Sahara International Petrochemical Company
(Formerly Saudi International Petrochemical Company)
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the three and nine months period ended 30 September 2019
With Independent Auditor’s Review Report

KPMG Al Fozan & Partners
Certified Public Accountants
1st Floor, Battoyor Tower
King Saud Road, Al Safa
P.O. Box 4803
Al Khobar, 31952
Kingdom of Saudi Arabia

Telephone +966 13 816 2999
Fax +966 13 816 2888
Internet www.kpmg.com/sa

Licence No. 46/11/323 issued 11/3/1992

Independent auditor's report on review of condensed consolidated interim financial statements

To the Shareholders of Sahara International Petrochemical Company

Introduction

We have reviewed the accompanying 30 September 2019 condensed consolidated interim financial statements of Sahara International Petrochemical Company ("the Company") and its subsidiaries ("the Group") which comprises:

- the condensed consolidated statement of financial position as at 30 September 2019;
- the condensed consolidated statement of profit or loss for the three and nine months period ended 30 September 2019;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three and nine months period ended 30 September 2019;
- the condensed consolidated statement of changes in equity for the nine months period ended 30 September 2019;
- the condensed consolidated statement of cash flows for the nine months period ended 30 September 2019; and
- the notes to the condensed consolidated interim financial statements.

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

Scope of review

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

Independent auditor's report on review of condensed consolidated interim financial statements

To the Shareholders of Sahara International Petrochemical Company (Continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2019 condensed consolidated interim financial statements of Sahara International Petrochemical Company and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Abdulaziz Abdullah Alnaim
License No: 394

Al Khobar
Date: 22 October, 2019
Corresponding to: 23 Safar, 1441H

SAHARA INTERNATIONAL PETROCHEMICAL COMPANY
(FORMERLY SAUDI INTERNATIONAL PETROCHEMICAL COMPANY)
A SAUDI JOINT STOCK COMPANY
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2019
EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS

	Notes	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Assets			
Non-current assets			
Property, plant and equipment, and right-of-use assets	7	**14,635,823**	11,274,556
Intangible assets		**333,280**	352,948
Investments in a joint venture and associates	8	**3,738,047**	-
Long term investments		**228,338**	-
Deferred tax assets		**17,843**	9,872
Employees' home ownership program		**1,032,633**	681,203
Goodwill	3	**527,378**	29,544
Other non-current assets		**2,927**	-
Total non-current assets		**20,516,269**	12,348,123
Current assets			
Inventories	9	**996,094**	806,927
Trade receivables	14	**797,138**	659,895
Current portion of employees' home ownership program		**32,542**	32,063
Prepayments and other current assets		**213,702**	197,562
Short term investments		**334,698**	321,833
Cash and cash equivalents		**2,617,935**	1,013,514
Total current assets		**4,992,109**	3,031,794
Total assets		**25,508,378**	15,379,917
Equity and Liabilities			
Equity attributable to the owners of the Company			
Share capital	3	**7,333,333**	3,666,667
Share premium	3	**4,172,667**	-
Treasury shares		**(2,062)**	(6,278)
Statutory reserve		**1,205,397**	1,205,397
Other reserves		**45,501**	42,254
Retained earnings		**769,164**	1,010,867
Total owners' equity		**13,524,000**	5,918,907
Non-controlling interests		**1,142,512**	1,206,079
Total equity		**14,666,512**	7,124,986
Liabilities			
Non-current liabilities			
Long term bank loans and borrowings	10	**6,147,721**	4,803,323
Sukuk	10	**987,308**	999,908
Long term advances from non-controlling shareholders	10	**104,215**	93,780
Lease liabilities		**91,050**	-
Contract liabilities		**75,533**	25,301
Deferred tax liabilities		**50,082**	35,319
Employees' benefits		**453,990**	269,449
Decommissioning liability		**121,657**	94,288
Derivative financial instruments		**14,190**	-
Other non-current liabilities		**8,556**	8,556
Total non-current liabilities		**8,054,302**	6,329,924

SAHARA INTERNATIONAL PETROCHEMICAL COMPANY
(FORMERLY SAUDI INTERNATIONAL PETROCHEMICAL COMPANY)
A SAUDI JOINT STOCK COMPANY
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 SEPTEMBER 2019
EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS

	Notes	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Current liabilities			
Current portion of long term bank loans and borrowings	10	**1,374,483**	1,196,632
Short term advances from non-controlling shareholders		**3,500**	-
Current portion of contract liabilities		**10,121**	10,121
Current portion of lease liabilities		**4,030**	-
Trade and other payables		**160,886**	183,578
Accrued expenses and other current liabilities		**687,252**	439,024
Dividend payable		**440,000**	-
Zakat and income tax payable	6	**107,292**	95,652
Total current liabilities		**2,787,564**	1,925,007
Total liabilities		**10,841,866**	8,254,931
Total liabilities and equity		**25,508,378**	15,379,917

The condensed consolidated interim financial statements appearing on pages 1 to 25 were approved by the Board of Directors of the Company on 23 Safar, 1441H (corresponding to 22 October 2019G) and have been signed on their behalf by:

Fahad Bin Suliman Al-Rajhi	**Saleh Mohammed Bahamdan**	**Rushdi Khalid Al-Dulaijan**
Vice Chairman of the Board	Chief Executive Officer	Vice President, Finance

The accompanying notes 1 through 17 appearing on pages 7 to 25 form an integral part of these condensed consolidated interim financial statements.

SAHARA INTERNATIONAL PETROCHEMICAL COMPANY
(FORMERLY SAUDI INTERNATIONAL PETROCHEMICAL COMPANY)
A SAUDI JOINT STOCK COMPANY
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019
EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS

	Notes	Three months from July to September 2019 (Unaudited)	Three months from July to September 2018 (Unaudited)	Nine months from January to September 2019 (Unaudited)	Nine months from January to September 2018 (Unaudited)
Revenue	4	**1,402,020**	1,337,745	**3,933,044**	3,983,142
Cost of sales		**(1,040,451)**	(867,366)	**(2,677,841)**	(2,552,933)
Gross profit		**361,569**	470,379	**1,255,203**	1,430,209
Selling and distribution expenses		**(71,902)**	(57,103)	**(203,714)**	(155,416)
General and administrative expenses		**(112,711)**	(85,300)	**(286,665)**	(253,009)
Operating profit		**176,956**	327,976	**764,824**	1,021,784
Share of profit from a joint venture and associates		**18,827**	-	**32,488**	-
Finance income		**35,929**	8,294	**51,046**	22,652
Finance cost		**(103,169)**	(82,825)	**(273,972)**	(193,008)
Other income and expenses, net	15	**4,334**	(7,653)	**(14,200)**	(10,398)
Profit before Zakat and income tax		**132,877**	245,792	**560,186**	841,030
Zakat and income tax expense		**(25,500)**	(14,019)	**(79,423)**	(89,420)
Profit for the period		**107,377**	231,773	**480,763**	751,610
Profit attributable to:					
Equity holders of the Company		**111,052**	180,267	**436,631**	543,029
Non-controlling interests		**(3,675)**	51,506	**44,132**	208,581
Total profit for the period		**107,377**	231,773	**480,763**	751,610
Earnings per share:					
Basic and diluted earnings per share attributable to the equity holders of the Company in Saudi Riyals	16	**0.15**	0.49	**0.82**	1.48

Fahad Bin Suliman Al-Rajhi
Vice Chairman of the Board

Saleh Mohammed Bahamdan
Chief Executive Officer

Rushdi Khalid Al-Dulaijan
Vice President, Finance

The accompanying notes 1 through 17 appearing on pages 7 to 25 form an integral part of these condensed consolidated interim financial statements.

SAHARA INTERNATIONAL PETROCHEMICAL COMPANY
(FORMERLY SAUDI INTERNATIONAL PETROCHEMICAL COMPANY)
A SAUDI JOINT STOCK COMPANY
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019
EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS

	Three months from July to September		Nine months from January to September	
	2019 (Unaudited)	2018 (Unaudited)	**2019 (Unaudited)**	2018 (Unaudited)
Profit for the period	**107,377**	231,773	**480,763**	751,610
Other comprehensive income				
Items that will be reclassified to profit or loss in subsequent periods:				
Exchange difference on translation of foreign operations	**(485)**	(796)	**367**	(1,169)
Changes in fair value of derivative financial instruments designated as hedge	**(1,607)**	-	**(6,415)**	-
Items that will not be reclassified to profit or loss in subsequent periods:				
Changes in fair value of financial assets at fair value through other comprehensive income	**377**	-	**6,109**	-
Total other comprehensive income for the period	**(1,715)**	(796)	**61**	(1,169)
Total comprehensive income for the period	**105,662**	230,977	**480,824**	750,441
Total comprehensive income attributable to:				
Equity holders of the Company	**109,338**	179,471	**436,691**	541,860
Non-controlling interests	**(3,676)**	51,506	**44,133**	208,581
Total comprehensive income for the period	**105,662**	230,977	**480,824**	750,441

Fahad Bin Suliman Al-Rajhi
Vice Chairman of the Board

Saleh Mohammed Bahamdan
Chief Executive Officer

Rushdi Khalid Al-Dulaijan
Vice President, Finance

The accompanying notes 1 through 17 appearing on pages 7 to 25 form an integral part of these condensed consolidated interim financial statements.

SAHARA INTERNATIONAL PETROCHEMICAL COMPANY
(FORMERLY SAUDI INTERNATIONAL PETROCHEMICAL COMPANY)
A SAUDI JOINT STOCK COMPANY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019
EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS

	Attributable to the owners of the Company							Non-controlling interest	Total
	Share capital	Share premium	Treasury shares	Statutory reserve	Other reserves	Retained earnings	Total		
As at 1 January 2018 (Audited)	3,666,667	-	(7,832)	1,205,397	42,669	795,806	5,702,707	1,508,258	7,210,965
Profit for the period (Unaudited)	-	-	-	-	-	543,029	543,029	208,581	751,610
Other comprehensive income (Unaudited)	-	-	-	-	(1,169)	-	(1,169)	-	(1,169
Total comprehensive income (Unaudited)	-	-	-	-	(1,169)	543,029	541,860	208,581	750,441
Net change in other reserves (Unaudited)	-	-	-	-	2,298	-	2,298	-	2,29
Movement in treasury shares, net (Unaudited)	-	-	476	-	-	-	476	-	47
Dividends (Unaudited)	-	-	-	-	-	(366,667)	(366,667)	(180,789)	(547,456
As at 30 September 2018 (Unaudited)	3,666,667	-	(7,356)	1,205,397	43,798	972,168	5,880,674	1,536,050	7,416,72

	Attributable to the owners of the Company							**Non-controlling interest**	**Total**
	Share Capital	**Share premium**	**Treasury shares**	**Statutory reserve**	**Other reserves**	**Retained earnings**	**Total**		
As at 1 January 2019 (Audited)	**3,666,667**	**-**	**(6,278)**	**1,205,397**	**42,254**	**1,010,867**	**5,918,907**	**1,206,079**	**7,124,986**
Profit for the period (Unaudited)	-	-	-	-	-	**436,631**	**436,631**	**44,132**	**480,76**
Other comprehensive income (Unaudited)	-	-	-	-	**61**	-	**61**	-	**61**
Total comprehensive income (Unaudited)	-	-	-	-	**61**	**436,631**	**436,692**	**44,132**	**480,82**
Issued additional share capital (Unaudited)	**3,666,666**	**4,172,667**	-	-	-	-	**7,839,333**	-	**7,839,33**
Advances from partners-discounting (Unaudited)	-	-	-	-	-	-	-	**(402)**	**(402)**
Net change in other reserves (Unaudited)	-	-	-	-	**3,186**	-	**3,186**	-	**3,186**
Movement in treasury shares, net (Unaudited)	-	-	**4,216**	-	-	-	**4,216**	-	**4,216**
Dividends (Unaudited)	-	-	-	-	-	**(678,334)**	**(678,334)**	**(107,297)**	**(785,631)**
As at 30 September 2019 (Unaudited)	**7,333,333**	**4,172,667**	**(2,062)**	**1,205,397**	**45,501**	**769,164**	**13,524,000**	**1,142,512**	**14,666,512**

Fahad Bin Suliman Al-Rajhi
Vice Chairman of the Board

Saleh Mohammed Bahamdan
Chief Executive Officer

Rushdi Khalid Al-Dulaijan
Vice President, Finance

The accompanying notes 1 through 17 appearing on pages 7 to 25 form an integral part of these condensed consolidated interim financial statements.

SAHARA INTERNATIONAL PETROCHEMICAL COMPANY
(FORMERLY SAUDI INTERNATIONAL PETROCHEMICAL COMPANY)
A SAUDI JOINT STOCK COMPANY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019
EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS

	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Cash flow from operating activities		
Profit before Zakat and income tax for the period	**560,186**	841,030
Non-cash adjustments to reconcile profit before Zakat and income tax to net cash flow:		
Depreciation of property, plant and equipment	**562,594**	525,103
Amortization of intangible assets and deferred costs	**69,436**	58,843
Amortization of deferred revenue	**(5,632)**	7,590
Share of profit from a joint venture and associates	**(32,488)**	-
Provision for employees' benefits	**36,705**	24,154
Loss on property, plant and equipment - written off	**1,314**	4,167
Inventories - impairment	**6,623**	-
Net foreign exchange difference	**190**	(1,385)
Finance income	**(51,046)**	(22,652)
Finance cost	**274,067**	193,008
Changes in:		
Trade receivables	**160,578**	120,255
Inventories	**14,463**	(184,627)
Prepayments and other current assets	**66,523**	(296,831)
Accrued expenses, trade and other payables	**(213,903)**	22,550
Proceeds from Employees' home ownership program	**33,646**	24,395
Cash flows from operations	**1,483,256**	1,315,600
Employee benefits paid	**(19,007)**	(13,070)
Zakat and income tax paid	**(80,028)**	(125,824)
Net cash generated from operating activities	**1,384,221**	1,176,706
Cash flow from investing activities		
Additions to property, plant and equipment	**(521,253)**	(578,162)
Additions to intangibles	**(1,579)**	-
Additions to employees' home ownership program	**(2,012)**	(15,002)
Movement in long and short term investments, net	**1,614**	(65,941)
Finance income received	**32,922**	26,606
Dividend received from associate	**179,025**	-
Repayment of advance by SAMAPCO	**79,320**	-
Net cash used in investing activities	**(231,963)**	(632,499)
Cash flow from financing activities		
Proceeds from long term loans and borrowings	**1,429,997**	700,000
Repayment of long term loans and borrowings	**(1,340,244)**	(686,560)
Net change in advances from non-controlling shareholders	**13,935**	(36,674)
Net change in other reserves	**-**	2,297
Movement in treasury shares, net	**4,216**	476
Dividend paid to shareholders	**(238,333)**	(547,456)
Dividend paid to non-controlling shareholders	**(107,297)**	-
Interest paid	**(225,137)**	(158,457)
Net cash used in financing activities	**(462,863)**	(726,374)
Net change in cash and cash equivalents	**689,395**	(182,167)
Cash and cash equivalents at 1 January	**1,013,514**	1,722,754
Cash and cash equivalents due to acquisition of Sahara	**914,848**	-
Effect of exchange rate fluctuations	**178**	216
Cash and cash equivalents at 30 September	**2,617,935**	1,540,803

Fahad Bin Suliman Al-Rajhi	**Saleh Mohammed Bahamdan**	**Rushdi Khalid Al-Dulaijan**
Vice Chairman of the Board	Chief Executive Officer	Vice President, Finance

The accompanying notes 1 through 17 appearing on pages 7 to 25 form an integral part of these condensed consolidated interim financial statements.

1. CORPORATE INFORMATION

Sahara International Petrochemical Company “Sipchem” or “the Company”, (formerly Saudi International Petrochemical Company), is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial registration number 1010156910 dated 14 Ramadan 1420H, corresponding to 22 December 1999G.

The Company's head office is in the city of Riyadh with a branch in Al-Khobar, where the headquarters for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal 1420H, corresponding to 6 February 2000G, and another branch in Jubail Industrial City which is registered under commercial registration number 2055007570 dated 4 Jumada I, 1427H, corresponding to 1 June 2006G.

The principal activities of the Company are to own, establish, operate and manage industrial projects especially those related to chemical and petrochemical industries. The Company incurs costs on projects under development and subsequently establishes a separate Company for each project that has its own commercial registration. Costs incurred by the Company are transferred to the separate companies when they are established.

On Thursday, 11 Ramadan 1440H (corresponding to 16 May 2019G), Saudi International Petrochemical Company, a listed joint stock company registered under commercial registration number 1010156910 dated 14 Ramadan 1420H (corresponding to 22 December 1999G), announced changing its name to Sahara International Petrochemical Company (“Sipchem” or “the Company”) following completion of the business combination of equals between Sipchem and Sahara Petrochemicals Company, a Saudi joint stock company having commercial registration number 1010199710 dated 19 Jumada Al-Awal 1425H (corresponding to 7 July 2004G).

This business combination was structured as an acquisition whereby Sipchem acquired 100% of Sahara Petrochemicals Company (“Sahara”) shareholding by issuing 366,666,666 new Sipchem shares in accordance with implementation agreement and agreed ratio of 0.8356 shares of Sipchem for each share of Sahara. The issue of Sipchem shares was approved by shareholders in Extraordinary General Assembly on 11 Ramadan 1440H (corresponding to 16 May 2019G). Sipchem received required approvals from the Capital Market Authority and the Saudi Stock Exchange (“Tadawul”), the General Authority for Competition and all other relevant regulatory authorities prior to the date of Extraordinary General Assembly.

Following the acquisition of Sahara by Sipchem, Sahara shares were de-listed from Tadawul and new Sipchem shares were listed on Tadawul on 16 Ramadan 1440H (corresponding to 21 May 2019G), which resulted in Sahara becoming a wholly-owned subsidiary of Sipchem.

For more details, refer to Business Combination Note 3 to the condensed consolidated interim financial statements.

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

1. CORPORATE INFORMATION (continued)

As of 30 September, the Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as "the Group"):

Subsidiaries	Effective ownership percentage at 30 September	
	2019	2018
Sahara Petrochemicals Company ("Sahara")	**100%**	-
International Methanol Company ("IMC")	**65%**	65%
International Diol Company ("IDC")	**53.91%**	53.91%
International Acetyl Company ("IAC") (1.1)	**89.52%**	89.52%
International Vinyl Acetate Company ("IVC") (1.1)	**89.52%**	89.52%
International Gases Company (" IGC") (1.2)	**97%**	72%
Sipchem Marketing Company ("SMC')	**100%**	100%
Sahara Marketing Company ("SaMC')	**100%**	-
International Utility Company ("IUC")	**78.20%**	78.20%
International Polymers Company ("IPC")	**75%**	75%
Sipchem Chemical Company ("SCC")	**100%**	100%
Sipchem Europe Cooperative U.A	**100%**	100%
Sipchem Europe B.V.	**100%**	100%
Sipchem Europe SA (Formerly Aectra SA)	**100%**	100%
Gulf Advance Cable Insulation Company (GACI) (1.3)	**50%**	50%
Saudi Specialized products Company (SSPC)	**75%**	75%
Sipchem Asia PTE Ltd. (1.4)	**100%**	100%
Sipchem Specialized Technology Company (1.5)	**100%**	-

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

The principal activity of IMC is the manufacturing and sale of methanol. IMC commenced its commercial operations in 2004.

The principal activity of IDC is the manufacturing and sale of maleic anhydride, butanediol and tetra hydro furan. IDC commenced its commercial operations in 2006 .

The principal activities of IAC and IVC are the manufacturing and sale of acetic acid and vinyl acetate monomer respectively. IAC and IVC commenced their commercial activities in 2010.

The principal activity of IGC is the manufacturing and sale of carbon monoxide. IGC commenced its commercial operations in 2010.

The principal activities of SMC and SaMC are to provide marketing services for the products manufactured by the Group Companies and other petrochemical products.

The principal activity of IUC is to provide industrial utilities to the group companies.

The principal activity of IPC is to manufacture and sell low-density polyethylene (LDPE), polyvinyl acetate (PVAC) and polyvinyl alcohol (PVA). IPC commenced its commercial operations from 1 April 2015 after successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activity of SCC is the manufacture and sale of ethyl acetate, butyl acetate and polybutylene terephthalate. The ethyl acetate plant commenced its commercial operations in 2013 while Polybutylene Terephthalate Plant (PBT) commenced the commercial operations on 1 July 2018 after successful commissioning, testing and completion of acceptance formalities.

The principal activities of Sipchem Europe Cooperative U.A and its 100% owned subsidiaries including Sipchem Europe B.V. and Sipchem Europe SA are to provide marketing and distribution of petrochemical products of the Company.

The principal activities of Sipchem Asia pte Ltd is to act as a marketing agent and coordinator for sales of the Company's products.

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

1. CORPORATE INFORMATION (continued)

The principal activity of GACI is the manufacture and sale of cross linked polyethylene and electrical connecting wire products. GACI commenced its commercial operations from 1 June 2015 after the successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activities of SSPC which was established in 2014, is the manufacture and sale of moulds and dies and related services as well as production of Ethylene-Vinyl Acetate “EVA” films. The Tool Manufacturing Factory (“TMF”) plant has started commercial operations from 1 November 2016. The EVA film plant has commenced commercial operations on 1 January 2019.

1.1. On 22 June 2009, one of the shareholders of IAC and IVC contributed less than required contribution towards shareholders’ advances and Sipchem agreed to contribute more than its required level to support the project. As a result, the Group’s effective percentage of interest in both the companies increased by 2.52%. In February 2016, the Group acquired an additional 11% shares from a minority shareholder (Ikarus Petroleum Industries Company) in each of IAC and IVC, increasing its effective ownership from 78.52% to 89.52% for a consideration of SR 375.3 million. The Group recognized a reduction in non-controlling interests of SR 339.4 million and a reduction of SR 35.9 million in the equity attributable to the shareholders.

1.2. Sipchem has signed a sale and purchase agreement (“Agreement”) on 24 July 2018 with National Power Company (“NPC”) to purchase its entire shareholding representing 25% of the share capital in IGC at mutually agreed commercial terms. Sipchem has paid a consideration of SR 262.5 million for such purchase. All the legal formalities in respect of the purchase transaction has been completed and on 17 October 2018, Sipchem’s ownership has been increased from 72% to 97%.

1.3. The Group has only a 50% share in GACI. However, pursuant to the shareholders agreement, the control over the relevant activities and the operations of Gulf Advanced Cable Insulation Company are with the Group. Accordingly, the investee company is treated as a subsidiary of the Group.

1.4. The investee company was incorporated in 2013 in Singapore. Its Article of Association is dated 13 Jumada I, 1434H, corresponding to 25 March 2013. The principal activity of the Company is to provide marketing services for the products manufactured by the Group.

1.5. In 2019, share capital of Sipchem Specialized Technology Company amounting to SR 5,000,000 was paid. The principal activity of this Company is the manufacturing of metal equipment and spare parts.

1.6. Joint Operation

The Company, through its subsidiary Sahara, holds 75% equity interest in Al-Waha Petrochemicals Company (“Al-Waha”), a Joint Operation which is primarily involved in manufacturing of Polypropylene.

1.7. Equity accounted investees

The Company, through its subsidiary Sahara, holds 50% equity interest in Sahara and Ma’aden Petrochemicals Company (“SAMAPCO”), a Joint Venture which is primarily involved in manufacturing of Caustic Soda and Ethyl di-Chloride.

The Company, through its subsidiary Sahara, also holds equity interests in following associates which are primarily involved in manufacturing of petrochemical products:

	Effective ownership percentage at 30 September	
	2019	2018
Tasnee and Sahara Olefins Company ("TSOC")	**32.55%**	-
Saudi Acrylic Acid Company ("SAAC")	**43.16%**	-
Khair Inorganic Chemicals Industries Company (“Inochem”)	**30.00%**	-

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

These condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with IAS 34 "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA"), and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2018 ("Last Annual Financial Statements"). They do not include all of the information required for a complete set of IFRS financial statements. However, changes in accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements. Changes to significant accounting policies are described in Note 2.5.

2.2. Basis of preparation

These interim financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position:

- Investment in certain equity securities and certain financial assets measured at fair value;
- The defined benefit obligation is recognised at the present value of future obligations using the Projected Unit Credit Method;
- Derivative financial instruments that are measured at fair value.

2.3. Use of judgements and estimates

In preparing these Interim financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements except for those related to business combination as disclosed in Note 3.

2.4. Basis of consolidation

The interim financial statements comprise the consolidated interim financial statements of the Company and its subsidiaries (Note 1) for the period ended 30 September 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed off during the period are included in the condensed consolidated interim financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Basis of consolidation (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions among members of the Group are eliminated in full on consolidation.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- 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 profit or loss; and
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed off the related assets or liabilities.

Non-Controlling Interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as an equity transactions.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2.5. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2018, except for application of IFRS 16 - "Leases" which became effective on 1 January 2019 and accounting policies for Joint operation, Investments in a joint venture and associates which became applicable on acquisition of Sahara.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

i) <u>IFRS 16 - 'Leases'</u>

The Group has initially adopted IFRS 16 - Leases from 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard (IAS 17 Leases) - i.e. lessors continue to classify leases as finance or operating leases.

The Group has applied IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 (if any) is recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

A. Definition of lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration. The Group assess whether a contract is or contains a lease based on the new definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expediment to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Significant accounting policies (continued)

i) IFRS 16 - 'Leases' (continued)

B. As a lessee

The Group leases many assets including land, production and IT equipment and vehicles. As a lessee, the Group previously classified leases as operating leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under IFRS 16, the Group recognizes right-of- use assets and lease liabilities for most leases - i.e. these leases are on balance sheet.

The Group presents right-of-use assets in "property, plant and equipment", the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below:

	Property, plant and equipment			
	Land	**Production equipment**	**Vehicles**	**Total**
Balance as at 1 January 2019	57,962	28,093	3,394	89,449
Balance as at 30 September 2019	**62,929**	**23,848**	**3,604**	**90,381**

Significant accounting policy

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted with certain remeasurements of lease liability.

The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured when there is a change in the future lease payments arising from the change in an index or rate, a change in the estimate of the amount expected to be payable under residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or termination option is reasonably certain not to be exercised.

When measuring the lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 3.8%.

The Group has applied judgement to determine the lease term of some lease contracts in which it is a lessee that include renewable options. The assessment of whether the Group is reasonably certain to exercise such options impact the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Transition

Previously, the Group classified certain leases as operating leases under IAS 17. These include leasehold land, certain production equipment, vehicles and IT equipment. Some leases include an option to renew the lease for an extended period that is to be mutually agreed between the parties. Further, some leases provide for additional rent payments that are based on annual increments.

At transition, leases which were classified under IAS 17 as operating leases were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at the value of the lease liabilities in accordance with practical expedients available for initial application of IFRS 16. Therefore, there is no impact on retained earnings as at 1 January 2019. Further, the Group used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. Impact on financial statements

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognized SR 89.5 million of right-of-use assets and SR 89.5 million of lease liabilities as at 1 January 2019.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Significant accounting policies (continued)

i) IFRS 16 - 'Leases' (continued)

C. Impact on financial statements (continued)

Also, in relation those leases under IFRS 16, the Group has recognized depreciation and interest costs. During nine months ended 30 September 2019, the Group recognized SR 4.6 million of depreciation charge and SR 2.9 million of interest costs from these leases and derecognized an operating lease charge of SR 6.0 million. As at 30 September 2019, the carrying amount of right of use assets amounts to SR 90.4 million with SR 94.9 million recognized in lease liabilities.

ii) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The cost of acquisition is measured as the aggregate of the consideration transferred, which is measured at fair value at the date of acquisition, and amount of any non-controlling interest in the acquiree. Transaction costs are expensed as incurred during the year and included in the general and administrative expenses.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in condensed consolidated statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired in excess of the aggregate consideration transferred, the group re-assess whether it has correctly identified all of the assets acquired and all the liabilities assumed and review the procedures used to measure the amounts to be recognised at the business combination date. If the re-assessment still results in a excess of the fair value of the net assets acquired over the aggregate consideration transferred, then the gain is recognised in condensed consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss. For the purpose of impairment testing of goodwill acquired in the business combination, it is allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (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 of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in condensed consolidated statement of profit or loss immediately.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the interim financial statements from the date on which control commences until the date on which control ceases.

The gains or losses resulting from sale of shares in subsidiaries, when the Group continues to exercise control over the respective subsidiary, are booked in the reserve for the results of sale / purchase of shares in subsidiaries.

Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangements, have right to the assets and obligations for the liabilities relating the arrangement. Joint operations are proportionately consolidated in the interim financial statements.

iii) Investment in joint ventures and associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Significant accounting policies (continued)

iii) <u>Investment in joint ventures and associates (continued)</u>

Joint ventures are those entities over whose activities the Group has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method.

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition change in the Group's share of the investee's net assets. Group recognise share of profits or losses of the investee in its condensed consolidated statement of profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

If the Group's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group discontinues recognizing its share of further losses. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the condensed consolidated statement of profit for the amount by which the asset's carrying amount exceeds its recoverable amount.

Goodwill

On acquisition of the investment, any difference between the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
- Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

2.6. Other standards

The following amended standards and interpretations are required to be adopted in annual periods beginning on or after 1 January 2019 (except as stated below) and are not expected to have a significant impact on the Group's financial statements.

- IFRIC 23 - Uncertainty over Tax Treatments - (Refer to Note 6);
- Prepayment Features with Negative Compensation - (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures - (Amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement - (Amendments to IAS 19);
- Annual Improvements to IFRS Standards 2015-2017 cycle; Ammendments to IFRS 3 ,IFRS 11, IAS 12, IAS 23.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the condensed consolidated interim financial statements are listed below:

- Amendments to References to Conceptual Framework in IFRS Standards - applicable on or after 1 January 2020; and
- IFRS 17 - Insurance Contracts - applicable on or after 1 January 2021.

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

3. BUSINESS COMBINATION

As disclosed in Note 1 to the interim financial statements, on 11 Ramadan 1440H corresponding to 16 May 2019G, Sipchem acquired 100% shares and voting interests in Sahara Petrochemicals Company ("Sahara") and obtained control of Sahara. Sahara has investments in various industrial projects which manufacture and sell petrochemical products across Middle East, Europe, Asia and Australia. Taking control of Sahara will enable the Group to increase its overall market share and also experience reduction in costs through economies of scale.

A. Consideration transferred

The following table summarises the business combination date fair value of consideration transferred:

	Amount
Shares (366,666,666 shares @ SR 21.38)	**7,839,333**

The fair value of the ordinary shares issued was based on the listed share price of the Company at 16 May 2019 of SR 21.38 per share.

B. Identifiable assets acquired and liabilities assumed

The following table summarizes the allocation of the purchase price, determined provisionally, based on the fair value of the assets acquired and liabilities assumed on the business combination date:

	Amount
Property, plant and equipment, and right-of-use assets	3,323,310
Intangible assets	24,877
Investments in a joint venture and associates	3,944,356
Long-term investments	233,522
Employees' home ownership program	398,652
Other non-current assets	3,519
Inventories	210,253
Trade receivables	297,821
Prepayments and other current assets	85,876
Cash and cash equivalents	914,848
Borrowings	(1,396,417)
Lease liabilities	(10,600)
Contract liabilities	(59,364)
Employees' benefits	(158,585)
Decommissioning liability	(23,521)
Derivative financial instruments	(9,917)
Trade and other payables	(87,782)
Accrued expenses and other current liabilities	(330,303)
Zakat and income tax payable	(19,046)
Net identifiable assets acquired	**7,341,499**

The primary areas of the preliminary purchase price allocation that have not been finalized relate to the fair value of property, plant and equipment and intangible assets. The Group anticipates to complete the fair valuation of these assets during the measurement period.

If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts and assumptions, or any additional provisions that existed at the date of acquisition, then the accounting for the business combination will be revised.

In determining the fair value, a combination of the income, cost and market approaches were used depending on the asset or liability being fair valued, primarily using Level 3 inputs. The estimation of fair value requires significant judgment related to future net cash flows (including net sales, cost of products sold, selling and marketing costs), discount rates reflecting the risk inherent in each cash flow stream, competitive trends, market comparisons and other factors. Inputs were generally determined by taking into account historical data, supplemented by current and anticipated market conditions, and growth rates. The valuation techniques used for measuring the fair value of material assets acquired were as follows:

3. BUSINESS COMBINATION (continued)

B. Identifiable assets acquired and liabilities assumed (continued)

Assets acquired	Valuation technique and fair value of material components
Property, plant and equipment	Fair value of property, plant and equipment primarily relates to plant and machinery and is determined through discounted cash flow model (DCF) which uses management approved projected cash flows at a cash generating unit (CGU) level for a nine years' period. The cash flows beyond the nine years' period are extrapolated using an estimated terminal growth rate. After making adjustments for the other assets and liabilities that comprise the CGU, fair value of property, plant and equipment is determined.
Investments in a JV and associates	Fair value of Investments in JV and associates is determined using a combination of income and market approaches. Discounted cash flow model (DCF) is primarily used, supplemented by fair values calculated using market multiples for a peer group for each investment. DCF model uses management approved projected cash flows at each affiliate's level for a nine years' period. The cash flows beyond the nine years' period are extrapolated using an estimated terminal growth rate. After making adjustments for cash and net debt acquired, the fair value of Investment in JV and associates is determined. The break-down of fair value of investment in JV and associates is as follows:

	Amount
TSOC	3,359,754
SAMAPCO	342,559
Inochem	242,043
TOTAL	**3,944,356**

Borrowings	Fair value of borrowings is determined by discounting the future cash payments using market-prevalent interest rates.
Current assets and current liabilities	Due to the short maturity of these assets and liabilities, their fair values closely approximate their carrying values; therefore, their fair values are deemed to be their respective carrying values. The gross contractual amount for receivables is SR 298.2 million of which SR 0.4 million is expected to be uncollectible.

Following are the significant assumptions used in determining fair values of assets and liabilities:

Significant assumption	Approach used to determining values
Netback price forecasts	The netback price forecasts are obtained from an established third-party data provider and reflect competitive trends and anticipated market conditions for products.
Long-term growth rate	The growth rate used in the DCF model is based on, and does not exceed, the long term average growth rate for the relevant CGU or affiliate.
Weighted average cost of capital	The discount rate used is weighted average cost of capital and reflects specific risks relevant to the CGU or affiliate.

C. Goodwill

	Amount
Consideration transferred	7,839,333
Fair value of identifiable net assets (Refer note - 3 B)	(7,341,499)
Goodwill	**497,834**

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

3. BUSINESS COMBINATION (continued)

C. Goodwill (continued)

The business combination has resulted in SR 497.8 million of goodwill. Goodwill represents the excess of consideration over the net fair value of the acquired assets and liabilities. The goodwill recognized in this transaction largely consists of the acquired workforce and expected synergies resulting from the business combination. Synergies will result from building on the competitive advantages and complimentary capabilities of Sahara and Sipchem to provide benefits commercially, operationally and functionally and from driving efficiency and productivity of the closely situated industrial asset portfolios of each of Sahara and Sipchem in Jubail.

Goodwill has been allocated based on the assessed fair values to the following cash-generating units:

Cash-generating units	**Amount**
TSOC	281,184
Al-Waha	216,650
	497,834

D. Business combination costs

Transaction costs in connection with the business combination with Sahara amounted to SR 2.8 million for the three months period ended 30 September 2019 and SR 20.3 million for the nine months period ended 30 September 2019. These are included in other expenses in statement of profit or loss and in operating cash flows in the statement of cash flows. These costs primarily comprise of banker fees, legal fees and consultancy fees.

E. Pro forma information

Although the business combination was legally completed on 16 May 2019, for the purpose of consolidation, Sahara financials were combined with effect from 1 June 2019. Management considers that the impact of the transactions from 16 May 2019 to 31 May 2019 is not material to the consolidated financial statements. Sahara contributed revenues of SR 556.9 million and net profit of SR 156.4 million to the Group for the period from June to September 2019 (i.e. 4 months). If the acquisition had occurred on 1 January 2019, management estimates that:

- For the nine months period ended 30 September 2019, Sahara would have contributed revenues of SR 1,205.4 million and net profit of SR 356.1 million to the Group. Therefore, the total consolidated revenue of the Group for the nine months period would have been SR 4,564.6 million and consolidated net profit attributable to shareholders of Sipchem would have been SR 636.3 million.
- For the quarter ended 30 September 2019, Sahara has contributed revenues of SR 399.0 million and net profit of SR 98.3 million to the Group. Therefore, the total consolidated revenue of the Group for the three months period is SR 1,402.0 million and consolidated net profit attributable to shareholders of Sipchem is SR 107.4 million.

In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019. Therefore, these amounts have been calculated using the results of Sahara and of its affiliates and adjusted for the additional depreciation that would have been charged assuming the fair value adjustments to property, plant and equipment had applied from 1 January 2019.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group's operations and main revenue streams are those described in the last annual financial statements.

i) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition.

	30 September 2019 (Unaudited) Note 3	30 September 2018 (Unaudited)
Primary geographic markets		
Foreign countries	**3,380,662**	3,626,657
Saudi Arabia	**552,382**	356,485
	3,933,044	3,983,142
Major products/service lines		
Petrochemical products	**3,918,312**	3,970,530
Product on contract basis - specialized products, tools etc	**14,732**	12,612
	3,933,044	3,983,142

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

4. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

i) *Disaggregation of revenue from contracts with customers (continued)*

Timing of revenue recognition	**30 September 2019 (Unaudited) Note 3**	30 September 2018 (Unaudited)
Product transferred at a point in time	**3,918,312**	3,970,530
Product transferred over time	**14,732**	12,612
	3,933,044	3,983,142

ii) *Contract balances*

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	30 September 2019 (Unaudited) Note 3	31 December 2018 (Audited)
Receivables included in trade receivables	**789,380**	652,711
Contract assets included in trade receivables	**7,758**	7,184
Contract liabilities	**(85,654)**	(25,301)

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers for which revenue is recognised over time.

5. SEGMENT INFORMATION

The Group has the following operating segments:

- **Basic Chemicals,** which includes Methanol, Butane products and Carbon monoxide.
- **Intermediate chemicals,** which includes Acetic acid, Vinyl acetate monomer, Ethyl acetate, Butyl acetate, and utilities.
- **Polymers,** which includes Low-density polyethylene, polyvinyl acetate, polyvinyl alcohol, Polybutylene terephthalate, and electrical connecting wire products. This segment also includes polypropylene.
- **Marketing,** which include Sipchem Marketing Company and its foreign subsidiaries as defined in Note 1. This segment also includes sale of petrochemical products (mainly polypropylene) by Sahara Marketing Company (SaMC).
- **Corporate and others,** which includes Sipchem, EVA films and Tool manufacturing plant. This segment also includes Sahara enabling functions and support activities.

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the interim financial statements.

Period ended 30 September 2019 (Unaudited)	**Basic Chemicals**	**Intermediate Chemicals**	**Polymers**	**Marketing**	**Corporate and others**	**Consolidation elimination**	**Total**
Revenue							
External customers	**859,289**	**1,037,809**	**1,124,585**	**484,433**	**426,928**	**-**	**3,933,044**
Inter-segment	**236,407**	**590,094**	**463,750**	**1,830,725**	**-**	**(3,120,976)**	**-**
Total revenue	**1,095,696**	**1,627,903**	**1,588,335**	**2,315,158**	**426,928**	**(3,120,976)**	**3,933,044**
Gross profit	**451,306**	**78,151**	**412,782**	**93,373**	**188,928**	**30,663**	**1,255,203**
Operating profit/(loss)	**285,452**	**(31,269)**	**297,110**	**60,778**	**103,735**	**49,018**	**764,824**
Share of profits from associates and joint venture	**-**	**-**	**-**	-	**32,488**	**-**	**32,488**
Profit / (loss) before Zakat and tax	**235,710**	**(96,621)**	**221,337**	**61,800**	**107,908**	**30,052**	**560,186**
Total assets	**4,192,155**	**5,920,972**	**7,906,339**	**859,236**	**26,364,282**	**(19,734,606)**	**25,508,378**
Total liabilities	**1,889,164**	**2,618,123**	**3,514,898**	**510,071**	**5,230,483**	**(2,920,873)**	**10,841,866**
Capital expenditure	**242,433**	**201,789**	**29,656**	**558**	**48,829**	**-**	**523,265**

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

5. SEGMENT INFORMATION (CONTINUED)

Period ended 30 September 2018 (Unaudited)	Basic Chemicals	Intermediate Chemicals	Polymers	Marketing	Corporate and Others	Consolidation elimination	Total
Revenue							
External customers	1,181,128	1,291,451	953,589	544,362	12,612	-	3,983,142
Inter-segment	286,900	776,694	49,106	1,793,931	114,621	(3,021,252)	-
Total revenue	1,468,028	2,068,145	1,002,695	2,338,293	127,233	(3,021,252)	3,983,142
Gross profit	722,820	313,373	309,775	73,962	6,992	3,287	1,430,209
Operating profit / (loss)	551,812	198,825	242,619	37,877	(28,528)	19,179	1,021,784
Profit / (loss) before Zakat and tax	536,313	216,412	229,270	40,967	(184,913)	2,981	841,030
Total assets	4,550,165	6,296,488	4,126,640	858,190	9,690,562	(9,329,564)	16,192,481
Total liabilities	2,058,254	2,876,328	2,218,372	517,025	3,593,273	(2,487,494)	8,775,758
Capital expenditure	347,220	213,257	11,296	1,325	20,066	-	593,164

Revenue based on geographical information

	Saudi Arabia	Foreign countries	Total
Revenue from external customers			
30 September 2019	**552,382**	**3,380,662**	**3,933,044**
30 September 2018	356,485	3,626,657	3,983,142

Revenue by geography and segment

	For the period ended 30 September 2019 (Unaudited)					
	Basic chemicals	**Intermediate chemicals**	**Polymers**	**Marketing**	**Corporate and others**	**Total**
Revenue:						
Foreign countries	**777,024**	**968,270**	**1,076,152**	**147,020**	**412,196**	**3,380,662**
Saudi Arabia	**82,265**	**69,539**	**48,433**	**337,413**	**14,732**	**552,382**
Total revenue	**859,289**	**1,037,809**	**1,124,585**	**484,433**	**426,928**	**3,933,044**

	For the period ended 30 September 2018 (Unaudited)					
	Basic chemicals	Intermediate chemicals	Polymers	Marketing	Corporate and others	Total
Revenue:						
Foreign countries	1,105,611	1,291,451	868,235	361,360	-	3,626,657
Saudi Arabia	75,517	-	85,354	183,002	12,612	356,485
Total revenue	1,181,128	1,291,451	953,589	544,362	12,612	3,983,142

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

6. ZAKAT AND INCOME TAX

Outstanding assessments:

Details of outstanding assessments of the Group are the same as disclosed in Group's last annual financial statements and previous quarters in 2019 except for the following:

Sahara International Petrochemical Company (formerly Saudi International Petrochemical Company)

On 9 October 2019, Sipchem has received Zakat assessments from GAZT for the years 2011 to 2014 with additional Zakat liability of SR 71.3 million (2011: SR 10.1 million, 2012: SR 48.3 million, 2013: SR 10.2 million, 2014: SR 2.7 million). SIPCHEM is planning to file an appeal against this assessment.

International Vinyl Acetate Company (IVC)

During the quarter, IVC has received revised assessments of Zakat and delay fine on withholding tax for the years 2011 and 2012 from GAZT. The Zakat liability as per revised assessment is SR 5.83 million and SR 14.99 million for the years 2011 and 2012 respectively. The delay fine on withholding tax as per revised assessment is SR 0.01 million and SR 0.02 million for the years 2011 and 2012 which is subsequently cancelled by GAZT as it has already been settled by IVC earlier. IVC is currently reviewing the zakat assessments and based on that it will consider filing appeal/acceptance.

7. PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS

a. Acquisitions and disposals

- During the nine months period ended 30 September 2019, the Group acquired assets with a cost of SR 521.3 million (nine months period ended 30 September 2018: SR 578.2 million).
- During the nine months period ended 30 September 2019, assets with a carrying amount of SR 3.7 million (nine months period ended 30 September 2018: SR 4.2 million) were written off.

b. Capital work in progress

The Group's capital work-in-progress as at 30 September 2019 is SR 1,219.2 million (as at 31 December 2018: SR 995.0 million) and comprises mainly of construction costs related to Debottlenecking (DBN), Environmental Efficiency Centre (SEEC) and costs related to several projects for improvements and enhancements of operating plants.

8. INVESTMENTS IN A JOINT VENTURE AND ASSOCIATES

	Note	30 September 2019 (Unaudited) Note 3	31 December 2018 (Audited)
Investment in a joint venture	8.1	**246,813**	-
Investment in associates	8.2	**3,491,234**	-
		3,738,047	-

8.1. Investment in a Joint Venture (JV)

	Note	30 September 2019 (Unaudited) Note 3	31 December 2018 (Audited)
Investment in a JV		**246,813**	-
Advances to a JV	8.1.1	**-**	-
		246,813	-

8.1.1. Advances to a JV

The Group provided an interest free long term advance to SAMAPCO amounting to SR 79.3 million. During quarter ended 30 September 2019, the advance was repaid by SAMAPCO.

8.2. Investment in Associates

	30 September 2019 (Unaudited) Note 3	31 December 2018 (Audited)
Investment in Associates:		
Tasnee and Sahara Olefins Company	**3,251,309**	-
Khair Inorganic Chemical Industries Company	**239,925**	-
	3,491,234	-

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

9. INVENTORIES

- During the nine months period ended 30 September 2019, the Group wrote down its finished goods inventory by SR 6.6 million (nine months period ended 30 September 2018: SR 2.6 million) on account of an increase in the cost of production of certain finished goods exceeding the selling prices. The write-down is included in 'cost of sales' in the condensed consolidated statement of profit or loss.

- During the nine months period ended 30 September 2019, provision of SR Nil (nine months period ended 30 September 2018: SR 9.3 million) for slow moving stores and spares was reversed.

10. LOANS AND BORROWINGS

	30 September 2019 (Unaudited) Note 3	31 December 2018 (Audited)
Current loans and borrowings		
Saudi industrial development fund	**212,130**	400,204
Shari'a compliant bank loans	**858,643**	482,366
Public investment fund loans	**176,774**	205,399
Commercial loans	**126,936**	108,663
Current portion of long term bank loans and borrowings	**1,374,483**	1,196,632
Short term advances from non-controlling shareholders	**3,500**	-
Total current loans and borrowings	**1,377,983**	1,196,632
Non-current loans and borrowings		
Saudi industrial development fund	**451,015**	602,408
Shari'a compliant bank loans	**4,429,563**	3,034,225
Public investment fund loans	**379,485**	459,612
Commercial loans	**887,658**	707,078
	6,147,721	4,803,323
Other non-current loans		
Advances from non-controlling shareholders	**104,215**	93,780
Islamic Murabaha bonds (SUKUK)	**987,308**	999,908
Total non-current loans and borrowings	**7,239,244**	5,897,011
Total loans and borrowings	**8,617,227**	7,093,643

The loan bears financial charges at Saudi Arabian Inter Bank Offered Rate ("SAIBOR") plus a specified fixed margin. During nine months period ended 30 September 2019, the Group obtained commercial and Sharia' compliant loans amounting to SR 1,430.0 million which carries interest at market rates, and repaid an amount of SR 1,340.2 million.

11. DIVIDEND

On 23 December 2018, the Board of directors recommended to distribute an interim cash dividend for the second half of the year 2018 amounting to SR 238.3 million (i.e. SR 0.65 per share). The distribution is limited to the shareholders who are registered in the Securities Depository Center (Edaa) at the end of second trading day following the eligibility date which was 1 January 2019. On 15 January 2019, Sipchem distributed the dividend to shareholders.

On September 25, 2019, the Board of directors recommended to distribute interim cash dividends for the first half of the year 2019 amounting to SR 440.0 million (i.e. SR 0.60 per share). The Company distributed such dividends during October 2019.

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

12. FINANCIAL INSTRUMENTS

The Group's principal financial assets include cash and cash equivalents, trade receivable, long term investments and certain other receivables that arise directly from its operations. The Group's principal financial liabilities comprise short and long term loans and borrowings, advances from partners and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

Fair value hierarchy

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the condensed consolidated interim financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows the carrying amounts and fair values of financial assets, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value:

	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
	As at 30 September 2019 (Unaudited) - Note 3				
Short term investments					
Equity securities	**39,388**	**39,388**	**39,388**	**-**	**-**
Long term investments					
Listed mutual fund (Note 3)	**60,150**	**60,150**	**60,150**	**-**	**-**
Unlisted mutual fund (Note 3)	**117,756**	**117,756**	**-**	**117,756**	
Total	**217,294**	**217,294**	**99,538**	**117,756**	**-**

	Carrying amount	Fair value	Level 1	Level 2	Level 3
	As at 31 December 2018 (Audited)				
Short term investments					
Equity securities	34,832	34,832	34,832	-	-
Total	34,832	34,832	34,832	-	-

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

13. COMMITMENTS AND CONTINGENCIES

Commitments

	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Capital commitments	**242,052**	224,143

Contingencies

	30 September 2019 (Unaudited)	31 December 2018 (Audited)
Letters of guarantee and credit	**810,511**	731,564

Contingent liabilities

In addition, the Group has no material contingent liabilities as at period ended 30 September 2019 except for those as disclosed in Note 6 to the interim financial statements.

14. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the Company's shareholders, associated companies and their shareholders, key management personnel, Board of Directors, and entities controlled, jointly controlled or significantly influenced by such parties. During the period, the Group transacted with the following related parties:

Name	**Relationship**
Japan Arabia Methanol Company Limited ("JAMC")	Shareholder of a subsidiary
HELM - Arabia GmbH & Co. KG ("Helm - Arabia")	Shareholder of a subsidiary
Hanwha Chemical Malaysia Sdn Bhd ("Hanwha")	Shareholder of a subsidiary
Al - Waha	Joint operations of a subsidiary
SAMAPCO	Joint venture of a subsidiary
Lyondell Basell	Shareholder of joint operations of a subsidiary
SAAC	Associated Company
Saudi Ethylene and Polyethylene Company ("SEPC")	Associated Company

a) Significant transaction with related parties other than key management personnel

Transactions with related parties have been disclosed below:

Related party	**Nature of transaction**	**For the nine months ended September 30, 2019 (Unaudited) Note 3**	For the nine months ended September 30, 2018 (Unaudited)
Helm - Arabia	Sales made to Helm - Arabia	**526,382**	738,154
Hanwha	Sales made to Hanwha	**412,966**	377,916
JAMC	Sales made to JAMC	**139,668**	188,582
Al – Waha	Shared services cost charged to Al-Waha	**12,273**	-
	Cost and expenses charged by Al-Waha	**61**	-
	Transfer of HOP assets to Al Waha	**262**	-
	Allocation of HOP finance cost to Al-Waha	**620**	-
	Purchase of polypropylene from Al-Waha	**41,584**	-
SAMAPCO	Shared service cost charged to SAMAPCO	**36,947**	-
	Interest income	**21,690**	-
	Transfer of HOP assets to SAMAPCO	**1,322**	-
	Allocation of HOP finance cost to SAMAPCO	**2,172**	-
	Cost and expenses charged to SAMAPCO	**1,577**	-
Lyondell Basell	Sales made to Lyondell Basell	**379,451**	-
	Consultancy fee	**1,685**	-
SEPC	Purchase of ethylene by Al-Waha	**23,161**	-

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

14. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The above transactions resulted in the following unsecured balances with related parties:

i) Trade receivables

	30 September 2019 (Unaudited) Note 3	31 December 2018 (Audited)
Hanwha Chemical Malaysia Sdn Bhd	**85,923**	99,524
HELM -Arabia GmbH & Co. KG (Helm -Arabia)	**63,638**	132,773
Japan Arabia Methanol Company Limited (JAMC)	**23,778**	19,555
Lyondell Basell and its associates	**160,422**	-
	333,761	251,852

ii) Prepayments and other current assets

	30 September 2019 (Unaudited) Note 3	31 December 2018 (Audited)
SAMAPCO	**6,843**	-
	6,843	-

iii) Trade and other payables

	30 September 2019 (Unaudited) Note 3	31 December 2018 (Audited)
Lyondell Basell	**2,852**	-
	2,852	-

iv) Accrued expenses and other current liabilities

	30 September 2019 (Unaudited) Note 3	31 December 2018 (Audited)
SAMAPCO	**21,398**	-
	21,398	-

b) Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company.

The key management personnel compensation is as follows:

	30 September 2019 (Unaudited)	30 September 2019 (Unaudited)
Short-term employee benefits	**8,054**	9,161
End of service benefits	**1,644**	3,585
Thrift plan	**443**	707
Share based payment transactions	**55**	107
Total compensation related to key management personnel	**10,196**	13,560

c) Transfer pricing

On 25 Jumada Al Awwal 1440H corresponding to 31 January 2019G, the General Authority for Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia (KSA) issued Transfer Pricing Bylaws (By-laws). These by-laws were enacted on 15 February 2019 as part of the tax law and became binding on tax payers for periods ending on or after 31 December 2018. The Group has filed necessary documentation to comply with relevant tax law within statutory time limit. (Refer to Note 6).

EXPRESSED IN SAUDI ARABIAN RIYALS IN THOUSANDS UNLESS OTHERWISE STATED

15. OTHER INCOME / (EXPENSES), NET

Other income / (expenses) mainly includes an amount of SR 20.3 million related to the expenses for merger is charged as other expenses for the nine months ended 30 September 2019 (nine months period ended 30 September 2018: SR 24.0 million).

16. EARNINGS PER SHARE

The calculation of Earnings per share has been based on the following profit attributable to the equity holders of the Company and weighted average number of ordinary shares outstanding:

	Three months period from July to September		**Nine months period from January to September**	
	2019 (Unaudited)	2018 (Unaudited)	**2019 (Unaudited)**	2018 (Unaudited)
Profit attributable to the equity holders of the Company	**111,052**	180,267	**436,631**	543,029
Weighted average number of ordinary shares outstanding during the period	**733,333**	366,667	**529,630**	366,667
Basic and diluted earnings per share attributable to the equity holders of the Company	**0.15**	0.49	**0.82**	1.48

17. SUBSEQUENT EVENTS

Except as disclosed elsewhere in these interim financial statements, no events occurred between the date of the condensed consolidated statement of financial position and the date of authorization of the interim financial statements by the Board of Directors which would have a material impact on these financial statements.