

**ALUJAIN CORPORATION  
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

**LIMITED REVIEW REPORT TO THE SHAREHOLDERS OF  
ALUJAIN CORPORATION (A SAUDI JOINT STOCK COMPANY)  
ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**Scope of limited review**

We have reviewed the accompanying consolidated balance sheet of Alujain Corporation - a Saudi Joint Stock Company - ("the Company" or "the Parent Company") and its subsidiary (the "Group") as at 31 December 2016 and the related consolidated statement of income for the three-month and twelve-month periods then ended, and the related consolidated statements of cash flows and changes in shareholders' equity for the twelve-month period then ended. These interim consolidated financial statements are the responsibility of the Company's Board of Directors and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Saudi Organization for Certified Public Accountants' standard on interim financial reporting. A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**Conclusion**

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

for Ernst & Young



Husam Faisal Bawared  
Certified Public Accountant  
Licence No. 393



19 Rabi'II 1438H  
17 January 2017

Jeddah

ALUJAIN CORPORATION (A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

At 31 December 2016

|                                                                            | Note | 2016<br>SR'000<br>(Unaudited) | 2015<br>SR'000<br>(Audited) |
|----------------------------------------------------------------------------|------|-------------------------------|-----------------------------|
| <b>ASSETS</b>                                                              |      |                               |                             |
| <b>CURRENT ASSETS</b>                                                      |      |                               |                             |
| Cash and cash equivalents                                                  |      | 388,691                       | 308,426                     |
| Murabaha investments                                                       |      | 5,435                         | 6,000                       |
| Accounts receivable                                                        |      | 208,134                       | 199,059                     |
| Prepayments and other receivables                                          |      | 85,009                        | 52,345                      |
| Amounts due from related parties                                           |      | 87,293                        | 37,894                      |
| Inventories                                                                |      | 206,214                       | 253,119                     |
| <b>TOTAL CURRENT ASSETS</b>                                                |      | <b>980,776</b>                | <b>856,843</b>              |
| <b>NON-CURRENT ASSETS</b>                                                  |      |                               |                             |
| Investments                                                                | 4    | 132,796                       | 134,220                     |
| Deferred charges                                                           |      | 3,644                         | 9,891                       |
| Property, plant and equipment                                              |      | 2,113,710                     | 2,285,802                   |
| Derivative financial instruments                                           |      | 770                           | -                           |
| <b>TOTAL NON-CURRENT ASSETS</b>                                            |      | <b>2,250,920</b>              | <b>2,429,913</b>            |
| <b>TOTAL ASSETS</b>                                                        |      | <b>3,231,696</b>              | <b>3,286,756</b>            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                |      |                               |                             |
| <b>CURRENT LIABILITIES</b>                                                 |      |                               |                             |
| Accounts payable                                                           |      | 74,434                        | 94,856                      |
| Accruals and other liabilities                                             |      | 188,396                       | 156,908                     |
| Amounts due to related parties                                             |      | 2,856                         | 507                         |
| Current portion of long term loans                                         | 5    | 235,125                       | 260,180                     |
| Provision for zakat and income tax                                         |      | 17,556                        | 12,794                      |
| <b>TOTAL CURRENT LIABILITIES</b>                                           |      | <b>518,367</b>                | <b>525,245</b>              |
| <b>NON-CURRENT LIABILITIES</b>                                             |      |                               |                             |
| Long term loans                                                            | 5    | 713,184                       | 944,265                     |
| Derivative financial instruments                                           |      | -                             | 10,120                      |
| Employees' terminal benefits                                               |      | 31,499                        | 27,019                      |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                                       |      | <b>744,683</b>                | <b>981,404</b>              |
| <b>TOTAL LIABILITIES</b>                                                   |      | <b>1,263,050</b>              | <b>1,506,649</b>            |
| <b>SHAREHOLDERS' EQUITY</b>                                                |      |                               |                             |
| <b>Equity attributable to the shareholders of the Parent Company</b>       |      |                               |                             |
| Share capital                                                              |      | 692,000                       | 692,000                     |
| Statutory reserve                                                          |      | 61,816                        | 50,631                      |
| Retained earnings                                                          |      | 400,500                       | 299,838                     |
| Cumulative changes in fair values of derivatives                           |      | 510                           | (4,987)                     |
| <b>Total equity attributable to the shareholders of the Parent Company</b> |      | <b>1,154,826</b>              | <b>1,037,482</b>            |
| Non-controlling interests                                                  |      | 813,820                       | 742,625                     |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                          |      | <b>1,968,646</b>              | <b>1,780,107</b>            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                          |      | <b>3,231,696</b>              | <b>3,286,756</b>            |

The attached notes 1 to 10 form part of these unaudited interim consolidated financial statements.

ALUJAIN CORPORATION (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the three-month and twelve-month periods ended 31 December 2016

|                                                                              | <i>For the three-month<br/>period ended 31 December</i> |                    | <i>For the twelve-month<br/>period ended 31 December</i> |                  |
|------------------------------------------------------------------------------|---------------------------------------------------------|--------------------|----------------------------------------------------------|------------------|
|                                                                              | <i>2016</i>                                             | <i>2015</i>        | <i>2016</i>                                              | <i>2015</i>      |
| <i>Note</i>                                                                  | <i>SR'000</i>                                           | <i>SR'000</i>      | <i>SR'000</i>                                            | <i>SR'000</i>    |
|                                                                              | <i>(Unaudited)</i>                                      | <i>(Unaudited)</i> | <i>(Unaudited)</i>                                       | <i>(Audited)</i> |
| Sales                                                                        | 441,610                                                 | 400,803            | 1,443,444                                                | 1,460,503        |
| Cost of sales                                                                | (335,222)                                               | (308,777)          | (1,076,372)                                              | (1,087,003)      |
| <b>GROSS PROFIT</b>                                                          | <b>106,388</b>                                          | <b>92,026</b>      | <b>367,072</b>                                           | <b>373,500</b>   |
| <b>EXPENSES</b>                                                              |                                                         |                    |                                                          |                  |
| Selling and distribution                                                     | (5,998)                                                 | (5,254)            | (20,606)                                                 | (19,517)         |
| General and administration                                                   | (16,963)                                                | (14,494)           | (58,356)                                                 | (58,170)         |
| <b>INCOME FROM MAIN OPERATIONS</b>                                           | <b>83,427</b>                                           | <b>72,278</b>      | <b>288,110</b>                                           | <b>295,813</b>   |
| <b>OTHER INCOME / (EXPENSES)</b>                                             |                                                         |                    |                                                          |                  |
| Share in loss of joint ventures                                              | 4(a) (1,538)                                            | (1,639)            | (8,473)                                                  | (12,291)         |
| Financial charges                                                            | (11,613)                                                | (13,499)           | (49,209)                                                 | (60,002)         |
| Project research cost                                                        | (1,927)                                                 | (1,743)            | (8,790)                                                  | (6,984)          |
| Amortization of other deferred charges                                       | (1,562)                                                 | (1,562)            | (6,247)                                                  | (6,247)          |
| Amortization of deferred financial charges                                   | (692)                                                   | (1,479)            | (4,044)                                                  | (5,915)          |
| Impairment of available-for-sale investments                                 | 4(c) -                                                  | (1,278)            | (89)                                                     | (1,389)          |
| Changes in fair value of derivatives financial instruments                   | 114                                                     | 512                | 1,315                                                    | 2,840            |
| Foreign currency exchange gain / (loss)                                      | 25                                                      | (257)              | (51)                                                     | (7)              |
| Other income                                                                 | 3,195                                                   | 298                | 5,495                                                    | 1,492            |
| <b>INCOME BEFORE ZAKAT AND INCOME TAX, AND<br/>NON-CONTROLLING INTERESTS</b> | <b>69,429</b>                                           | <b>51,631</b>      | <b>218,017</b>                                           | <b>207,310</b>   |
| Zakat and income tax                                                         | (6,365)                                                 | (1,261)            | (16,262)                                                 | (12,322)         |
| <b>INCOME BEFORE NON-CONTROLLING INTERESTS</b>                               | <b>63,064</b>                                           | <b>50,370</b>      | <b>201,755</b>                                           | <b>194,988</b>   |
| Income attributable to non-controlling interests                             | (27,310)                                                | (22,897)           | (89,908)                                                 | (88,602)         |
| <b>NET INCOME FOR THE PERIOD</b>                                             | <b>35,754</b>                                           | <b>27,473</b>      | <b>111,847</b>                                           | <b>106,386</b>   |
| <b>EARNINGS PER SHARE</b>                                                    |                                                         |                    |                                                          |                  |
| Weighted average number of ordinary shares outstanding<br>(in thousand)      | 69,200                                                  | 69,200             | 69,200                                                   | 69,200           |
| Earnings per share on income from main operations<br>(in SR per share)       | 6 1.21                                                  | 1.04               | 4.16                                                     | 4.27             |
| Earnings per share on net income for the period<br>(in SR per share)         | 6 0.52                                                  | 0.40               | 1.62                                                     | 1.54             |

The attached notes 1 to 10 form part of these unaudited interim consolidated financial statements.

ALUJAIN CORPORATION (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the twelve-month period ended 31 December 2016

|                                                            | Note | 2016<br>SR'000<br>(Unaudited) | 2015<br>SR'000<br>(Audited) |
|------------------------------------------------------------|------|-------------------------------|-----------------------------|
| <b>OPERATING ACTIVITIES</b>                                |      |                               |                             |
| Net income for the period                                  |      | 111,847                       | 106,386                     |
| Adjustments for:                                           |      |                               |                             |
| Depreciation                                               |      | 208,276                       | 197,329                     |
| Amortization of other deferred charges                     |      | 6,247                         | 6,247                       |
| Amortization of deferred financial charges                 |      | 4,044                         | 5,915                       |
| Impairment of available-for-sale investments               | 4(c) | 89                            | 1,389                       |
| Gain on disposed property, plant and equipment             |      | (83)                          | (103)                       |
| Zakat and income tax provision                             |      | 16,262                        | 12,322                      |
| Income attributable to non-controlling interests           |      | 89,908                        | 88,602                      |
| Financial charges                                          |      | 49,209                        | 60,002                      |
| Provision for employees' terminal benefits                 |      | 5,931                         | 5,918                       |
| Changes in fair value of derivatives financial instruments |      | (1,315)                       | (2,840)                     |
| Income from investments in Murabaha                        |      | (232)                         | (32)                        |
| Share in loss of joint ventures                            | 4(a) | 8,473                         | 12,291                      |
|                                                            |      | <u>498,656</u>                | <u>493,426</u>              |
| Changes in operating assets and liabilities:               |      |                               |                             |
| Accounts receivable                                        |      | (9,075)                       | 117,857                     |
| Prepayments and other receivables                          |      | (32,664)                      | 18,472                      |
| Amounts due from related parties                           |      | (56,537)                      | (26,900)                    |
| Inventories                                                |      | 46,905                        | 32,385                      |
| Accounts payable and other liabilities                     |      | 11,066                        | (66,365)                    |
| Amounts due to related parties                             |      | 2,349                         | (825)                       |
| Cash from operations                                       |      | <u>460,700</u>                | <u>568,050</u>              |
| Financial charges paid                                     |      | (49,209)                      | (60,002)                    |
| Zakat paid                                                 |      | (11,500)                      | (14,483)                    |
| Employees' terminal benefits paid                          |      | (1,451)                       | (1,877)                     |
| Net cash from operating activities                         |      | <u>398,540</u>                | <u>491,688</u>              |
| <b>INVESTING ACTIVITIES</b>                                |      |                               |                             |
| Net movement in Murabaha investments                       |      | 797                           | (5,968)                     |
| Proceeds from disposal of property, plant and equipment    |      | 113                           | 327                         |
| Investment                                                 |      | -                             | (104,430)                   |
| Purchase of property, plant and equipment                  |      | (36,214)                      | (154,072)                   |
| Net cash used in investing activities                      |      | <u>(35,304)</u>               | <u>(264,143)</u>            |

The attached notes 1 to 10 form part of these unaudited interim consolidated financial statements.

ALUJAIN CORPORATION (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the twelve-month period ended 31 December 2016

|                                                           | <i>2016</i><br><i>SR'000</i><br><i>(Unaudited)</i> | <i>2015</i><br><i>SR'000</i><br><i>(Audited)</i> |
|-----------------------------------------------------------|----------------------------------------------------|--------------------------------------------------|
| <b>FINANCING ACTIVITIES</b>                               |                                                    |                                                  |
| Repayment of long term loans                              | (260,180)                                          | (231,860)                                        |
| Net movement in short-term loans                          | -                                                  | (73,221)                                         |
| Net movement in non-controlling interests                 | (22,791)                                           | (22,790)                                         |
| Net cash used in financing activities                     | <u>(282,971)</u>                                   | <u>(327,871)</u>                                 |
| <b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>80,265</b>                                      | <b>(100,326)</b>                                 |
| Cash and cash equivalents at beginning of the period      | <u>308,426</u>                                     | <u>408,752</u>                                   |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>     | <u><b>388,691</b></u>                              | <u><b>308,426</b></u>                            |
| <b>MAJOR SUPPLEMENTAL NON-CASH INFORMATION</b>            |                                                    |                                                  |
| Share of loss of a joint venture absorbed during the year | <u>6,700</u>                                       | <u>6,000</u>                                     |
| Provision for zakat settled against margin deposit        | <u>-</u>                                           | <u>7,139</u>                                     |

The attached notes 1 to 10 form part of these unaudited interim consolidated financial statements.

ALUJAIN CORPORATION (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the twelve-month period ended 31 December 2016

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

|                                                                      | <i>Share<br/>capital<br/>SR '000</i> | <i>Statutory<br/>reserve<br/>SR '000</i> | <i>Retained<br/>earnings<br/>SR '000</i> | <i>Cumulative<br/>changes in<br/>fair values of<br/>derivatives<br/>SR '000</i> | <i>Total<br/>SR '000</i> |
|----------------------------------------------------------------------|--------------------------------------|------------------------------------------|------------------------------------------|---------------------------------------------------------------------------------|--------------------------|
| Balance at 31 December 2014 (audited)                                | 692,000                              | 39,993                                   | 204,090                                  | (18,584)                                                                        | 917,499                  |
| Net income for the period from 1 January 2015<br>to 31 December 2015 | -                                    | -                                        | 106,386                                  | -                                                                               | 106,386                  |
| Transfer to statutory reserves                                       | -                                    | 10,638                                   | (10,638)                                 | -                                                                               | -                        |
| Fair value adjustments                                               | -                                    | -                                        | -                                        | 13,597                                                                          | 13,597                   |
| Balance at 31 December 2015 (audited)                                | <u>692,000</u>                       | <u>50,631</u>                            | <u>299,838</u>                           | <u>(4,987)</u>                                                                  | <u>1,037,482</u>         |
| Net income for the period from 1 January 2016<br>to 31 December 2016 | -                                    | -                                        | 111,847                                  | -                                                                               | 111,847                  |
| Transfer to statutory reserves                                       | -                                    | 11,185                                   | (11,185)                                 | -                                                                               | -                        |
| Fair value adjustments                                               | -                                    | -                                        | -                                        | 5,497                                                                           | 5,497                    |
| <b>Balance at 31 December 2016 (unaudited)</b>                       | <b><u>692,000</u></b>                | <b><u>61,816</u></b>                     | <b><u>400,500</u></b>                    | <b><u>510</u></b>                                                               | <b><u>1,154,826</u></b>  |

The attached notes 1 to 10 form part of these unaudited interim consolidated financial statements.

# ALUJAIN CORPORATION (A Saudi Joint Stock Company)

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 1 ACTIVITIES

Alujain Corporation (the "Company" or "Parent Company") is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia under Ministerial Decision No. 694, dated 15 Jamad Thani 1412H, corresponding to 21 December 1991. The Company obtained its Commercial Registration No. 4030084538 on 3 Rajab 1412H, corresponding to 7 January 1992. The Parent Company is listed on the Saudi Stock Exchange.

The objectives of the Company are to promote and invest in metal and petrochemical industries and other industrial projects.

The head office of the Company is located in Jeddah and no branches are registered under Company's commercial registration.

During 2015, the subsidiary company's ("NATPET") Propylene and Polypropylene Complex in Yanbu Industrial City remained shut down for a period of 32 days started 22 January 2015 for planned turnaround procedures.

### 2 BASIS OF PREPARATION AND CONSOLIDATION

#### 2.1 BASIS OF PREPARATION

The interim consolidated financial statements have been prepared in accordance with Saudi Accounting Standard for interim financial information issued by Saudi Organization for Certified Public Accountants ("SOCPA"). The interim consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

The interim consolidated financial statements are expressed in Saudi Riyals, being the functional currency of the Parent Company and have been rounded off to the nearest thousand, unless otherwise specified.

The results presented in the interim consolidated financial statements may not be an accurate indicator of the annual financial result.

#### 2.2 BASIS OF CONSOLIDATION

The interim consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary, National Petrochemical Industrial Company – a Closed Saudi Joint Stock Company ("NATPET"), (collectively "the Group") in which the Company owns 57.40% (31 December 2015: 57.40%) ownership interest. NATPET is in the business of manufacturing and selling polypropylene. NATPET polypropylene (PP) complex in Yanbu industrial city commenced commercial production on 6 August 2010.

All material inter-group transactions and balances have been eliminated on consolidation.

The consolidated statement of income in these interim consolidated financial statements includes the results of operations of NATPET, for the three-month and twelve-month periods then ended, and the consolidated balance sheet includes the assets and liabilities of NATPET, as at 31 December 2016. The Parent Company has control over the operations and management of NATPET. Hence, NATPET has been considered as a subsidiary and consolidated in these interim consolidated financial statements.

#### **Subsidiary**

Subsidiary is a company in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts control. Subsidiaries are consolidated from the date the Group obtains control until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from Parent Company's shareholders' equity.



### 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Group for the preparation of the interim consolidated financial statements are in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and are consistent with those used for the preparation of the annual consolidated financial statements for the year ended 31 December 2015.

The interim financial statements have been prepared under the historical cost convention on the accrual basis of accounting except for derivative financial instruments which are stated at fair value.

The significant accounting policies adopted are as follows:

#### **Use of estimate**

The preparation of the interim consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three-months or less from the purchase date, if any.

#### **Accounts receivable**

Accounts receivable are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Any subsequent recoveries of amounts previously written-off are credited in the consolidated statement of income.

#### **Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products include the cost of raw materials, labour and production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Allowance is made whenever necessary for obsolete and slow moving inventories

#### **Investment in associates**

The Group's investment in associates is accounted for under the equity method of accounting. An associate is an entity over which the Group exercises significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted by the changes in the Group's share of net assets of the associate. The consolidated statement of income reflects the share of the results of operation of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any change and discloses this, when applicable, in the interim consolidated statement of changes in shareholder's equity. Unrealised profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of interest in an associate. When the Group's share of losses in associate equals or exceeds its interest in the associate company, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The financial statements of the associates are prepared for the same period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

#### **Investment in joint venture**

Investments in joint venture are accounted for using the equity method of accounting and are initially recognized at cost. The Group's share of its joint ventures post-acquisition income or losses is recognized in the consolidated statement of income and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in joint ventures equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Available-for-sale investments**

Investments which are neither bought with the intention of being held to maturity nor for trading purposes are classified as available for sale and included under non-current assets unless they are intended to be sold in the next fiscal year. These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

- Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and
- Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows. If the fair value as mentioned above is not available, the cost shall be the most appropriate, subjective and reliable alternative for the fair value of the securities. Accordingly, the Group carries unquoted securities at cost less impairment.

Cumulative adjustments arising from revaluation of these investments, if any, are reported as separate component of equity as fair value reserve until the investment is disposed.

#### **Murabaha investments**

Murabaha investments include investment with banks and other short-term highly liquid investments with original maturities of three months or more but not more than one year from the purchase date.

#### **Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

Expenditure for repair and maintenance are charged to consolidated statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

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

#### **Deferred charges**

Costs that are not of benefit beyond the current period are charged to the consolidated statement of income, while costs that will benefit future periods are capitalized. Deferred charges, in the interim consolidated balance sheet, include certain indirect construction costs which are amortized over periods which do not exceed seven years.

#### **Projects under study**

Projects under study are stated at cost and are provided for to the extent that they may not be recoverable on the basis of a review of each project and an assessment of the outcome. Project costs are written off when a project is no longer considered viable.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment of non-financial assets**

Non-financial assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on intangible assets are not reversible.

#### **Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

#### **Derivative financial instruments and hedging**

The Group uses derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations and such derivative financial instruments are classified as cash flow hedges. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the consolidated statement of income.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documents include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for by taking the gain or loss on the effective portion of the hedging instrument directly in equity, while any ineffective portion is recognized immediately in the consolidated statement of income.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss such as when the hedged financial income or financial expense is recognized.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in equity remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to consolidated statement of income.

ALUJAIN CORPORATION (A Saudi Joint Stock Company)  
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)  
At 31 December 2016

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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Borrowings**

Borrowings are recognized equivalent to the proceeds received, net of transaction costs and front end fees incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated statement of income. Upfront fee paid on borrowings is amortized over term of the loan.

**Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

**Provisions**

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

**Zakat and income tax**

The Parent Company is subject to the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat and income tax are determined based on effective ownership interest reflected in the register of shareholders in the capital market at the end of the period. Zakat and income tax estimates are provided on an accruals basis and charged to the interim consolidated statement of income. The zakat charge is computed at 2.5% on the zakat base or adjusted net income, whichever is higher while income tax relating to the non-Saudi ownership has been provided for based on share of assessable profit at 20%. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

The Group withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income tax law.

Status of assessments at 31 December 2016:

Parent Company:

Zakat status for the year 2002 is final and the company obtained the final zakat certificate.

The company filed its zakat return for the years 2003 through 2007. The tax authorities issued its assessment for the said years and claimed additional zakat difference of SR 5.4 million. The company objected to the said assessments and has lodged the bank guarantee against the additional liability. The appeal is currently lodged with the Higher Appeal Committee.

The company filed its zakat return for the years 2008 through 2010. The tax authorities issued its assessment for the said years and claimed additional zakat difference of SR 16.87 million. The company objected to the said assessments and has lodged a bank guarantee against the additional liability. The appeal is currently lodged with the Higher Appeal Committee.

The company filed its zakat return for the years 2011 and 2012. The tax authorities issued its assessment for the said years and claimed additional zakat difference of SR 6.7 million. The company objected to the said assessments and has lodged the bank guarantee against the additional liability. The appeal is currently lodged with the Higher Appeal Committee.

Assessment for the years 2013 through 2015 are currently under review with the tax authorities.

Subsidiary Company:

There is no major change in status of assessment during the period as compared to year end.

**Operating leases**

Rental expenses under operating leases are charged to the consolidated statement of income over the period of the respective lease.

**Foreign currency transactions**

Foreign currency transactions are translated into Saudi Riyal using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income, except for the qualify cash flow hedge.

ALUJAIN CORPORATION (A Saudi Joint Stock Company)  
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 At 31 December 2016

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Employees' end of service benefits**

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated years of service at the balance sheet date.

**Revenue recognition**

Revenue represents the invoiced value of goods supplied by the Group during the period. Revenue from sales of goods are recognized when the significant risk and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue are shown net of discounts and transportation expenses.

**Expenses**

Selling, distribution and general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocation between selling, distribution and general and administrative expenses and production costs, when required, are made on a consistent basis.

**Offsetting**

Financial assets and liabilities are offset and the net amount reported in the interim consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

**Segment reporting**

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

**4 INVESTMENTS**

|                                            | <i>2016</i><br><i>SR'000</i> | <i>2015</i><br><i>SR'000</i> |
|--------------------------------------------|------------------------------|------------------------------|
| Investment in joint ventures (note 4(a))   | 67,491                       | 68,826                       |
| Investment in an associate (note 4(b))     | 9,055                        | 9,055                        |
| Available-for-sale investments (note 4(c)) | 56,250                       | 56,339                       |
|                                            | <u>132,796</u>               | <u>134,220</u>               |

4(a) Investment in joint ventures consists of the following:

|                                                                            | <i>2016</i><br><i>SR'000</i> | <i>2015</i><br><i>SR'000</i> |
|----------------------------------------------------------------------------|------------------------------|------------------------------|
| Bonar Natpet Company (see note (i) below)                                  | 16,014                       | 16,148                       |
| Natpet Schulman Specialty Plastic Compounding L.L.C. (see note (ii) below) | 51,477                       | 52,678                       |
|                                                                            | <u>67,491</u>                | <u>68,826</u>                |

- (i) The subsidiary company ("NATPET") has signed a joint venture agreement with an entity based in the Netherlands to set up a manufacturing plant in Yanbu to produce staple and fibre and non-woven textiles. NATPET owns a 50% stake in joint venture. The joint venture obtained its commercial registration in October 2012. The joint venture has signed a loan agreement with Saudi Industrial Development Fund (SIDF) during 2013 amounting to SR 76.6 million in order to finance the construction of its project. NATPET has provided corporate guarantee of 50% to SIDF for the loan. The loan withdrawn by the joint venture as at 31 December 2016 amounting to SR 72.6 million (2015: 72.6 million).

ALUJAIN CORPORATION (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

**4 INVESTMENTS (continued)**

During the period, the NATPET provided a short term loan to Bonar Natpat (a Joint Venture) to meet its financing requirements amounting to SR 30 million. The loan is interest free and repayable within one year. The loan is presented under 'amounts due from related parties'.

The movement in the investment in joint venture during the twelve-month period, is as follows:

|                                             | 2016<br>SR'000 | 2015<br>SR'000 |
|---------------------------------------------|----------------|----------------|
| At 1 January                                | 16,148         | 21,937         |
| Addition during the period (see note below) | 6,700          | 6,000          |
| Share in loss of joint venture              | (6,834)        | (11,969)       |
| Charged by related party                    | -              | 180            |
| At 31 December                              | <u>16,014</u>  | <u>16,148</u>  |

During the period, NATPET increased its investment in Bonar Natpat by an amount of SR 6.7 million by transferring equivalent amount from 'Due from Bonar Natpat' (amount due from related parties).

- (ii) During 2013, the subsidiary company ("NATPET") has signed a joint venture agreement with plastic compounder based in the United States through its entity in the Netherlands to set up a manufacturing plant in Yanbu to produce polypropylene compounds. NATPET owns a 50% stake in the joint venture. The joint venture was initially registered with a capital of SR 10 million in the first quarter of 2014. However, subsequently, the joint venture increased its capital to SR 106 million and NATPET paid SR 48 million against its share of investment in the increased capital in January 2015. The joint venture obtained a commercial registration during the first quarter of 2014. As at 31 December 2016, the plant is still under construction. The joint venture expects to commence its operation during the year ended 31 December 2017. The joint venture has signed a loan agreement with SIDF during 2015 amounting to SR 100 million in order to finance the construction of its project. NATPET has provided corporate guarantee of 50% of the loan amount to SIDF. Total loan withdrawn by the joint venture as at 31 December 2016 amounted to SR 16.9 million (2015: nil).

The movement in the investment in joint venture during the twelve-month period is as follows:

|                                         | 2016<br>SR'000 | 2015<br>SR'000 |
|-----------------------------------------|----------------|----------------|
| At 1 January                            | 52,678         | 5,000          |
| Additional investment during the period | -              | 48,000         |
| Share in loss of joint venture          | (1,639)        | (322)          |
| Expenses charged by related party       | 438            | -              |
| At 31 December                          | <u>51,477</u>  | <u>52,678</u>  |

- 4(b) The Company's investment in an associate represents its equity ownership in Zain Industries Company (Zain). The Company has an ownership percentage of 49.38% as at 31 December 2016 (31 December 2015: 49.38%). Zain started commercial operations during 2010.

During the period, the Company has decided to increase its ownership interest in Zain from 49.38% to 98.75% by purchasing it from existing partners in respect of the additional investment. The Group has advanced SR 9.04 million, as part of initial contribution to its additional investment in Zain. The formation of share purchase agreement and other legal formalities are in progress at the reporting date. The Group does not have and never had other than temporary control over Zain, therefore, the Group never consolidated the financial statements of Zain. Accordingly, contribution to the additional investment is presented under 'amounts due from related parties'.

ALUJAIN CORPORATION (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

**4 INVESTMENTS (continued)**

4(c) Available-for-sale investments consist of the following:

|                                                                | 2016<br>SR'000 | 2015<br>SR'000 |
|----------------------------------------------------------------|----------------|----------------|
| Arabian Industrial Fibers Company (Ibn Rushd) (note (i) below) | -              | 89             |
| Siluria Technologies Company (note (ii) below)                 | 56,250         | 56,250         |
|                                                                | <u>56,250</u>  | <u>56,339</u>  |

(i) This represents the Parent Company's investment in a Saudi Closed Joint Stock Company with 0.113% share of capital. The fair value of the investments could not be determined, therefore, this investment is accounted for at cost less impairment. The movement in the investment during the twelve-month period ended 31 December is as follows:

|                | 2016<br>SR'000 | 2015<br>SR'000 |
|----------------|----------------|----------------|
| At 1 January   | 89             | 1,478          |
| Impairment     | (89)           | (1,389)        |
| At 31 December | <u>-</u>       | <u>89</u>      |

(ii) During 2015, the subsidiary company ("NATPET") invested in Series E preference shares of a US based private entity, Siluria Technologies, for purchase consideration of USD 15 million (SR 56.25 million) and classified the investment as available-for-sale. The fair value of the investment could not be determined, therefore, investment is accounted for at cost.

**5 LONG TERM LOANS**

|                                                   | 2016<br>SR'000 | 2015<br>SR'000   |
|---------------------------------------------------|----------------|------------------|
| Commercial banks' syndication (a)                 | 632,780        | 777,960          |
| Public Investment Fund (PIF) loan (b)             | 300,000        | 375,000          |
| Saudi Industrial Development Fund (SIDF) loan (c) | -              | 40,000           |
| Others                                            | 21,645         | 21,645           |
|                                                   | <u>954,425</u> | <u>1,214,605</u> |
| Less: Deferred financial charges                  | (6,116)        | (10,160)         |
|                                                   | <u>948,309</u> | <u>1,204,445</u> |
| Less: Current portion of long term loans          | (235,125)      | (260,180)        |
| Non-current portion of long term loans            | <u>713,184</u> | <u>944,265</u>   |

(a) In July 2013, the subsidiary company ("NATPET") signed an Islamic Facility Agreement of SR 1 billion with a Syndication of Commercial Banks. The proceeds of this facility were used to fully repay the Islamic Bridge Facility loan of SR 974 million. The loan carries borrowing cost at commercial rates. This facility is secured through second charge on NATPET's plant and machinery. NATPET has entered into a concurrent interest rate swap contract with local commercial banks to hedge the variable interest rate cash flows on the commercial banks' syndication loan. The term loan repayments are spread from 2013 to 2021.

## ALUJAIN CORPORATION (A Saudi Joint Stock Company)

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2016

#### 5 LONG TERM LOANS (continued)

- (b) The subsidiary company ("NATPET") has signed a loan agreement with Public Investment Fund (PIF) on 23 June 2008 for a loan of USD 125 million (SR 468.75 million) which was fully drawn in 2008. NATPET signed an additional loan agreement with PIF on 5 January 2010 for an amount of USD 75 million (SR 281.25 million) which was fully drawn during 2010. The term loan is repayable in 20 bi-annual repayments which started in June 2011. The facility's payment obligations rank parri passu with the claim of all NATPET's other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law.
- (c) The subsidiary company ("NATPET") has signed a loan agreement with SIDF in August 2006 for an amount of SR 400 million which was fully drawn. The SIDF loan carries upfront fees amounting to SR 30 million, which was recorded as deferred financial charges and is being amortized over the term of the loan on a straight line basis. The SIDF loan is fully repaid during the period.

#### 6 EARNINGS PER SHARE

Earnings per share for the periods have been computed by dividing the income from main operations and net income for such periods by the number of weighted average of ordinary shares outstanding during the period.

#### 7 DIVIDENDS

On 23 October 2016, corresponding to 22 Muharam 1438 H, the Board of Directors of the Company proposed cash dividends to shareholders of SR 0.5 per share for the year ended 31 December 2016 amounting to SR 34.6 million, which represents 5% of total paid up capital.

On 12 November 2016 corresponding to 12 Safar 1438 H, the Board of Directors of the Company have agreed to increase the proposed cash dividends in 23 October 2016 from SR 0.5 per share to SR 1 per share for the year ended 31 December 2016 to have total amount of proposed cash dividends SR 69.2 million, which represents 10% of total paid up capital

#### 8 COMMITMENTS AND CONTINGENCIES

During the year ended 31 December 2015, the subsidiary company ("NATPET") received a claim amounting to SR 28.69 million from an energy service provider in respect of under-utilization of energy capacity relating to prior years. The management believes that the service provider has no right to claim the amount and objected against the claimed amount. The management is confident that their contention will prevail and expects based on the advice of its in house legal counsel, a favourable outcome arising from objection.

#### 9 SEGMENTAL INFORMATION

The Group conducts its business in Saudi Arabia and mainly engaged in production of Polypropylene (PP) for various industrial use.

#### 10 BOARD OF DIRECTORS' APPROVAL

These unaudited interim consolidated financial statements have been approved by the Board of Directors on 17 January 2016, corresponding to 19 Rabi' II 1438H.