

**YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
AND REVIEW REPORT**

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

**INDEPENDENT AUDITORS' REVIEW REPORT ON
THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF
YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB) - (A SAUDI JOINT STOCK COMPANY)**

Introduction

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 and IFRS 1 that are endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young



Ahmed I. Reda
Certified Public Accountant
Licence No. 356

28 Rajab 1438H
25 April 2017

Jeddah

17/1/AMS



Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

INTERIM CONDENSED STATEMENT OF INCOME (UNAUDITED)

For the three-month period ended 31 March 2017

(All amounts in Saudi Riyals '000 unless otherwise stated)

	<i>Note</i>	<i>Three-month period ended 31 March 2017</i>	<i>Three-month period ended 31 March 2016 (Note 6)</i>
Sales		1,758,506	1,346,430
Cost of sales		(1,030,243)	(739,164)
GROSS PROFIT		728,263	607,266
Selling, and distribution expenses		(10,743)	(10,132)
General and administrative expenses		(94,313)	(92,564)
INCOME FROM MAIN OPERATIONS		623,207	504,570
Finance income		13,751	12,740
Finance charges		(17,557)	(67,411)
Other income, net		22,168	12,449
INCOME BEFORE ZAKAT		641,569	462,348
Zakat	11	(33,410)	(40,606)
NET INCOME FOR THE PERIOD		608,159	421,742
Earnings per share (Saudi Riyals)			
Weighted average number of ordinary shares ('000)		562,500	562,500
Basic and diluted earnings per share attributable to ordinary equity holders of the Company	12	1.08	0.75

The attached notes 1 to 18 form part of these interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company
INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the three-month period ended 31 March 2017
(All amounts in Saudi Riyals ‘000 unless otherwise stated)

	<i>Note</i>	<i>Three-month period ended 31 March 2017</i>	<i>Three-month period ended 31 March 2016 (Note 6)</i>
Net income for the period		608,159	421,742
Other comprehensive loss			
<i>Items that will not be reclassified to interim condensed statement of income in subsequent periods:</i>			
Re-measurement losses on defined benefit plans	6.1	-	(22,754)
Total comprehensive income for the period		608,159	398,988

The attached notes 1 to 18 form part of these interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 March 2017

(All amounts in Saudi Riyals '000 unless otherwise stated)

	<i>Note</i>	<i>31 March 2017</i>	<i>31 December 2016 (Note 6)</i>	<i>1 January 2016 (Note 6)</i>
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment		13,441,115	13,578,766	14,378,522
Intangible assets		11,379	12,278	15,873
Other non-current assets		218,540	224,754	242,023
TOTAL NON-CURRENT ASSETS		13,671,034	13,815,798	14,636,418
CURRENT ASSETS				
Inventories		795,972	826,689	777,723
Trade receivables		2,049,295	1,896,035	1,844,178
Prepayments and other current assets		279,064	233,736	233,358
Short-term investments		2,395,755	1,737,298	2,733,675
Cash and cash equivalents	7	955,713	1,676,233	663,751
TOTAL CURRENT ASSETS		6,475,799	6,369,991	6,252,685
TOTAL ASSETS		20,146,833	20,185,789	20,889,103
EQUITY AND LIABILITIES				
EQUITY				
Share capital	8	5,625,000	5,625,000	5,625,000
Statutory reserve		1,667,386	1,606,507	1,376,347
Actuarial reserve		19,227	19,227	11,854
Retained earnings		8,506,939	8,804,809	8,096,857
TOTAL EQUITY		15,818,552	16,055,543	15,110,058
NON-CURRENT LIABILITIES				
Long term loans	9	1,131,783	1,130,177	2,589,285
Employee benefits	10	451,231	450,055	404,217
Other non-current liabilities		15,159	18,763	53,515
TOTAL NON-CURRENT LIABILITIES		1,598,173	1,598,995	3,047,017
CURRENT LIABILITIES				
Current portion of long term loans	9	1,459,887	1,459,254	1,453,757
Trade payables		376,125	294,674	201,253
Accrued and other current liabilities		690,807	607,444	921,264
Zakat payable	11	203,289	169,879	155,754
TOTAL CURRENT LIABILITIES		2,730,108	2,531,251	2,732,028
TOTAL LIABILITIES		4,328,281	4,130,246	5,779,045
TOTAL EQUITY AND LIABILITIES		20,146,833	20,185,789	20,889,103

The attached notes 1 to 18 form part of these interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three-month period ended 31 March 2017

(All amounts in Saudi Riyals '000 unless otherwise stated)

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Actuarial reserve</i>	<i>Retained earnings</i>	<i>Total</i>
Balance as at 1 January 2016	5,625,000	1,376,347	11,854	8,096,857	15,110,058
Net income for the period	-	-	-	421,742	421,742
Other comprehensive loss for the period (note 6.1)	-	-	(22,754)	-	(22,754)
Total comprehensive income for the period	-	-	(22,754)	421,742	398,988
Transfers to statutory reserve	-	40,189	-	(40,189)	-
Dividends (note 18)	-	-	-	(562,500)	(562,500)
Board of directors' remuneration	-	-	-	(1,400)	(1,400)
Balance as at 31 March 2016	<u>5,625,000</u>	<u>1,416,536</u>	<u>(10,900)</u>	<u>7,914,510</u>	<u>14,945,146</u>
Balance as at 1 January 2017	5,625,000	1,606,507	19,227	8,804,809	16,055,543
Net income for the period	-	-	-	608,159	608,159
Other comprehensive income for the period (note 6.1)	-	-	-	-	-
Total comprehensive income for the period	-	-	-	608,159	608,159
Transfers to statutory reserve	-	60,879	-	(60,879)	-
Dividends (note 18)	-	-	-	(843,750)	(843,750)
Board of directors' remuneration	-	-	-	(1,400)	(1,400)
Balance as at 31 March 2017	<u>5,625,000</u>	<u>1,667,386</u>	<u>19,227</u>	<u>8,506,939</u>	<u>15,818,552</u>

The attached notes 1 to 18 form part of these interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the three-month period ended 31 March 2017

(All amounts in Saudi Riyals '000 unless otherwise stated)

	<i>Three-month period ended 31 March 2017</i>	<i>Three-month period ended 31 March 2016 (Note 6)</i>
OPERATING ACTIVITIES:		
Income for the period before zakat	641,569	462,348
Adjustment to reconcile income to net cash provided by operating activities:		
Depreciation	260,306	257,516
Amortisation of intangible assets	899	899
Reversal of allowance for slow moving inventories	(33,000)	-
Finance income on Home Loan Program	-	(163)
Non-cash employee benefits expense	13,948	12,179
Fair value adjustment to derivatives	(13,474)	2,115
Loss on disposal of property, plant and equipment	-	869
Finance charges	31,031	67,411
	901,279	803,174
<i>Working capital adjustments:</i>		
Inventories	63,717	(5,024)
Trade receivables	(153,260)	354,163
Prepayments and other assets	(39,114)	(27,081)
Trade payables	81,451	71,540
Accrued and other current liabilities	66,808	(279,238)
Cash from operations	920,881	917,534
Finance charges paid	(951)	(2,976)
Employees' benefits paid	(17,112)	(1,008)
Net cash flows from operating activities	902,818	913,550
INVESTING ACTIVITIES		
Short-term investments made	(669,375)	(923,408)
Proceed from maturity of short-term investment	10,918	-
Purchase of property, plant and equipment	(122,655)	(76,617)
Net cash used in investing activities	(781,112)	(1,000,025)
FINANCING ACTIVITY		
Dividends paid	(842,226)	(93)
Net cash flows used in financing activity	(842,226)	(93)
DECREASE IN CASH AND CASH EQUIVALENTS	(720,520)	(86,568)
Cash and cash equivalents at the beginning of the period	1,676,233	663,751
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	955,713	577,183

The attached notes 1 to 18 form part of these interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2017

(All amounts in Saudi Riyals '000 unless otherwise stated)

1 CORPORATE INFORMATION

Yanbu National Petrochemical Company (YANSAB) (the "Company") is a Saudi Joint Stock Company registered in Yanbu, Kingdom of Saudi Arabia under Commercial Registration number 4700009432 dated 14 Muharram 1427H (corresponding to 13 February 2006) in accordance with the Ministerial Resolution No. 49 dated 12 Muharram 1427H (corresponding to 11 February 2006) for the incorporation of the Company. The Company obtained its Industrial License number S/1367 on 18 Rajab 1426H (corresponding to 23 August 2005) and is engaged in the manufacturing of petrochemical products in accordance with the Company's By-laws and other Saudi Arabian applicable regulations. The Company commenced commercial operations on 1 March 2010.

These interim condensed financial statements were approved for issue on 25 April 2017.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

The interim condensed financial statements do not include all the information and disclosures required in annual financial statements to be prepared in accordance with IFRS as endorsed in KSA, which would be prepared for year ending 31 December 2017. In addition, results for the interim period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

2.2 Basis of measurement

These interim condensed financial statements are prepared under the historical cost convention, except for the measurement at fair value of derivative financial instruments, using the accruals basis of accounting. For employee and other post-employment benefits, actuarial present value calculations are used.

2.3 Functional and presentation currency

These interim condensed financial statements are presented in Saudi Riyals (SR), which is the functional currency of the Company. All figures are rounded off to nearest thousands unless when otherwise indicated.

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

3.1 Key sources of estimation uncertainty

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

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

3.1 Key sources of estimation uncertainty (continued)

3.1.1 Impairment 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 Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

3.1.2 Provisions

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

3.1.3 Long-term assumptions for employee benefits

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

3.2 Critical judgments

The following critical judgment has the most significant effect on the amounts recognised in the interim condensed financial statements:

3.2.1 Component parts of property, plant and equipment

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

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

4.1 IFRS 9 Financial Instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

4.1 IFRS 9 Financial Instruments (continued)

The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Company does not expect to adopt the new standard before 1 January 2018.

The Company has made a preliminary assessment of the classification and measurement of financial assets and expect no significant change to the accounting for these assets.

The Company has determined that there will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through income statement and the Company does not have any such liabilities.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Company has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Company will make more detailed assessments in the future to determine the impact.

4.2 IFRS 15 Revenue from Contracts with Customers

The International Accounting Standards Board ("IASB") has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services, IAS 11 which covers construction contracts, IFRS Interpretations Committee 13 ("IFRIC 13") which covers customer loyalty programmes, IFRIC 15 which covers agreements for the construction of real Estate, IFRIC 18 which covers transfers of assets from customers and Standards Interpretation Committee 31 ("SIC-31") which covers revenue barter transactions involving advertising services.

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

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

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

4.3 Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The amendment to IFRS 10 and IAS 28 has no impact on the Company.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

4.4 Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The amendment to IFRS 2 has no impact on the Company.

4.5 IFRS 16 Leases

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

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

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

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 "Leases" is not yet endorsed in KSA. The Company will make more detailed assessments of the effect in the future to determine the impact. The mandatory date for adoption for the standard is 1 January 2019.

4.6 Amendments to IAS 40 - Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

The amendments are effective for annual periods beginning on or after 1 January 2018. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The amendment to IAS 40 has no impact on the Company.

4.7 IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

4.7 IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (continued)

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation; or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The IFRIC is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The Company will make more detailed assessments in the future to determine the impact.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded 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 the statement of income

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.

Current versus non-current classification

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

- Expected to be realised or intended to be 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 Company classifies all other liabilities as non-current.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Fair value measurement

The Company measures financial instruments, such as, derivatives, at fair value at each reporting 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 fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

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

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

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

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

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

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

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

Revenue recognition

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

The specific recognition criteria described below must also be met before revenue is recognised :

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenues represent the invoiced value of goods shipped and services rendered by the Company during the period, net of any trade and quantity discounts. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Finance income

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

Expenses

Cost of sales

Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material, direct labor and other attributable overhead costs. Other costs such as selling costs are recorded as selling and distribution expenses while all remaining other costs are presented as general and administrative expenses.

Selling and distribution expenses

These include any costs incurred to carry out or facilitate selling activities of the Company. These costs typically include salaries of the sales staff, marketing and distribution and logistics expenses as well as sale commissions and such fees. These also include allocations of certain general overheads.

General and administrative expenses

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

Allocation of overheads between cost of sales, selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis.

Zakat and taxes

Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia and on accruals basis. The provision is charged to the interim condensed statement of income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

Withholding tax

Withholding tax related to dividends, royalties, interest and service fees are recorded as liabilities.

Cash dividend and non-cash distribution to equity holders

The Company recognises a liability to make cash distribution to equity holders of the Company when the distribution is authorised and the distribution is no longer at the discretion of the Company. Distribution authorization is assessed in line with the Companies Law in the Kingdom of Saudi Arabia, of which a distribution is authorised when approved by the shareholders. A corresponding amount is recognised directly in equity. Interim dividends, if any, are recorded when approved by the Board of Directors.

Non-cash distributions, if any, shall be measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the interim condensed statement of income.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include 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 is met. Where such assets are constructed in-house, their costs include all amounts necessary to bring the asset to the present condition and location to be ready for intended use by management and exclude all other costs not directly attributable to, such as general and administrative expenses and training costs. Any feasibility study costs are expensed as incurred unless they relate to specifically identifiable asset being constructed in-house and are directly attributable to it. Pre-operating costs during startup period net of proceeds from sale of trial production, are included as part of cost of the relevant item of property, plant and equipment, provided it is a directly attributable cost which meets the recognition criteria, and only up to the point the asset is in a condition ready for intended use.

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

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

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

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

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

Buildings and leasehold improvements	13 - 40 years
Plant and equipment	4 - 50 years
Furniture, fixtures and vehicles	3 - 10 years
Capital Spares	4 - 50 years
Catalysts	1.5 - 20 years

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Property, plant and equipment (continued)

Leased assets

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

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

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

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

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.

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

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

Software and others	3 - 15 years
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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 useful life assessment is made on a prospective basis. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the aggregated CGU 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 recognised in the interim condensed statement of income when the asset is derecognised.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Intangible assets (continued)

Software

Costs associated with maintaining software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attribute costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Impairment of non-financial assets

The Company's impairment calculation is based on detailed budgets and forecast calculations which are prepared separately for each of the Company's CGU's to which the individual asset 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 are recognised in the interim condensed statement of income in those expense categories consistent with the function of the impaired asset.

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

For assets other than above, an assessment is made at each financial year-end as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised 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 recognised. This reversal is limited such that the recoverable amount doesn't exceed what the carrying amount would have been, net of depreciation or amortization, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the interim condensed statement of income.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through income statement, loans and receivables, held-to-maturity investments, available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through income statement, transaction costs that are attributable to the acquisition of the financial asset.

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

Loans and receivables

This category is the most relevant to the Company and generally applies to trade and other receivables and short-term investments. Trade receivables generally have 90 days term. Short-term investments are short term deposits with original maturities of more than three months but less than twelve months.

Subsequent measurement

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 measured at amortised cost using the 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 amortization is included in finance income in the interim condensed statement of income. The losses arising from impairment are recognised in the interim condensed statement of income in finance charges for loans and in cost of sales or other operating expenses for receivables.

Derecognition

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

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

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or 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.

For financial assets carried at amortised cost, the Company 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 Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it include the assets in 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, recognised 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Financial assets (continued)

Loans and receivables (continued)

Impairment of financial assets (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in interim condensed statement of income. Interest income (recorded as finance income in the interim condensed statement of income) 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 realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance charges in the interim condensed statement of income.

Financial liabilities

Initial recognition and measurement

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

- Financial liabilities at fair value through income statement
- Other financial liabilities measured at amortised cost using the effective interest rate method

The Company's financial liabilities include trade and other payables, long term loans and derivative financial instruments.

The category of financial liability at fair value through income statement is mainly financial liabilities held for trading such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

Subsequent measurement

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

For other financial liabilities, including long term loans, after initial recognition, these are subsequently measured at amortised cost using the effective interest rate method. Gain and losses are recognised in interim condensed statement of income when the liabilities are derecognised as well as through the effective interest rate amortization process.

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 effective interest rate method. The effective interest rate amortization is included as finance charges in the interim condensed statement of income.

Derecognition

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Financial liabilities (continued)

Financial guarantees contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value. The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

For financial guarantee contracts to third parties, these are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortization.

Offsetting of financial instruments

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

Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swaps to manage its interest rate risks.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivative financial instrument – held for trading during the period are taken directly to the interim condensed statement of income.

Inventories

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

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

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

Scrap inventory, co-product and by-product

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Inventories (continued)

Scrap inventory, co-product and by-product (continued)

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

Consumable spare parts

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

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

- Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalised as part of property, plant and equipment and depreciated from purchase date over a period which is shorter of the component's useful life or the remaining useful life of the plant in which it is to be utilised. These do not form part of inventory provided capitalization criteria under property, plant and equipment is met.
- Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalised as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the plant and equipment in which it is installed. These do not form part of inventory.

General capital spares and other consumables items which are not of a critical nature and are of a general nature, i.e., not plant specific and can be used in multiple plants or production lines and any other items which may be required at any time for facilitating plant operations. They are generally classified as 'consumables and spare parts' under inventory, unless they exceed the threshold and have a useful life of more than one year, under which case they are recorded under property, plant and equipment. Items recorded under inventory are subject to assessment for obsolescence provision and are charged to the interim condensed statement of income upon their installation or use. Where such items meet criteria for capitalization, their depreciation method is similar to repairable items as noted above.

Inventory swaps

Revenue can only be recognised for exchange of goods if they are dissimilar in nature or the exchange results in a significant change in the configuration of cash flows of the transferor.

The Company has various types of inventory swap transactions, which are qualified as either location or time swaps.

Location swap

Where the inventory swap transactions represent exchange of similar items within a limited short period of time, these transactions do not generally carry commercial substance. Revenue can only be recognised for exchange of goods if they are dissimilar in nature or the exchange results in a significant change in the configuration of cash flows of the transferor. Where this is not the case, these transactions are recorded as stock transfers at cost and the corresponding effect is recorded as receivables and payables.

Time swaps

Where the swaps are for longer period of time during which prices fluctuate significantly, or where swaps include sending finished goods to third party customers (of any company), these generally indicate commercial substance and are recorded as sales and purchase based on agreed transfer pricing.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Inventories (continued)

Toll manufacturing

The Company may have tolling arrangement where feedstock or other semi-finished inventory (work in progress) owned by related party is provided for further processing. The Company may also sell the finished goods. In such arrangements, consideration needs to be given to ownership of inventory risk and reward. These arrangements are accounted for as sales and purchase transactions depending on which party retains the ownership and risks of loss associated with the feedstock and the resulting finished goods.

Where the tollee retains such risks and rewards, it is treated as a service agreement whereby the inventory as well as related sales and cost of manufacturing is recorded at the tollee books while the toller shall record toll service charges only based on agreed formula as per the tolling agreement as 'other income' in its interim condensed statement of income.

Cash and cash equivalents

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

Provisions

General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in interim condensed statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current 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 recognised as a finance charges.

Onerous contracts

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

Employee benefits

Short-term obligations

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

Long-term employee benefit obligations

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Employee benefits (continued)

Post-employment obligation

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

Defined contribution plans

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

The Company operates a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Company's normal operating bank accounts. This cash is a restricted balance and for purpose of presentation in the interim condensed financial statement, it is offset with the related liability under the savings plan and net liability to employees is reported under the employee benefits liability.

Defined benefit plans

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

End of services benefits

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

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur in OCI.

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Employee benefits (continued)

Defined benefit plans (continued)

Medical life insurance

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

Short-term and long-term incentive plans

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

Termination benefits (early retirement program)

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

Employee Home Ownership Program (HOP)

The Company has established HOP that offer eligible employees the opportunity to buy residential units constructed through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment.

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

Employee Home Loan Program (HLP)

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

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

Executive vehicles

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Earnings per share

Basic earnings per share is calculated by dividing:

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

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- by the weighted average number of ordinary shares outstanding during the financial year, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Statutory reserve

In accordance with the Company's by-laws, the Company must set aside 10% of its annual net income as the statutory reserve until it reaches 50% of the share capital. The reserve is not available for distribution.

6 FIRST-TIME ADOPTION OF IFRS

For all periods up to and including the year ended 31 December 2016, the Company prepared and published its audited financial statements only in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA ("SOCPA GAAP"). These are the Company's first interim condensed financial statements in accordance with IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of International Financial Reporting Standards" that are endorsed in KSA.

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

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

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6 FIRST-TIME ADOPTION OF IFRS (continued)

The following tables illustrate the reconciliation of equity from SOCPA GAAP to IFRS as endorsed in KSA for the Company on adoption of IFRS as endorsed in KSA:

Reconciliation of equity as at 31 December 2016:

	<i>Note</i>	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Actuarial reserve</i>	<i>Retained earnings</i>	<i>Total</i>
Balances per SOCPA GAAP		5,625,000	1,606,507	-	9,014,440	16,245,947
Actuarial valuation of employees' benefits	6A	-	-	19,227	(186,249)	(167,022)
Provision for accumulated absences	6B	-	-	-	(17,301)	(17,301)
Componentization of property, plant and equipment	6C	-	-	-	24,570	24,570
Inventory adjustment	6D	-	-	-	(21,127)	(21,127)
Long term loans at amortized cost	6E	-	-	-	3,103	3,103
Shared service cost adjustment	6F	-	-	-	(21,689)	(21,689)
Others, net	6G	-	-	-	9,062	9,062
Total adjustments to equity		-	-	19,227	(209,631)	(190,404)
Balance per IFRS as endorsed in KSA		5,625,000	1,606,507	19,227	8,804,809	16,055,543

Reconciliation of equity as at 31 March 2016:

	<i>Note</i>	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Actuarial reserve</i>	<i>Retained earnings</i>	<i>Total</i>
Balances per SOCPA GAAP		5,625,000	1,416,536	-	8,148,448	15,189,984
Actuarial valuation of employees' benefits	6A	-	-	(10,900)	(190,880)	(201,780)
Provision for accumulated absences	6B	-	-	-	(16,173)	(16,173)
Componentization of property, plant and equipment	6C	-	-	-	26,697	26,697
Inventory adjustment	6D	-	-	-	(18,412)	(18,412)
Long term loans at amortized cost	6E	-	-	-	9,305	9,305
Shared service cost adjustment	6F	-	-	-	(18,800)	(18,800)
Others, net	6G	-	-	-	(25,675)	(25,675)
Total adjustments to equity		-	-	(10,900)	(233,938)	(244,838)
Balance per IFRS as endorsed in KSA		5,625,000	1,416,536	(10,900)	7,914,510	14,945,146

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6 FIRST-TIME ADOPTION OF IFRS (continued)

Reconciliation of equity as at 1 January 2016:

	<i>Note</i>	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Actuarial reserve</i>	<i>Retained earnings</i>	<i>Total</i>
Balances per SOCPA GAAP		5,625,000	1,376,347	-	8,350,647	15,351,994
Actuarial valuation of employees’ benefits	6A	-	-	11,854	(183,643)	(171,789)
Provision for accumulated absences	6B	-	-	-	(16,381)	(16,381)
Componentization of property, plant and equipment	6C	-	-	-	24,512	24,512
Inventory adjustment	6D	-	-	-	(47,781)	(47,781)
Long term loans at amortized cost	6E	-	-	-	(27,024)	(27,024)
Shared service cost adjustment	6F	-	-	-	(17,365)	(17,365)
Others, net	6G	-	-	-	13,892	13,892
Total adjustments to equity		-	-	11,854	(253,790)	(241,936)
Balance per IFRS as endorsed in KSA		5,625,000	1,376,347	11,854	8,096,857	15,110,058

Reconciliations of total comprehensive income for three-month period ended 31 March 2016 and year ended 31 December 2016 are as follows:

	<i>Note</i>	<i>For the year ended 31 December 2016</i>	<i>For the three-month period ended 31 March 2016</i>
Net income under SOCPA GAAP		2,301,603	401,890
Actuarial valuation of employee benefits	6A	(2,606)	(7,237)
Provision for accumulated absences	6B	(920)	208
Componentization of property, plant and equipment	6C	58	2,185
Inventory adjustment	6D	26,654	29,369
Long term loans at amortized cost	6E	30,127	36,329
Shared service cost adjustment	6F	(4,324)	(1,435)
Others, net	6G	(4,830)	(39,567)
Total adjustments under IFRS		44,159	19,852
Other comprehensive income/(loss)	6.1	7,373	(22,754)
Balance per IFRS as endorsed in KSA		2,353,135	398,988

6.1 Other comprehensive income

Under IFRS as endorsed in KSA, end of service benefits (“EOSB”) and post-employment medical benefits are required to be calculated using actuarial valuations. Net other comprehensive income/(loss) during the year ended 31 December 2016 and three-month period ended 31 March 2016 represent the re-measurement gain/loss arising from experience adjustments and changes in actuarial assumptions occurred during the year/period. This adjustment is the result of IFRS transition only and there was no such item in the statement of income for the year ended 31 December 2016 and three-month period ended 31 March 2016 presented under SOCPA GAAP. Such adjustment will not be reclassified to statement of income in subsequent periods.

Since no significant changes in actuarial assumption during the three-month period ended 31 March 2017, no actuarial gain/loss occurred during the three-month period ended 31 March 2017.

6 FIRST-TIME ADOPTION OF IFRS (continued)

6.2 Estimates

The estimates at 31 March 2016 are consistent with those made for the same dates in accordance with SOCPA GAAP (after adjustments to reflect any differences in accounting policies) apart from the actuarial valuation in end of service benefits, post-employment medical benefits and continuous service award (refer to Note 3.1.3) where the application of SOCPA GAAP did not require estimation in accordance with the guidance provided under IFRS as endorsed in KSA.

The impact on cash flows and on earnings per share were:

	<i>SOCPA GAAP three-month period ended 31 March 2016</i>	<i>IFRS as endorsed in KSA three-month period ended 31 March 2016</i>	<i>Difference</i>
Net cash flows from operating activities	914,277	913,550	(727)
Net cash flows used in investing activities	(1,000,025)	(1,000,025)	-
Net cash flows used in financing activities	(93)	(93)	-
Per ordinary share in SR – net profit	0.71	0.75	0.04

Notes to the reconciliation of equity as at 31 December 2016, 31 March 2016 and 1 January 2016 and total comprehensive income for the year ended 31 December 2016 and for the three-month period ended 31 March 2016 are given below:

6A Actuarial valuation of employee benefits

Under IFRS as endorsed in KSA, end of service benefits (“EOSB”) and post-employment medical benefits are required to be calculated using actuarial valuations. Historically, the Company has calculated these obligations based on the local regulations at the reporting date without considering expected future service periods of employees, salary increments and discount rates. This change resulted in an increase in the employee benefits liability balances and decrease in retained earnings and income for the year ended 31 December 2016 and three-month period ended 31 March 2016.

6B Provision for accumulated absences and others

Under IFRS as endorsed in KSA, accumulating paid absences are those that are carried forward and can be used in future periods if the current period’s entitlement is not used in full. The obligation arising in respect of these accumulating absences is required to be recognized under IFRS as endorsed in KSA irrespective of whether the absences are vesting or non-vesting. This change has resulted in an increase in accrual and other current liabilities and a decrease in retained earnings and income for the year ended 31 December 2016 and three-month period ended 31 March 2016.

6C Componentization of property, plant and equipment

Under IFRS as endorsed in KSA, the property, plant and equipment should be componentized and their useful lives identified separately. Such componentization practice was not followed generally by companies in KSA. As part of the transition to IFRS as endorsed by KSA, the Company has applied the concept of assets components and accounted for its impact on the useful lives, which resulted in an increase in property, plant and equipment and retained earnings on the IFRS transition date amounting to SAR 24.5 million.

6D Inventories

Under SOCPA GAAP, certain cost was absorbed as part of inventories cost; which under IFRS as endorsed in KSA has been charged to interim condensed statement of income as cost of sales, selling and distribution or general and administrative expenses based on assessment made by the Company; which has resulted in adjusted inventories and retained earnings. Further, this assessment has also resulted in reclassification among cost of sales, selling and distribution expenses and general and administration expenses in the statement of income for the year ended 31 December 2016 and three-month period ended 31 March 2016.

6E Long term loans at amortized cost

Under IFRS as endorsed in KSA, certain upfront cost paid against long term loans has been deducted from gross loan amounts so as to record these loans using the EIR method; which was under SOCPA GAAP recorded as intangible to amortise over the term of loan. This has resulted in decrease/increase in intangible assets, long term loans and retained earnings.

6 FIRST-TIME ADOPTION OF IFRS (continued)

6F Shared service cost adjustment

Under SOCPA GAAP, certain shared services employees’ benefits were recharged to affiliates by the majority shareholder and a related party. Upon adoption of IFRS as endorsed in KSA, end of service benefits (“EOSB”) and post-employment medical benefits are required to be calculated using actuarial valuations. Historically, such cost was recharged to affiliates based on the current provision. As the result, the Company’s share of shared service employees’ benefit cost has been revised. This change resulted in an increase in the accrual and other current liabilities and decrease in retained earnings on transition date and income for the year ended 31 December 2016 and three-month period ended 31 March 2016.

6G Others

Others include certain adjustments per requirements of relevant accounting standards under IFRS as endorsed in KSA pertaining to the following:

- (i) Adjustment relates to savings thrift plan for which contributions have been recorded as an employee contribution payable. The cash contributed in respect of this liability is held in separate bank accounts not used in Company’s operations.
- (ii) Under IFRS as endorsed in KSA, based on assessment made by the Company, certain inventories time swap transactions has resulted in reclassification between inventories and related party receivables.
- (iii) Under IFRS as endorsed in KSA, an arrangement that comprises a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments qualifies for recognition as a finance lease. Certain lease arrangements within the Company qualify for recognition as finance leases under IFRS as endorsed in KSA. This resulted in an increase in finance lease receivable, a decrease in related property, plant and equipment and an increase in retained earnings.

In addition to the above IFRS adoption adjustments, certain amounts, mainly in accounts of intangible assets, long term loans, other non-current assets, accrued and other current liabilities were reclassified in accordance with the requirements of IFRS as endorsed in KSA. Further, under IFRS as endorsed in KSA, tolling arrangements are accounted for service agreements as the risks and rewards of the inventory have not been transferred to the Company (“the toller”). Historically, based on substance over form and available contracts, these arrangements were recognized as normal sales and purchase by the Company. Reclassification between sales, cost of sales and other related expenses has resulted in net recognition of tolling fee in other income. This reclassification has no impact on retained earnings.

7 CASH AND CASH EQUIVALENTS

	<i>31 March 2017</i>	<i>31 December 2016</i>	<i>1 January 2016</i>
Time deposits	924,380	1,646,745	608,250
Bank balances	31,333	29,488	55,501
	955,713	1,676,233	663,751

8 SHARE CAPITAL

The Company’s authorized, issued and fully paid share capital is SR 5,625 million which is divided into 562.5 million shares of SR 10 par value each. The Company is 51% owned by Saudi Basic Industries Corporation (“SABIC”) (the “majority shareholder”), and 49% owned by others or publicly traded.

9 LONG TERM LOANS

Long term loans comprised of conventional term loans and Ijara financing.

Conventional term loans

Term loans represents loans availed from Public Investment Fund (PIF) and Commercial and Export Credit Agencies (ECA) respectively. Details of which are as under:

- a) The term loan obtained from Public Investment Fund (PIF) in 2007 to finance partial construction of the plants, is limited to SR 4,001 million. The term loan carries charges at commercial rates and is repayable in equal semi-annual instalments of SR 200 million. The first instalment was paid on 31 December 2009, and the last instalment is payable on 30 June 2019.

Conventional term loans (continued)

- b) The term loans were obtained in 2007 from a consortium of banks in three loans, of which two loans limited to SR 5,948 million and guaranteed by ECA, Servizi Assicurativi Del Commercio Estero and Export Credits Guarantee Department (ECGD) to finance partial construction of plants and working capital. The loans carry commissions at commercial rates and are repayable in semi-annual variable instalments with the first instalment paid on 30 June 2009 and the last instalment payable on 30 June 2018.

These term loans are secured against the proceeds of projects. In addition, the Company has signed an Equity Support, Subordination and Retention Agreement with the majority shareholder (SABIC) under which SABIC shall maintain its ownership in YANSAB at 51% for the life of the loans.

Ijara financing

In 2009, the Company entered into the Ijara Financing Agreements (“IFAs”) pursuant to which the commercial banks will participate in the procurement of a portion of the project assets on the basis of a co-ownership structure.

On the completion of the project, the co-owned assets will be leased to the Company at an annual rental as agreed plus margin.

A special-purpose vehicle (the “Custodian”), incorporated in the Kingdom of Saudi Arabia, holds, as agent, the financiers’ interest in the co-owned assets.

Under the Forward Lease Agreement and the other IFAs, the Company will purchase from the Custodian, the financiers’ ownership interest in the above assets over a period of twelve years commencing from 18 June 2006. Commission on obligation under these arrangements is based on the commercial rate.

In accordance with supply agreement a portion of the project equivalent in amount to the share of Original Facility Participants in Financing Facility as at completion of withdrawal date of 22 November 2010 amounting to SR 2,775 million has been transferred to the name of the Custodian (Company owned by Original Participants). In accordance with the Ijara arrangements, the last instalment is repayable on 30 June 2018.

10 EMPLOYEE BENEFITS

	<i>31 March 2017</i>	<i>31 December 2016</i>	<i>1 January 2016</i>
Defined benefits obligation (note 10.1)	436,899	426,199	394,710
Others	14,332	23,856	9,507
	<u>451,231</u>	<u>450,055</u>	<u>404,217</u>

10.1 Defined benefits obligation

The following table represents the movement of the defined benefits obligation as at 31 March 2017 and 31 December 2016:

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10 EMPLOYEE BENEFITS (continued)

10.1 Defined benefits obligation (continued)

	31 March 2017	31 December 2016
Defined benefits obligation at beginning of the period/year	426,199	394,710
Current service cost	11,227	45,478
Interest cost on benefit obligation	4,165	15,843
Actuarial gain on the obligation	-	(7,373)
Payments during the period/year	(4,867)	(32,719)
Transferred in, net	175	10,260
	<hr/>	<hr/>
Defined benefits obligation at the end of the period/year	436,899	426,199
	<hr/>	<hr/>
Net benefit expense		
	31 March 2017	31 March 2016
Current service cost	11,227	11,385
Interest cost on benefit obligation	4,165	3,986
	<hr/>	<hr/>
Net benefit expense	15,392	15,371
	<hr/>	<hr/>

Significant assumptions used in determining benefit obligations for the Company are shown below:

	31 March 2017	31 December 2016	1 January 2016
Discount rate	4.00%	4.00%	4.10%
Salary increase rate – Executives	5%	5%	5%
Salary increase rate – Non-Executives	7%	7%	7%
Medical inflation rate	Note (a) below	Note (a) below	Note (a) below
Average retirement Age	58	58	58

- a) As at 31 March 2017 and 31 December 2016: 10% in 2017 decreasing to 5% for 2022+ while as at 1 January 2016: 10% in 2016 decreasing to 5% for 2021+.

A quantitative sensitivity analysis for significant assumptions on the defined benefit obligation as at 31 December 2016 and 1 January 2016 are shown below:

	31 December 2016	1 January 2016
Discount rate:		
+25 BPS increase	407,856	381,606
-25 BPS decrease	437,049	408,453
Salary increase rate:		
+25 BPS increase	436,163	407,675
-25 BPS decrease	408,619	382,270
Medical inflation rate:		
+25 BPS increase	426,597	395,051
-25 BPS decrease	425,822	394,389

Since no significant changes in actuarial assumption during the three-month period ended 31 March 2017, hence sensitivity analysis has been presented as at 31 March 2017.

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11 ZAKAT

The movement in the zakat provision during the period/year is as follows:

	31 March 2017	31 December 2016
At beginning of the period/year	169,879	155,754
Provided during the period/year	33,410	145,596
Paid during the period/year	-	(131,471)
	<u>203,289</u>	<u>169,879</u>
At the end of the period/year	<u>203,289</u>	<u>169,879</u>

The Company has filed its zakat returns with the General Authority of Zakat and Tax (GAZT), received the zakat certificates, settled the zakat dues and cleared its zakat assessments with GAZT up to the year ended 31 December 2012.

12 EARNINGS PER SHARE

The earnings per share calculation is given below:

	31 March 2017	31 March 2016
Net income for the period (SR ‘000)	608,159	421,742
	<u>562,500</u>	<u>562,500</u>
Weighted average number of ordinary shares (‘000)	562,500	562,500
	<u>1.08</u>	<u>0.75</u>
Earnings per share (Saudi Riyals) – Basic and diluted	1.08	0.75

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

13 DERIVATIVE LIABILITY

	31 March 2017	31 December 2016	1 January 2016
<i>Held for trading:</i>			
Interest rate swap agreements – current	41,821	52,559	74,938
Interest rate swap agreements – non-current	15,005	17,741	52,343
	<u>56,826</u>	<u>70,300</u>	<u>127,281</u>
Notional amount	<u>1,512,436</u>	<u>1,512,436</u>	<u>2,308,226</u>

14 FAIR VALUE MEASUREMENT

Set out below is a comparison, by class, of the carrying amounts and fair value of the Company’s financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	31 March 2017 carrying amount	Fair value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities measured at fair value					
Derivative financial instruments	<u>56,826</u>	<u>56,826</u>	<u>-</u>	<u>56,826</u>	<u>-</u>

There were no transfers between Level 1 and Level 2 during the period.

14 FAIR VALUE MEASUREMENT (continued)

	<i>31 December 2016 carrying amount</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Liabilities measured at fair value					
Derivative financial instruments	70,300	70,300	-	70,300	-

There were no transfers between Level 1 and Level 2 during the year.

	<i>1 January 2016 carrying amount</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Liabilities measured at fair value					
Derivative financial instruments	127,281	127,281	-	127,281	-

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

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

Long-term fixed-rate and variable-rate receivables are evaluated by the Company based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 March 2017, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

The Company enters into derivative financial instrument principally with financial institutions having investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs is interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity. All derivative contracts are fully cash collateralized, thereby eliminating both counterparty and the Company's own non-performance risk. As at 31 March 2017, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk.

Fair values of the Company's long term loans are determined by using DCF method using discount rate that reflects the borrowing rate as at the end of the reporting period.

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15 RELATED PARTY TRANSACTIONS AND BALANCES

Related party	Nature of transactions	Transactions for the three-month period ended		Balance as at		
		31 March 2017	31 March 2016	31 March 2017	31 December 2016	1 January 2016
a) Amounts due from related parties						
Saudi Basic Industries Corporation (SABIC) – (majority shareholder)	Sale of products	1,758,506	1,346,430	2,047,685	1,881,758	1,843,686
	Advances for purchase of materials, product sales and other transactions	42,447	30,319	207,398	164,951	158,909
	Long term advance for logistics	-	-	7,500	7,500	7,500
Other affiliates	Exchange of products	2,632	948	2,997	13,743	420
	Others	1,507	980	140	6,250	5,086
		1,805,092	1,378,677	2,265,720	2,074,202	2,015,601
b) Amounts due to related parties						
Saudi Basic Industries Corporation (SABIC) – (majority shareholder)	Payments on behalf of the company and other services rendered by the majority shareholder	332,582	187,396	187,798	193,276	208,174
	Research and technology fees	35,173	27,185	40,661	36,988	36,606
Arabian Industrial Fibers Company (IBN RUSHD) - (an affiliate)	Other income on accounts of Propane Tolling Agreement	20,759	13,254	82,067	43,296	48,256
Other affiliates	Storage services, purchase of gases and others	62,916	72,829	59,554	32,603	42,469
Board of directors	Remuneration	1,400	1,400	1,400	-	-
		452,830	302,064	371,480	306,163	335,505

15 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Key management compensation

Compensation for key management is as follows:

	<i>31 March 2017</i>	<i>31 March 2016</i>
Salaries and other benefits	3,889	3,951
Post-employment benefits	344	265
	4,233	4,216

Terms and conditions of transactions with related parties

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

16 SEGMENT INFORMATION

The Company's President and Board of Directors monitor the results of the Company's operations for the purpose of making decisions about resource allocation and performance assessment. They are collectively the chief operating decision makers (CODM) for the Company. The CODM review the results of the Company as a whole, as they believe that decision making cannot be done effectively in isolation for single products of the Company due to complex nature of the business, integrated facility where multiple products including downstream product movement are simultaneous and the nature of the products market. Hence, the whole Company is treated as a single operating segment, the results and financial position of which has been presented already.

The key evaluation criteria for segment performance is the net profit and this is evaluated and measured consistently from period to period.

The non-current assets of the Company are based in KSA and product sales by the Company are made primarily to its majority shareholder which is also based in Kingdom of Saudi Arabia.

17 COMMITMENTS AND CONTINGENCIES

As at 31 March 2017, the Company has commitments of SAR 579.5 million (as at 31 December 2016: SR 247 million / as at 1 January 2016: SR 247 million) relating to capital expenditures.

The Company's bankers have issued, on its behalf, bank guarantees amounting to SR 10.3 million in the normal course of business as at 31 March 2017 (as at 31 December 2016: SR 10.3 million / as at 1 January 2016: SR 14.8 million).

18 APPROPRIATION OF NET INCOME

On 24 December 2015, the Board of Directors recommended to the General Assembly a distribution of the amount of SR 562.5 million as cash dividends (SR 1 per share) for the second half of the year 2015 which represents 10% of the nominal value of the shares. The eligibility for this dividend distribution was to shareholders listed on the Saudi Stock Exchange (Tadawul) by the end of trading day of the General Assembly meeting which was on 31 March 2016. This was approved by the General Assembly in their meeting held on 31 March 2016. The total dividends for the year ended 31 December 2015 were SR 1,125 million (SR 2 per share).

On 22 December 2016, the Board of Directors recommended to the General Assembly a distribution of cash dividend amounting SR 843.75 million (SR 1.5 per share) for the second half of the year 2016 which represents 15% of the nominal value of the shares. The eligibility for this dividend distribution was to shareholders listed on the Tadawul by the end of trading day of the General Assembly meeting which was on 14 March 2017. This was approved by the General Assembly in their meeting held on 14 March 2017. The total dividends for the year ended 31 December 2016 were SR 1,687.5 million (SR 3 per share).