SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2017
AND INDEPENDENT AUDITORS' REVIEW REPORT

CHEMISTRY THAT MATTERS™

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2017

INDEX

Building a better working world

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Independent auditors' review report on the interim condensed consolidated financial statements to the shareholders of Saudi Basic Industries Corporation (SABIC) (A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Basic Industries Corporation ("SABIC") and its subsidiaries (collectively with SABIC referred to as "the Group") as at 30 September 2017, and the related interim condensed consolidated statements of income and comprehensive income, for the three and nine month periods ended 30 September 2017, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
License No. (366)

Riyadh: 9 Safar 1439H
(29 October 2017)

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Note	**As at 30 September 2017**	As at 31 December 2016 *(Note 6)*
Assets			
Non-current assets			
Property, plant and equipment	*7*	**170,428,045**	170,349,982
Intangible assets		**13,386,914**	12,925,908
Investment in associates and joint ventures		**14,109,626**	12,940,324
Held-to-maturity investments		**3,471,150**	3,476,590
Available-for-sale financial assets		**724,143**	693,398
Deferred tax assets	*13*	**1,481,215**	1,522,837
Other non-current assets		**4,044,334**	4,319,754
Total non-current assets		**207,645,427**	206,228,793
Current assets			
Inventories		**26,183,576**	22,601,498
Trade receivables		**22,481,083**	19,853,239
Prepayments and other current assets		**5,072,587**	4,818,029
Short-term investments		**7,367,698**	20,105,377
Cash and bank balances		**49,846,206**	40,247,740
Total current assets		**110,951,150**	107,625,883
Total assets		**318,596,577**	313,854,676

The notes on page 11 to 70 form an integral part of these interim condensed consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Note	As at 30 September 2017	As at 31 December 2016 (Note 6)
Equity and liabilities			
Equity			
Share capital	8	**30,000,000**	30,000,000
Statutory reserve		**15,000,000**	15,000,000
General reserve		**110,889,032**	110,889,032
Other reserves	9	**(3,032,415)**	(5,307,983)
Retained earnings		**8,941,927**	6,953,960
Equity attributable to equity holders of the Parent		**161,798,544**	157,535,009
Non-controlling interests	10	**42,848,583**	44,544,030
Total equity		**204,647,127**	202,079,039
Non-current liabilities			
Long-term debt	11	**47,432,998**	49,897,787
Employee benefits	12	**17,863,816**	16,384,051
Deferred tax liabilities	13	**2,519,599**	2,703,436
Other non-current liabilities		**1,188,167**	1,410,068
Total non-current liabilities		**69,004,580**	70,395,342
Current liabilities			
Current portion of long-term debt	11	**11,486,605**	12,772,877
Short-term borrowings		**429,708**	439,085
Trade payables		**17,933,038**	16,368,834
Accruals and other current liabilities		**11,677,845**	8,663,803
Zakat and income tax payable	13	**3,417,674**	3,135,696
Total current liabilities		**44,944,870**	41,380,295
Total liabilities		**113,949,450**	111,775,637
Total equity and liabilities		**318,596,577**	313,854,676

Executive Vice President Finance

Chief Executive Officer

Authorized Board of Directors Member

The notes on page 11 to 70 form an integral part of these interim condensed consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Note	For the three months period ended 30 September		For the nine months period ended 30 September	
		2017	2016	2017	2016
			(Note 6)		(Note 6)
Sales		39,654,900	35,797,362	111,777,352	105,523,613
Cost of sales		(25,544,506)	(22,576,150)	(73,637,082)	(69,299,136)
Gross profit		14,110,394	13,221,212	38,140,270	36,224,477
General and administrative expenses		(2,787,874)	(2,723,966)	(8,281,584)	(9,007,228)
Selling and distribution expenses		(2,761,848)	(2,641,720)	(7,520,293)	(7,285,143)
Income from operations		8,560,672	7,855,526	22,338,393	19,932,106
Share of results of associates and joint ventures		384,458	190,199	1,130,662	807,905
Finance income		249,552	473,573	963,289	1,137,808
Finance cost		(538,590)	(519,144)	(1,684,647)	(1,430,376)
		(289,038)	(45,571)	(721,358)	(292,568)
Other (expenses) income, net		(5,974)	233,212	359,613	755,089
Income before zakat and tax		8,650,118	8,233,366	23,107,310	21,202,532
Zakat expense	13	(650,000)	(750,000)	(1,950,000)	(2,250,000)
Income tax expense	13	(483,409)	(425,776)	(1,183,409)	(1,475,374)
Net income for the period		7,516,709	7,057,590	19,973,901	17,477,158
Attributable to:					
Equity holders of the Parent		5,787,547	5,230,258	14,727,762	13,098,992
Non-controlling interests	10	1,729,162	1,827,332	5,246,139	4,378,166
		7,516,709	7,057,590	19,973,901	17,477,158
Earnings per share (Saudi Riyals)					
Basic and diluted earnings per share from income from operations	14	2.85	2.62	7.45	6.64
Basic and diluted earnings per share from net income attributable to equity holders of the Parent	14	1.93	1.74	4.91	4.37

Executive Vice President Finance

Chief Executive Officer

Authorized Board of Directors Member

The notes on page 11 to 70 form an integral part of these interim condensed consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals '000 unless otherwise stated)

	For the three months period ended 30 September		For the nine months period ended 30 September	
	2017	2016	**2017**	2016
		(Note 6)		*(Note 6)*
Net income for the period	**7,516,709**	7,057,590	**19,973,901**	17,477,158
Other comprehensive income				
Items that will not be reclassified to the interim condensed consolidated statement of income:				
- Re-measurement loss on defined benefit plans	**(684,034)**	(769,543)	**(678,435)**	(2,335,060)
Items that will be reclassified to the interim condensed consolidated statement of income:				
- Exchange difference on translation of foreign operations	**792,138**	(17,644)	**2,763,126**	253,222
- Share of other comprehensive income of associates and joint ventures	**(91,027)**	65,546	**53,168**	65,546
- Net change on revaluation of available-for-sale financial assets	**8,200**	(1,071)	**12,330**	(12,434)
	709,311	46,831	**2,828,624**	306,334
Movement of other comprehensive income	**25,277**	(722,712)	**2,150,189**	(2,028,726)
Total comprehensive income for the period	**7,541,986**	6,334,878	**22,124,090**	15,448,432
Attributable to:				
Equity holders of the Parent	**5,938,203**	4,512,451	**17,003,330**	11,343,318
Non-controlling interests	**1,603,783**	1,822,427	**5,120,760**	4,105,114
	7,541,986	6,334,878	**22,124,090**	15,448,432

Executive Vice President Finance

Chief Executive Officer

Authorized Board of Directors Member

The notes on page 11 to 70 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Attributable to the equity holders of the Parent							
	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
				(Note 9)				*(Note 6)*
Balance as at 1 January 2016	30,000,000	15,000,000	110,889,032	(3,932,842)	4,340,351	156,296,541	45,846,407	202,142,948
Net income for the period	-	-	-	-	13,098,992	13,098,992	4,378,166	17,477,158
Other comprehensive income for the period	-	-	-	(1,755,674)	-	(1,755,674)	(273,052)	(2,028,726)
Total comprehensive income for the period	-	-	-	(1,755,674)	13,098,992	11,343,318	4,105,114	15,448,432
Dividends	-	-	-	-	(15,000,000)	(15,000,000)	(5,969,948)	(20,969,948)
Balance as at 30 September 2016	30,000,000	15,000,000	110,889,032	(5,688,516)	2,439,343	152,639,859	43,981,573	196,621,432

The notes on page 11 to 70 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Attributable to the equity holders of the Parent							
	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
				(Note 9)				
Balance as at 1 January 2017	30,000,000	15,000,000	110,889,032	(5,307,983)	6,953,960	157,535,009	44,544,030	202,079,039
Net income for the period	-	-	-	-	14,727,762	14,727,762	5,246,139	19,973,901
Other comprehensive income for the period	-	-	-	2,275,568	-	2,275,568	(125,379)	2,150,189
Total comprehensive income for the period	-	-	-	2,275,568	14,727,762	17,003,330	5,120,760	22,124,090
Dividends (Note 21)	-	-	-	-	(12,000,000)	(12,000,000)	(4,481,002)	(16,481,002)
Acquisition of non-controlling interests (Note 10)	-	-	-	-	(739,795)	(739,795)	(2,335,205)	(3,075,000)
Balance as at 30 September 2017	30,000,000	15,000,000	110,889,032	(3,032,415)	8,941,927	161,798,544	42,848,583	204,647,127

Executive Vice President
Finance

Chief Executive Officer

Authorized Board of Directors Member

The notes on page 11 to 70 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals '000 unless otherwise stated)

	For the nine months period ended 30 September	
	2017	2016
		(Note 6)
Operating activities:		
Income before zakat and tax	**23,107,310**	21,202,532
Adjustment to reconcile income before zakat and tax to net cash inflow from operating activities:		
- Depreciation of property, plant and equipment	**10,141,547**	10,298,189
- Write-down and impairments of property, plant and equipment	**792,364**	761,057
- Amortization of intangible assets	**670,839**	621,550
- Allowance for slow moving and obsolete items	**48,398**	22,983
- Allowance for doubtful debts	**156,786**	33,528
- Share of results of associates and joint ventures	**(1,130,662)**	(807,905)
- Fair value adjustment to derivatives, net	**2,645**	(77,412)
- Loss on sale of property, plant and equipment, net	**91,749**	47,651
- Finance cost	**1,684,647**	1,430,376
Changes in operating assets and liabilities:		
Decrease in other non-current assets	**283,333**	92,364
(Increase) decrease in inventories	**(3,630,476)**	51,885
Increase in trade receivables	**(2,784,630)**	(1,251,946)
Increase in prepayments and other current assets	**(302,062)**	(464,851)
Decrease in other non-current liabilities	**(209,092)**	(115,765)
Increase (decrease) in trade payables	**1,564,204**	(95,074)
Increase in employee benefits	**366,274**	77,753
Increase (decrease) in accruals and other current liabilities	**2,566,167**	(187,966)
Cash from operations	**33,419,341**	31,638,949
Finance cost paid	**(993,922)**	(644,208)
Zakat and income tax paid	**(2,904,508)**	(3,211,466)
Net cash from operating activities	**29,520,911**	27,783,275

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(All amounts in Saudi Riyals '000 unless otherwise stated)

	For the nine months period ended 30 September	
	2017	2016
		(Note 6)
Investing activities:		
Purchase of property, plant and equipment	**(9,984,128)**	(9,861,281)
Proceeds from short-term investments, net	**12,737,679**	2,883,412
Purchase of held-to-maturity investments	**-**	(50,000)
Proceeds on the maturity of held-to-maturity investments	**5,440**	248,422
Purchase of intangible assets	**(290,111)**	(377,357)
Proceeds from sale of property, plant and equipment	**175,061**	68,244
Purchase of available-for-sale financial assets	**(10,875)**	(5,612)
Proceeds from sale of available-for-sale financial assets	**-**	6,537
Investment in associates and joint ventures	**(337,913)**	(246,395)
Distributions received from associates and joint ventures	**350,510**	307,505
Net cash from (used in) investing activities	**2,645,663**	(7,026,525)
Financing activities:		
Proceeds from debt	**1,161,475**	1,924,005
Debt repayments	**(4,872,266)**	(7,004,755)
Finance lease payments	**(100,950)**	(115,015)
Dividends paid to shareholders	**(11,200,365)**	(14,936,013)
Dividends paid to non-controlling interests	**(4,481,002)**	(5,969,948)
Acquisition of non-controlling interests	**(3,075,000)**	-
Net cash used in financing activities	**(22,568,108)**	(26,101,726)
Net increase (decrease) in cash and cash equivalents	**9,598,466**	(5,344,976)
Cash and cash equivalents at the beginning of the period	**40,247,740**	38,006,140
Cash and cash equivalents at the end of the period	**49,846,206**	32,661,164

	As at 30 September 2017	As at 30 September 2016
Cash and cash equivalents		
Cash and bank balances	**49,846,206**	32,912,414
Less: bank overdraft	**-**	(251,250)
Cash and cash equivalents at the end of the period	**49,846,206**	32,661,164

Executive Vice President Finance

Chief Executive Officer

Authorized Board of Directors Member

The notes on page 11 to 70 form an integral part of these interim condensed consolidated financial statements.

1. Corporate information

Saudi Basic Industries Corporation ("SABIC" or "the Parent") is a Saudi Joint Stock Company established pursuant to Royal Decree Number M/66 dated 13 Ramadan 1396H (corresponding to 6 September 1976) registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397H (corresponding to 4 January 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia (KSA) and 30% by the private sector. The registered office is located at Qurtubah district, P.O. Box 5101, Riyadh 11422, KSA.

SABIC (the Parent) and its subsidiaries (collectively the "Group") are engaged in the manufacturing, marketing and distribution of chemicals, polymers, plastics, agri-nutrients and metal products in KSA and global markets.

2. Basis of preparation

2.1 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS), "Interim Financial Reporting" ("IAS 34") as endorsed in KSA, for part of the period covered by the first annual financial statements prepared in accordance with International Financial Reporting Standards ("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, IFRS 1 "First-time Adoption of International Financial Reporting Standards" endorsed in KSA has been applied. Refer to Note 6 for further information.

The interim condensed consolidated 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 will be prepared for the year ending 31 December 2017.

2.2 Basis of measurement

The interim condensed consolidated financial statements are prepared under the historical cost convention, except for the measurement at fair value of derivative financial instruments and Available-for-sale (AFS) financial assets.

2.3 Functional and presentation currency

The interim condensed consolidated financial statements are presented in Saudi Riyals (SR), which is the functional currency of the Parent.

3. Significant accounting estimates, assumptions and judgements

The preparation of the Group's financial statements requires management to make judgements, 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 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material differences in the carrying amounts of assets and liabilities within the next financial period, are presented below. The Group used these assumptions and estimates on the basis available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3.1.1 Impairment of non-financial assets

Impairment exists when the carrying value of an asset or Cash Generating Unit ("CGU") 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 off 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 Group is not yet committed to or significant future investments that will enhance the performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net 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 judgement 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, end-of-service benefits and indemnity payments represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets, if any. Management is required to make further assumptions regarding variables such as discount rates, rate of salary increase, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Group 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. Significant accounting estimates, assumptions and judgements (continued)

3.2 Critical judgements in applying accounting standards

In addition to the application of the judgement in the above mentioned estimates and assumptions, the following critical judgements have the most significant effect on the amounts recognised in the consolidated financial statements:

3.2.1 Component parts of property, plant and equipment

The Group'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 related asset, its pattern of consumption and its replacement cycle/maintenance schedule.

3.2.2 Determination of control, joint control and significant influence

3.2.2.1 Management's judgement in assessing control over consolidated subsidiaries

Subsidiaries (including structural entities) are all investees over which the Group has control. The Group management considers that the Group controls an entity when the Group is exposed to or has rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns through its power to direct the relevant activities of the investees.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has equal or less than a majority of the voting or similar rights of an investee, the Group considers all other relevant facts and circumstances in assessing whether it has power over an investee, including any contractual and other such arrangements which may affect the activities which impact investees' return. The determination about whether the Group has power thus depends on such relevant activities, the way decisions about the relevant activities are made and the rights the Group has, in relation to the investees.

In certain cases where the Group owns less than 50% of voting rights, it may still be the single largest shareholder with presence on the governing body giving it power to direct relevant activities of the investees, whereby the other shareholders individually do not hold sufficient voting rights and power to overrule the Group's directions. There is no prior instance of other shareholders collaborating to exercise their votes collectively or to out-vote the Group.

The management has considered the integration of all such investees (where the Group has equal or less than a majority of the voting rights) within the Group structure and located in the industrial cities in KSA, the ability of the Group to impact variable returns of the investees through the provision of various key services to such investees, the relationship of the Group with other entities which may impact returns of investees, appointment of certain key management personnel and various other such factors.

Based on above considerations, management of the Group believes:

- there is a pattern of past and existing practice of the Group's involvement in the relevant activities of these investees resulting in an impact on their returns and also indicating a more than passive interest of the Group in such investees; and
- the Group has created an environment in which the set-up and function of these investees and their inter-relationship with the Group leads towards a judgement of 'control'.

Hence, the Group has consolidated those investees, which meet the above criteria as part of the Group's consolidated financial statements.

3. Significant accounting estimates, assumptions and judgements (continued)

3.2 Critical judgements in applying accounting standards (continued)

3.2.2 Determination of control, joint control and significant influence (continued)

3.2.2.2 Management's judgement in assessing joint control and significant influence over investees

A joint venture is a joint arrangement whereby the Group and other shareholder(s) have joint control of the arrangement and have rights to the net assets of the arrangement.

Based on a review of voting rights, contractual arrangements and other circumstances concerning the relevant activities of the investees, management has assessed certain of these arrangements to be under joint-control.

For other companies, judgement was required, particularly where the Group owns shareholding and voting rights of generally 15% and above but where management does not believe that it has 'control' or 'joint control' over such investees.

In case of such investees, the Group's management has concluded it has 'significant influence' in line with the requirements of IFRS that are endorsed in KSA. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not 'control' or 'joint control'. IFRS as endorsed in KSA provides various indicators of 'significant influence', including representation in the Board of Directors and participation in policymaking process. By virtue of the Group's shareholding rights in the investees' general meetings, as well as the Group's representation on Board of Directors of such investees and the Group's involvement in operating and financial policies and decision makings, management believes it has 'significant influence' over such investees ('associates').

The Group is accounting for such joint ventures and associates under the equity method of accounting.

Judgement is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, it considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle;
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
  - the legal form of the separate vehicle
  - the terms of the contractual arrangement
  - other relevant facts and circumstances

4. IFRS standards issued but not yet effective

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

IFRS 9 Financial Instruments

"IFRS 9 - Financial Instruments" ("IFRS 9"), 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. The standard is effective from 1 January 2018 and allows early adoption.

The Group will adopt the new standard on the effective date. The Group is currently assessing the impacts of the measurement and classification of financial assets.

Financial assets currently classified as AFS would appear to satisfy the conditions for classification as at Fair Value through Other Comprehensive Income (FVOCI) and hence there will be no change to the accounting for these assets. The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available;
- equity investments currently measured at Fair Value through Income Statement (FVIS) which would likely continue to be measured on the same basis under IFRS 9; and
- debt instruments currently classified as held-to-maturity and measured at amortised cost which appear to meet the conditions for classification at amortised cost under IFRS 9

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVIS and the Group does not have such liabilities. The derecognition rules have been transferred from "IAS 39 Financial Instruments: Recognition and Measurement" ("IAS 39") and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relations might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group has not yet finalised its detailed assessment, it appears that the Group's current hedging relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

4. IFRS standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under "IFRS 15 – Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. The Group is in the process of performing a detailed assessment of how its impairment provisions would be affected by the new model.

The new standard also introduces enhanced disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption of the new standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 will replace "IAS 18 – Revenue" which covers revenue arising from the sale of goods and the rendering of services and "IAS 11 - Construction Contracts" which covers construction contracts.

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 allows early adoption.

The Group will adopt the new standard on the effective date. At this stage, the Group is finalising its assessment of the impact of the new standard on the Group's financial statements.

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 are 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 recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for all lease contracts apart from an optional exemption for certain short-term leases.

In addition, under the new lease standard, 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 is effective for annual periods beginning on or after 1 January 2019, early application is permitted and must be disclosed. The Group will adopt the new standard on the effective date. The Group is currently assessing the impact on the Group's consolidated financial statements.

4. IFRS standards issued but not yet effective (continued)

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 considerations, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability. 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.

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 Group will adopt the new standard on the effective date, and is finalising its detailed assessment of the impact on the Group's consolidated financial statements.

IFRIC Interpretation 23 - Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable results, tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying this Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

5. Summary of significant accounting polices

The significant accounting policies adopted by SABIC in preparing these interim condensed consolidated financial statements are applied consistently as follows:

Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of SABIC and its subsidiaries, as set out in Note 24, for the nine months period ended 30 September 2017.

Refer Note 3.2.2 for details on judgements applied by the Group in respect of control.

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

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred which is measured at fair value on the acquisition date and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of income. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39, is measured at fair value with changes in fair value recognised in the consolidated statement of income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the relevant IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

5. Summary of significant accounting polices (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed off, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Investments in associate entities and joint arrangements

Investments in associate entities
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Investments in joint arrangements
Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Joint operations
A joint operation is a joint arrangement whereby the parties that have joint control on the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses for its joint operations.

5. Summary of significant accounting polices (continued)

Investments in associate entities and joint arrangements (continued)

Joint ventures
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position.

Equity method of accounting is used for the investment in an associate or a joint venture. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognize the Group's share of the post-acquisition results of the investee in the consolidated statement of income, and the Group's share of movements in OCI of the investee in consolidated statement of comprehensive income.

Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The aggregate of the Group's share of net results of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating income and represents net income or loss after zakat/tax and non-controlling interests in the subsidiaries of the associate or joint venture.

5. Summary of significant accounting polices (continued)

Investments in associate entities and joint arrangements (continued)

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring accounting policies in line with those of the Group

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

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in the consolidated statement of income; and
- reclassifies the shareholder's share of components previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in the consolidated statement of income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to the consolidated statement of income.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in OCI are reclassified to the consolidated statement of income where appropriate.

5. Summary of significant accounting polices (continued)

Foreign currency translation

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed off, at which time, the cumulative amount is reclassified to consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in consolidated statement of comprehensive 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in consolidated statement of comprehensive income or consolidated statement of income).

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

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in consolidated statement of comprehensive income. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the consolidated statement of income.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated 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.

5. Summary of significant accounting polices (continued)

Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

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

All assets and liabilities for which fair value is measured or disclosed in the 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; and
- 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 consolidated financial statements on a recurring basis, the Group 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.

Fair value measurement for unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation, are evaluated on a periodic basis.

5. Summary of significant accounting polices (continued)

Fair value measurement (continued)

For the purpose of fair value disclosures, the Group 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 Group 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 Group during the period, net of any trade and quantity discounts.

Where the Group acts as marketer for any subsidiary, associate, joint venture or any other third party, it reviews such arrangement to assess whether it acts as a principal or an agent. Where the Group assesses itself as the principal, it records all relevant sales and costs of sale for the goods sold.

Cost and expenses

Cost of sales

Operating costs are recognised on a historical cost basis. 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 at the Group. These costs typically include salaries of the sales staff, marketing and distribution and logistics expenses as well as commissions and fees. These also include allocations of certain general overheads.

General and administrative expenses

These pertain to operating 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.

5. Summary of significant accounting polices (continued)

Finance income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS financial assets, finance 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. Finance income is included in the consolidated statement of income.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised in the consolidated statement of income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised in the consolidated statement of financial position as deferred income or as a reduction of the carrying value of the asset and released to the consolidated statement of income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at its fair value and released to the consolidated statement of income over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments.

Zakat and tax

Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in KSA and on accruals basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization. Zakat is calculated based on the zakat base.

Income tax

Non-Saudi based owners of the Groups' subsidiaries in KSA are subject to corporate income tax in KSA based on their share of the results, which is included as a current period expense in the consolidated statement of income.

For subsidiaries outside KSA, provision for tax is computed in accordance with tax regulations of the respective countries. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the relevant tax authorities.

Current income tax

The tax rates and tax laws used to compute the amount of corporate income taxes due are those that are enacted or substantively enacted at the reporting date. Current income tax relating to OCI are recognised in consolidated statement of comprehensive income and not in the consolidated statement of income. Management periodically evaluates positions taken in the Group's tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

5. Summary of significant accounting polices (continued)

Zakat and tax (continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable income or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax law enacted or substantively enacted at the reporting date. Deferred tax relating to items outside the consolidated statement of income is recognised outside the consolidated statement of income. Deferred tax items are recognised in correlation to the underlying transaction either in the consolidated statement of comprehensive income or directly in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be against goodwill (as long as it does not exceed goodwill) if incurred during the measurement period or in the consolidated statement of income.

5. Summary of significant accounting polices (continued)

Zakat and tax (continued)

Transaction tax

Revenues, expenses and assets are recognised net of the amount of transaction tax (including value added tax), except:

- When the transaction tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the transaction tax is recognised as part of the cost of the acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables that are stated with the amount of transaction tax included.

The net amount of transaction tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Withholding tax

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

Cash dividend and non-cash distribution to equity holders of the parent

The Group recognises a liability to make cash distribution to equity holders of the Parent when the distribution is authorized and the distribution is no longer at the discretion of the Group. Distribution authorization is assessed in line with relevant corporate law of the country. In accordance with the Companies Law in KSA, a distribution is authorized when it is 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, are 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 consolidated statement of income.

Property, plant and equipment

Owned assets

Construction in progress and 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 are met. Where such assets are constructed in-house, their cost includes all amounts necessary to bring the asset to the present condition and location to be ready for intended use by management and excludes all other costs 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 start-up 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.

5. Summary of significant accounting polices (continued)

Property, plant and equipment (continued)

Owned assets (continued)

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 Group recognises 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 consolidated 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 Group 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 Group'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 item 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:

	Years
Buildings	13 to 40
Plant and equipment	4 to 50
Residential units	15 to 20
Furniture, fixtures and vehicles	3 to 10
Capital spares	4 to 50
Catalysts	1.5 to 20

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

Land and assets under construction, which are not ready for 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. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated 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)

Joint ownership and production arrangements

Joint ownership and production arrangements (JOPA) are agreements between Group companies wherein the companies contribute to the production and operation of a particular asset or a plant in a specific proportion. The entity which controls and manages the majority of the relevant activities related to the plant (referred to as "the operator") recognises the full amount of the asset at cost in its accounting records and depreciates it over the useful life of the asset. The entity which contributes funds for the construction of the plant (referred to as "the non-operator") recognises the contribution as a production advance and amortises it in line with the useful life of the asset. Normal operational and production costs and sales of the related products from such plants are treated in line with various JOPA agreements which may include an element of toll manufacturing.

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 agreement or arrangement, are 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 Group, are classified as finance lease and are 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 cost and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance cost are recognised in the consolidated 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 Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated 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. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

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 life is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

5. Summary of significant accounting polices (continued)

Intangible assets (continued)

The amortization periods for intangible assets with a finite useful life are as follows:

	Years
Unpatented technology	10
Customers lists / contracts	18
Trademarks	22
Software, technology, innovation assets, licenses and others	3 to 15

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 consolidated statement of income when the asset is derecognised.

Unpatented technology, customer lists / contracts, trademarks and licenses
Separately acquired trademarks and licenses are shown at historical cost. Trademarks, licenses and customer lists / contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortization and impairment losses.

Technology and innovation assets
Research costs related to in-house developed software and technology and innovation assets are expensed as incurred. Development expenditure for in-house developed assets is recognised as an intangible asset when the Group can segregate such expenditure distinct from the research costs, and can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset starts when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually. Technology and innovation expenses are recorded in the consolidated statement of income under other operating expenses as general and administrative expenses.

Software
Costs associated with maintaining software programs are recognised as expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group 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.

5. Summary of significant accounting polices (continued)

Intangible assets (continued)

Software (continued)
Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant direct overheads.

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

Websites
Websites developed by the Group for internal or external access are internally generated intangible assets provided the general conditions for an intangible asset's recognition as noted above are met. In particular, the Group must be able to demonstrate how the website will generate probable future economic benefits (e.g., if the website can generate revenues by enabling customer orders to be placed). Future probable economic benefits are not considered as demonstrated if the website is solely for advertising and marketing purposes, in which case all associated costs are expensed in the consolidated statement of income as selling and distribution expense in the period they are incurred.

Emission rights
The Group has certain subsidiaries which participate in certain Emission Trading Scheme(s). In case of some European subsidiaries, since 2013, the allocation of emission rights in the respective European country is subject to auction. Companies have to purchase an increasing number of emission allowances. The allowances have to be remitted equal to its actual emissions. The Group has adopted the net liability approach to the emission rights granted. Therefore, a provision is only recognised when actual emissions exceed the emission rights granted and still held. The costs of emission are recognised as cost of production as these are required to be incurred without which legal authorities may restrict production.

The recognised provision is measured at the expected cash out flow to settle the obligation as follows:

- In case emission rights already have been acquired, the provision is recognised at cost; and
- If the emission rights have not been acquired, the provision is valued at fair value (deficit in quantities times the market price). This results in a monthly revaluation to fair value, until the shortage is purchased.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset maybe impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a discount rate (pre-zakat/tax) that reflects current market assessment of the time value of money and the risks specific to the asset.

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

5. Summary of significant accounting polices (continued)

Impairment of non-financial assets (continued)

Irrespective of whether there is any indication of impairment, the Group also tests 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 the 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 is tested for impairment before the end of the current annual period.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGU's) to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future years.

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 Group 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, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated 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 capitalisation.

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at FVIS, loans and receivables, held-to-maturity investments, AFS 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 FVIS, 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 Group commits to purchase or sell the asset.

5. Summary of significant accounting polices (continued)

Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into the following categories:

- Loans and receivables;
- Held-to-maturity investments;
- AFS financial assets;
- Trade receivables; and
- Short-term investments.

Loans and receivables

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 consolidated statement of income.

The losses arising from impairment are recognised in the consolidated statement of income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity investments when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are 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 as finance income in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income.

AFS financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVIS. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS financial assets are subsequently measured at fair value (except for those un-quoted equity instrument for which cost exemption is applied) with unrealised gains or losses recognised in consolidated statement of comprehensive income and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statement of income. Interest earned whilst holding AFS financial assets is reported as finance income using the EIR method.

Unquoted equity instruments are carried at cost as their fair value cannot be measured reliably.

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

5. Summary of significant accounting polices (continued)

Financial assets (continued)

AFS financial assets (continued)

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

Trade receivables

Trade receivables are stated at the amortised cost, which generally correspond to face value (original invoice amount), do not bear interest, and generally have a 30 to 60 days term, less any provision for doubtful debts and impairment. An allowance for doubtful debts is made based upon Group's best estimate of incurred credit losses related to those receivables. Such estimate is based on customers' financial status and historical write-off experience. Account balances are written off against such allowance after all means of collection have been exhausted and potential of recovery is remote. Bad debts written off as such are recorded in the consolidated statement of income as incurred.

Other receivables include loans, subsidies receivables, insurance receivables, supplier advances, employee receivables, receivables from scrap and by-product sales, and other such receivables which are not 'trade' receivables. Other receivables are stated at amortised cost which generally correspond to their face value. Allowance for doubtful receivables is assessed as per methodology noted above.

Short-term investments

Short-term deposits

Short-term deposits with original maturities of more than three months but less than twelve months are classified as short-term investments and included under current assets. Income from these deposits is recognised on accruals basis.

Held-to-maturity – current portion

Held-to-maturity investments are reclassified as short-term investments under current assets when their remaining maturities are less than twelve months.

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 Group's consolidated statement of financial position) when:

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

5. Summary of significant accounting polices (continued)

Financial assets (continued)

Impairment of financial assets

The Group 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 reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the assets in the 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 EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of income. Interest income (recorded as finance income in the consolidated 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 Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was 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 costs in the consolidated statement of income.

AFS financial assets

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

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

5. Summary of significant accounting polices (continued)

Financial assets (continued)

AFS financial assets (continued)

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

Future finance income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of impairment loss. The finance income is recorded as part of finance income in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Financial liabilities

Initial recognition and measurement

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

- Financial liabilities at FVIS; and
- Other financial liabilities measured at amortised cost using the EIR method.

The category of financial liability at FVIS has two sub-categories:

- *Designated:* A financial liability that is designated by the entity as a liability at FVIS upon initial recognition; and

- *Held for trading:* A financial liability classified as 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 Group 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 Group becomes party to 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 FVIS continue to be recorded at fair value with changes being recorded in the consolidated statement of income.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortised cost using the EIR method. Gain and losses are recognised in consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation 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 EIR method. The EIR amortization is included as finance costs in the consolidated statement of income.

5. Summary of significant accounting polices (continued)

Financial liabilities (continued)

Derecognition

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

Financial guarantee 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 adjusted for transaction costs that are directly attributable to the issuance of the guarantee. 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 obligation.

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.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within twelve months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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 or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. The Group also makes use of commodity derivative financial instruments to hedge against cash flow variability arising as a result of fluctuations in natural gas prices. These hedges executed consist of swaps and purchased call-options.

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 derivatives during the period that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the consolidated statement of income.

5. Summary of significant accounting polices (continued)

Derivative financial instruments and hedge accounting (continued)

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to yield curves for similar instruments.

For the purpose of hedge accounting, cash flow hedges apply when hedging exposure to variability in cash flows is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. The effective portion of a gain or loss on a hedged instrument is recognised in the consolidated statement of comprehensive income, while any ineffective portion is recognised in the consolidated statement of income.

Amounts taken to the consolidated statement of comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects net income or loss, such as when the hedged financial income or financial expense is recognised or when forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to OCI are transferred to the initial carrying amount of the non-financial asset or liability. If the forecasted transaction or firm commitment is no longer expected to occur, amounts previously recognised in the consolidated statement of comprehensive income are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in the consolidated statement of comprehensive income remain in OCI until the forecasted transaction or firm commitment occurs.

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

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. Cost also includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material. 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.

5. Summary of significant accounting polices (continued)

Inventories (continued)

Scrap inventory, co-product and by-product

Production process in the Group sometimes result in the 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 rationale 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 realizable 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.

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

Capital spare parts

Capital 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 Group 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 utilized. These do not form part of inventory provided capitalisation 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 capitalisation 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.

5. Summary of significant accounting polices (continued)

Inventories (continued)

Capital spare parts (continued)

- 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 (and depreciated similar to repairable items above). Spares and consumables under inventories are subject to assessment for obsolescence provision and are charged to the consolidated statement of income upon their installation or use. The provision is based on a systematic consistent manner depending on management's estimates as well ageing, actual physical wear and tear, etc. Where such items meet criteria for capitalisation, 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 Group has inventory swap transactions, which is qualified as location swaps.

Location swaps; 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.

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. For the purpose of preparing the consolidated statement of cash flows, the cash and cash equivalents also include bank overdrafts, which are presented under borrowings in current liabilities in the consolidated statement of financial position.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation amount. Where management of the Group 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 consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-zakat/tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

5. Summary of significant accounting polices (continued)

Environmental obligations

In accordance with the Group's environmental policy and applicable legal requirements, management of the Group recognises a provision for environmental clean-up cost when it is probable that a legal and constructive liability has materialized and the amount of cash outflow can be reasonably estimated.

Onerous contracts

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

Decommissioning liability

The Group records a provision for decommissioning costs of manufacturing facilities when an obligation exists. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-zakat/tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of income as a finance cost. The estimated future cost of decommissioning is reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Restructuring

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. A provision for restructuring related to severance costs is recognised when management of the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

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 fully 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 the consolidated statement of financial position

5. Summary of significant accounting polices (continued)

Employee benefits (continued)

Long-term employee benefit obligations

Long-term employee benefit obligations 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 expect 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 changes in actuarial assumptions are recognised in the consolidated statement of income.

Post-employment obligation

The Group offers 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 Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay amounts. The contributions are recognised as employee benefit expense when they are due.

The Group, within KSA, offers 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 Group's normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance, and for the purpose of presentation in the financial statements, it is offset with the related liability under the savings plan and the 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 Group primarily has end of service benefits, pension plans and post-retirement medical and life insurance plans which qualify as defined benefit plans.

5. Summary of significant accounting polices (continued)

Employee benefits (continued)

Defined benefit plans (continued)

(a) End of service benefits and pension plans

The net pension asset or liability recognised in the consolidated 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 DBO at the reporting date.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO 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 DBO and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of income.

DBO costs for interim periods are calculated on a year-to-date basis using the actuarially determined pension cost rate at the end of the prior year, adjusted for significant market fluctuations and for any significant one-off events, such as plan amendments, curtailments and settlements. In the absence of such significant market fluctuations and one-off events, the actuarial liabilities are rolled forward based on the assumptions as at the beginning of the year. If there are significant changes to the assumptions or arrangements during the interim period, consideration is given to re-measure such liabilities.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognised in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of income as past service costs.

In certain countries, the post-employment benefits plans may be unfunded. 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 consolidated 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 OCI.

In KSA, for the liability for employees' end of service benefits, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labor and Workmen Law as well as the Group policy. In other countries, the respective labor laws are taken into consideration.

(b) Post-retirement medical care and life insurance

The Group also offers 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 OCI in the period in which they arise. These obligations are valued periodically by independent qualified actuaries.

5. Summary of significant accounting polices (continued)

Employee benefits (continued)

Defined benefit plans (continued)

(b) Post-retirement medical care and life insurance (continued)

The accounting for these plans requires that management makes certain assumptions relating to discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trend rates, mortality and other assumptions. These estimates are highly susceptible to change from period to period based on the performance of plan assets (if any), actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends, future estimates based on economic and market conditions at the time of valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions used.

Short-term and long-term incentive plans (profit sharing or bonus plans)

The Group 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 Group. The Group 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 Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group 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)

Certain companies within the Group have established employee's home ownership programs (HOP) that offer eligible employees the opportunity to buy residential units constructed by these subsidiaries 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 Group. HOP is recognised as a non-current prepayment asset at time the residential units are allocated to the employees and are amortised over the repayment period of the facility due from employees.

Employee Home Loan Program (HLP)

The Group provides interest free home loan to its eligible employees for purposes related to purchase or building of a house or apartment. The loan is repaid in monthly instalment by deduction of employee's pay. HLP is 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 benefit" and is amortised as an expense equally over the period of service. The same amount is also amortised as finance income against the receivable from employees.

5. Summary of significant accounting polices (continued)

Employee benefits (continued)

Reserves

The Group currently records statutory, general and other reserves under equity. The statutory reserve is based on statutory requirements in the relevant jurisdiction within which the Group operates. In accordance with SABIC's by-laws, SABIC must set aside 10% of its annual net income as the statutory reserve until it reaches 30% of the share capital. The reserve is not available for distribution. Individual subsidiaries within the Group hold statutory reserve as in accordance the relevant regulations applicable in their respective countries of registration.

The general reserve is established pursuant to the decision from the General Assembly of SABIC. In accordance with applicable regulations, the General Assembly can establish a general reserve as an appropriation of retained earnings. The general reserve can be increased or decreased by a resolution of the shareholders and is available for distribution.

6. First-time adoption of IFRS

For all periods up to and including the year ended 31 December 2016, the Group prepared and published its audited consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA ("SOCPA GAAP"). The Group has applied the IFRS as endorsed in KSA for preparation of its consolidated financial statements for the period beginning 1 January 2017, as well as for presenting the relevant comparative period data. Accordingly, these interim condensed consolidated financial statements are prepared in accordance with the IFRS as endorsed in KSA.

In compliance with requirements of IFRS 1 endorsed in KSA, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous SOCPA GAAP. The Group has analysed the impact on the statement of consolidated financial positions as at 1 January 2016, 31 December 2016 and also the interim consolidated financial statements for the three months and nine months periods ended 30 September 2016. The significant adjustments in transitioning from SOCPA GAAP to IFRS as endorsed in KSA as at 1 January 2016 and 31 December 2016 have been disclosed in the interim condensed consolidated financial statements for the three months period ended 31 March 2017.

Certain optional exemptions were applied by the Group in preparing these interim condensed consolidated financial statements in accordance with IFRS 1 as endorsed in KSA from full retrospective application of IFRS as endorsed in KSA. The optional exemptions applied is that the Group has elected the business combination exemption in IFRS 1 to not apply "IFRS 3 – Business Combinations" retrospectively, to past business combinations. Accordingly, the Group has not restated business combinations that took place prior to the transition date.

Significant adjustments in transitioning from SOCPA GAAP to IFRS as endorsed in KSA are as follows:

6. First-time adoption of IFRS (continued)

Reconciliation of equity as at 30 September 2016

	Note	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total Equity
Balance as per SOCPA GAAP		30,000,000	15,000,000	110,889,032	(4,906,812)	8,405,225	159,387,445	46,573,976	205,961,421
IFRS adoption adjustments									
- Actuarial valuations of employee benefits	*A*	-	-	-	(852,959)	(3,318,994)	(4,171,953)	(1,290,781)	(5,462,734)
- Goodwill of a subsidiary	*B*	-	-	-	-	(3,131,250)	(3,131,250)	-	(3,131,250)
- Deferred taxes	*C*	-	-	-	-	-	-	(1,541,766)	(1,541,766)
- Componentization of property, plant and equipment	*D*	-	-	-	-	595,951	595,951	89,153	685,104
- Others, net	*E*	-	-	-	71,255	(111,589)	(40,334)	150,991	110,657
Total adjustment to equity		-	-	-	(781,704)	(5,965,882)	(6,747,586)	(2,592,403)	(9,339,989)
Balance as per IFRS as endorsed in KSA		30,000,000	15,000,000	110,889,032	(5,688,516)	2,439,343	152,639,859	43,981,573	196,621,432

6. First-time adoption of IFRS (continued)

The following table illustrates the reconciliation of total comprehensive income reported in accordance with SOCPA GAAP to IFRS as endorsed in KSA:

Reconciliation of total comprehensive income:

	Note	For the three months period ended 30 September 2016	For the nine months period ended 30 September 2016
Net income under SOCPA GAAP		7,260,282	18,614,831
IFRS adoption adjustments			
- Actuarial valuations of employee benefits	*A*	(153,275)	(479,505)
- Recognition of deferred tax liability	*C*	(138,785)	(416,354)
- Componentisation of property, plant and equipment	*D*	(59,217)	(648)
- Reclassification of income tax to consolidated income statement *		(116,299)	(637,724)
- Others, net	*E*	264,884	396,558
Total adjustment to consolidated income statement		(202,692)	(1,137,673)
Net income under IFRS as endorsed in KSA		7,057,590	17,477,158
Other comprehensive income under IFRS as endorsed in KSA		(722,712)	(2,028,726)
Total comprehensive income under IFRS as endorsed in KSA		6,334,878	15,448,432

* In line with "IAS 12 – Income Tax", in relation to certain Group subsidiaries' income tax, which was previously required to be recorded under retained earnings, have been reclassified to consolidated statement of income.

No statement of comprehensive income was produced under SOCPA GAAP. Therefore, the reconciliation in the above table starts with the net income under SOCPA GAAP.

Estimates

The estimates as at 30 September 2016 are consistent with those made for the same dates disclosed above 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.

6. First-time adoption of IFRS (continued)

The impact on cash flows and earnings per share for the nine months period ended 30 September 2016 were as follows:

	As per SOCPA GAAP	As per IFRS as endorsed in KSA	Difference
Net cash from operating activities	27,854,993	27,783,275	(71,718)
Net cash used in investing activities	(6,397,808)	(7,026,525)	(628,717)
Net cash used in financing activities	(26,656,223)	(26,101,726)	554,497
Earnings per share in (SR)	4.46	4.37	(0.09)

Notes to the reconciliation of equity as at 30 September 2016 and total comprehensive income for the three and nine months periods ended 30 September 2016 are given below:

IFRS adoption adjustments

A. Actuarial valuations of employee benefits

Under IFRS as endorsed in KSA, end of service benefits, post-employment medical benefits, continuous service awards and other such employee benefits are required to be calculated using actuarial valuations. Historically, the Group has, in certain regions, calculated some of 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 a decrease in retained earnings in the consolidated statement of financial position.

B. Goodwill of a subsidiary

Under SOCPA GAAP, the Group defined CGU at a higher level than its subsidiaries that adopted IFRS earlier. The carrying amount of a subsidiary's assets and liabilities should be same for the Group's IFRS consolidated statement of financial position at the date of IFRS adoption and the subsidiary's financial statements. To reconcile the carrying amount for goodwill within the Group at the date of IFRS adoption, the Group has reduced its goodwill carrying amount by SR 3.1 billion against retained earnings.

C. Deferred taxes

Deferred taxes have been recognised to account for taxable and deductible temporary differences between the carrying amounts of the Group's assets and liabilities and their tax bases.

6. First-time adoption of IFRS (continued)

IFRS adoption adjustments (continued)

D. Impact due to componentisation of property, plant and equipment

Under IFRS as endorsed in KSA, the property, plant and equipment should be componentised and their useful lives identified separately. Such componentisation practice was not followed generally by companies in KSA. As part of the transition to IFRS as endorsed in KSA, the Group has applied the concept of assets components and accounted for its impact on the useful lives, which resulted in a positive impact on retained earnings and increase in net book value of property, plant and equipment.

E. Others

The caption others mainly refers to the net impact of the following:

- Certain spare parts which meet the definition of property, plant and equipment under IFRS endorsed in KSA have been reclassified from inventories to property, plant and equipment with corresponding impact on depreciation;

- Based on requirements of IFRS as endorsed in KSA, certain items within property, plant and equipment, intangibles and inventories were either derecognized or re-classified within these categories resulting in an impact on retained earnings due to de-recognition or amortization and depreciation;

- At the time of adoption of IFRS as endorsed in KSA, the Group has recognized certain embedded leases based on the nature and terms of the underlying arrangements; and

- The Group has accounted for certain financial assets and liabilities, including certain items like loans and guarantees for certain related parties at their respective fair values at first time adoption date. The day one gain and loss, together with subsequent consequent amortization of some of such balances has been recognised in the retained earnings.

In addition to above IFRS adoption adjustments, certain items in the interim condensed consolidated statements of financial position and income have been reclassified to meet the presentation and disclosure requirements in accordance with IFRS as endorsed in KSA, which have not resulted in any additional impact on equity or net income for comparative figures. Mainly certain selling and distribution expenses have been separately presented in the interim condensed consolidated statement of income, which previously were deducted from sales, in addition, finance lease obligation has been reclassified under loans and borrowings which previously was shown under other liabilities in the interim condensed consolidated statement of financial position.

7. Property, plant and equipment

During the period ended 30 September 2017, a write-down of SR 579 million of certain plant and equipment that has been decided to be an idle as a result of its current economic condition and it is not expected to bring these plant and equipment to become operative in near future and hence the amount above is recognised in the interim condensed consolidated statement of income under cost of sales. This write-down was to reduce the total carrying value of certain property, plant and equipment to Nil.

8. Share capital

The share capital amounting to SR 30 billion is composed of 3 billion shares of SR 10 each as at 30 September 2017 and 31 December 2016.

9. Other reserves

The following table shows a breakdown of 'other reserves' and the movements in these reserves for the nine months period ended 30 September 2017.

	AFS reserve	Foreign currency translation reserve	Actuarial reserve *	Cash flow hedge	Total
As at 1 January 2017	**38,979**	**(4,213,936)**	**(1,024,146)**	**(108,880)**	**(5,307,983)**
Net change on currency translation of foreign operations	**-**	**2,763,126**	**-**	**-**	**2,763,126**
Re-measurement of employee benefits	**-**	**-**	**(553,056)**	**-**	**(553,056)**
Revaluation of available for sale (AFS) financial assets	**12,330**	**-**	**-**	**-**	**12,330**
Share of other comprehensive income of associates and joint ventures	**-**	**-**	**-**	**53,168**	**53,168**
Total other comprehensive income for the period	**12,330**	**2,763,126**	**(553,056)**	**53,168**	**2,275,568**
As at 30 September 2017	**51,309**	**(1,450,810)**	**(1,577,202)**	**(55,712)**	**(3,032,415)**

* Net of deferred tax

9. Other reserves (continued)

The following table shows a breakdown of 'other reserves' and the movements in these reserves for the nine months period ended 30 September 2016.

	AFS reserve	Foreign currency translation reserve	Actuarial reserve	Cash flow hedge	Total
As at 1 January 2016	41,375	(3,145,153)	(823,962)	(5,102)	(3,932,842)
Net change on currency translation of foreign operations	-	253,222	-	-	253,222
Re-measurement of employee benefits	-	-	(2,062,008)	-	(2,062,008)
Revaluation of available for sale (AFS) financial assets	(12,434)	-	-	-	(12,434)
Share of other comprehensive income of associates and joint ventures	-	80,511	-	(14,965)	65,546
Total other comprehensive income for the period	(12,434)	333,733	(2,062,008)	(14,965)	(1,755,674)
As at 30 September 2016	28,941	(2,811,420)	(2,885,970)	(20,067)	(5,688,516)

10. Acquisition of non-controlling interests

On 22 January 2017 (the "Value Date"), SABIC and Shell Chemicals Arabia LLC ("Shell") , SABIC's partner in Saudi Petrochemical Company ("Sadaf"), entered into an agreement pursuant to which SABIC agreed to purchase Shell's entire stake in Sadaf for SR 3.075 billion (the "Transaction"), thereby increasing SABIC's ownership interest in Sadaf from 50% to 100%. SABIC and Shell completed the Transaction on 16 August 2017.

Due to no change in control, the acquisition of Shell's ownership interest in Sadaf is accounted for as an equity transaction. Consequently, the excess consideration paid over the carrying value of Shell's ownership interest in Sadaf is recognised in retained earnings.

As agreed by SABIC and Shell, Shell's share of Sadaf's operating results related to the financial year ending on 31 December 2017 has been reallocated to SABIC.

The carrying value of the net assets of Sadaf as of the Value Date was SR 2.335 billion. The details of additional interest acquired in Sadaf are:

Cash consideration paid to non-controlling interest partner	(3,075,000)
Carrying value of the additional interest in Sadaf	2,335,205
Difference recognised in retained earnings	(739,795)

11. Long-term debt

Term loans

The Group obtained conventional and other loans in order to finance its investments, which are repayable in conformity with the applicable loan agreements at varying interest rates. Certain subsidiaries' property, plant and equipment have been pledged against their respective loans.

The Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF) term loans are repayable in semi-annual instalments. PIF loans carry financing cost at varying rates and SIDF loans have an up front and annual administrative fees cost under their loans agreements.

Bonds

The following bonds were outstanding as at 30 September 2017:

- On 3 October 2013, SABIC Capital II B.V. issued a 5 year $ 1 billion bond with a coupon rate of 2.625%. The proceeds were used to repay external debt; and

- On 20 November 2013, SABIC Capital I B.V. issued a 7 year € 750 million bond with a coupon rate of 2.75%.

Debt notes

On 29 December 2009, SABIC entered into an agreement with PIF for a private placement of unsecured Saudi Riyal notes amounting to SR 10 billion with multiple tranches. Such tranches are fully drawn down and have a bullet maturity after 7 years for each tranche of their respective issuance. As at 30 September 2017, two tranches maturing in third quarter of 2018 amounting to SR 3 billion have been reclassified under current portion of long-term debt.

12. Employee benefits

	As at 30 September 2017	As at 31 December 2016
Defined benefits obligation (12.1)	**17,031,799**	15,609,184
Other employee benefits (12.2)	**832,017**	774,867
	17,863,816	16,384,051

12.1 Defined Benefits Obligation (DBO)

The Group grants end of service or pension benefits to its employees taking into consideration the local labor law, employment market and tax and social security laws of the countries where the companies are located. Outside KSA, the Group limits the risks of changing financial market conditions and demographic developments by offering defined contribution pensions to new-hires in most countries. Additionally, many of the defined benefit plans have been closed to future benefit accrual in recent years. In KSA, this benefit is an unfunded DBO.

12. Employee benefits (continued)

12.1 Defined Benefits Obligation (DBO) (continued)

The Group has a number of other defined benefit pension plans outside KSA. They are mainly located in the United States of America (USA) and in the United Kingdom (UK). These plans are funded and unfunded pension plans. Other pension plans include unfunded plans in Germany, Austria, and Japan and funded plans in Taiwan, Canada and Belgium. The benefits provided by these pension plans are based primarily on years of service and employees' compensation. The funding of the plans is consistent with local requirements in the countries of establishment. The obligations and the plan assets used to fund the obligations are subject to demographic, legal and economic risks. Economic risks are primarily due to unforeseen developments in goods and capital markets and changes to the discount rate used to calculate the DBO.

The following table represents the movement of the DBO:

	For the nine months period ended 30 September 2017	For the year ended 31 December 2016
At the beginning of the period / year	**15,609,184**	15,133,175
Current service cost	**968,760**	1,332,165
Past service cost, net	**16,149**	(26,875)
Finance cost	**435,056**	607,437
Actuarial loss (gain) on the obligation	**678,435**	(53,717)
Payments during the period / year	**(504,299)**	(1,131,816)
Contributions into pension plans	**(336,017)**	(243,724)
Foreign currency translation adjustment and others	**164,531**	(7,461)
At the end of the period / year	**17,031,799**	15,609,184

The net asset balance of overfunded pension plans are presented under non-current assets.

12. Employee benefits (continued)

12.1 Defined Benefits Obligation (DBO) (continued)

Major economic and actuarial assumptions used in benefits liabilities computation:

	30 September 2017		
	KSA	**UK**	**USA**
Discount rate	**3.60%**	**2.70%**	**4.07%**
Average salary increase	**5.00% to 7.00%**	**2.86%**	**3.31%**
Pension in payment increase	**Not applicable**	**3.40%**	**Not applicable**
Inflation rate (health care cost)	**10% in 2018 decrease to 5% for 2023+**	**Not applicable**	**Not applicable**

	31 December 2016		
	KSA	UK	USA
Discount rate	4.00%	4.00%	4.44%
Average salary increase	5.00% to 7.00%	3.41%	3.31%
Pension in payment increase	Not applicable	3.40%	Not applicable
Inflation rate (health care cost)	10% in 2017 decrease to 5% for 2022+	Not applicable	Not applicable

12.2 Other employee benefits

Early retirement plan
Employee early retirement plan costs are provided for in accordance with the Group's policies and are charged to the consolidated statement of income in the year the employee is communicated with and accepts the retirement offer. If an instalment based compensation is agreed on, the obligation is initially discounted to present value and then unwinded through the period of compensation which can be up to the regular retirement age of the employee.

Continuous service awards
The Group offers a continuous service award depending on years of service. This is measured similarly to a DBO, however, any re-measurement amounts of actuarial gains and losses are recognised in the current year consolidated statement of income.

13. Zakat and income tax

The movement in Group's zakat and income tax payable is as follows:

	For the nine months period ended 30 September 2017		
	Zakat	**Income Tax**	**Total**
As at 1 January 2017	**2,386,336**	**749,360**	**3,135,696**
Provided during the period	**1,950,000**	**1,236,486**	**3,186,486**
Paid during the period, net	**(2,306,801)**	**(597,707)**	**(2,904,508)**
As at 30 September 2017	**2,029,535**	**1,388,139**	**3,417,674**

	For the year ended 31 December 2016		
	Zakat	Income Tax	Total
As at 1 January 2016	1,633,473	731,419	2,364,892
Provided during the year	3,000,000	123,070	3,123,070
Paid during the year, net	(2,247,137)	(105,129)	(2,352,266)
As at 31 December 2016	2,386,336	749,360	3,135,696

The movement in Group's deferred tax is as follows:

	For the nine months period ended 30 September 2017		For the year ended 31 December 2016	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
At the beginning of the period / year	**1,522,837**	**2,703,436**	690,338	2,147,273
Changes during the period / year *	**(41,622)**	**(183,837)**	832,499	556,163
At the end of the period / year	**1,481,215**	**2,519,599**	1,522,837	2,703,436

* includes impact of foreign exchanges translation and non-controlling interests

13.1 Zakat

The zakat charge is based on the consolidated financial statements of the Group.

The zakat returns of SABIC and its wholly owned subsidiaries are submitted to the General Authority of Zakat and Tax (GAZT) based on separate financial statements prepared for zakat purposes only. Other partially owned subsidiaries within KSA file their zakat returns separately.

SABIC has filed its consolidated zakat returns with GAZT and received the final zakat certificates up to the year ended 31 December 2016. SABIC has finalised its zakat assessment up to year ended 31 December 2015.

13. Zakat and income tax (continued)

13.2 Income Tax

The major components of income tax are as follows:

	For the three months period ended 30 September		For the nine months period ended 30 September	
	2017	2016	**2017**	2016
Current corporate income tax				
Current period	**354,211**	105,697	**1,236,486**	836,675
Deferred corporate income tax	**129,198**	320,079	**(53,077)**	638,699
Total income tax expense reported in the interim condensed consolidated statement of income	**483,409**	425,776	**1,183,409**	1,475,374

14. Earnings per share

Basic earnings per share is calculated by dividing net income for the period attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares during the period.

Diluted earnings per share is calculated by dividing the net income attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	For the three months period ended 30 September		For the nine months period ended 30 September	
	2017	2016	**2017**	2016
Income from operations for the period (SR '000)	**8,560,672**	7,855,526	**22,338,393**	19,932,106
Net income attributable to equity holders of the Parent (SR '000)	**5,787,547**	5,230,258	**14,727,762**	13,098,992
Weighted average number of ordinary shares ('000)	**3,000,000**	3,000,000	**3,000,000**	3,000,000
Basic and diluted earnings per share from income from operations	**2.85**	2.62	**7.45**	6.64
Basic and diluted earnings per share from net income attributable to equity holders of the Parent	**1.93**	1.74	**4.91**	4.37

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

15. Fair value measurement

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments:

	Carrying value	Fair value	Level 1	Level 2	Level 3
	As at 30 September 2017				
Financial Assets					
AFS financial assets					
- at cost *	**389,020**	**-**	**-**	**-**	**-**
- at fair value	**335,123**	**335,123**	**36,945**	**298,178**	**-**
	724,143	**335,123**	**36,945**	**298,178**	**-**
Derivative financial instruments					
- interest rate collar derivatives	**31,488**	**31,488**	**-**	**31,488**	**-**
- foreign exchange forward contracts	**13,519**	**13,519**	**-**	**13,519**	**-**
	45,007	**45,007**	**-**	**45,007**	**-**
Held-to-maturity investments **					
- less than one year	**110,320**	**111,475**	**-**	**111,475**	**-**
- more than one year	**3,471,150**	**3,847,684**	**-**	**3,847,684**	**-**
	3,581,470	**3,959,159**	**-**	**3,959,159**	**-**
	As at 31 December 2016				
Financial Assets					
AFS financial assets					
- at cost *	399,200	-	-	-	-
- at fair value	294,198	294,198	-	294,198	-
	693,398	294,198	-	294,198	-
Derivative financial instruments					
- interest rate collar derivatives	34,776	34,776	-	34,776	-
- foreign exchange forward contracts	49,821	49,821	-	49,821	-
	84,597	84,597	-	84,597	-
Held-to-maturity investments **					
- less than one year	404,070	409,787	-	409,787	-
- more than one year	3,476,590	3,856,319	-	3,856,319	-
	3,880,660	4,266,106	-	4,266,106	-

15. Fair value measurement (continued)

	Carrying value	Fair value	Level 1	Level 2	Level 3
	As at 30 September 2017				
Financial Liabilities					
Derivative financial instruments	**33,355**	**33,355**	**-**	**33,355**	**-**
Long term debt (excluding finance lease) **	**57,642,006**	**58,092,584**	**-**	**58,092,584**	**-**
	57,675,361	**58,125,939**	**-**	**58,125,939**	**-**
	As at 31 December 2016				
Financial Liabilities					
Derivative financial instruments	70,300	70,300	-	70,300	-
Long term debt (excluding finance lease) **	61,815,295	63,110,788	-	63,110,788	-
	61,885,595	63,181,088	-	63,181,088	-

* This represents investments in unquoted equity shares of companies operating within and outside KSA. The fair value of these equity shares cannot be measured reliably since there is no active market available for these shares. SABIC intends to hold these investments for strategic purposes.

** Held-to-maturity investments and long-term debt are carried at amortised cost.

There were no transfers between Level 1 and Level 2 during the nine months period ended 30 September 2017 and the year ended 31 December 2016.

The management assessed that cash and short-term deposits, trade 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 / borrowings are evaluated by the Group 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 incurred losses of these receivables.

- Fair value of the quoted debt notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

15. Fair value measurement (continued)

- The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for the unquoted equity investments.

- Fair value of quoted AFS financial assets is derived from quoted prices in active markets.

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward contracts and commodity forward contracts. 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.

- The credit value adjustment (CVA) is not considered in arriving at the fair value of derivative asset contracts as these contracts are held with issuers within KSA with good credit ratings; any fair value adjustment attributable to the risk of default by the issuer is not expected to materially impact the fair value of these derivative contracts. In respect of derivative contracts recognised as liabilities, the Group's own risk of default is considered to be low, therefore credit risk adjustments were not reflected in determining the fair value of derivative liabilities.

- The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

- Embedded foreign currency and commodity derivatives are measured similarly to the foreign currency forward contracts and commodity derivatives. However, as these contracts are not collateralised, the Group also takes into account the counterparties' non-performance risks (for the embedded derivative assets) or the Group's own non-performance risk (for the embedded derivative liabilities). As at 30 September 2017 and 31 December 2016, the Group assessed these risks to be insignificant.

- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 September 2017 and 31 December 2016 was assessed to be insignificant.

16. Derivatives

	As at 30 September 2017	As at 31 December 2016
Derivatives assets		
Not designated in hedging relationship		
- Foreign exchange forward contracts	**13,519**	49,821
- Interest rate collar derivatives – current	**4,801**	16,003
- Interest rate collar derivatives – non current	**26,687**	18,773
	45,007	84,597
Notional amount	**733,088**	2,265,750
Derivatives liabilities		
Not designated in hedging relationship		
- Interest rate swap agreements – current	**28,422**	52,558
- Interest rate swap agreements – non-current	**4,933**	17,742
	33,355	70,300
Notional amount	**1,114,541**	1,595,438

17. Related party transactions and balances

Owned interests in subsidiaries are set out in Note 24.

The following table provides the total amount of significant transactions that have been entered into with related parties during the nine months ended 30 September 2017 and 2016, as well as balances with related parties as at 30 September 2017 and 31 December 2016:

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	For the period ended 30 September 2017		As at 30 September 2017	
Associates	**127,690**	**3,985,861**	**191,740**	**595,308**
Joint ventures	**8,040,265**	**305,899**	**3,012,791**	**174,142**
	For the period ended 30 September 2016		As at 31 December 2016	
Associates	40,369	3,653,308	-	-
Joint ventures	6,539,945	175,229	2,770,572	121,604

17. Related party transactions and balances (continued)

	Associates	Joint ventures	Total
As at 30 September 2017			
Loan from related parties	**-**	**2,700,000**	**2,700,000**
Loan to related parties	**888,589**	**83,330**	**971,919**
As at 31 December 2016			
Loan from related parties	-	2,999,655	2,999,655
Loan to related parties	156,032	736,875	892,907

During the nine months period ended 30 September 2017, dividends amounting to SR 351 million was received from associates and joint ventures (30 September 2016: SR 308 million).

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 as at 30 September 2017 are unsecured, (including for comparative period as at 31 December 2016) interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the three months and nine months period ended 30 September 2017 (including for comparative period 30 September 2016) the Group 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.

Key management personnel

	For the three months period ended 30 September		For the nine months period ended 30 September	
	2017	2016	**2017**	2016
Short-term benefits	**7,353**	7,793	**36,446**	54,350
Long-term benefits	**993**	1,058	**3,032**	3,356

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of SABIC, directly or indirectly, including senior management and board of directors (executive or otherwise).

Short-term benefits include fees, salaries, paid leaves and other benefits to directors. It also includes directors' remunerations amounting to SR 1.8 million. Long-term benefits include employee end of service benefits. Under the Group's policy, the key management personnel are entitled to receive a house loan facility on similar terms to other employees.

18. Segment information

For management purpose, the Group is organized into Strategic Business Units (SBUs), based on its products, and has four SBUs, as described below and as grouped in three reporting segments, financial details of those follow beneath:

The **Petrochemicals** SBU - products are produced from hydrocarbon feedstock including methane, ethane, propane, butane, and light naphtha, with a wide range of products including carbon dioxide, ethylene, methyl tert-butyl ether and other chemicals. During 2016, products related to polymers were merged into a single segment with chemical products. These included Polyethylene (PE) and Polypropylene (PP). The PE range includes all of the commodity thermo-polymers: Linear Low Density Polyethylene (LLDPE), Low Density Polyethylene (LDPE), and High Density Polyethylene (HDPE). The PP product range includes Random, Homopolymer, Copolymer and specialty automotive grades. Other key products include PolyCarbonate (PC), Polyester, Polyvinylchloride (PVC), Polystyrene, and PP compounding and STAMAX.

The **Specialties** SBU – includes polymer technologies, application development on a global scale, innovative process technologies, and environmentally responsible solutions in almost every area of modern life, from automotive, aviation and electronics to construction, alternative energy, and health care.

The extensive product portfolio includes thermoplastic resins, specialty compounds, film and sheet products, and coatings.

The **Agri-Nutrients** SBU – includes production of a range of fertilisers; including urea, ammonia, phosphate, as well as compound fertilisers.

The **Metals** SBU is concerned with production of steel products; long products (e.g. rebars) and flat products.

The financial information for Petrochemicals and Specialties SBUs has been disclosed as aggregated considering some similarities in business and the immateriality of the Specialties segment being less than 10% of total revenues, net profit and assets comparing to the Group.

The Executive Management Committee, chaired by the Chief Executive Officer monitors the results of its SBUs for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on net income and is measured consistently.

Intersegment revenue may generally be recorded either at values that approximate third-party selling prices or at prices mutually agreed by the management of the SBUs.

18. Segment information (continued)

	Petro-chemicals / Specialties	Agri-nutrients	Metals	Corporate	Eliminations / Adjustments	Consolidated
	For the three months period ended 30 September 2017					
Revenue	**47,526,138**	**1,150,652**	**2,376,978**	**22,248,453**	**(33,647,321)**	**39,654,900**
Finance income	**141,402**	**4,901**	**1,382**	**2,052,895**	**(1,951,028)**	**249,552**
Finance cost	**(1,122,487)**	**(9,677)**	**(34,659)**	**(125,380)**	**753,613**	**(538,590)**
Depreciation, amortisation and impairment	**(3,517,339)**	**(180,054)**	**(235,415)**	**(57,113)**	**-**	**(3,989,921)**
Other income / (expenses), net	**266,340**	**7,187**	**(108,834)**	**234,251**	**(404,918)**	**(5,974)**
Share of results of associates and joint ventures	**321,341**	**23,027**	**-**	**63,137**	**(23,047)**	**384,458**
Zakat and income tax	**(487,375)**	**(7,905)**	**(13,500)**	**(425,072)**	**(199,557)**	**(1,133,409)**
Net income attributable to equity holders of the Parent	**7,878,943**	**273,772**	**(164,025)**	**7,566,232**	**(9,767,375)**	**5,787,547**
	For the three months period ended 30 September 2016					
Revenue	41,183,295	1,136,609	1,549,856	18,131,308	(26,203,706)	35,797,362
Finance income	151,976	2,463	-	1,332,145	(1,013,011)	473,573
Finance cost	(1,035,129)	(11,090)	(34,598)	(164,026)	725,699	(519,144)
Depreciation, amortisation and impairment	(3,047,869)	(183,644)	(289,519)	(88,807)	-	(3,609,839)
Other income / (expenses), net	394,670	841	18,143	636,504	(816,946)	233,212
Share of results of associates and joint ventures	81,458	(789)	-	113,382	(3,852)	190,199
Zakat and income tax	(554,136)	(10,696)	(10,000)	(557,769)	(43,175)	(1,175,776)
Net income attributable to equity holders of the Parent	6,503,985	196,557	(279,064)	5,557,498	(6,748,718)	5,230,258

18. Segment information (continued)

	Petro-chemicals / Specialties	Agri-nutrients	Metals	Corporate	Eliminations / Adjustments	Consolidated
	For the nine months period ended 30 September 2017					
Revenue	**132,734,711**	**3,700,014**	**6,313,513**	**62,716,844**	**(93,687,730)**	**111,777,352**
Finance income	**402,918**	**21,281**	**6,789**	**4,843,688**	**(4,311,387)**	**963,289**
Finance cost	**(3,385,303)**	**(29,123)**	**(99,635)**	**(382,787)**	**2,212,201**	**(1,684,647)**
Depreciation, amortisation and impairment	**(10,150,325)**	**(531,686)**	**(724,276)**	**(198,463)**	**-**	**(11,604,750)**
Other income / (expenses), net	**992,948**	**7,874**	**(151,447)**	**617,416**	**(1,107,178)**	**359,613**
Share of results of associates and joint ventures	**928,043**	**72,612**	**-**	**202,639**	**(72,632)**	**1,130,662**
Zakat and income tax	**(990,898)**	**(23,715)**	**(61,000)**	**(1,273,569)**	**(784,227)**	**(3,133,409)**
Net income attributable to equity holders of the Parent	**19,892,258**	**1,078,990**	**(681,214)**	**17,385,174**	**(22,947,446)**	**14,727,762**
	For the nine months period ended 30 September 2016					
Revenue	117,337,606	3,483,762	6,569,897	53,217,343	(75,084,995)	105,523,613
Finance income	418,258	22,443	439	3,621,341	(2,924,673)	1,137,808
Finance cost	(3,068,318)	(31,564)	(105,502)	(423,105)	2,198,113	(1,430,376)
Depreciation, amortisation and impairment	(10,076,028)	(538,997)	(797,272)	(268,499)	-	(11,680,796)
Other income / (expenses), net	1,420,070	18,646	38,587	798,363	(1,520,577)	755,089
Share of results of associates and joint ventures	539,577	61,389	-	278,092	(71,153)	807,905
Zakat and income tax	(1,797,667)	(36,447)	(64,400)	(1,704,747)	(122,113)	(3,725,374)
Net income attributable to equity holders of the Parent	16,803,993	894,237	(1,088,681)	14,291,113	(17,801,670)	13,098,992

18. Segment information (continued)

	Petro-chemicals / Specialties	Agri-nutrients	Metals	Corporate	Eliminations / Adjustments	Consolidated
			As at 30 September 2017			
Total assets	**261,272,797**	**13,049,723**	**19,385,699**	**219,263,535**	**(194,375,177)**	**318,596,577**
Investment in associates and joint ventures	**7,758,697**	**326,436**	**-**	**6,294,036**	**(269,543)**	**14,109,626**
Net additions to non-current assets (i)	**7,320,314**	**359,337**	**210,593**	**1,508,291**	**-**	**9,398,535**
Total liabilities	**166,723,452**	**2,354,417**	**5,591,341**	**51,721,803**	**(112,441,563)**	**113,949,450**
			As at 31 December 2016			
Total assets	259,578,214	12,744,192	19,606,798	209,710,850	(187,785,378)	313,854,676
Investment in associates and joint ventures	6,377,258	633,005	-	6,386,714	(456,653)	12,940,324
Net additions to non-current assets (i)	8,628,099	1,043,380	387,706	1,270,044	-	11,329,229
Total liabilities	168,172,082	2,326,517	5,095,879	49,018,796	(112,837,637)	111,775,637

(i) Primarily includes property, plant and equipment. Excludes financial instruments, deferred taxes, net defined benefit assets, rights under insurance contract and other insignificant non-current assets. The net additions, where presented, are from 1 January to period end dates of 30 September and 31 December respectively.

18. Segment information (continued)

Geographical distribution of revenue

	For the three months period ended 30 September 2017		For the three months period ended 30 September 2016	
	SR '000	**%**	SR '000	%
KSA	**5,929,149**	**15%**	5,350,296	15%
China	**6,436,563**	**16%**	3,500,220	10%
Rest of Asia	**8,496,615**	**21%**	8,124,506	23%
Europe	**9,399,473**	**24%**	9,017,862	25%
Americas	**2,994,880**	**8%**	3,375,922	9%
Others (i)	**6,398,220**	**16%**	6,428,556	18%
	39,654,900	**100%**	35,797,362	100%

	For the nine months period ended 30 September 2017		For the nine months period ended 30 September 2016	
	SR '000	**%**	SR '000	%
KSA	**17,297,410**	**16%**	17,976,432	17%
China	**18,100,125**	**16%**	10,510,818	10%
Rest of Asia	**23,885,196**	**21%**	23,435,891	22%
Europe	**27,094,863**	**24%**	25,702,510	24%
Americas	**9,440,358**	**9%**	9,540,088	9%
Others (i)	**15,959,400**	**14%**	18,357,874	18%
	111,777,352	**100%**	105,523,613	100%

18. Segment information (continued)

Geographical distribution of property, plant and equipment

	As at 30 September 2017		As at 31 December 2016	
	SR '000	**%**	SR '000	%
KSA	**146,485,928**	**86%**	148,410,677	87%
Europe (ii)	**14,962,260**	**9%**	12,510,276	7%
Americas (ii)	**7,261,341**	**4%**	7,621,143	5%
Asia (ii)	**1,717,491**	**1%**	1,806,583	1%
Others (ii)	**1,025**	**-**	1,303	-
	170,428,045	**100%**	170,349,982	100%

(i) Others includes sales made by certain subsidiaries to their foreign shareholders amounting to SR 3.55 billion (for the period ended 30 September 2016: SR 2.31 billion) and for which detailed geographical breakdown for final end consumer sales is not available with the Group

(ii) Significant value of property, plant and equipment in Europe is concentrated in Netherlands, UK, Germany and Spain; in the Americas, it is concentrated in USA and in Asia, it is concentrated in China and India. Others include countries in Africa and Oceania.

The basis of segmentation has remained unchanged for all periods presented.

19. Commitments and contingencies

Commitments

As at 30 September 2017, the Group had commitments of SR 9.1 billion (as at 31 December 2016: SR 9.5 billion) relating to capital expenditures.

SABIC has an equity contribution commitment towards its 15% interest in Ma'adan Wa'ad Al Shamal Phosphate Company ("MWSPC"). As at 30 September 2017, the outstanding commitment towards this investment amounts to SR 0.07 billion (as at 31 December 2016: SR 0.21 billion). Pursuant to the terms of the agreements with the other shareholders of MWSPC and its external lenders, SABIC has agreed to contribute additional funds to MWSPC, under certain circumstances and to the extent required, in the event of cost over-runs.

SABIC also has an equity contribution commitment towards its 25% interest in Dussur Company. As at 30 September 2017, the outstanding commitment towards this investment amounts to SR 0.28 billion (as at 31 December 2016: SR 0.38 billion).

Guarantees

SABIC has provided guarantees for bonds and certain term loans for certain subsidiaries which amounted to SR 29.3 billion as of 30 September 2017 (as at 31 December 2016: SR 28.7 billion).

19. Commitments and contingencies (continued)

Legal claim contingency

The Group is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, the Group's management does not expect that they will have a material adverse effect on the consolidated financial statements of the Group.

Contingent liabilities

The Group's bankers have issued, on its behalf, bank guarantees amounting to SR 2.65 billion in the normal course of business as at 30 September 2017 (as at 31 December 2016: SR 2.8 billion).

20. Interim results

The results of operations for the interim period may not be an accurate indication of the results of the full year's operations.

21. Appropriations

The Annual General Assembly, in its meeting held on 14 Rajab 1438H (corresponding to 11 April 2017), approved the appropriation of the net income for the year ended 31 December 2016 as follows:

- Distribution of cash dividends of SR 12 billion (SR 4 per share), this includes the interim cash dividends amounting to SR 6 billion (SR 2 per share) for the first half of 2016; and
- Payment of SR 1.8 million as Board of Directors' remuneration.

On 26 Ramadan 1438H (corresponding to 21 June 2017), SABIC declared interim cash dividends for the first half of the year 2017 amounting to SR 6 billion (at SR 2 per share), which were subsequently paid.

22. Subsequent event

In the opinion of management, there have been no significant subsequent events since the period ended 30 September 2017 that would have a material impact on the financial position of the Group as reflected in these interim condensed consolidated financial statements.

23. Approval of the Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements were approved on 9 Safar 1439H (corresponding to 29 October 2017).

24. Subsidiaries

The Group's subsidiaries as at 30 September 2017 are set out below. The country of incorporation is also their principal place of business. Apart from the acquisition of non-controlling interests in Saudi Petrochemical Company (Note 10), the Group structure has not changed since 31 December 2016.

	Country of incorporation	% Shareholding (direct and indirect) as at 30 September 2017
SABIC Industrial Investments Company (SIIC) and its subsidiaries	KSA	100.00
SABIC Luxembourg S.a.r.l. (SLUX) and its subsidiaries	Luxembourg	100.00
Arabian Petrochemical Company and its subsidiaries (Petrokemya Group)	KSA	100.00
Saudi Iron and Steel Company (Hadeed)	KSA	100.00
SABIC Sukuk Company (Sukuk)	KSA	100.00
SABIC Industrial Catalyst Company (Sabcat)	KSA	100.00
Saudi Carbon Fibre Company (SCFC)	KSA	100.00
SABIC Supply Chain Services Limited Company (SSCS)	KSA	100.00
Saudi Petrochemical Company (Sadaf)	KSA	100.00
Saudi European Petrochemical Company (Ibn Zahr)	KSA	80.00
Jubail United Petrochemical Company (United)	KSA	75.00
National Chemical Fertiliser Company (Ibn Al-Baytar)	KSA	71.50
National Industrial Gases Company (Gas)	KSA	70.00
Yanbu National Petrochemical Company (Yansab)	KSA	51.95
Saudi Methanol Company (Ar-Razi)	KSA	50.00
Al-Jubail Fertiliser Company (Al-Bayroni)	KSA	50.00
Saudi Yanbu Petrochemical Company (Yanpet)	KSA	50.00
National Methanol Company (Ibn Sina)	KSA	50.00
Eastern Petrochemical Company (Sharq)	KSA	50.00
Al-Jubail Petrochemical Company (Kemya)	KSA	50.00
Saudi Japanese Acrylonitrile Company (Shrouq)	KSA	50.00
Saudi Methacrylates Company (Samac)	KSA	50.00
Arabian Industrial Fibers Company (Ibn Rushd)	KSA	48.07
Saudi Arabian Fertiliser Company (Safco)	KSA	42.99
Saudi Kayan Petrochemical Company (Saudi Kayan)	KSA	35.00

24. Subsidiaries (continued)

a. The principal activities of majority of the Group's subsidiaries are manufacturing, marketing and distribution of petrochemical, specialties and related products except for;
   - Safco, Al-Bayroni and Ibn Al-Baytar that are involved in agri-nutrients business; and
   - Hadeed that is involved in metal business.

b. Yansab, Safco, and Saudi Kayan are listed Saudi Joint Stock Companies

c. SLUX subsidiaries are located across Europe, Asia Pacific and Americas

d. SIIC subsidiaries are located across Middle East and Africa