Saudi International Petrochemical Company

(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months period ended 30 September 2018
With Independent Auditors' Report

EXCELLENCE everywhere

INDEX

KPMG

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 Auditors' Report On Review Of Condensed Consolidated Interim Financial Statements

To: The Shareholders
Saudi International Petrochemical Company
(A Saudi Joint Stock Company)
Riyadh
Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 30 September 2018 condensed consolidated interim financial statements of Saudi International Petrochemical Company ("the Company") and its subsidiaries ("the Group") which comprises:

- the condensed consolidated statement of financial position as at 30 September 2018;
- the condensed consolidated statement of profit or loss for the three and nine-month period ended 30 September 2018;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three and nine-month period ended 30 September 2018;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2018;
- the condensed consolidated statement of cash flows for the nine month period ended 30 September 2018; 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' as 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' as 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.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2018 condensed consolidated interim financial statements of Saudi International Petrochemical Company and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

كي . بي . ام . جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
س.ت.م رقم ٤٦
Certified Public Accountants
KPMG Al Fozan & Partners

Abdulaziz Abdullah Alnaim
License No: 394

Al Khobar
Date: 21 October 2018
Corresponding to: 12 Safar 1440H

EXPRESSED IN SAUDI RIYALS

	Note	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	5	**11,234,550,886**	11,207,724,480
Intangible assets		**366,451,434**	386,244,686
Employees' home ownership program		**682,745,923**	709,123,201
Goodwill		**29,543,923**	29,543,923
Total non-current assets		**12,313,292,166**	12,332,636,290
Current assets			
Inventories	6	**852,981,851**	668,354,907
Trade receivables	12	**756,523,227**	876,778,008
Prepayments and other current assets	7	**409,407,843**	116,530,260
Short term investments	10	**319,473,375**	253,532,643
Cash and cash equivalents		**1,540,802,983**	1,722,754,310
Total current assets		**3,879,189,279**	3,637,950,128
Total assets		**16,192,481,445**	15,970,586,418
Equity			
Equity attributable to the shareholders of the Company:			
Share capital		**3,666,666,660**	3,666,666,660
Share premium		**36,849,427**	35,222,266
Treasury shares		**(7,355,540)**	(7,831,990)
Statutory reserve		**1,205,397,395**	1,205,397,395
Reserve for results of sale / purchase of shares in subsidiaries		**12,949,042**	12,949,042
Foreign currency translation reserve		**(8,930,580)**	(7,761,813)
Share based payment transactions reserve		**2,929,947**	2,259,635
Retained earnings		**972,168,191**	795,805,766
Total shareholders' equity		**5,880,674,542**	5,702,706,961
Non-controlling interests		**1,536,049,183**	1,508,257,603
Total equity		**7,416,723,725**	7,210,964,564
Liabilities			
Non-current liabilities			
Non-current bank loans and borrowings	8	**5,297,505,052**	5,439,699,614
Sukuk	8	**999,771,849**	998,136,277
Long term advances from partners	8	**84,451,843**	87,920,236
Deferred revenue		**27,831,375**	35,421,750
Employees' benefits		**259,131,583**	242,411,799
Decommissioning liability		**93,159,491**	86,995,363
Other non-current liabilities		**8,613,547**	8,556,088
Total non-current liabilities		**6,770,464,740**	6,899,141,127

EXPRESSED IN SAUDI RIYALS

	Note	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Current liabilities			
Current portion of long term bank loans and borrowings	8	**1,047,186,684**	879,102,236
Trade and other payables		**107,265,882**	196,924,708
Accrued expenses and other liabilities		**737,697,025**	601,701,237
Zakat and income tax payable	4	**113,143,389**	149,546,758
Short term advances from partners	8	**-**	33,205,788
Total current liabilities		**2,005,292,980**	1,860,480,727
Total liabilities		**8,775,757,720**	8,759,621,854
Total liabilities and equity		**16,192,481,445**	15,970,586,418

The condensed consolidated interim financial statements were approved by the management on behalf of Board of Directors of the Company on 21 October 2018, and have been signed on their behalf by:

Ahmad Al-Ohali
Chief Executive Officer & Member of Board

Paul Jacobs
Vice President Corporate Finance

The accompanying notes 1 through 17 appearing on pages 8 to 24 form an integral part of these condensed consolidated interim financial statements.

EXPRESSED IN SAUDI RIYALS

		Three months from July to September		Nine months from January to September	
	Note	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Revenue	3	**1,337,744,979**	1,063,569,116	**3,983,142,018**	3,180,863,327
Cost of sales		**(867,366,083)**	(696,529,938)	**(2,552,933,222)**	(2,180,482,615)
Gross profit		**470,378,896**	367,039,178	**1,430,208,796**	1,000,380,712
Selling and distribution expenses		**(57,102,831)**	(48,854,146)	**(155,416,073)**	(144,950,645)
General and administrative expenses		**(85,299,567)**	(64,683,316)	**(253,009,341)**	(195,717,438)
Operating profit		**327,976,498**	253,501,716	**1,021,783,382**	659,712,629
Finance income		**8,293,880**	6,876,105	**22,652,403**	16,753,360
Finance cost	8	**(82,824,629)**	(69,506,007)	**(193,007,646)**	(218,645,563)
Other (expenses) / income, net	13	**(7,652,581)**	650,151	**(10,397,707)**	11,106,592
Profit before Zakat and income tax		**245,793,168**	191,521,965	**841,030,432**	468,927,018
Zakat and income tax expense		**(14,018,643)**	(11,173,450)	**(89,420,733)**	(64,561,683)
Profit for the period		**231,774,525**	180,348,515	**751,609,699**	404,365,335
Profit attributable to:					
Shareholders of the Company		**180,267,172**	121,551,117	**543,029,091**	272,991,926
Non-controlling interests		**51,507,353**	58,797,398	**208,580,608**	131,373,409
Total profit for the period		**231,774,525**	180,348,515	**751,609,699**	404,365,335
Earnings per share:					
Basic and diluted earnings per share attributable to the shareholders of the Company		**0.49**	0.33	**1.48**	0.74

Ahmad Al-Ohali
Chief Executive Officer & Member of Board

Paul Jacobs
Vice President Corporate Finance

The accompanying notes 1 through 17 appearing on pages 8 to 24 form an integral part of these condensed consolidated interim financial statements.

EXPRESSED IN SAUDI RIYALS

	Three months from July to September		Nine months from January to September	
	2018 (Unaudited)	2017 (Unaudited)	**2018 (Unaudited)**	2017 (Unaudited)
Profit for the period	**231,774,525**	180,348,515	**751,609,699**	404,365,335
Other comprehensive income items that will be reclassified to profit or loss in subsequent periods:				
Exchange difference on translation of foreign operations	**(796,056)**	948,031	**(1,168,767)**	(530,471)
Net total other comprehensive income items that will be reclassified to profit or loss in subsequent periods:	(796,056)	948,031	(1,168,767)	(530,471)
Total comprehensive income for the period	**230,978,469**	181,296,546	**750,440,932**	403,834,864
Total comprehensive income attributable to:				
Shareholders of the Company	**179,471,116**	122,499,148	**541,860,324**	272,461,455
Non-controlling interests	**51,507,353**	58,797,398	**208,580,608**	131,373,409
Total comprehensive income for the period	**230,978,469**	181,296,546	**750,440,932**	403,834,864
Earnings per share:				
Basic and diluted earnings per share attributable to the shareholders of the Company	**0.49**	0.33	**1.48**	0.74

Ahmad Al-Ohali
Chief Executive Officer & Member of Board

Paul Jacobs
Vice President Corporate Finance

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SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
A SAUDI JOINT STOCK COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018
EXPRESSED IN SAUDI RIYALS

	Attributable to the shareholders' of the Company										
	Share capital	Share premium	Treasury shares	Statutory reserve	Reserve for results of sale / purchase of shares in subsidiaries	Retained earnings	Foreign currency translation reserve	Shares based payment transaction reserve	Total	Non-controlling interest	Total
As at 1 January 2017 (Audited)	3,666,666,660	34,656,309	(7,590,000)	1,205,397,395	12,949,042	358,405,725	(7,914,949)	1,468,159	5,264,038,341	1,421,156,653	6,685,194,994
Profit for the period (Unaudited)	-	-	-	-	-	272,991,926	-	-	272,991,926	131,373,409	404,365,335
Other comprehensive income (Unaudited)	-	-	-	-	-	-	(530,471)	-	(530,471)		(530,471)
Total comprehensive income (Unaudited)	-	-	-	-	-	272,991,926	(530,471)	-	272,461,455	131,373,409	403,834,864
Additional capital contributed (Unaudited)	-	-	-	-	-	-	-	-	-	24,000,000	24,000,000
Net change in share premium account (Unaudited)		302,101	(241,990)					448,512	508,623		508,623
Dividends (Unaudited)	-			-	-		-	-	-	(51,015,284)	(51,015,284)
As at 30 September 2017 (Unaudited)	3,666,666,660	34,958,410	(7,831,990)	1,205,397,395	12,949,042	631,397,651	(8,445,420)	1,916,671	5,537,008,419	1,525,514,778	7,062,523,197

	Attributable to the shareholders' of the Company										
	Share Capital	Share premium	Treasury shares	Statutory reserve	Reserve for results of sale / purchase of shares in subsidiaries	Retained earnings	Foreign currency translation reserve	Shares based payment transaction reserve	Total	Non-controlling interest	Total
As at 1 January 2018 (Audited)	3,666,666,660	35,222,266	(7,831,990)	1,205,397,395	12,949,042	795,805,766	(7,761,813)	2,259,635	5,702,706,961	1,508,257,603	7,210,964,564
Profit for the period (Unaudited)	-	-	-	-	-	543,029,091		-	543,029,091	208,580,608	751,609,699
Other comprehensive income (Unaudited)	-	-	-	-	-		(1,168,767)	-	(1,168,767)	-	(1,168,767)
Total comprehensive income (Unaudited)	-	-	-	-	-	543,029,091	(1,168,767)	-	541,860,324	208,580,608	750,440,932
Net change in share premium account (Unaudited)	-	1,627,161	476,450	-	-	-	-	670,312	2,773,923	-	2,773,923
Dividends (Unaudited)	-	-		-	-	(366,666,666)	-	-	(366,666,666)	(180,789,028)	(547,455,694)
As at 30 September 2018 (Unaudited)	3,666,666,660	36,849,427	(7,355,540)	1,205,397,395	12,949,042	972,168,191	(8,930,580)	2,929,947	5,880,674,542	1,536,049,183	7,416,723,725

The accompanying notes 1 through 17 appearing on pages 8 to 24 form an integral part of these condensed consolidated interim financial statements.

Ahmad Al-Ohali
Chief Executive Officer & Member of Board

Paul Jacobs
Vice President Corporate Finance

EXPRESSED IN SAUDI RIYALS

	Note	30 September 2018 (Unaudited)	30 September 2017 (Unaudited)
Cash flows from operating activities			
Profit before Zakat and income tax for the period		**841,030,432**	468,927,018
Non-cash adjustments to reconcile profit before Zakat and income tax to net cash flow:			
Depreciation of property, plant and equipment		**525,102,707**	474,829,268
Amortization of intangible assets and deferred costs		**58,843,481**	41,651,382
Provision for employees' benefits		**24,153,908**	24,336,326
Write off of property, plant and equipment	5	**4,167,129**	-
Equity settled share based payments		**670,312**	448,512
Net foreign exchange difference		**(1,385,149)**	87,833
Finance income		**(22,652,403)**	(16,753,360)
Finance cost		**193,007,646**	218,645,563
Write back of liability no longer payable		**-**	(8,438,371)
		1,622,938,063	1,203,734,171
Changes in:			
Trade receivables		**120,254,781**	(81,013,754)
Inventories		**(184,626,944)**	2,113,886
Prepayments and other current assets		**(296,831,448)**	30,105,298
Accrued expenses, trade and other payables		**30,138,903**	27,066,367
Employee benefits paid		**(13,069,788)**	(4,894,243)
Proceeds from employees' home ownership programs		**24,395,476**	9,629,791
Zakat and income tax paid		**(125,824,103)**	(30,654,810)
Net cash generated from operating activities		**1,177,374,940**	1,156,086,706
Cash flows from investing activities			
Additions to property, plant & equipment	5	**(578,162,411)**	(397,941,884)
Additions to intangible assets		**-**	(620,718)
Additions to employee's home ownership program		**(15,002,257)**	(21,505,621)
(Addition) / disposal of short term investments, net		**(65,940,732)**	2,167,156
Finance income received		**26,606,268**	14,860,300
Net cash used in investing activities		**(632,499,132)**	(403,040,767)

EXPRESSED IN SAUDI RIYALS

	30 September 2018 (Unaudited)	30 September 2017 (Unaudited)
Cash flows from financing activities		
Proceeds from long term loans and borrowings	**700,000,000**	649,994,600
Repayment of long term loans and borrowings	**(686,559,829)**	(612,014,006)
Repayments of short term loans	-	(200,000,000)
Net change in advances from partners	**(36,674,181)**	8,267,441
Net change in share premium account	**1,627,161**	302,101
Sale and repurchase of treasury shares	**476,450**	(241,990)
Dividends paid	**(366,666,666)**	-
Dividends paid to non-controlling interest	**(180,789,028)**	(51,015,284)
Interest paid	**(158,457,424)**	(170,438,475)
Net cash used in financing activities	**(727,043,517)**	(375,145,613)
Net change in cash and cash equivalents	**(182,167,709)**	377,900,326
Cash and cash equivalents at 1 January	**1,722,754,310**	1,822,689,059
Effect of exchange rate fluctuations	**216,382**	(618,304)
Cash and cash equivalents at 30 September	**1,540,802,983**	2,199,971,081
Non-cash transactions		
Transfer from Capital Work in Progress (CWIP) to Sipchem Home Ownership Program (SHOP)	-	773,330,609
Transfer from CWIP to intangible assets	**22,066,169**	302,621,214
Transfer from partner loans to additional capital contribution	-	24,000,000

Ahmad Al-Ohali
Chief Executive Officer & Member of Board

Paul Jacobs
Vice President Corporate Finance

The accompanying notes 1 through 17 appearing on pages 8 to 24 form an integral part of these condensed consolidated interim financial statements.

EXPRESSED IN SAUDI RIYALS

1. CORPORATE INFORMATION

Saudi International Petrochemical Company "Sipchem" or "the Company" is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010156910 dated 14 Ramadan, 1420, corresponding to 22 December 1999. The Company's head office is in Riyadh with one branch in Al-Khobar, where the headquarters for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal, 1420, corresponding to 6 February 2000, and a branch in Jubail Industrial City which is registered under commercial registration number 2055007570 dated 4 Jumada I, 1427, corresponding to 1 June 2006.

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.

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

Subsidiaries	Ownership percentage at 30 September	
	2018	2017
International Methanol Company ("IMC")	65%	65%
International Diol Company ("IDC")	**53.91%**	53.91%
International Acetyl Company ("IAC") (1.1)	**87%**	87%
International Vinyl Acetate Company ("IVC") (1.1)	**87%**	87%
International Gases Company (" IGC")	**72%**	72%
Sipchem Marketing Company ("SMC')	**100%**	100%
International Utility Company ("IUC")	**68.58%**	68.58%
International Polymers Company ("IPC")	**75%**	75%
Sipchem Chemical Company ("SCC")	**100%**	100%
Sipchem Europe Cooperative U.A and its subsidiaries	**100%**	100%
Gulf Advance Cable Insulation Company (GACI) (1.2)	**50%**	50%
Saudi Specialized products Company (SSPC)	**75%**	75%
Sipchem Asia PTE Ltd. (1.3)	**100%**	100%

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, butane diol 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 its subsidiary Sipchem Europe Cooperative U.A 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.

1. CORPORATE INFORMATION (CONTINUED)

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 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 operation from 1 November 2016. The EVA film plant is still under development stage and expects to commence its commercial production in Q4, 2018.

1.1. During 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 ownership from 76% to 87% 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. Moreover, on 22 June 2009, one of the shareholders agreed to contribute less than required contribution towards shareholders advances and Sipchem has 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 became 89.52%.

1.2. 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.

1.3. 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.

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 2017 ("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. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 equity securities measured at fair value.
- The defined benefit obligation is recognised at the present value of future obligations using the Projected Unit Credit Method.

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 new significant judgments and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described in Note 2.5.

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 2018. 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
- 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 of during the period are included in the consolidated 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.

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.

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

2.4. Basis of consolidation (continued)

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
- 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 of 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 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

Except as described below, 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 2017.

The changes (if any) 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 2018.

The Group has adopted IFRS 15 Revenue from Contracts with Customers (see Note 2.5.A) and IFRS 9 Financial Instruments (see Note 2.5.B) from 1 January 2018. A number of other new standards are effective from 1 January 2018, however, they do not have a material effect on the Group's interim financial statements.

A. IFRS – 15 Revenue from contract with customers

The International Accounting Standard Board (IASB) published the new standard on revenue recognition, IFRS 15 "Revenue from contracts with customer" on 28 May 2014. The rules and definitions of IFRS 15 supersede the contents of IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programs". The revised standard particularly aims to standardize existing regulations and thus improve transparency and the comparability of financial information. The change become effective to the Group from 1 January 2018. The Group has adopted IFRS 15 using the cumulative effect method, with the effect of applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for previous year has not been restated, i.e. it is presented, as previously reported, under IAS 18 and related interpretations.

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

2.5. Significant accounting policies (continued)

A. IFRS 15 Revenue from contract with customers (continued)

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customer. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized when the entity satisfies a performance obligation by transferring promised goods or services to a customer. An asset is transferred when control is transferred that is either over time or at a point in time. The Group uses the output method to measure progress towards complete satisfaction of performance obligation in each contract and by using the practical expedient available under IFRS 15 for the output method, the Group recognizes revenue in respect of amounts to which it has a right to invoice.

Sale of goods

Revenue is recognized upon delivery or shipment of products, depending upon the contractually agreed terms, by which the control of the goods have been transferred to the buyer and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods.

Sales are made directly to final customers and also to the marketers' distribution platforms. Sipchem, SMC and SMC affiliates provide trading activities of petrochemical products for Sipchem affiliates and third party entities. For all such arrangements, the Group reviews whether it acts as a principal or agent. Based on this review, the Group when acting as principal, records the sale on a gross basis, while net accounting is followed where it acts as an agent.

The portion of sales made through the Group distribution platforms are recorded at provisional prices agreed with such marketers at the time of shipment of goods, which are later adjusted based on actual selling prices received by the marketers from their final customers, after deducting the costs of shipping and distribution (settlement price). The Group estimates the variable consideration as the most likely amount based on available market information and recently published prices of petrochemical products. The Group includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the associated variable consideration is subsequently resolved.

Rendering of services

Revenue from providing services is recognised over a period of time as the related services are performed. For fixed-price contracts, revenue is recognised based on the 'percentage of completion' method which measures actual service provided to the end of the reporting period as a proportion of the total services to be provided. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group was already recognizing the revenue on the same basis as envisaged in IFRS 15. Consequently, there are no material and reportable changes due to its transition to IFRS 15.

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

2.5. Significant accounting policies (continued)

B. Financial instruments

On 24 July 2014, the IASB issued the final version of IFRS 9, concluding the multi-year project to replace IAS 39 – Financial Instruments "Recognition and Measurement". IFRS 9 contains new requirements for the classification and measurement of financial instruments, fundamental changes regarding the accounting treatment of financial assets impairment, and a reformed approach to hedge accounting. The changes became effective to the Group from 1 January 2018.

Initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group applies the classification and measurement requirements for financial instruments under IFRS 9 'Financial Instruments' for the period ended 30 September 2018.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial asset

i. Classification and subsequent measurement

The Group classifies its financial assets as those to be measured subsequently at amortized cost if they meet the following criteria:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the financial assets cash flows.

The Group initially measures the trade receivables at the transaction price as the trade receivables do not contain a significant financing component.

The Group classifies investments in equity securities or funds under fair value through profit or loss (FVTPL). No financial asset is classified under fair value through other comprehensive income (FVOCI).

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The Group recognizes a loss allowance for expected credit losses ("ECL") for financial assets measured at amortized cost. The ECL is recognized either for lifetime or for 12 months. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of based on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

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

2.5. Significant accounting policies (continued)

B. Financial instruments (continued)

ii. Impairment of financial assets (continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward looking information. Especially the following indicators are incorporated:

- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the customer;
- Significant increases in credit risk on other financial instruments of the same customer;
- Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of customers and changes in the operating results of the customer;
- Macroeconomic information (such as market interest rates or growth rates);
- Past due information adjusted for future information;

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has adopted the simplified approach as allowed by IFRS 9 and measures the loss allowance at an amount equal to lifetime expected credit losses for all trade receivables that result from contracts with the customers. The Group determines the expected credit losses on trade receivables by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

Objective evidence that financial assets are impaired can include significant financial difficulty, default or delinquency of the counterparty, restructuring of amounts due on terms that the Group would not otherwise consider, indications that a customer will enter bankruptcy, or other observable data relating to customers such as adverse changes in the economic conditions that correlate with defaults by the customers.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial instruments found not to be specifically impaired are then collectively (with similar risk characteristics) assessed for any impairment that has been incurred but not yet identified.

Impairment losses for a financial instrument are recognized in the condensed consolidated statement of profit or loss and reflected in impairment for credit losses. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the condensed consolidated statement of profit or loss.

When an asset is uncollectible, it is written-off against the related provision. Such assets are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the condensed consolidated statement of profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the provision. The amount of the reversal is recognized in the condensed consolidated statement of profit or loss.

EXPRESSED IN SAUDI RIYALS

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

2.5. Significant accounting policies (continued)

B. Financial instruments (continued)

iii. Derecognition

The Group derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. A financial liability is derecognized from the statement of financial position when the Group has discharged its obligation or the contract is cancelled or expires.

Financial liabilities

i. Classification and subsequent measurement of financial liabilities

The financial liabilities are classified in the following measurement categories:

- those to be measured as financial liabilities at fair value through profit or loss, and
- those o be measured at amortized cost.

ii. Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in condensed consolidated statement of profit or loss.

iii. Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Group has a legal right to offset the amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

The effect of adopting IFRS 9 on the carrying amounts of financial assets and financial liabilities at 1 January 2018 relates solely to the new impairment requirements, as described further below. The following table below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Group's financial assets and liabilities as at 1 January 2018.

Financial instruments	Original classification under IAS 39	New Classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Employees' home ownership program receivable	Loans and Receivables measured at amortized cost	Amortized cost	393,876,790	393,876,790
Trade receivables*	Loans and Receivables measured at amortized cost	Amortized cost	876,778,008	876,778,008
Short term investments	Available for sale	FVTPL	253,532,643	253,532,643
Cash and bank balances	Loans and Receivables measured at amortized cost	Amortized cost	1,722,754,310	1,722,754,310
Other current assets	Loans and Receivables measured at amortized cost	Amortized cost	8,815,698	8,815,698
Loans and borrowings (Note 8)	Financial liabilities measured at amortized cost	Amortized cost	7,392,676,449	7,392,676,449
Trade and other payables	Financial liabilities measured at amortized cost	Amortized cost	196,924,708	196,924,708
Other current liabilities	Financial liabilities measured at amortized cost	Amortized cost	92,009,203	92,009,203

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

2.5. Significant accounting policies (continued)

B. Financial instruments (continued)

*Trade receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. The impact on the allowance for impairment over these receivables was not recognised in the opening retained earnings at 1 January 2018 on transition to IFRS 9 as the amount was not material.

C. Annual improvements to IFRSs 2015-2017 cycle

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

IAS 12 Income Taxes - clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in condensed consolidated statement of profit or loss, other comprehensive income or equity.

IAS 23 Borrowing Costs - clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale - or any nonqualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

2.6 Accounting standards not yet effective

IFRS 16 – 'Leases'

The IASB published the new standard on leasing, IFRS 16, on 13 January 2016. The rules and definitions of IFRS -16 will replace:

- IAS 17 - 'Leases'
- IFRIC 4 - 'Determining 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'

The new standard will be effective for annual periods beginning on or after 1 January 2019, early application is permitted and must be disclosed.

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 will adopt the new standard on the effective date. The Group is currently assessing the impact on the Group's consolidated financial statements. The actual impact of applying IFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

EXPRESSED IN SAUDI RIYALS

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

2.6. Accounting standards not yet effective (continued)

As at 30 September 2018, the Group's future minimum lease payments under non-cancellable operating leases has been disclosed in note 11 on an undiscounted basis.

In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Other amendments

The following amendment to standards are not yet effective and neither expected to have a significant impact on the Group's condensed consolidated interim financial statements:

- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)
- Uncertainty over Income Tax Treatments (IFRIC 23)

3. 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.
- Marketing, which includes Sipchem Marketing Company and its foreign subsidiaries as defined in note 1.
- Corporate and others, which includes Sipchem, EVA films and Tool manufacturing plant.

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the condensed consolidated interim financial statements. Information on reportable segments is as follows:

	For the nine months period ended and as at 30 September 2018						
	Basic chemicals	Intermediate chemicals	Polymers	Marketing	Corporate and others	Consolidation elimination	Total
Revenue:							
External customers	1,181,128,672	1,291,450,559	953,589,277	544,361,728	12,611,782	-	3,983,142,018
Inter-segment	286,898,701	776,694,377	49,105,967	1,793,931,615	114,621,019	(3,021,251,679)	-
Total revenue	1,468,027,373	2,068,144,936	1,002,695,244	2,338,293,343	127,232,801	(3,021,251,679)	3,983,142,018
Gross Profit	722,820,311	313,372,567	309,774,886	73,962,495	6,991,507	3,287,030	1,430,208,796
Operating Profit	551,811,743	198,824,716	242,619,382	37,877,000	(28,528,141)	19,178,682	1,021,783,382
Profit before Zakat and tax	536,312,854	216,412,435	229,269,581	40,967,413	(184,912,748)	2,980,897	841,030,432
Total assets	4,550,165,045	6,296,488,164	4,126,639,956	858,190,139	9,690,562,349	(9,329,564,208)	16,192,481,445
Total liabilities	2,058,254,451	2,876,327,940	2,218,372,060	517,024,876	3,593,272,612	(2,487,494,219)	8,775,757,720
Capital expenditure	347,219,619	213,257,225	11,296,274	1,324,907	20,066,643	-	593,164,668

EXPRESSED IN SAUDI RIYALS

3. SEGMENT INFORMATION (CONTINUED)

	For the nine months period ended 30 September 2017						
	Basic chemicals	Intermediate chemicals	Polymers	Marketing	Corporate and others	Elimination on consolidation	Total
Revenue:							
External customers	1,124,343,273	930,906,318	797,945,141	314,951,115	12,717,480	-	3,180,863,327
Inter-segment	242,998,513	624,109,303	33,826,489	1,799,930,519	97,493,623	(2,798,358,447)	-
Total revenue	1,367,341,786	1,555,015,621	831,771,630	2,114,881,634	110,211,103	(2,798,358,447)	3,180,863,327
Gross Profit	616,169,719	33,219,952	257,366,539	77,917,498	(59,653)	15,766,657	1,000,380,712
Operating Profit	460,640,371	(36,929,304)	172,158,528	53,081,517	(19,309,653)	30,071,170	659,712,629
Profit before Zakat and tax	428,964,675	(102,851,051)	133,772,234	52,726,444	(60,117,535)	16,432,251	468,927,018
Capital expenditure	252,055,468	128,698,773	14,289,731	2,242,273	22,781,978	-	420,068,223
	As at 31 December 2017						
Total assets	4,776,388,135	6,014,431,152	4,079,734,763	815,559,963	9,299,351,939	(9,014,879,534)	15,970,586,418
Total liabilities	2,194,889,939	2,807,710,220	2,381,207,316	512,255,799	3,403,619,784	(2,540,061,204)	8,759,621,854

Disaggregation of revenue based on geographical information

Revenue from external customers	**Saudi Arabia**	**Foreign countries**	**Total**
30 September 2018	**356,484,873**	**3,626,657,145**	**3,983,142,018**
30 September 2017	163,937,297	3,016,926,030	3,180,863,327

Reconciliation of revenue disaggregated geographically to segment revenue

	For the nine months period ended 30 September 2018					
	Basic chemicals	**Intermediate chemicals**	**Polymers**	**Marketing**	**Corporate and others**	**Total**
Revenue:						
Foreign countries	**1,105,612,050**	**1,291,450,559**	**868,234,938**	**361,359,598**	**-**	**3,626,657,145**
Saudi Arabia	**75,516,622**	**-**	**85,354,339**	**183,002,130**	**12,611,782**	**356,484,873**
Total revenue	**1,181,128,672**	**1,291,450,559**	**953,589,277**	**544,361,728**	**12,611,782**	**3,983,142,018**

	For the nine months period ended 30 September 2017					
	Basic chemicals	Intermediate chemicals	Polymers	Marketing	Corporate and others	Total
Revenue:						
Foreign countries	1,104,777,804	930,906,318	773,427,638	207,814,270	-	3,016,926,030
Saudi Arabia	19,565,469	-	24,517,503	107,136,845	12,717,480	163,937,297
Total revenue	1,124,343,273	930,906,318	797,945,141	314,951,115	12,717,480	3,180,863,327

There is no seasonality or cyclicality of interim operations for the nine-months period ended 30 September 2018 and 30 September 2017

4. ZAKAT AND INCOME TAX

Saudi International Petrochemical Company (Sipchem)

Sipchem received Zakat assessments for the years 2009 to 2010 with additional Zakat liability of SR 81 million, Sipchem filed an appeal with Preliminary Appeal Committee (PAC) against General Authority of Zakat and Income Tax (GAZT's) assessment which resulted in reduction of liability to SR 71 million. Thereafter, Sipchem has filed appeal against the SR 71 million liability at Higher Appeal Committee (HAC). The HAC conducted appeal hearing session on 26 September 2017 and requested certain additional information which is duly submitted to them. HAC ruling is awaited.

International Methanol Company (IMC)

IMC received tax and Zakat assessments for the years 2003 through 2010 with a tax, Zakat and delay fine liability of SR 60.6 million. IMC accepted and settled SR 0.17 million under protest and filed appeal on remaining liability. Following the consideration of objection letter, GAZT reduced the liability to approximately SR 19.8 million (16.5 million Zakat and SR 3.3 million tax). IMC has accepted and settled Zakat liability of SR 2.3 million "under protest" and filed an appeal on remaining liability with PAC. PAC ruling is awaited.

International Acetyl Company (IAC)

IAC received an assessment for the year 2006 to 2008 with an additional tax, withholding tax and Zakat liability of SR 0.6 million, SR 2.8 million and SR 3.9 million respectively. IAC paid SR 1.1 million out of SR 7.3 million and has appealed against these assessments. IAC has received revised assessment from GAZT with a liability of SR 3.7 million for Zakat and withholding tax. IAC has filed an appeal against the revised assessment in PAC. PAC ruling is awaited.

Saudi Specialized Products Company (SSPC)

SSPC received an assessment for the years 2014 and 2015 with an additional Zakat and withholding tax liability of SR 4.7 million. SSPC accepted and settled SR 0.92 million and has filed appeal on remaining liability. SSPC has received revised assessment from GAZT with a liability of SR 2.5 million and the company has filed appeal against the revised assessment with PAC. PAC ruling is awaited.

The Group is subject to Zakat and income tax in accordance with the General Authority of Zakat and Income Tax ("GAZT") regulations. Zakat and income tax computation involves relevant knowledge and judgment of the Zakat rules and regulations to assess the impact of Zakat liability at a particular period end. This liability is considered an estimate until the final assessment by GAZT has been completed until which the Group retains exposure to additional Zakat liability. The Group has recorded estimated additional Zakat and income tax liability in respect of the above open assessments.

5. PROPERTY, PLANT AND EQUIPMENT

a. Acquisitions and disposals

During the nine months ended 30 September 2018, the Group acquired assets with a cost of SR 578.16 million (nine months period ended 30 September 2017: SR 419.45 million). Moreover, assets with a carrying amount of SR 4.2 million (nine months period ended 30 September 2017: SR nil) were written off.

b. Capital work in progress

The Group's capital work-in-progress as at 30 September 2018 is SR 916 million (as at 31 December 2017: SR 1,017 million) and comprises mainly of construction costs related to Ethylene-vinyl acetate (EVA) Film plant, Debottlenecking (DBN), Environmental Efficiency Centre (SEEC) and costs related to several projects for improvements and enhancements of operating plants. Polybutylene Terephthalate Plant (PBT) has commenced the commercial operations starting from 1 July 2018 after successful commissioning, testing and completion of acceptance formalities.

EXPRESSED IN SAUDI RIYALS

6. INVENTORIES

During the nine months period ended 30 September 2018, the Group wrote down its finished goods inventory by SR 2.6 million (nine months ended 30 September 2017: SR nil) 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. Moreover, during the nine months period ended 30 September 2018, provision of SR 9.3 million (nine months ended 30 Sep 2017: SR nil) for slow moving stores and spares was reversed.

7. PREPAYMENTS AND OTHER CURRENT ASSETS

The changes in prepayments and other current assets mainly relate to the following:

7.1 During the nine months period ended 30 September 2018, an amount of SR 131.25 million was paid by Sipchem as advance for the acquisition of 25% shares of International Gases Company (IGC). (nine months ended 30 September 2017: SR nil). Refer to note 15.

7.2 The Group has classified an amount of SR 33.47 million as current portion of long term employee receivable under Sipchem Home Ownership program (nine months ended 30 September 2017: SR nil).

7.3 During the nine months period ended 30 September 2018, an amount of SR 53.63 million was recorded as advances related to Value Added Tax (VAT), (nine months ended 30 September 2017: SR nil).

8. LOANS AND BORROWINGS

	Effective interest rate %	Maturity	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Current loans and borrowings				
Saudi industrial development fund	1.41% - 2.52%	2019 – 2022	**402,322,261**	281,844,013
Shari'a compliant bank loans	2.87% - 3.80%	2021 – 2027	**326,252,124**	306,899,804
Public investment fund loans	3.80% - 4.68%	2020 – 2026	**211,030,926**	205,203,146
Islamic Tawwaruq facility	3.42% - 4.75%	2021 – 2023	**69,553,159**	56,832,429
Murabaha facility	2.89%	2023	**38,028,214**	28,322,844
			1,047,186,684	879,102,236
Other current loans				
Advances from partners	10%		-	33,205,788
Total current loans and borrowings			**1,047,186,684**	912,308,024

	Effective interest rate %	Maturity	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Non-current loans and borrowings				
Saudi industrial development fund	1.41% - 2.52%	2019 – 2022	**799,408,239**	1,021,861,206
Shari'a compliant bank loans	2.87% - 3.80%	2021 – 2027	**1,825,523,737**	1,903,153,178
Public investment fund loans	3.80% - 4.68%	2020 – 2026	**554,164,219**	648,086,991
Islamic Tawwaruq facility	3.42% - 4.75%	2021 – 2023	**1,742,563,031**	1,646,252,413
Murabaha facility	2.89%	2023	**375,845,826**	220,345,826
			5,297,505,052	5,439,699,614
Other non-current loans				
Advances from partners	10%	2019	**84,451,843**	87,920,236
Islamic Murabaha bonds (SUKUK)	4.63%	2021	**999,771,849**	998,136,277
Total non-current loans and borrowings			6,381,728,744	6,525,756,127
Total loans and borrowings			7,428,915,428	7,438,064,151

EXPRESSED IN SAUDI RIYALS

8. LOANS AND BORROWINGS (CONTINUED)

During the nine months period ended 30 September 2018, the Group obtained loans amouting to SR 700 million from commercial banks which carries interest at market rates.

During the nine month period ended 30 September 2018, repayment of certain advances from partners were rescheduled resulting in a decrease in finance cost amounting to SR 14.1 million (nine months period ended 30 September 2017: SR nil).

9. DIVIDEND

The Board of Directors in their meetings held on 19 December 2017 decided to recommend to the General Assembly to distribute a cash dividend amounting to SR 183.3 million (i.e. SR 0.50) per share, equivalent to 5% of the share capital. The distribution is limited to the shareholders who are registered in Tadawul at end of second trading day following the General Assembly Meeting. General Assembly held on 1 April 2018, approved the distribution of cash dividend of SR 0.50 per share. The Company distributed and paid these dividends during quarter ended 30 June 2018.

On July 24, 2018, the Board of directors recommended to distribute interim cash dividends for the first half of the year 2018 amounting to SR 183.3 million (i.e. SR 0.50) per share, equivalent to 5% of the share capital. The Company distributed such dividends during the quarter ended 30 September 2018.

10. FINANCIAL INSTRUMENTS

The Group's principal financial assets include cash and cash equivalents, trade receivable 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 2018				
Short term investments					
Equity securities	**34,589,695**	**34,589,695**	**34,589,695**	**-**	**-**
Total	**34,589,695**	**34,589,695**	**34,589,695**	**-**	**-**

	Carrying amount	Fair value	Level 1	Level 2	Level 3
	As at 31 December 2017				
Short term investments					
Equity securities	31,032,642	31,032,642	31,032,642	-	-
Total	31,032,642	31,032,642	31,032,642	-	-

EXPRESSED IN SAUDI RIYALS

11. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has entered into operating lease arrangements with the Royal Commission of Jubail and the Jubail Port Authority. The lease with the Royal Commission is for an initial term of 30 Hijri years and may be renewed upon the agreement of the two parties.

The Group also leased precious metals from commercial banks, such as Gold, Palladium and Rhodium for manufacturing catalysts. The lease terms for precious metals are for one year term and is renewable for further terms. During the period, the Group has started purchasing the above precious metals for some of the plants to be used in the production process.

Future minimum rentals payable under non-cancellable operating leases are, as follows:

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Within one year	**2,569,548**	2,569,548
After one year but not more than five years	**10,278,192**	10,278,192
More than five years	**22,426,976**	24,354,137
	35,274,716	37,201,877

Commitments

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Capital commitments	**438,483,414**	502,191,501

Contingencies

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Letters of guarantee and credit	**565,725,931**	480,022,581

Contingent liabilities

In addition, the Group has no material contingent liabilities as at period ended 30 September 2018 except for those as disclosed in note 4 to the condensed consolidated interim financial statements.

12. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the Company's shareholders, associated and affiliated 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	Shareholder of a subsidiary

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

Foreign partners of the subsidiaries marketed some of the Group's products. Total sales for the nine-months period ended 30 September 2018 made through foreign partners amounted to SR 1,302 million (nine months period ended 30 September 2017: SR 948 million). The above transactions resulted in the following unsecured balances with related parties that are shown as part of trade receivables.

EXPRESSED IN SAUDI RIYALS

12. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Due from related parties

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
HELM -Arabia GmbH & Co. KG (Helm -Arabia)	**166,003,129**	132,957,969
Hanwha Chemical Malaysia Sdn Bhd	**99,393,334**	114,787,609
Japan Arabia Methanol Company Limited (JAMC)	**7,567,158**	52,492,518
	272,963,621	300,238,096

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 2018 (Unaudited)	30 September 2017 (Unaudited)
Short-term employee benefits	**17,923,211**	14,062,280
End of service benefits	**2,279,580**	1,431,851
Thrift plan	**1,414,012**	1,311,690
Share based payment transaction	**106,200**	-
Total compensation to key management personnel	**21,723,003**	16,805,821

13. OTHER INCOME / (EXPENSES), NET

Other income/(expenses) mainly includes the following:

13.1 During the nine months period ended 30 September 2018, an amount of SR 18 million related to delay fines on withholding tax is charged as other expenses (nine months ended 30 September 2017: SR nil).

13.2 The Group has reversed an amount of SR 20 million related to excess provision in relation to employee home ownership program. Consequently, the Group recognized SR 20 million in other income (nine months ended 30 September 2017: SR nil).

13.3 During the nine months period ended 30 September 2018, an amount of SR 23.96 million related to the expenses for proposed merger is charged as other expenses out of which SR 3.96 million incurred and SR 20 million estimated (nine months ended 30 September 2017: SR nil). Refer note 14.

14 PROPOSED MERGER

On 4 December 2013, Sipchem signed a Memorandum of Understanding ("MOU") with Sahara Petrochemical Company ("Sahara"), a Saudi Joint stock company, to begin non-binding negotiations relating to the detailed terms of a proposed merger between Sipchem and Sahara. During 2013 and 2014, Sipchem and Sahara reached a conclusion that it would be difficult to implement the proposed merger for both Companies. Therefore, Sipchem and Sahara have decided to postpone the commercial negotiations related to the proposed merger and agreed to independently pursue their business and strategic objectives.

During 2018, Sipchem announced that they have resumed the discussions with Sahara in relation to the proposed merger. Subsequent to the period ended 30 September 2018, on 3 October 2018, Sipchem announced that Sipchem and Sahara have reached to a preliminary non-binding agreement with regards to the proposed merger. Sipchem is expecting to conclude necessary formalities and reach to a binding agreement by 28 February 2019.

15 SHARE PURCHASE AGREEMENT

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 International Gases Company ("IGC"), a subsidiary as disclosed in Note 1, at mutually agreed commercial terms. Consequently, Sipchem shareholding in IGC will increase to 97% subject to the satisfactory completion of the transaction. Sipchem paid an advance of SR 131.25 million for acquisition of shares as mentioned above. The Legal formalities in respect of transfer of shareholding are in progress.

16 SUBSEQUENT EVENTS

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

17 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the current period presentation of the financial statements.