work-in-progress as at December 31, 2016 is SR 1,890 million and comprises mainly of construction costs related to employees' houses, Polybutylene terephthalate plant, Ethylene-vinyl acetate (EVA) Film plant, Tool Manufacturing plant and costs related to several projects for improvements and enhancements of operating plants.

During the quarter ended March 31, 2016, the Group completed turnaround of IMC plant in which assets with a carrying amount of SR 31.3 million were replaced. Management consequently booked a loss on disposal of these assets amounting to SR 31.3 million which forms majority of the year-to-date balance of "other expenses - net" as shown in the interim consolidated statement of income.



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**8. SEGMENTAL ANALYSIS**

The Group's operations consist of the following business segments:

- a) **Petrochemical operations** include the activities for products manufactured.
- b) **Marketing operations** include risk managed marketing and trading activities for products under agreed upon buy-sell arrangements, feedstock and swap transactions, product swaps, and product hedging.

	<u>Petrochemical</u> <u>operations</u>	<u>Marketing</u> <u>operations</u>	<u>Total</u>
<b>December 31, 2016 (unaudited)</b>			
Sales	3,189,351,967	178,123,445	3,367,475,412
Gross profit	684,336,175	4,197,729	688,533,904
Net assets	7,435,041,253	59,083,482	7,494,124,735
<b>December 31, 2015 (audited)</b>			
Sales	3,011,945,133	502,894,409	3,514,839,542
Gross profit	653,234,363	179,758,602	832,992,965
Net assets	7,680,301,663	24,492,438	7,704,794,101