

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**
FOR THE THREE MONTHS PERIOD ENDED
MARCH 31, 2019

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019**

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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the shareholders of
Sahara Petrochemicals Company
(A Saudi joint stock company)
Riyadh - Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Sahara Petrochemicals Company ("the Company") (a Saudi joint stock company) and its subsidiaries (collectively referred to as 'the Group') which comprises of consolidated interim statement of financial position as of March 31, 2019, the related consolidated interim statement of profit or loss and other comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the three months period then ended and summary of significant accounting policies and selected notes from (1) to (19).

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that are 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 condensed consolidated interim financial statements for the three months period ended March 31, 2019 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.



Gihad M. Al-Amri
Certified Public Accountant
Registration No. 362



April 24, 2019 G
Sha'ban 19, 1440 H

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS OF MARCH 31, 2019 (UNAUDITED)**

Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

	Note	March 31, 2019 (unaudited)	December 31, 2018 (audited)
ASSETS			
Non-Current Assets			
Property, plant and equipment	8	2,403,839	2,403,728
Right-of-Use asset	5, 7	7,081	-
Intangible assets		25,119	25,830
Investments in a joint venture and associates	9	2,623,535	2,499,042
Long-term investments	10	234,572	234,099
Other non-current assets		408,282	401,861
Total Non-Current Assets		5,702,428	5,564,560
Current Assets			
Inventories		205,270	143,252
Trade receivables		269,336	130,522
Prepayments and other current assets		103,122	114,505
Cash and cash equivalents		847,017	1,071,163
Total Current Assets		1,424,745	1,459,442
Total Assets		7,127,173	7,024,002
EQUITY AND LIABILITIES			
Equity			
Share capital		4,387,950	4,387,950
Statutory reserve		335,240	335,240
Other reserves		(20,499)	(15,006)
Retained earnings		408,741	266,057
Total Equity		5,111,432	4,974,241
Non-Current Liabilities			
Long-term borrowings	11	1,226,986	1,225,670
Lease liability	5, 7	9,783	-
Deferred income		60,138	61,294
Employees' end of service benefits		149,069	146,299
Derivative financial instruments		9,917	5,290
Decommissioning liability		23,374	23,154
Total Non-Current Liabilities		1,479,267	1,461,707
Current Liabilities			
Current portion of long-term borrowings	11	156,729	156,729
Current portion of lease liability	5, 7	817	-
Trade payables		67,624	41,982
Accrued expenses and other current liabilities		268,054	138,195
Dividend payable		-	219,398
Provision for zakat		43,250	31,750
Total Current Liabilities		536,474	588,054
Total Liabilities		2,015,741	2,049,761
Total Equity and Liabilities		7,127,173	7,024,002

The accompanying notes 1 through 19 form an integral part of these condensed consolidated interim financial statements.

Rushdi Khalid Al-Dulijan
Chief Financial Officer and Executive Vice
President, Finance & IT

Saleh Mohammed Bahamdan
Vice Chairman and Chief
Executive Officer

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019
Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

	For the three months ended March 31, 2019 (note 1)	For the three months ended March 31, 2018
Sales	365,350	-
Cost of sales	(259,667)	-
Gross profit	105,683	-
General and administrative expenses	(44,722)	(8,302)
Selling and distribution expenses	(17,392)	-
	43,569	(8,302)
Financial income	8,430	9,972
Share of profit from joint venture and associates	123,708	146,119
Other income, net	1,123	27
Operating profit	176,830	147,816
Finance cost	(22,646)	(820)
Profit before Zakat	154,184	146,996
Zakat charge	(11,500)	(6,750)
Net profit for the period	142,684	140,246
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Changes in fair value of derivative financial instruments designated as hedge	(4,627)	118
Share of other comprehensive income of joint ventures and associates	-	994
Items that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of financial assets at fair value through other comprehensive income	(866)	(5,017)
Total other comprehensive loss for the period	(5,493)	(3,905)
Total comprehensive income for the period	137,191	136,341
Earnings per share:		
Basic and diluted (Saudi Arabian Riyal)	0.33	0.32

The accompanying notes 1 through 19 form an integral part of these condensed consolidated interim financial statements.

Rushdi Khalid Al-Dulijan
Chief Financial Officer and Executive Vice
President, Finance & IT

Saleh Mohammed Bahamdan
Vice Chairman and Chief
Executive Officer

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

	Share capital	Statutory reserve	Other reserves		Actuarial gain or loss reserve	Retained earnings	Total
			Cash flow hedge reserve	Fair value reserve			
Balance as at January 1, 2018	4,387,950	285,158	(13,240)	2,620	3,279	692,998	5,358,765
Profit for the period	-	-	-	-	-	140,246	140,246
Other comprehensive income / (loss) for the period	-	-	1,112	(5,017)	-	-	(3,905)
Total comprehensive income / (loss) for the period	-	-	1,112	(5,017)	-	140,246	136,341
Balance as at March 31, 2018	4,387,950	285,158	(12,128)	(2,397)	3,279	833,244	5,495,106
Balance as at January 1, 2019	4,387,950	335,240	(4,434)	(7,646)	(2,926)	266,057	4,974,241
Profit for the period	-	-	-	-	-	142,684	142,684
Other comprehensive loss for the period	-	-	(4,627)	(866)	-	-	(5,493)
Total comprehensive income / (loss) for the period	-	-	(4,627)	(866)	-	142,684	137,191
Balance as at March 31, 2019	4,387,950	335,240	(9,061)	(8,512)	(2,926)	408,741	5,111,432

The accompanying notes 1 through 19 form an integral part of these condensed consolidated interim financial statements.

Rushdi Khalid Al-Dulijan
Chief Financial Officer and Executive Vice
President, Finance & IT

Saleh Mohammed Bahamdan
Vice Chairman and Chief Executive
Officer

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019
Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

	For the three months ended March 31, 2019 (note 1)	For the three months ended March 31, 2018
Cash flows from operating activities		
Net profit before zakat	154,184	146,996
<i>Adjustment for non-cash items:</i>		
Depreciation on property, plant and equipment	55,887	1,804
Amortization of intangible assets	873	507
Amortization of House Ownership Program (HOP) assets	1,640	154
Share in net income of equity accounted investees	(123,708)	(146,119)
Finance cost	22,646	820
Amortization of deferred revenue	(1,156)	-
Interest income from advances to joint ventures and associates	(785)	(512)
Loss on disposal / write-off of property, plant and equipment	-	630
Provision for employees' end of service benefits	4,522	3,553
	<u>114,103</u>	<u>7,833</u>
<i>Increase in current assets</i>		
- Inventories	(62,018)	-
- Trade receivables	(138,814)	-
- Prepayments and other current assets	25,252	10,023
<i>Increase in current liabilities</i>		
- Trade payables	25,642	8,809
- Accrued expenses and other current liabilities	109,290	17,547
Cash generated from operations	<u>73,455</u>	<u>44,212</u>
Zakat paid	-	(209)
Finance cost paid	(541)	-
Employees' end of service benefits-paid	(1,752)	(1,072)
Net cash generated from operating activities	<u>71,162</u>	<u>42,931</u>
Cash flows from investing activities		
Murabaha deposits	-	(185,000)
Long term investments	(1,339)	(581)
Additions to property, plant and equipment	(57,109)	(2,374)
Additions to intangible assets	(162)	(3)
Deductions from employees long term advances	6,371	5,177
Additions to other non-current assets	(23,671)	-
Net cash used in investing activities	<u>(75,910)</u>	<u>(182,781)</u>
Cash flows from financing activities		
Dividends paid	(219,398)	-
Net cash used in financing activities	<u>(219,398)</u>	<u>-</u>
Net change in cash and cash equivalents	<u>(224,146)</u>	<u>(139,850)</u>
Cash and cash equivalents at the beginning of the period	1,071,163	513,913
Cash and cash equivalent at the end of the period	<u>847,017</u>	<u>374,063</u>

The accompanying notes 1 through 19 form an integral part of these condensed consolidated interim financial statements.

Rushdi Khalid Al-Dulijan
Chief Financial Officer and Executive Vice
President, Finance & IT

Saleh Mohammed Bahamdan
Vice Chairman and Chief Executive
Officer

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

1. CORPORATE INFORMATION

Sahara Petrochemicals Company ("the Company") is a Saudi Joint Stock Company and registered in the Kingdom of Saudi Arabia, operating under Commercial Registration ("CR") No. 1010199710 issued in Riyadh on Jumada'l 19, 1425 H (July 7, 2004).

The Company is principally involved in investing in industrial projects, especially in the petrochemicals and chemical fields and to own and execute projects necessary to supply raw materials and utilities.

The registered address of the Company is P.O. Box 251, Riyadh 11411, Kingdom of Saudi Arabia. Sahara Petrochemicals Company is referred to as "the Company" and together with its subsidiaries as "the Group" throughout these condensed consolidated interim financial statements.

Subsidiaries

The Company holds 100% shares of Sahara Marketing Company ("SMC") ("a subsidiary"). SMC is a limited liability company and registered in the Kingdom of Saudi Arabia, operating under CR No. 2055104498 issued in Jubail on Rabi al Awal 19, 1438-H (December 18, 2016). The principle activities of SMC are wholesale of industrial chemicals and petrochemicals, export and commercial undertakings, and marketing on behalf of third parties.

The Company holds 100% shares of Promising Business Company ("PBC") ("a subsidiary"). PBC is a single member company and registered in the Kingdom of Saudi Arabia, operating under CR No. 2055124398 issued in Jubail on Rabi al Thani 6, 1440-H (December 13, 2018). The principle activity of PBC is wholesale of chemicals and fertilizers. In December 2018, PBC purchased 30% shares in Khair Inorganic Chemicals Industries Company ("Inochem") on behalf of the Company.

Joint operations

The Company holds 75% shareholding in Al-Waha Petrochemicals Company ("Al-Waha") which is classified as a joint operation. Al-Waha Petrochemicals Company (the 'Company') is a limited liability company licensed under foreign investment license No. 121030061745 issued by the Saudi Arabian General Investment Authority on 28 Jumada II 1427H (July 25, 2006) and operating under Commercial Registration No. 2055007751 dated 9 Sha'ban 1427H (September 2, 2006) issued in Dammam. Its principal activities are to operate a petrochemical complex for manufacturing and sale of propylene and polypropylene. The Company commenced commercial production from April 2011. Al-Waha was equity accounted till September 30, 2018 after which it started to be proportionately consolidated due to changes in the off-take agreements as disclosed in note 1 to the annual consolidated financial statements of the Group for the year ended December 31, 2018.

Equity accounted investees

The Company holds 50% shareholding in a joint venture, Sahara and Ma'aden Petrochemicals ("SAMAPCO"), which is primarily involved in manufacturing of petrochemical products.

The Company also holds equity interests in following associates which are primarily involved in manufacturing of petrochemical products:

	Effective interest %
Tasnee and Sahara Olefins Company ("TSOC")	32.55
Saudi Acrylic Acid Company ("SAAC")	43.16
Khair Inorganic Chemicals Industries Company ("Inochem")	30.00

2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting as endorsed in Kingdom of Saudi Arabia.

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

3. BASIS OF MEASUREMENT

These condensed consolidated interim financial statements have been prepared on historical cost basis, with exception of financial assets at fair value through other comprehensive income and derivative financial instruments that are measured at fair value and employees' end of service benefits obligation which is measured at present value using Projected Unit Credit Method (PUCM)

4. FUNCTIONAL AND PRESENTATION CURRENCY

These condensed consolidated interim financial statements are presented in Saudi Arabian Riyals (SR) which is the functional and presentation currency of the Group. All amounts have been rounded to the nearest thousands, unless otherwise stated.

5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

• **IFRS 16 – 'Leases'**

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

- 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 lessees 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 leases of low-value assets; however, this exemption can only be applied by lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has adopted IFRS 16 Leases from January 1, 2019 and the effect of application of this standard has been fully explained below. There are no other new standards issued, however, there are number of amendments to standards which are effective from January 1, 2020, but they do not have a material effect on the Group's condensed consolidated interim financial statements.

Adjustment recognised on adoption of IFRS 16

The Group has applied IFRS 16 from January 1, 2019, using the modified retrospective approach.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to discount the lease liabilities on January 1, 2019 was 3.8% per annum. The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The right-of-use ("ROU") assets immediately after the date of initial application have been deemed to be equal to the related lease liabilities.

Sahara acts as a sub-lessor to Al Waha and SAMAPCO in relation to industrial land leased from Royal Commission of Jubail and Yanbu. The sub-lease is structured as a finance lease and, as such, the related portion of the right-of-use asset has been de-recognised and a sub-lease receivable from AlWaha and SAMAPCO has been recognised. The recognized right-of-use asset and sub-lease receivables are as follows:

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

	January 1, 2019
Initial ROU asset recognized in Sahara (equal to lease liability)	10,600
Receivable under sub-lease from:	
- Al-Waha	(5,252)
- SAMAPCO	(2,206)
ROU asset in Sahara	3,142
75% of ROU asset of Al Waha	3,939
Total right-of-use assets of Group	7,081

Lease liabilities as at period end are as follows:

Non-current portion of lease liabilities	9,783
Current portion of lease liabilities	817
Total lease liabilities	10,600

The total interest expense on lease liabilities recognized during the three months period ended March 31, 2019 was immaterial.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The Company applies IAS 36 – "Impairment of Assets" to determine whether a right of use asset is impaired.

There were no additions to right-of-use assets during the three months period ended March 31, 2019. The right-of-use assets are depreciated over the shorter of the lease term or useful life of the underlying assets.

The change in accounting policy has affected the following items in the statement of financial position as of January 1, 2019:

- Right-of-use assets – increased by Saudi Riyals 7.1 million
- Other non-current assets – increased by Saudi Riyals 3.5 million
- Lease liabilities – increased by Saudi Riyals 10.6 million

For accounting policy, refer note 7 to these condensed consolidated interim financial statements.

6. USE OF ESTIMATES AND JUDGMENTS

In preparing these condensed consolidated interim financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in consolidated financial statements for the year ended December 31, 2018, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, which are described below;

IFRS 16 'Leases' introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

7. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies and method of computation adopted for the preparation of these condensed consolidated interim financial statements are the same as those applied in the preparation of the Group's annual audited consolidated financial statements for the year ended December 31, 2018 except the following policies which are being adopted due to implementation of new standards effective from January 01, 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

IFRS 16 - Leases

The Group has recognised new assets and liabilities for its operating leases of lands. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

- i) Right-of-use assets are measured at cost comprising the following:
 - the amount of the initial measurement of lease liability
 - any lease payments made at or before the commencement date less any lease incentives received
 - any initial direct costs, and
 - restoration costs.
- ii) Lease liabilities include the net present value of the following lease payments:
 - fixed payments (including in-substance fixed payments), less any lease incentives receivable
 - variable lease payments that are based on an index or a rate
 - amounts expected to be payable by the lessee under residual value guarantees
 - the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
 - payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items relating to office equipment.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

SAHARA PETROCHEMICALS COMPANY
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019
Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at March 31, 2019 and December 31, 2018, comprises the following:

	Buildings and leasehold land improvements	Plant, machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Capital work in progress	Total
Cost:						
At January 1, 2019	465,947	2,815,071	40,828	1,918	92,082	3,415,846
Additions	-	91	15	-	57,003	57,109
Transfers in / (out)	4,078	27,737	73	-	(31,888)	-
Transferred to Al Waha	-	-	-	-	(1,111)	(1,111)
Disposals	-	(86,482)	-	-	-	(86,482)
At March 31, 2019	470,025	2,756,417	40,916	1,918	116,086	3,385,362
Accumulated Depreciation:						
At January 1, 2019	(104,397)	(872,275)	(33,650)	(1,796)	-	(1,012,118)
Charge for the period	(3,656)	(51,367)	(834)	(30)	-	(55,887)
Disposals	-	86,482	-	-	-	86,482
At March 31, 2019	(108,053)	(837,160)	(34,484)	(1,826)	-	(981,523)
Net Book Value:						
As at March 31, 2019	361,972	1,919,257	6,432	92	116,086	2,403,839
As at December 31, 2018	361,550	1,942,796	7,178	122	92,082	2,403,728

Administrative building of the Group are constructed on land leased under a renewable lease contract with the Royal Commission for Jubail and Yanbu (the "Royal Commission"). The lease term is for an initial period of 30 years commenced in 2006 and is renewable by mutual agreement of the parties.

Capital work in progress represents the projects which are not yet completed and are under progress at the period end. These include various process improvement projects such as firewater pipe upgrade and sea water pipeline enhancement.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

9. INVESTMENTS IN A JOINT VENTURE AND ASSOCIATES

	Note	March 31, 2019	December 31, 2018
Investment in a joint venture	9.1	396,010	349,055
Investment in associates	9.2	2,227,525	2,149,987
		<u>2,623,535</u>	<u>2,499,042</u>

9.1 Investment in a joint Venture (JV)

	Note	March 31, 2019	December 31, 2018
Investment in a JV		338,380	291,956
Advances to a JV	9.1.1	57,630	57,099
		<u>396,010</u>	<u>349,055</u>

9.1.1 Advances to a JV

The Group has provided an interest free long term advance to SAMAPCO which is subordinated to certain term loans obtained from SIDF.

9.2 Investment in associates

	Note	March 31, 2019	December 31, 2018
Investment in associates:			
Tasnee and Sahara Olefins Company		1,922,007	1,843,766
Saudi Acrylic Acid Company		-	-
Khair Inorganic Chemical Industries Company		241,043	242,000
		<u>2,163,050</u>	<u>2,085,766</u>
Advances to associates:			
Saudi Acrylic Acid Company	9.2.1	64,475	64,221
		<u>2,227,525</u>	<u>2,149,987</u>

9.2.1 Advances to SAAC

The Group has provided long-term advance to SAAC which carries commission, and is subordinated to certain term loans obtained from SIDF.

10. LONG-TERM INVESTMENTS

	Note	March 31, 2019	December 31, 2018
At fair value through other comprehensive income ("FVOCI")	10.1, 10.2	167,601	167,128
At amortized cost	10.3	66,971	66,971
		<u>234,572</u>	<u>234,099</u>

10.1 Financial assets at FVOCI:

	Note	March 31, 2019	December 31, 2018
Listed securities			
Riyad REIT Fund		57,525	58,875
Unlisted securities			
Mutual fund units	10.2	110,076	108,253
		<u>167,601</u>	<u>167,128</u>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019**

Expressed in Saudi Arabian Riyals in thousands unless otherwise stated

10.2 The table below analyses the financial assets by the level in the fair value hierarchy:

	March 31, 2019	December 31, 2018
Financial assets through FVOCI - Level 1	57,525	58,875
Financial assets through FVOCI - Level 2	110,076	108,253
	167,601	167,128

Valuation technique used for the valuation of level 2 investments is based on the fair valuation provided by the financial institutions. The carrying value of the other financial assets and financial liabilities of the Group approximate their fair value.

10.3 At amortized cost

This includes investments in various Sukuks which earn profit at prevailing market rates which are based on Saudi inter-bank offer rate.

11. LONG TERM BORROWINGS

	Note	March 31, 2019	December 31, 2018
Islamic loan under Ijara arrangement	11.1	1,104,750	1,104,750
Loan from a commercial bank	11.2	291,667	291,667
	11.4	1,396,417	1,396,417
Less: unamortized upfront fee	11.3	(12,702)	(14,018)
Total borrowings		1,383,715	1,382,399

Presented in the consolidated interim statement of financial position as follows:

	March 31, 2019	December 31, 2018
Current portion shown under current liabilities	156,729	156,729
Non-current portion shown under non-current liabilities	1,226,986	1,225,670
Total borrowings	1,383,715	1,382,399

11.1 Islamic loan under Ijara arrangement

During 2015, Al-Waha signed an Ijara facility agreement with a syndication of commercial banks (the "lessor"). The proceeds from this facility were used to repay Saudi Industrial Development Fund ("SIDF") loan, Public Investment Fund ("PIF") loan and advances against Islamic facilities obtained for the construction of the plant. This facility represents an Islamic mode of financing amounting to Saudi Riyals 1,964 million through a sale and lease back of certain plant facilities. The loan bears financial charges at Saudi Inter Bank Offered Rate ("SAIBOR") plus a specified margin and is repayable in twenty four un-equal semi-annual installments commencing from June 30, 2015.

11.2 Islamic loan from a commercial bank for HOP

During 2013, the Group signed a loan agreement of Saudi Riyals 500 million with a commercial bank to finance the employee housing scheme for the Group's employees and its joint arrangements - Al Waha and SAMAPCO. The Group has drawn the entire facility as at December 31, 2016. In 2017, the repayment schedule has been changed with the agreement of the Bank. The loan bears financial charges at Saudi Arabian Inter Bank Offered Rate ("SAIBOR") plus a specified margin and is repayable in twenty equal semi-annual instalments commencing after three years from the draw down date.

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11.3 Unamortized upfront fees

	March 31, 2019	December 31, 2018
Opening balance	14,018	-
Effect of proportionate consolidation of Al-Waha	-	14,576
Amortization for the period / year	(1,316)	(558)
Closing balance	<u>12,702</u>	<u>14,018</u>

11.4 Maturity profile of long term borrowings:

	March 31, 2019	December 31, 2018
2019	156,729	156,729
2020	156,729	156,729
2021	156,729	156,729
2022	156,729	156,729
2023	156,729	156,729
2024	200,919	200,919
Thereafter	411,853	411,853
Total	<u>1,396,417</u>	<u>1,396,417</u>

12. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties consist of the shareholders, their subsidiaries, affiliates and the Group's Board of Directors. Significant transaction with related parties was as follows:

- a) The Group has a shared service agreement with Al-Waha and SAMAPCO for the provision of accounting, treasury, maintenance, human resources, information technology (ERP/SAP), procurement and related services and other general services.
- b) The Group has a long-term marketing agreement with Lyondell Basell and its associates for the sale of polypropylene outside GCC.
- c) The Group has a marketing consultancy agreement with Lyondell Basell and its associates for the sale of polypropylene inside GCC.
- d) The Group has a long-term supply agreement with Saudi Ethylene and Polyethylene for the supply of ethylene.
- e) The Group has a shared service agreement with Al-Waha and SAMAPCO to manage the house ownership project for their employees.
- f) The Group has obtained a loan from a commercial bank to finance the house ownership program for the Group's employees and its joint arrangements – Al-Waha and SAMAPCO. The Group allocates finance cost to Al-Waha and SAMAPCO under shared service agreement.
- g) The Group has provided long term advance to SAAC which carries commission, and is subordinated to certain term loans obtained from SIDF.
- h) The Group has provided interest-free long term advance to SAMAPCO which is subordinated to certain term loans obtained from SIDF.
- i) The Group charges interest to SAAC in relation to the subordinated loan mentioned in (g).

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There have been no guarantees provided or received for any related party receivables or payables. For the three months period ended March 31, 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year / period by examining the financial position of the related party and the market in which the related party operates.

During the three months period ended March 31, the Group had the following significant transactions with its related parties:

Related party	Relationship	Nature of transaction	For the three months period ended March 31, 2019	For the three months period ended March 31, 2018
Al-Waha Petrochemicals Company (Al Waha)	Joint operations (refer note 1)	Shared services cost charged to Al-Waha	8,319	-
		Cost and expenses charged by Al-Waha	47	-
		Transfer of HOP assets to Al Waha	3,083	-
		Allocation of HOP finance cost to Al-Waha	577	-
		Purchase of polypropylene from Al-Waha	27,025	-
Al-Waha Petrochemicals Company (Al-Waha)	Joint venture	Shared services cost charged to Al-Waha	-	31,541
		Cost and expenses charged by Al-Waha	-	178
		Allocation of HOP finance cost to Al-Waha	-	2,306
Sahara and Ma'aden Petrochemical Company (SAMAPCO)	Joint venture	Shared service cost charged to SAMAPCO	26,535	23,000
		Interest income	531	512
		Transfer of HOP assets to SAMAPCO	9,675	-
		Allocation of HOP finance cost to SAMAPCO	1,710	1,900
		Cost and expenses charged to SAMAPCO	2,665	-
Saudi Acrylic Acid Company	Associate	Interest income	254	710
Lyondell Basell	Affiliate	Consultancy fee	1,089	-
		Sale of polypropylene	248,163	-
Saudi Ethylene and Polyethylene Company	Affiliate	Purchase of ethylene by Al-Waha	21,572	-
Board of Directors	Key management Personnel	Board of Directors fees and expenses	713	145

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13. SEGMENT REPORTING

The Group has the following operating segments:

Manufacturing, which includes manufacturing of petrochemicals products (mainly polypropylene) by its joint operation.

Marketing, which includes sales of petrochemicals products (mainly polypropylene) by Sahara Marketing Company (SMC).

Corporate, which includes enabling functions and support activities.

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the condensed consolidated interim financial statements for the three months period ended March 31, 2019 is as follows;

	Manufacturing	Marketing	Corporate	Consolidation eliminations	Total
Revenue					
External customers	252,356	112,994	-	-	365,350
Inter-segment	81,076	-	-	(81,076)	-
	333,432	112,994	-	(81,076)	365,350
Gross profit	89,182	4,893	-	11,608	105,683
Operating profit / (loss)	58,366	1,685	(16,482)	-	43,569
Depreciation and amortization	55,162	-	3,238	-	58,400
Share of profits from associates and joint ventures	-	-	159,635	(35,927)	123,708
Financial income	1,470	-	6,960	-	8,430
Finance cost	(22,645)	-	(1)	-	(22,646)
Profit / (loss) before zakat	38,428	1,685	149,998	(35,927)	154,184
Total assets	3,074,397	137,111	5,664,144	(1,748,479)	7,127,173
Total liabilities	1,456,053	135,143	552,010	(127,465)	2,015,741
Capital expenditures	54,730	-	2,379	-	57,109

Disaggregation of revenue based on geographical information and segments

	Manufacturing	Marketing	Corporate	Consolidation eliminations	Total
Revenue					
Foreign countries	248,163	2,580	-	-	250,743
Kingdom of Saudi Arabia	85,269	110,414	-	(81,076)	114,607
	333,432	112,994	-	(81,076)	365,350

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14. DIVIDEND

The Group's shareholders in their Annual General Meeting held on April 15, 2019 approved the following:

- an interim cash dividend of SAR 219.4 million (SAR 0.50 per share) recommended by the Board of Directors on August 8, 2018, which has been fully paid in September 2018.
- an interim cash dividend of SAR 219.4 million (SAR 0.50 per share) recommended by the Board of Directors on December 5, 2018, which has been fully paid in January 2019.

The Group's shareholders in their Annual General Meeting held on April 19, 2018 approved a final cash dividend of SAR 438.8 million (SAR 1.00 per share) recommended by the Board of Directors on December 27, 2017, which has been fully paid in May 2018.

15. PROPOSED MERGER

In 2013, the Group started discussions / negotiations with Saudi International Petrochemical Company (SIPCHEM) for Proposed Merger (the Merger) between the two companies. In 2014, the Group called off its decision because implementing the Merger through a structure acceptable to both companies and available under the regulatory framework at that time was not available. However, in March 2018, the Group again started discussions with SIPCHEM in relation to the Proposed Merger in the light of the recent changes in the regulatory framework.

Based on the above discussion, on October 3, 2018 the Group entered in to a non-binding memorandum of understanding with SIPCHEM (the "MOU") to effect a business combination. Under the terms of the MOU and in order to implement the proposed business combination, SIPCHEM, following the execution of the binding implementation agreement, will make an offer to all shareholders of the Group to acquire all their shares in the Group. SIPCHEM will issue, and each shareholder of the Group will receive, 0.8356 new SIPCHEM shares for each share of the Group held by them. The business combination will result in SIPCHEM having an increased share capital of 733,333,332 shares, of which 366,666,666 shares, representing 50% of the increased share capital, will be held by the shareholders of the Group and 366,666,666 shares, representing 50% of the increased share capital, will be held by SIPCHEM shareholders. The Exchange Ratio and the resulting ownership split has been agreed as a result of an extensive mutual due diligence and valuation exercise.

On December 6, 2018, the Group entered into a legally binding agreement with SIPCHEM to implement a business merger of equals by way of SIPCHEM making a recommended offer to acquire all of the issued shares in Group in exchange for the issue of new shares in SIPCHEM.

On April 22, 2019, Capital Market Authority (CMA) announced the approval of proposed merger which is subject to shareholders' approval in their extraordinary general assembly meetings of SIPCHEM and the Group.

16. COMMITMENTS AND CONTINGENCIES

The Group has a contingent liability for bank guarantees issued in the normal course of the business amounting Saudi Riyals 238.1 million as at March 31, 2019 (December 31, 2018: Saudi Riyals 236.4 million).

The capital expenditure contracted by the Group but not yet incurred till March 31, 2019 was approximately Saudi Riyals 24.6 million (December 31, 2018: Saudi Riyals 49.6 million).

17. SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events except mentioned in the note 15 of these financial statements, since the period ended March 31, 2019 that would have a material impact on the financial position of the Group as reflected in these condensed consolidated interim financial statements.

18. COMPARATIVE FIGURES

Certain reclassifications were made to the comparative figures to conform to the current period's presentation.

19. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements have been approved by the board of directors of the Group on April 24, 2019 G.