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Advanced

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)
AND AUDITORS' LIMITED REVIEW REPORT

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

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| INDEX | PAGE |
|---|---|
| Independent auditor's limited review report | 2 |
| Interim condensed consolidated statement of profit or loss | 3 |
| Interim condensed consolidated statement of other comprehensive income | 4 |
| Interim condensed consolidated statement of financial position | 5 |
| Interim condensed consolidated statement of changes in equity | 6 |
| Interim condensed consolidated statement of cash flows | 7 |
| Notes to the interim condensed consolidated financial statements | 8– 34 |

Building a better working world

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# INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF ADVANCED PETROCHEMICAL COMPANY

## Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Advanced Petrochemical Company ("the Company"), a Saudi Joint Stock Company, and its subsidiaries (collectively referred to as "the Group") as at 31 March 2017, and the related interim condensed consolidated statements of profit or loss, 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 this interim condensed consolidated 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" that are endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

## Scope of Review:

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

## Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements does not present fairly, in all material respects, the financial position of the Group 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" that are endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339

12 Shaban 1438H
8 May 2017

Alkhobar

ارنست ويونغ
ترخيص رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

## ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
### FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Notes | 31 March 2017<br>*(Unaudited)* | 31 March 2016<br>*(Note 6.6)* |
|---|---|---|---|
| Sales | | **526,238** | 488,066 |
| Cost of sales | | **(382,991)** | (309,163) |
| **GROSS PROFIT** | | **143,247** | 178,903 |
| Selling and distribution expenses | | **(2,684)** | (3,607) |
| General and administration expenses | | **(23,565)** | (27,530) |
| **OPERATING PROFIT** | | **116,998** | 147,766 |
| Finance costs | | **(9,493)** | (5,164) |
| Realised gains on disposal of available for sale investments, net | | **1,852** | 1,396 |
| Impairment losses against available for sale investments | | **-** | (19,459) |
| Share in profit of an associate | 8 | **15,261** | - |
| Gain on disposal of shares in an associate | | **-** | 16,044 |
| Other income, net | | **3,572** | 6,234 |
| **PROFIT BEFORE ZAKAT AND INCOME TAX** | | **128,190** | 146,817 |
| Zakat and income tax | | **(3,823)** | (3,956) |
| **PROFIT FOR THE PERIOD** | | **124,367** | 142,861 |
| **Earnings per share** | | | |
| - Basic and diluted | 15 | **0.632** | 0.726 |

KHALIFA A. AL-MULHEM
Chairman of the Board

ABDULLAH M. AL-GARAWI
President & CEO

MOHAMMED H. AL-QAHTANI
Finance and Accounting Manager

The attached notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES**
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017**
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Notes | 31 March 2017 *(Unaudited)* | 31 March 2016 *(Note 6.6)* |
|---|---|---|---|
| **PROFIT FOR THE PERIOD** | | **124,367** | 142,861 |
| | | | |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Exchange differences on translation of investment in an associate | 6 | **33,773** | 5,874 |
| Unrealized fair value (losses) of available for sale investments | | **(606)** | (22,076) |
| ***Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods*** | | **33,167** | (16,202) |
| **Other comprehensive income/(loss) for the period** | | **33,167** | (16,202) |
| **Total comprehensive income for the period** | | **157,534** | 126,659 |

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## ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**AS AT 31 MARCH 2017**
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | 31 March 2017 *(Unaudited)* | 31 December 2016 *(Note 6.3)* | 1 January 2016 *(Note 6.1)* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | | 1,950,771 | 1,969,029 | 2,209,471 |
| Intangible assets | | 3,738 | 3,463 | 5,128 |
| Investment in an associate | 8 | 481,335 | 432,301 | 421,239 |
| Investment in unconsolidated subsidiary | | 376 | 376 | 376 |
| Available for sale investments | | 1,021,047 | 793,885 | 801,143 |
| Other non-current assets | 9 | 159,385 | 162,381 | 26,006 |
| **TOTAL NON-CURRENT ASSETS** | | 3,616,652 | 3,361,435 | 3,463,363 |
| **CURRENT ASSETS** | | | | |
| Inventories | | 126,367 | 116,685 | 124,291 |
| Trade receivables | | 301,346 | 332,566 | 221,798 |
| Prepayments and other current assets | | 49,463 | 37,164 | 21,917 |
| Short term investments | | 321,714 | 121,714 | - |
| Cash and cash equivalents | | 71,082 | 452,986 | 84,984 |
| **TOTAL CURRENT ASSETS** | | 869,972 | 1,061,115 | 452,990 |
| **TOTAL ASSETS** | | 4,486,624 | 4,422,550 | 3,916,353 |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| Share capital | 1 | 1,967,940 | 1,967,940 | 1,639,950 |
| Statutory reserve | | 426,204 | 426,204 | 353,138 |
| Other components of equity | 7 | 259,958 | 226,791 | (61,606) |
| Retained earnings | | 264,365 | 415,510 | 587,259 |
| **TOTAL EQUITY** | | 2,918,467 | 3,036,445 | 2,518,741 |
| **NON-CURRENT LIABILITIES** | | | | |
| Term loan | | - | 10,000 | 50,000 |
| Sukuk | | 998,050 | 997,875 | 997,624 |
| Employee defined benefit liabilities and other benefits | | 84,289 | 80,041 | 62,468 |
| Deferred tax liabilities | | 3,817 | 3,817 | 4,425 |
| **TOTAL NON-CURRENT LIABILITIES** | | 1,086,156 | 1,091,733 | 1,114,517 |
| **CURRENT LIABILITIES** | | | | |
| Trade payable | | 100,930 | 86,169 | 96,792 |
| Accruals and other current liabilities | | 172,210 | 141,549 | 120,882 |
| Current portion of term loan | | 40,000 | 40,000 | 40,000 |
| Zakat and income tax provision | | 25,623 | 21,825 | 19,578 |
| Dividend payable | 11 | 143,238 | 4,829 | 5,843 |
| **TOTAL CURRENT LIABILITIES** | | 482,001 | 294,372 | 283,095 |
| **TOTAL LIABILITIES** | | 1,568,157 | 1,386,105 | 1,397,612 |
| **TOTAL EQUITY AND LIABILITIES** | | 4,486,624 | 4,422,550 | 3,916,353 |

**Commitments and contingent liabilities** 12 & 13

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**ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES**
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017**
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Share capital | Statutory reserve | Unrealized fair value (losses)/ gains on available for sale investments | Foreign currency translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| At 1 January 2016 *(Note 6.2)* | 1,639,950 | 353,138 | (61,606) | - | 587,259 | 2,518,741 |
| Profit for the period | - | - | - | - | 142,861 | 142,861 |
| Other comprehensive income/(loss) for the period | - | - | (22,076) | 5,874 | - | (16,202) |
| Total comprehensive income/(loss) for the period | - | - | (22,076) | 5,874 | 142,861 | 126,659 |
| Dividends | - | - | - | - | (245,992) | (245,992) |
| Board remuneration accrued | - | - | - | - | (450) | (450) |
| At 31 March 2016 *(Unaudited)* | 1,639,950 | 353,138 | (83,682) | 5,874 | 483,678 | 2,398,958 |
| At 1 January 2017 *(Note 6.3)* | 1,967,940 | 426,204 | 240,325 | (13,534) | 415,510 | 3,036,445 |
| Profit for the period | - | - | - | - | 124,367 | 124,367 |
| Other comprehensive income/(loss) for the period | - | - | (606) | 33,773 | - | 33,167 |
| Total comprehensive income/(loss) for the period | - | - | (606) | 33,773 | 124,367 | 157,534 |
| Dividends | - | - | - | - | (275,512) | (275,512) |
| At 31 March 2017 *(Unaudited)* | 1,967,940 | 426,204 | 239,719 | 20,239 | 264,365 | 2,918,467 |

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## ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
### FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Note | 31 March 2017 (Unaudited) | 31 March 2016 (Unaudited) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before zakat and income tax | | 128,190 | 146,817 |
| Adjustment to reconcile profit before zakat and income tax to net cash flows: | | | |
| Depreciation | | 47,407 | 49,138 |
| Amortization | | 327 | 664 |
| Realised gains on disposal of available for sale investments, net | | (1,852) | (1,396) |
| Gain on disposal of shares in an associate | 8 | - | (16,044) |
| Finance costs | | 9,493 | 5,164 |
| Impairment losses against available for sale investments | | - | 19,459 |
| Share in profit of an associate | | (15,261) | - |
| Employee defined benefits liabilities and other benefits | | 4,356 | 2,712 |
| | | 172,660 | 206,514 |
| Working capital adjustments: | | | |
| Trade receivables | | 31,220 | (29,110) |
| Prepayments and other current assets | | (12,324) | (6,507) |
| Inventories | | (9,682) | 9,015 |
| Accounts payable, accruals and other current liabilities | | 38,418 | (44,364) |
| Cash from operating activities | | 220,292 | 135,548 |
| Employee defined benefits liabilities and other benefits paid | | (108) | (1,074) |
| Finance costs paid | | (514) | (573) |
| **Net cash flows from operating activities** | | 219,670 | 133,901 |
| **INVESTING ACTIVITIES** | | | |
| Net movement in available for sale investments | | (225,916) | 356,809 |
| Additions to short term investments | | (200,000) | (121,714) |
| Additions to intangible assets | | (602) | (189) |
| Additions to property, plant and equipment | | (29,149) | (25,893) |
| Additions to investment in an associated company | 8 | - | (44,463) |
| Net movement in other non-current assets | 9 | 2,996 | 21,839 |
| **Net cash flows (used in) from investing activities** | | (452,671) | 186,389 |
| **FINANCING ACTIVITIES** | | | |
| Repayment of term loan | | (10,000) | (10,000) |
| Dividends paid | | (137,103) | (122,374) |
| Board of directors' remunerations paid | | (1,800) | (1,800) |
| **Net cash flows used in financing activities** | | (148,903) | (134,174) |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | (381,904) | 186,116 |
| Cash and cash equivalents at the beginning of the period | | 452,986 | 84,984 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | | 71,082 | 271,100 |

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The attached notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 1. ORGANIZATION AND ACTIVITIES

Advanced Petrochemical Company (the "Company") is a Saudi joint stock company registered in Dammam, Kingdom of Saudi Arabia under commercial registration number 2050049604 dated 27 Sha'ban, 1426H (corresponding to October 1, 2005). The paid up share capital of the Company is SR 1,967,940,000 divided into 196,794,000 shares of SR 10 each.

The interim condensed consolidated financial statements as at 31 March 2017 include the financial statements of the Company and the following subsidiaries (collectively referred to as the "Group"):

| | Effective ownership |
|---|---|
| Advanced Renewable Energy Company ("AREC") - note (a) | 100% |
| Advanced Global Investment Company ("AGIC") - note (b) | 100% |

Notes:

a- Advanced Renewable Energy Company ("AREC"), is a mixed limited liability company registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 2055015327 dated 27 Rabi'I 1433H (corresponding to 19 February 2012).

5% of this investment is held under a related party's name, on behalf of the Group. The related party has assigned its share to the Group and accordingly, the Group included 100% financial statements of AREC in the interim condensed consolidated financial statements.

b- Advanced Global Investment Company ("AGIC") is a mixed limited liability company registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 2055017024 dated 12 Ramadan 1433H (corresponding to 1 August 2012).

5% of this investment is held under a related party's name, on behalf of the Group. The related party has assigned its share to the Group and accordingly, the Group included 100% financial statements of AGIC in the interim condensed consolidated financial statements.

During 2014, AGIC made 100% investment in Advanced Global Holding Limited ("AGHL"), a limited liability company incorporated in Luxembourg. AGHL has not been consolidated in these interim condensed consolidated financial statements due to immaterial financial position.

The Group is licensed to engaged in production and selling Polypropylene, Polysilicon and Polysilicon downstream products which includes Photovoltaic cells and Photovoltaic, and establishing, operating and investing in industrial projects including petrochemical, chemical, basic and conversion industries and industries relating to renewable energy both within and outside the Kingdom of Saudi Arabia.

## 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The interim condensed consolidated financial statements have been prepared using historical cost convention except for the re-measurement of available-for-sale investment at fair value. These financial statements are prepared in Saudi Riyals, which is both the functional and presentation currency of the Group. These interim condensed consolidated financial statements represent the Group's first set of interim condensed consolidated financial statements prepared 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 by Saudi Organisation for Certified Public Accountant ("SOCPA") in the Kingdom of Saudi Arabia. These interim condensed consolidated financial statements include all the disclosures required for interim financial statements but do not include all of the disclosures required for the annual financial statements.

The preparation of these interim condensed consolidated financial statements resulted in changes to the significant accounting policies as compared to those presented in the consolidated financial statements of the Group for the year ended 31 December 2016, which were prepared under accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies disclosed in note 4 have been consistently applied to all the periods presented in these interim condensed consolidated financial statements.

## 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (Continued)

These interim condensed consolidated financial statements of the Group were approved on 8 May 2017.

***Basis of consolidation***

These interim condensed consolidated financial statements comprise the interim condensed consolidated statement of financial position, interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of other comprehensive income, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows and notes to the interim condensed consolidated financial statements of the Group and its subsidiaries for the three months ended March 31, 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the shareholders of the Group to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that may affect the reported amount of assets and liabilities, revenues, expenses and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates which could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognized in the interim condensed consolidated financial statements) includes:

**Initial recognition of investments**
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

**Impairment of available for sale investments**
The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

**Impairment of trade receivables**
An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due.

**Deferred tax assets/liabilities**
The management determines the estimated tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognized in the interim condensed consolidated statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations and judgment about the application of existing tax laws in each jurisdiction.

**Impairment of inventories**
Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

**Useful lives of property, plant and equipment and intangible assets**
The management determines the estimated useful lives of its property, plant and equipment and intangible assets for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**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 of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the 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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

**Contingencies**
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

**Valuation of defined benefit obligations**
The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date and there has been no material change in the related assumptions in the current period.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

**Fair values of financial instruments**
The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Investment in an associate**
An associate is an entity over which the Group 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. The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Upon loss of significant influence over the associate, the Group 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 profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies**
The Group's interim condensed consolidated financial statements are presented in Saudi Riyal, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

*Transactions and balances*
Transactions in foreign currencies are initially recorded by the Group's entities 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 recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

*Group companies*
On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyals at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to interim condensed consolidated profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

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

- Expected to be realized or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised 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 Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fair value measurement**
The Group measures financial instruments and non-financial assets at fair value at each balance sheet date.

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 to by the Group.

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 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 Group 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 consolidated 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 recognised in the interim condensed consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing 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.

External valuers are involved for valuation of significant assets, if required. The involvement of external valuers is decided by the Group after discussion and approval by the Group's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group decides, after discussion with the Group's external valuers, which valuation technique and inputs to use for each case.

At each reporting date, the Group analyses the movements in the values of assets and liabilities, which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

## 4. 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 Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

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

*Sale of goods*

Revenue from the sale of petrochemical products is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

For international markets, all products are sold to the marketers, while for local markets (Saudi Arabia and GCC countries) the products are sold directly by the Group. Upon delivery to the marketers, sales are recorded at provisional sales prices that are later adjusted based upon actual selling prices received by the marketers from third parties, after deducting the costs of shipping and marketing fees etc. Adjustments are made, as they become known to the Group. Sales in local markets are recognized upon delivery of products to customers.

*Dividends*

Dividend is recognized in the profit and loss when the Group's right to receive the payment is established, which is generally when the shareholders approves the dividend.

*Finance income*

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the interim condensed consolidated statement of profit or loss.

Earnings on time deposits are recognized on an accrual basis.

**Expenses**

Operating cost are recognized on a historical cost basis. Production costs and direct expenses are classified as cost of sales.

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the products. All other expenses other than cost of sales, financial charges and realized (gains) losses on available for sale investments are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of production costs. Allocations between general and administrative expenses and production costs, when required, are made on a consistent basis.

**Zakat and income tax**

*Zakat and current tax*

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("the GAZT") in the Kingdom of Saudi Arabia. Under the revised zakat standard issued by SOCPA, zakat provision is charged to the interim condensed consolidated statement of profit or loss, as IAS 12 'Income Taxes' do not provide any guidance on the accounting treatment of zakat. Non-Saudi shareholder in the Group are subject to income tax in the Kingdom of Saudi Arabia.

Current income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax is recognized in the interim condensed consolidated statement of profit or loss. Management periodically evaluates positions taken in the Group's tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Zakat and income tax (continued)**

*Deferred income tax*
Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized on all deductible temporary difference, carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which these assets can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset/liability to be utilized. Unrecognized deferred income tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Withholding tax*
The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividend payments to the foreign partner, as required under Saudi Arabian Income Tax Law.

**Cash dividend and non-cash distribution to equity holders of the parent**
The Group recognises a liability to make cash or non-cash distributions to equity holders of the Parent company when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the corporate laws in the Kingdom of Saudi Arabia, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

**Property, plant and equipment**
Property, plant and equipment and capital work-in-progress are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost 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.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment (continued)**
Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

| | Years |
|---|---|
| Plant, machinery and equipment | 10 - 25 |
| Buildings | 33 |
| Furniture, fixtures and office equipment | 3 - 8 |
| Catalysts | 2 - 8 |
| Laboratory and safety equipment | 5 |
| Vehicles and trucks | 4 - 10 |
| Leasehold improvements | 10 |

Land and capital work-in-progress 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 or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

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

Planned turnaround costs are deferred and amortized over the period until the date of next planned turnaround. Should unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized turnaround costs are immediately expensed and the new turnaround costs are deferred and amortized over the period likely to benefit from such costs.

**Intangible assets**
Intangible assets acquired separately are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the interim condensed consolidated statement of profit or loss when it is incurred.

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 yearend. 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 consolidated statement of profit or loss in the expense category consistent with the function of the intangible asset.

The useful life of an intangible asset with a definite life is reviewed regularly to determine whether there is any indication that its current life assessment continues to be supportable. If not, the change in the useful life assessment is made on a prospective basis. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually either individually or at the aggregated cash generating unit level.

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 asset and are recognized in the interim condensed consolidated statement of profit or loss when the asset is derecognized.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalized at the commencement of the lease at the inception date 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 finance costs in the interim condensed consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group 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.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the interim condensed consolidated statement of profit or loss on a straight-line basis over the lease term.

**Impairment of non-current assets**

The Group 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 Group estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") 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 that reflects current market assessment of the time value of money and the risks specific to the asset.

The Group's impairment calculation is based on detailed budgets and forecast calculations which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. 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 consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets other than goodwill, 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 Group's 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 interim condensed consolidated statement of profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalization.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments – initial recognition, subsequent measurement and derecognition**
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial assets**
*Initial recognition and measurement*
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, 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.

*Subsequent measurement*
The subsequent measurement of financial assets depends on their classification, as described below:

*Loans and receivables*
This category is the most relevant to the Group. Loans 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 are subsequently measured at amortised cost using the effective interest rate (EIR) method,less impairment. Amortised 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 amortisation is included in finance income in the interim condensed consolidated statement of profit or loss. The losses arising from impairment are recognised in the interim condensed consolidated statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables.

*Available-for-sale financial investments*
Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the interim condensed consolidated statement of profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to interim condensed consolidated profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the interim condensed consolidated statement of profit or loss.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

*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 Group's interim condensed consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either;

  (a) the Group has transferred substantially all the risks and rewards of the asset, or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments – initial recognition, subsequent measurement and derecognition (continued)**

**Financial assets (continued)**

*Impairment of financial assets*

The Group assesses at each balance sheet 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 the 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 assets carried at amortized cost*

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in interim condensed consolidated statement of profit or loss. Interest income (recorded as finance income in the interim condensed consolidated statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the interim condensed consolidated statement of profit or loss.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the interim condensed consolidated statement of profit or loss - is removed from OCI and recognized in the interim condensed consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the interim condensed consolidated statement of profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments – initial recognition, subsequent measurement and derecognition (continued)**
**Financial assets (continued)**
Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the interim condensed consolidated statement of profit or loss, the impairment loss is reversed through the interim condensed consolidated statement of profit or loss.

**Financial Liabilities**
*Initial recognition and measurement*
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable, accruals, dividend payables, loans and borrowings including term loan, sukuk and financial guarantee contracts.

*Subsequent measurement*
The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at fair value through profit or loss*
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the interim condensed consolidated statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

*Loans and borrowings*
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR 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 EIR. The EIR amortization is included as finance costs in the interim condensed consolidated statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

*Derecognition*
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 derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the interim condensed consolidated statement of profit or loss.

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Inventories**
Inventories are measured at the lower of cost and net realizable value. The cost of inventories is principally based on the weighted average principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash at banks, cash on hand, short term deposits, demand deposits and highly liquid investments with original maturity of three months or less, net of outstanding bank overdrafts which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

**Provisions**
Provisions are recognized when the Group 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 Group 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 the interim condensed consolidated statement of profit or loss 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.

*Onerous contract*
A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost meeting its obligation under the contract.

*Provision for inventory obsolesce*
When inventories become old or obsolete, an estimate is made for their net realizable value. For individually significant amounts, this amount is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively, and an allowance applied according to the inventory type and degree of ageing or obsolescence based on expected selling prices. Inventories are measured at the lower of cost and net realizable value.

**Employees' terminal benefits and other benefits**
*Employees' end-of-service benefits*
The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognized in the interim condensed consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized in equity through the interim condensed consolidated statement of comprehensive income in the period in which they arise.

*Employees' saving plan*
The Group maintains an employees' saving plan for its Saudi employees. The contributions from the participants are deposited in separate bank account and liability is established for the Group's contributions. The Group's contribution under the saving plan is charged to the interim condensed consolidated statement of profit or loss.

*Employees' home ownership program*
Unsold housing units constructed for eventual sale to eligible employees are included under land and buildings and are depreciated over 33 years. Upon signing the sale contract with the eligible employees, the relevant housing units are classified under other non-current assets.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Contingencies**
Contingent liabilities are not recognized in the interim condensed consolidated statement of financial position. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in interim condensed consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognized in the interim condensed consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

**Statutory reserve**
In accordance with the Saudi Arabian Regulations for Companies, the Group must set aside 10% of its consolidated income for the year after deducting losses brought forward in each year until it has built up a reserve equal to 30% of the capital. The Group may resolve to discontinue such transfers when the reserve totals 30% of the capital. The reserve is not available for distribution.

## 5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group adopted all the International Financial Reporting Standards as endorsed, and standards and interpretations issued by SOCPA in the Kingdom of Saudi Arabia in effect at 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been endrosed but is not yet effective.

| STANDARD | DESCRIPTION |
|---|---|
| IAS 7 | Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative |
| IFRS 12 | Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS |
| IAS 12 | Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses |

The adoption of the relevant new and amended standards and interpretations applicable to the Group did not have any significant impact on these interim condensed consolidated financial statements.

**Standards issued but not yet effective**
Standards issued but not yet effective up to the date of issuance of the Group's interim condensed consolidated financial statements are listed below. The listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective.

| *STANDARD/ INTERPRETATION* | *DESCRIPTION* | *EFFECTIVE FROM PERIODS BEGINNING ON OR AFTER THE FOLLOWING DATE* |
|---|---|---|
| IFRS 1 | First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters | 1 January 2018 |
| IFRS 2 | Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 | 1 January 2018 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| IFRIC Interpretation 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| IAS 28 | Investments in Associates and Joint Ventures – Classification that measuring investees at fair value through profit or loss is an investment – by – investment choice | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2019 |

## 6. FIRST TIME ADOPTION OF IFRS

Until the year ended on 31 December 2016, the Group prepared its financial statements in accordance with accounting principles generally accepted in the Kingdom of Saudi Arabia. From 1 January 2017 onwards, the Group is required to prepare its financial statements in accordance with IFRS that are endorsed by SOCPA.

Accordingly, the Group has prepared interim condensed consolidated financial statements which comply with IFRS applicable as at 31 March 2017, together with the comparative period data. In preparing the interim condensed consolidated financial statements, the Group's opening statement of financial position was prepared as at January 1, 2016, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its SOCPA financial statements, including the consolidated statement of financial position as at 1 January 2016 and the consolidated financial statements for the there-month period ended 31 March 2016.

**Exemptions applied**
IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemption under IFRS 1.D13 which states a first-time adopter need not to comply with the requirements of IAS 21 to recognise cumulative translation differences on foreign operations (i.e., cumulative translation differences that existed at the date of transition to IFRS). If a first-time adopter uses this exemption:

(a) The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS.

(b) The gain or loss on a subsequent disposal of any foreign operation must exclude translation differences that arose before the date of transition to IFRS and shall include later translation differences. The exemption applies to all cumulative translation differences arising from the translation of foreign operations, including related gains or losses on related hedges. Accordingly, we believe it is entirely appropriate for this exemption to be applied to net investment hedges as well as to the underlying gains and losses.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### 6.1 Group's reconciliation of financial position as at 1 January 2016 (date of transition to IFRS)

| | *Note* | Saudi GAAP *(Audited)* | Re-measurements / Re-classifications | IFRS |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 6.8 (a) & (b) | 2,179,171 | 30,300 | 2,209,471 |
| Intangible assets | | 5,128 | - | 5,128 |
| Investment in an associate | | 421,239 | - | 421,239 |
| Investment in an unconsolidated subsidiary | | 376 | - | 376 |
| Available for sale investments | | 801,143 | - | 801,143 |
| Other non-current assets | | 26,006 | - | 26,006 |
| **TOTAL NON-CURRENT ASSETS** | | **3,433,063** | **30,300** | **3,463,363** |
| **CURRENT ASSETS** | | | | |
| Inventories | | 124,291 | - | 124,291 |
| Trade receivables | | 221,798 | - | 221,798 |
| Prepayment and other current assets | | 21,917 | - | 21,917 |
| Cash and cash equivalents | | 84,984 | - | 84,984 |
| **TOTAL CURRENT ASSETS** | | **452,990** | **-** | **452,990** |
| **TOTAL ASSETS** | | **3,886,053** | **30,300** | **3,916,353** |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| Share capital | | 1,639,950 | - | 1,639,950 |
| Statutory reserves | | 353,138 | - | 353,138 |
| Other components of equity | 6.8 (f), (g) & (h) | (96,937) | 35,331 | (61,606) |
| Retained earnings | 6.2 (b) | 612,810 | (25,551) | 587,259 |
| **TOTAL EQUITY** | | **2,508,961** | **9,780** | **2,518,741** |
| **NON-CURRENT LIABILITIES** | | | | |
| Term loan | | 50,000 | - | 50,000 |
| Sukuk | 6.8 (e) | 998,267 | (643) | 997,624 |
| Employees' terminal benefits and other benefits | 6.8 (c) | 45,730 | 16,738 | 62,468 |
| Deferred tax liabilities | 6.8 (d) | - | 4,425 | 4,425 |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,093,997** | **20,520** | **1,114,517** |
| **CURRENT LIABILITIES** | | | | |
| Trade payable | | 96,792 | - | 96,792 |
| Accruals and other current liabilities | | 120,882 | - | 120,882 |
| Current portion of term loan | | 40,000 | - | 40,000 |
| Zakat and income tax provision | | 19,578 | - | 19,578 |
| Dividend payable | | 5,843 | - | 5,843 |
| **TOTAL CURRENT LIABILITIES** | | **283,095** | **-** | **283,095** |
| **TOTAL LIABILITIES** | | **1,377,092** | **20,520** | **1,397,612** |
| **TOTAL EQUITY AND LIABILITIES** | | **3,886,053** | **30,300** | **3,916,353** |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### 6.2 Group's reconciliation of equity as at 1 January 2016 (date of transition to IFRS)

**(a) Reconciliation of equity**

| | *Note* | Saudi GAAP (*Audited*) | Re-measurements / Re-classifications | IFRS |
|---|---|---|---|---|
| Share capital | | 1,639,950 | - | 1,639,950 |
| Statutory reserves | | 353,138 | - | 353,138 |
| Other components of equity | 6.8 (f), (g) & (h) | (96,937) | 35,331 | (61,606) |
| Retained earnings | 6.2 (b) | 612,810 | (25,551) | 587,259 |
| **Total equity** | | 2,508,961 | 9,780 | 2,518,741 |

**(b) Analysis of the impact of IFRS re-measurements on retained earnings as at January 1, 2016 (date of transition to IFRS):**

| | *Note* | Cumulative impact on retained earnings |
|---|---|---|
| **Retained earnings at 1 January 2016 under SOCPA** | | 612,810 |
| Componentization of property, plant and equipment | 6.8 (a) | 72,420 |
| Capitalization of general and administrative costs | 6.8 (b) | (42,120) |
| Employees' end-of-service benefits | 6.8 (c) | (16,738) |
| Adjustments for deferred tax liability | 6.8 (d) | (4,425) |
| Adjustments for sukuk at effective interest method | 6.8 (e) | 643 |
| Impairment loss on available for sale investments | 6.8 (f) & (g) | (35,331) |
| **Retained earnings at 1 January 2016 under IFRS** | | 587,259 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### 6.3 Groups's reconciliation of financial position as at 31 December 2016

| | *Notes* | Saudi GAAP *(Audited)* | Re-measurements / Re-classifications | IFRS |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 6.8 (a) & (b) | 1,925,854 | 43,175 | 1,969,029 |
| Intangible assets | | 3,463 | - | 3,463 |
| Investment in an associate | 6.8 (h) | 445,835 | (13,534) | 432,301 |
| Investment in an unconsolidated subsidiary | | 376 | - | 376 |
| Available for sale investments | | 793,208 | 677 | 793,885 |
| Other non-current assets | | 162,381 | - | 162,381 |
| **TOTAL NON-CURRENT ASSETS** | | 3,331,117 | 30,318 | 3,361,435 |
| **CURRENT ASSETS** | | | | |
| Inventories | | 116,685 | - | 116,685 |
| Trade receivables | | 332,566 | - | 332,566 |
| Prepayments and other current assets | | 37,164 | - | 37,164 |
| Short term investments | | 121,714 | - | 121,714 |
| Cash and cash equivalents | | 452,986 | - | 452,986 |
| **TOTAL CURRENT ASSETS** | | 1,061,115 | - | 1,061,115 |
| **TOTAL ASSETS** | | 4,392,232 | 30,318 | 4,422,550 |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| Share capital | | 1,967,940 | - | 1,967,940 |
| Statutory reserve | | 426,204 | - | 426,204 |
| Other components of equity | 6.8 (f), (g) & (h) | 214,401 | 12,390 | 226,791 |
| Retained earnings | 6.5 (b) | 420,123 | (4,613) | 415,510 |
| **TOTAL EQUITY** | | 3,028,668 | 7,777 | 3,036,445 |
| **NON-CURRENT LIABILITIES** | | | | |
| Term loan | | 10,000 | - | 10,000 |
| Sukuk | 6.8 (e) | 998,719 | (844) | 997,875 |
| Employees' terminal benefits and other benefits | 6.8 (c) | 60,473 | 19,568 | 80,041 |
| Deferred tax liabilities | 6.8 (d) | - | 3,817 | 3,817 |
| **TOTAL NON-CURRENT LIABILITIES** | | 1,069,192 | 22,541 | 1,091,733 |
| **CURRENT LIABILITIES** | | | | |
| Trade payable | | 86,169 | - | 86,169 |
| Accruals and other current liabilities | | 141,549 | - | 141,549 |
| Current portion of term loan | | 40,000 | - | 40,000 |
| Zakat and income tax provision | | 21,825 | - | 21,825 |
| Dividend payable | | 4,829 | - | 4,829 |
| **TOTAL CURRENT LIABILITIES** | | 294,372 | - | 294,372 |
| **TOTAL LIABILITIES** | | 1,363,564 | 22,541 | 1,386,105 |
| **TOTAL EQUITY AND LIABILITIES** | | 4,392,232 | 30,318 | 4,422,550 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### 6.4 Group's reconciliation of total comprehensive income for the year ended 31 December 2016

| | Notes | Saudi GAAP (Audited) | Re-measurements / Re-classifications | IFRS |
|---|---|---|---|---|
| Sales | | 2,139,372 | - | 2,139,372 |
| Cost of sales | 6.8 (a) & (b) | (1,381,313) | 100,399 | (1,280,914) |
| **GROSS PROFIT** | | **758,059** | **100,399** | **858,458** |
| Selling and distribution expenses | | (8,961) | (5,168) | (14,129) |
| General and administration expenses | | (34,888) | (81,320) | (116,208) |
| **OPERATING PROFIT** | | **714,210** | **13,911** | **728,121** |
| Finance costs | 6.8 (e) | (33,666) | 201 | (33,465) |
| Realised gains on disposal of available for sale investments, net | | 10,929 | 3,103 | 14,032 |
| Impairment losses against available for sale investments | 6.8 (g) | (40,227) | 6,981 | (33,246) |
| Share in results of an associate | | 47,223 | - | 47,223 |
| Gain on disposal of shares in an associate | | 16,044 | | 16,044 |
| Other (expenses)/income, net | | 16,147 | - | 16,147 |
| **PROFIT BEFORE ZAKAT AND INCOME TAX** | | **730,660** | **24,196** | **754,856** |
| Zakat and foreign income tax | | | | |
| *Current tax* | | - | (3,644) | (3,644) |
| *Deferred tax* | 6.8 (d) | - | 608 | 608 |
| *Zakat* | | - | (19,942) | (19,942) |
| **PROFIT FOR THE YEAR** | | **730,660** | **1,218** | **731,878** |
| **Other comprehensive income** | | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | | |
| Exchange differences on translation of investment in an associate | | - | (13,534) | (13,534) |
| Movement in fair value of available for sale investments | | - | 301,931 | 301,931 |
| *Other comprehensive income not to be reclassified to income in subsequent periods:* | | | | |
| Re-measurements of retirement benefit obligations | | - | (3,866) | (3,866) |
| **Other comprehensive income for the year** | | - | **284,531** | **284,531** |
| **Total comprehensive income for the year** | | **730,660** | **285,749** | **1,016,409** |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### 6.5 Group's reconciliation of equity as at 31 December 2016

**(a) Reconciliation of equity**

| | *Note* | Saudi GAAP | Re-measurements / Re-classifications | IFRS |
|---|---|---|---|---|
| | | *(Audited)* | | |
| Share capital | | 1,967,940 | - | 1,967,940 |
| Statutory reserves | | 426,204 | - | 426,204 |
| Other components of equity | 6.8 (f), (g) & (h) | 214,401 | 12,390 | 226,791 |
| Retained earnings | 6.5 (b) | 420,123 | (4,613) | 415,510 |
| **Total equity** | | 3,028,668 | 7,777 | 3,036,445 |

**(b) Analysis of the impact of IFRS re-measurements on retained earnings as at 31 December 2016:**

| | *Note* | Impact on retained earnings as at 1 January 2016 | Impact on retained earnings for the year ended 31 December 2016 | Cumulative impact on retained earnings |
|---|---|---|---|---|
| **Retained earnings under SOCPA** | | 612,810 | - | 420,123 |
| Componentization of property, plant and equipment | 6.8 (a) | 72,420 | 9,460 | 81,880 |
| Capitalization of general and administrative costs | 6.8 (b) | (42,120) | 3,415 | (38,705) |
| Employees' end-of-service benefits | 6.8 (c) | (16,738) | (2,830) | (19,568) |
| Adjustment for deferred tax liability | 6.8 (d) | (4,425) | 608 | (3,817) |
| Adjustment for sukuk at effective interest method | 6.8 (e) | 643 | 201 | 844 |
| Impairment losses on available for sale investments | 6.8 (f) & (g) | (35,331) | 10,084 | (25,247) |
| **Retained earnings under IFRS** | | 587,259 | | 415,510 |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### 6.6 Group's reconciliation of total comprehensive income for the three month period ended 31 March 2016

| | *Notes* | Saudi GAAP *(Unaudited)* | Re-measurements / Re-classifications | IFRS |
|---|---|---|---|---|
| Sales | | 488,066 | - | 488,066 |
| Cost of sales | 6.8 (a) & (b) | (330,733) | 21,570 | (309,163) |
| **GROSS PROFIT** | | **157,333** | **21,570** | **178,903** |
| Selling and distribution expenses | | (2,534) | (1,073) | (3,607) |
| General and administration expenses | | (10,511) | (17,019) | (27,530) |
| **OPERATING PROFIT** | | **144,288** | **3,478** | **147,766** |
| Finance costs | 6.8 (e) | (5,214) | 50 | (5,164) |
| Realised gains on disposal of available for sale investments, net | | 1,396 | - | 1,396 |
| Impairment losses against available for sale investments | 6.8 (g) | (17,196) | (2,263) | (19,459) |
| Gain on disposal of shares in an associate | | 16,044 | - | 16,044 |
| Other income, net | | 6,234 | - | 6,234 |
| **PROFIT BEFORE ZAKAT AND INCOME TAX** | | **145,552** | **1,265** | **146,817** |
| Zakat and income tax | | - | (3,956) | (3,956) |
| **PROFIT FOR THE YEAR** | | **145,552** | **(2,691)** | **142,861** |
| **Other comprehensive income** | | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | | |
| Exchange differences on translation of foreign associate | | - | 5,874 | 5,874 |
| Movement in fair value of available for sale investments | | - | (22,076) | (22,076) |
| **Other comprehensive income for the year** | | - | **(16,202)** | **(16,202)** |
| **Total comprehensive income for the year** | | 145,552 | (18,893) | 126,659 |

### 6.7 Reconciliation of equity as at 31 March 2016

(a) Reconciliation of equity

| | *Note* | Saudi GAAP *(Unaudited)* | Re-measurements / Re-classifications | IFRS |
|---|---|---|---|---|
| Share capital | | 1,639,950 | - | 1,639,950 |
| Statutory reserves | | 353,138 | - | 353,138 |
| Other components of equity | 6.8 (f), (g) & (h) | (121,276) | 43,468 | (77,808) |
| Retained earnings | 6.7 (b) | 507,812 | (24,134) | 483,678 |
| **Total equity** | | **2,379,624** | **19,334** | **2,398,958** |

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### 6.7 Reconciliation of equity as at 31 March 2016

**b) Analysis of the impact of IFRS re-measurements on retained earnings as at 31 March 2016:**

| | *Note* | Impact on retained earnings as at 1 January 2016 | Impact on retained earnings for three month period ended 31 March 2016 | Cumulative impact on retained earnings at 31 March 2016 |
|---|---|---|---|---|
| **Retained earnings under SOCPA** | | 612,810 | | 507,812 |
| Componentization of property, plant and equipment | 6.8 (a) | 72,420 | 2,365 | 74,785 |
| Capitalization of general and administrative costs | 6.8 (b) | (42,120) | 854 | (41,266) |
| Employees' end-of-service benefits | 6.8 (c) | (16,738) | 259 | (16,479) |
| Adjustments for deferred tax liabilities | 6.8 (d) | (4,425) | 152 | (4,273) |
| Adjustments for sukuk at effective interest method | 6.8 (e) | 643 | 50 | 693 |
| Impairment losses on available for sale investments | 6.8 (f) & (g) | (35,331) | (2,263) | (37,594) |
| **Retained earnings under IFRS** | | 587,259 | | 483,678 |

### 6.8 Notes to the reconciliation of equity as at 1 January 2016, 31 December 2016 and 31 March 2016 and consolidated profit or loss for the year ended 31 December 2016 and 31 March 2016

**a) Componentization of property, plant and equipment**

Under IFRS, the property, plant and equipment should be componentized and their useful lives identified separately. The componentization concept was not a followed practice in Saudi Arabia. It was not practically possible for the Group 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 Group 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 retained earnings on the IFRS transition date. The net impact has been booked as part of the transition adjustments and impact related to year 2016 has been adjusted in income statements for the three months period ended 31 March 2016 and year ended 31 December 2016.

**b) Capitalization of general and administrative costs**

As per IAS 16, the cost of an item of property, plant and equipment comprises of (i) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; (ii) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; (iii) the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located. The Group has previously capitalized administrative expenses which do not meet the definition of cost of an asset as per IFRS. Therefore, the remaining undepreciated balance is now being derecognized from property, plant and equipment and the impact has been debited in the retained earnings as at 1 January 2016 and income statements for the three months period ended 31 March 2016 and year ended 31 December 2016.

**c) IAS 19 Employees' end-of-service benefits**

Under SOCPA, the Group was required to recognize the provision for employees' end-of-service benefits for the amounts payable at the balance sheet date in accordance with the employees' contracts of employment applicable to employees' accumulated periods of service. However under IAS 19, the Group is required to recognize an amount of a liability that equals to the net amount of present value of the defined benefit obligation, deferred actuarial gains and losses, deferred past service costs and the fair value of any plan assets at statement of financial position. Accordingly, the Group has restated employees' end-of-service benefits obligation under IFRS and restated employees' end-of-service benefits as at 1 January 2016, 31 March 2016 and 31 December 2016. The impact of restatement which pertains to prior years has been charged to opening retained earnings at 1 January 2016 and impact related to year 2016 has been adjusted in income statements for the three months period ended 31 March 2016 and year ended 31 December 2016.

**6. FIRST TIME ADOPTION OF IFRS (continued)**

**6.8 Notes to the reconciliation of equity as at 1 January 2016, 31 December 2016 and 31 March 2016 and consolidated profit or loss for the year ended 31 December 2016 and 31 March 2016 (continued)**

**d) IAS 12 Income Taxes and Revised Zakat Standard issued by SOCPA**

Under Saudi GAAP, for an entity which is owned by Saudi and GCC nationals and other than Saudi and GCC nationals (mixed Company), Zakat and Income tax is an obligation for those shareholders' and accordingly, those are accounted for as a charge to the shareholders' equity. Accordingly, no deferred income tax was accounted for in those financial statements. Under IAS 12 zakat and income tax are considered as Group's expense and accordingly charged to the statement of profit or loss. The Group is also required to recognize the deferred income tax on all the taxable/deductible temporary differences. Accordingly, the Group has recognized deferred tax liability, net, as at 1 January 2016, 31 March 2016 and 31 December 2016. Deferred income tax pertaining to prior years has been charged to opening retained earnings and impact related to year 2016 has been adjusted in income statements for the year ended 31 December 2016.

**e) Recording of sukuk at effective interest method**

Under SOCPA, sukuk are subsequently measured at amortized cost using the straight line method for the amortization of debt acquisition costs. However, under IAS 39, these long term liabilities should have been recognized initially at fair value, and subsequently shall be measured at amortized costs by using EIR method. Accordingly, the Group has restated sukuk as at 1 January 2016, 31 March 2016 and 31 December 2016. The impact of restatement which pertains to prior periods has been charged to opening retained earnings as at 1 January 2016 and impact related to year 2016 has been adjusted in income statements for the three months period ended 31 March 2016 and year ended 31 December 2016.

**f) Unrealized losses on available for sale investments**

Under SOCPA, investments classified as available for sale are measured at fair value and unrealized gains or losses are reported as a separate component of shareholders' equity until the investment is derecognized or determined to be impaired. Under IFRS, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the AFS reserve. Accordingly, the unrealized gains/losses at 1 January 2016, 31 March 2016 and 31 December 2016 are reclassified from unrealized losses on available for sales investments to other comprehensive income.

**g) Impairment on available for sale investments**

Under SOCPA, impairment losses on available for sales investments are recognized in the profit and loss account only when these investments meet the criteria for a "significant and prolonged" decline in the market values of these investments against their respective costs. However, under IAS 39, the impairment losses on available for sales investments should be recorded in the profit and loss account when the decline of the market price meets one of these criteria i.e. either "significant or prolonged" will trigger the impairment provisioning under IFRS. Accordingly, the Group has restated the available for sale investment as at 1 January 2016, 31 March 2016 and 31 December 2016. The impact of restatement which pertains to earlier period presents has been charged to opening retained earnings for these available for sales investments under IFRS and impact related to year 2016 has been adjusted in income statements for the three months period ended 31 March 2016 and year ended 31 December 2016.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### 6.8 Notes to the reconciliation of equity as at 1 January 2016, 31 December 2016 and 31 March 2016 and consolidated profit or loss for the year ended 31 December 2016 and 31 March 2016 (continued)

**h) Re-translation of investments in an associate**

As per IAS 21, "The Effects of Changes in Foreign Exchange Rates", foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity. As per IAS 21, the results and financial position of the foreign operation should be translated into presentation currency using the following procedures: (a) assets and liabilities for each statement of financial position presented (i.e. including comparatives) are translated at the closing rate at the reporting date; (b) income and expenses for each statement of comprehensive income or separate income statement presented (i.e. including comparatives) are translated at exchange rates at the dates of the transactions; and (c) all resulting exchange differences are recognised in other comprehensive income. However, Group has used the exemption as explained above (note 6) and therefore no translation adjustment has been recorded as at the date of transition i.e., 1 January 2016. Further, the Group has recorded foreign currency translation differences at 31 March 2016 and 31 December 2016.

**i) Statement of cash flows**

The transition from SOCPA to IFRS has not had a material impact on the statement of cash flows.

## 7. OTHER COMPONENTS OF EQUITY

| | **31 March 2017** | 31 December 2016 | 1 January 2016 |
|---|---|---|---|
| | ***(Unaudited)*** | *(Note 6.3)* | *(Note 6.1)* |
| Unrealized fair value gains/(losses) on available for sale investments | **239,719** | 240,325 | (61,606) |
| Foreign currency translation reserve | **20,239** | (13,534) | - |
| | **259,958** | 226,791 | (61,606) |

## 8. INVESTMENT IN AN ASSOCIATE

| | **31 March 2017** | 31 December 2016 | 1 January 2016 |
|---|---|---|---|
| | ***(Unaudited)*** | *(Note 6.3)* | *(Note 6.1)* |
| At the beginning of the period/year | **432,301** | 421,239 | 421,239 |
| Additions during the period/year | - | 44,463 | - |
| Disposal during the period/year | - | (67,040) | - |
| Share of results for the period/year | **15,261** | 47,223 | - |
| Exchange differences on translation of foreign operations | **33,773** | (13,534) | - |
| Other adjustments | - | (50) | - |
| **At the end of the period/year** | **481,335** | 432,301 | 421,239 |

It represents investment in PDH Plant with SK Gas ("the JV Co.") in which AGIC owns 30% shareholding at 31 December 2016.

During 2016, AGIC has sold 5% of its equity ownership in the JV Co. to Petrochemical Industries Company (PIC) and accordingly, the new shareholding of the JV Co. is 45% by SK Gas, 30% by AGIC and 25% by PIC. As a result of this transaction, the Group has recorded a gain in the interim condensed consolidated statement of profit or loss amounting to SR 16.04 million and the sales proceeds have been received in full during the year.

(All amounts in Saudi Riyals thousands unless otherwise stated)

## 9. OTHER NON-CURRENT ASSETS

| | 31 March 2017 (Unaudited) | 31 December 2016 (Note 6.3) | 1 January 2016 (Note 6.1) |
|---|---|---|---|
| Employees' home ownership program (note a) | **158,718** | 161,589 | 24,714 |
| Others | 667 | 792 | 1,292 |
| | **159,385** | 162,381 | 26,006 |

a) It represents balances related to employees' Home Ownership Program (HOP). The Parent Company started building residential houses for its employees in 2013. In May 2016, completed housing units were distributed to direct hire Saudi employees under a long term repayment agreement. The employee pays 17% of his monthly basic salary in addition to his housing allowance which is being applied as loan repayment/installment until the total HOP loan is fully repaid. As at reporting date, SR 161.59 million represents non-current portion and SR 11.14 million represents current portion.

## 10. RELATED PARTY TRANSACTION AND BALANCES

Related parties represent shareholders, associated company, key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties.

During the period, no significant transactions with the related parties resulting in the balances other than those disclosed in note 1 to the interim condensed consolidated financial statements.

**Key management personnel compensation**

| | Three-month Period ended 31 March 2017 | Three-month Period ended 31 March 2016 |
|---|---|---|
| Short-term employee benefits | 2,291 | 4,390 |
| End of service termination benefits | 528 | 385 |
| | **2,819** | 4,775 |

## 11. DIVIDENDS

On 7 March 2017, the Board of Directors resolved to distribute interim cash dividend for the first quarter of 2017 of SR. 0.70 per share (totaling SR.138 million).

In November 2016, the Board of Directors proposed to distribute final cash dividend of SR 0.70 per share (totaling to SR 138 million) for the fourth quarter of 2016. This has been approved by the General Assembly in their meeting held on 7 March 2017.

## 12. COMMITMENTS

At 31 March 2017, capital commitments contracted but not yet incurred amounted to SR 70.6 million for the remaining period of 2017 (2016: SR 88.4 million) in respect of the employees home ownership program.

## 13. CONTINGENCIES

The Group's banker has given payment guarantees on behalf of the Group in favor of Saudi Aramco for the propane and sales gas supply agreements and others amounting to SR 302.01 million (2016: SR 302.19 million).

## 14. SEGMENT INFORMATION

A segment is a distinguishable component of the Group 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.

The Group's management is of the view that all activities and operations of the Group comprise of a single operational segment in respect of performance appraisal and allocation of resources.

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

Operating assets of the Group are located in the Kingdom of Saudi Arabia. The sales are geographically distributed between domestic sales in the Kingdom by approximately 10% and overseas sales by 90%.

## 15. EARNINGS PER SHARE

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

During the Parent Company's extraordinary general assembly meeting held on 28 July 2016, a 20% increase in share capital was approved by the shareholders by way of issuance of bonus shares. The proposed increase in share capital was funded from the retained earnings account through the distribution of one bonus share for every five shares held by the existing shareholders. The number of issued shares increased from One Hundred Sixty Three Million Nine Hundred and Ninety Five Thousand (163,995,000) shares to One Hundred Ninety Six Million Seven Hundred and Ninety Four Thousand (196,794,000) shares. The earning per share for the comparative period has been adjusted retrospectively to reflect the increase in share capital as required by the relevant accounting standard.

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 attributable to equity holders of the Group | 124,367 | 142,861 |
| Weighted average number of ordinary shares ('000) | 196,794 | 196,794 |
| Earnings Per Share | 0.632 | 0.726 |

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