

Saudi International Petrochemical Company
(A Saudi Joint Stock Company)

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

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Condensed consolidated interim financial statements

For the three months and nine months period ended 30 September 2017

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying 30 September 2017 condensed consolidated interim financial statements of Saudi International Petrochemical Company ("the Company") and its subsidiaries (collectively referred to as the "Group") which comprises:

- the condensed consolidated statement of profit or loss for the three months and nine months period ended 30 September 2017;
- the condensed consolidated statement of other comprehensive income for the three months and nine months period ended 30 September 2017;
- the condensed consolidated statement of financial position as at 30 September 2017;
- the condensed consolidated statement of changes in equity for the nine months period ended 30 September 2017;
- the condensed consolidated statement of cash flows for the nine months period ended 30 September 2017; 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2017 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' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License no. 382

Al Khobar
Date: 24 October 2017G
Corresponding to: 4 Safar 1439H



Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Condensed consolidated statement of profit or loss (Unaudited)

For the three months and nine months period ended 30 September 2017

	Note	Three months period ended		Nine months period ended	
		30 September 2017 SR	30 September 2016 SR	30 September 2017 SR	30 September 2016 SR
Revenue		1,063,569,116	717,844,585	3,180,863,327	2,565,449,092
Cost of sales		(696,529,938)	(589,607,439)	(2,180,482,615)	(1,953,103,050)
Gross profit		367,039,178	128,237,146	1,000,380,712	612,346,042
Selling and marketing expenses		(48,854,146)	(48,448,534)	(144,950,645)	(158,587,499)
General and administrative expenses		(64,683,316)	(48,226,559)	(195,717,438)	(150,663,796)
Operating profit		253,501,716	31,562,053	659,712,629	303,094,747
Finance income		6,876,105	5,680,824	16,753,360	27,557,068
Finance cost		(69,506,007)	(60,267,608)	(218,645,563)	(208,043,597)
Reversal of / (provision) for loss on disposal of assets		-	1,678,012	-	(31,321,937)
Other income		650,151	6,407,324	11,106,592	10,295,488
Profit / (loss) before Zakat and income tax		191,521,965	(14,939,395)	468,927,018	101,581,769
Zakat and income tax expense	5	(11,173,450)	(33,939,674)	(64,561,683)	(69,123,572)
Profit / (loss) for the period		180,348,515	(48,879,069)	404,365,335	32,458,197
Attributable to:					
Equity holders of the parent		121,551,117	(49,382,617)	272,991,926	11,215,375
Non-controlling interests		58,797,398	503,548	131,373,409	21,242,822
		180,348,515	(48,879,069)	404,365,335	32,458,197
Earnings per share:					
Basic profit per share attributable to the equity holders of parent		0.33	(0.13)	0.74	0.03

The condensed consolidated interim financial statements appearing on pages 1 to 39 were approved by the management on behalf of Board of Directors of the Company on 19 October 2017, and have been signed on their behalf by:

Ahmad Al-Ohali
Chief Executive Officer

Paul Jacobs
Chief Financial Officer

The accompanying notes 1 through 8 form an integral part of these condensed consolidated interim financial statements

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Condensed consolidated statement of other comprehensive income (Unaudited)

For the three months and nine months period ended 30 September 2017

	Three months period ended		Nine months period ended	
	30 Sep 2017 SR	30 Sep 2016 SR	30 Sep 2017 SR	30 Sep 2016 SR
Profit / (loss) for the period	180,348,515	(48,879,069)	404,365,335	32,458,197
<i>Net Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>				
Exchange difference on translation of foreign operations	948,031	(176,682)	(530,471)	(811,941)
Other comprehensive income / (loss) for the period	948,031	(176,682)	(530,471)	(811,941)
Total comprehensive income / (loss) for the period	181,296,546	(49,055,751)	403,834,864	31,646,256
Attributable to:				
Equity holders of the parent	122,499,148	(49,559,299)	272,461,455	10,403,434
Non-controlling interests	58,797,398	503,548	131,373,409	21,242,822
	181,296,546	(49,055,751)	403,834,864	31,646,256

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Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Condensed consolidated statement of financial position (Unaudited)

As at 30 September 2017

	Notes	30 September 2017 SR	31 December 2016 SR	1 January 2016 SR
Assets				
Non-current assets				
Property, plant and equipment	6	11,215,280,367	12,346,613,953	12,600,466,195
Intangible assets	6	393,121,369	117,835,557	141,066,397
Employee's home ownership program		757,428,188	-	-
Goodwill		29,543,923	29,543,923	29,543,923
		12,395,373,847	12,493,993,433	12,771,076,515
Current assets				
Inventories		752,288,848	754,402,734	669,121,972
Trade receivables		704,581,294	623,567,540	556,595,014
Prepayments and other assets		56,917,786	85,130,024	195,890,783
Short term investments		21,505,772	23,672,928	31,095,389
Cash and cash equivalent		2,199,971,081	1,822,689,059	2,127,156,554
Total current assets		3,735,264,781	3,309,462,285	3,579,859,712
Total assets		16,130,638,628	15,803,455,718	16,350,936,227
Equity and liabilities				
Equity				
Issued capital		3,666,666,660	3,666,666,660	3,666,666,660
Share premium		34,958,410	34,656,309	34,948,097
Treasury shares		(7,831,990)	(7,590,000)	(6,626,760)
Statutory reserve		1,205,397,395	1,205,397,395	1,198,394,633
Reserve for results of sale / purchase of shares in subsidiaries		12,949,042	12,949,042	48,893,677
Foreign currency translation reserve		(8,445,420)	(7,914,949)	(7,194,646)
Share based payments transactions reserve		1,916,671	1,468,159	1,539,004
Retained earnings		631,397,651	358,405,725	316,615,482
Equity attributable to equity holders of the Parent		5,537,008,419	5,264,038,341	5,253,236,147
Non-controlling interests		1,525,514,778	1,421,156,653	1,680,263,803
Total equity		7,062,523,197	6,685,194,994	6,933,499,950
Non-current liabilities				
Long term bank loans and borrowings		6,020,424,478	5,612,930,363	5,466,441,373
Sukuk		997,999,907	997,402,964	1,788,310,198
Long term advances from partners		87,321,312	68,888,323	59,953,703
Deferred revenue		37,951,875	50,602,500	50,602,500
Employee benefit liabilities		233,362,752	208,341,778	195,086,565
Decommissioning liability		85,959,705	82,852,728	76,696,923
Other non-current liabilities		8,556,086	1,638,576	-
		7,471,576,115	7,022,657,232	7,637,091,262
Current liabilities				
Short term bank loan		-	200,000,000	300,000,000
Current portion of long term bank loans and borrowings		686,288,453	1,053,110,874	711,319,128
Trade and other payables		181,083,986	135,088,911	78,713,741
Accrued expenses and other liabilities		561,080,509	539,058,665	503,279,728
Zakat and income tax payable	5	135,131,520	101,224,646	104,555,524
Short term advances from partners		32,954,848	67,120,396	82,476,894
		1,596,539,316	2,095,603,492	1,780,345,015
Total liabilities		9,068,115,431	9,118,260,724	9,417,436,277
Total equity and liabilities		16,130,638,628	15,803,455,718	16,350,936,227

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The accompanying notes 1 through 8 form an integral part of these condensed consolidated interim financial statements

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Condensed consolidated statement of changes in equity (Unaudited)

For the six months period ended 30 September 2017

	Attributable to the equity holders of the parent										
	Issued capital SR	Share premium SR	Treasury shares SR	Statutory reserve SR	Reserve for results of sale of shares in subsidiaries SR	Retained earnings SR	Foreign currency translation reserve SR	Shares based payment transaction reserve SR	Total SR	Non-controlling Interest SR	Total equity SR
As at 1 January 2016	3,666,666,660	34,948,097	(6,626,760)	1,198,394,633	48,893,677	316,615,482	(7,194,646)	1,539,004	5,253,236,147	1,680,263,803	6,933,499,950
Profit for the period	-	-	-	-	-	11,215,375	-	-	11,215,375	21,242,822	32,458,197
Other comprehensive income	-	-	-	-	-	-	(811,941)	-	(811,941)	-	(811,941)
Total comprehensive income	-	-	-	-	-	11,215,375	(811,941)	-	10,403,434	21,242,822	31,646,256
Purchase of additional shares in subsidiaries	-	-	-	-	-	-	-	-	-	(339,387,969)	(339,387,969)
Additional capital contributed	-	-	-	-	-	-	-	-	-	29,833,309	29,833,309
Change in reserves for the results of sale of shares in subsidiaries	-	-	-	-	(35,944,635)	-	-	-	(35,944,635)	-	(35,944,635)
Shares based payments	-	(2,024,725)	(972,240)	-	-	-	-	112,211	(2,884,754)	-	(2,884,754)
As at 30 September 2016	3,666,666,660	32,923,372	(7,599,000)	1,198,394,633	12,949,042	327,830,857	(8,006,587)	1,651,215	5,224,810,192	1,391,951,965	6,616,762,157

	Attributable to the equity holders of parent										
	Issued capital SR	Share premium SR	Treasury shares SR	Statutory reserve SR	Reserve for results of sale of shares in subsidiaries SR	Retained earnings SR	Foreign currency translation reserve SR	Shares based payment transaction reserve SR	Total SR	Non-controlling Interest SR	Total equity SR
As at 1 January 2017	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	-	-	-	-	-	272,991,926	-	-	272,991,926	131,373,409	404,365,335
Other comprehensive income	-	-	-	-	-	-	(530,471)	-	(530,471)	-	(530,471)
Total comprehensive income	-	-	-	-	-	272,991,926	(530,471)	-	272,461,455	131,373,409	403,834,864
Additional capital contributed	-	-	-	-	-	-	-	-	-	24,000,000	24,000,000
Shares based payments	-	302,101	(241,990)	-	-	-	-	448,512	508,623	-	508,623
Dividends	-	-	-	-	-	-	-	-	-	(51,015,284)	(51,015,284)
As at 30 September 2017	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

The accompanying notes 1 through 8 form an integral part of these condensed consolidated interim financial statements

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Condensed consolidated statement of cash flows (Unaudited)

For the nine months period ended 30 September 2017

	<u>30 Sep 2017</u>	<u>30 Sep 2016</u>
	SR	SR
OPERATING ACTIVITIES		
Profit before zakat and income tax for the period	468,927,018	101,581,769
Non-cash adjustments to reconcile profit before Zakat and income tax to net cash flow:		
Depreciation of property, plant and equipment	474,829,268	428,639,416
Amortization of intangibles and deferred costs	41,651,382	20,020,400
Provision for employee's benefits	24,336,326	29,072,668
Loss on sale of property, plant and equipment	-	31,321,937
Equity settled share based payments	448,512	112,211
Net foreign exchange difference	87,833	(2,669,648)
Finance income	(16,753,360)	(27,557,068)
Finance cost	218,645,563	208,043,597
	1,212,172,542	788,565,282
Working capital adjustments:		
Decrease in trade receivables	(81,013,754)	(36,529,201)
Increase / (decrease) in inventories	2,113,886	(77,607,130)
Increase in prepayment and other assets	30,105,298	56,707,118
Increase in trade and other payables	7,146,909	50,730,518
Employee benefits paid	(4,894,243)	(17,890,107)
Proceeds from Employee's home ownership programs, net	9,629,791	-
Zakat and income tax paid	(19,173,723)	(70,197,107)
Net cash generated from operating activities	1,156,086,706	693,779,373
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(419,447,505)	(272,387,086)
Additions to Intangibles	(620,718)	-
Disposal of short term investments	2,167,156	7,583,781
Purchase of additional shares in subsidiaries	-	(375,332,604)
Interest income received	14,860,300	28,836,383
Net cash used in investing activities	(403,040,767)	(611,299,526)
FINANCING ACTIVITIES		
Proceeds from long term loans and borrowings	649,994,600	2,186,959,723
Repayment of long term loans and borrowings	(612,014,006)	(1,499,624,278)
Proceeds from short term loans	-	724,997,980
Repayments of short term loans	(200,000,000)	(974,997,980)
Proceeds from Sukuk	-	1,000,000,000
Repayments of Sukuk	-	(1,800,000,000)
Net change in advances from partners	8,267,441	-
Net change in share premium account	302,101	(2,024,725)
Repurchase of Treasury shares	(241,990)	(972,240)
Additional contribution non-controlling interest	-	29,833,309
Dividends paid to non-controlling interest	(51,015,284)	-
Interest paid	(170,438,475)	(184,200,610)
Net cash generated from financing activities	(375,145,613)	(520,028,821)
Net changes in cash and cash equivalents	377,900,326	(437,548,974)
Effect of movement in exchange rates on cash held	(618,304)	1,857,707
Cash and cash equivalents at 01 January	1,822,689,059	2,127,156,554
Cash and cash equivalents at 30 September	2,199,971,081	1,691,465,287

The accompanying notes 1 through 8 form an integral part of these condensed consolidated interim financial statements

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

1. Corporate Information

Sipchem 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 the city of 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 specially 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	30 September 2017	30 September 2016	31 December 2016
International Methanol Company ("IMC")	65%	65%	65%
International Diol Company ("IDC")	53.91%	53.91%	53.91%
International Acetyl Company ("IAC") (1.1)	87%	87%	87%
International Vinyl Acetate Company ("IVAC") (1.1)	87%	87%	87%
International Gases Company ("IGC")	72%	72%	72%
Sipchem Marketing Company ("SMC")	100%	100%	100%
International Utility Company ("IUC")	68.58%	68.58%	68.58%
International Polymers Company ("IPC")	75%	75%	75%
Sipchem Chemical Company ("SCC")	100%	100%	100%
Sipchem Europe Cooperative U.A and its subsidiaries	100%	100%	100%
Gulf Advance Cable Insulation Company (GACI) (1.2)	50%	50%	50%
Saudi Specialized products Company (SSPC)	75%	75%	75%
Sipchem Asia PTE Ltd. (1.3)	100%	100%	100%

1.1. In February 2016, the Company acquired an additional 11% shares from a minority shareholder (Ikarus Petroleum Industries Company) in each of IAC and IVAC, increasing its ownership from 76% to 87% for a consideration of SR 375.3 million. The Group recognised 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. Although the Company has only 50% share in GACI, the operations of Gulf Advanced Cable Insulation Company are controlled by the Company effectively from the date of its commercial registration. Accordingly, the investee company is treated as a subsidiary of the Company.

1.3. The investee company was incorporated during 2013 in Singapore. Its article of association is dated 13 Jumada I, 1434H, corresponding to 25 March 2013G.

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 tetrahydro 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 2009

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

1. Corporate Information (Continued)

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. Other services provided by Sipchem, SMC and SMC's affiliates include purchasing and trading of petrochemical products with Sipchem affiliates and third party entities.

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 is under trial production and is expected to commence its commercial production in 2018.

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 molds and dies and related services as well as production of EVA films. The Tool Manufacturing Factory ("TMF") plant has started commercial operation from 1 November 2016. The EVA film plant still is under development stage and expects to commence its commercial production in first quarter of 2018.

2. Significant accounting policies

2.1. Basis of preparation

The accompanying condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA. Up to and including the year ended 31 December 2016, the Group prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA) and the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the financial statements. In these financial statements, the term "SOCPA" refers to SOCPA GAAP before the adoption of IFRS.

For financial periods commencing 1 January 2017, the applicable regulations require the Group to prepare and present financial statements in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA. As part of this requirement, the Group has prepared these condensed consolidated interim financial statements.

As required by the Capital Market Authority ("CMA") through its circular dated 16 October 2016 the Group needs to apply the cost model to measure the property, plant and equipment, investment property, and intangible assets upon adopting the IFRS for the year starting from the IFRS adoption date.

As these condensed consolidated interim financial statements prepared in accordance with IAS 34 Interim Financial Reporting are for part of a period covered by its first IFRS financial statements, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. The accounting policies followed in these interim financial statements are the same as those applied in the Group's interim financial statements for the period ended 31 March 2017 & 30 June 2017 and are set out in note 2.3. The Group has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

An explanation of how the transition to IFRS has affected the previously reported equity as at 30 September 2016; and comprehensive income of the Group for the three and nine months ended 30 September 2016, including the nature and effect of significant changes in accounting policies from those used in the Group's financial statements for the year ended 31 December 2016 is provided in Note 3.

The condensed consolidated interim financial statements should be read in conjunction with the Group's SOCPA annual financial statements for the year ended 31 December 2016 prepared in accordance with IFRS applicable to interim financial statements.

The interim financial statements have been prepared under the historical cost basis unless stated otherwise. The interim financial statements are presented in Saudi Riyals.

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

2. Significant accounting policies (Continued)

2.2. Basis of consolidation

The interim financial statements comprise the consolidated interim financial statements of the Group and its subsidiaries as at 30 September 2017. 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
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results 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 parent 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.

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 parent'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.

2.3. Summary of significant accounting policies

a) Business combination and goodwill

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

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2.3. Summary of significant accounting policies (Continued)

a) Business combination and goodwill (Continued)

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

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

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, 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.

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.

b) Current versus non-current classification

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

- Expected to be realised or intended to sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

c) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 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.

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2.3. Summary of significant accounting policies (Continued)

c) Fair value measurement (Continued)

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

External valuers are involved for valuation of significant assets, whenever required. The involvement of external valuers is decided by the Group after discussion and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

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

Sale of goods

Revenue is recognised upon delivery or shipment of products, depending upon the contractually agreed terms, by which the significant risks and rewards of ownership 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. The Group markets their products through marketers. 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. The portion of sales made through the Group distribution platforms are recorded at provisional prices agreed with such marketers at the time of shipments, 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 final settlement price at the reporting date based on the available market data and records any likely adjustment. Whereas the Group makes adjustments to provisional pricing to support the reporting period, the final settlement pricing outstanding can only be determined upon final settlement of the sales in subsequent reporting periods.

Rendering of services

Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably by reference to the stage of completion of the transaction at the consolidated statement of financial position date and the amount of revenue can be measured reliably. It is normally when the services are rendered.

Interest income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated statement of profit or loss.

Dividends

Dividends are recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividends.

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2.3. Summary of significant accounting policies (Continued)

e) Foreign currencies

The Group's consolidated interim financial statements are presented in Saudi riyals, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

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

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Saudi riyals at the rate of exchange prevailing at the reporting date and their statement of profit or loss are translated at average exchange rates. The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the consolidated statement of profit or loss. Components of shareholders equity are translated at the exchange rates in effect at the dates the related items originated.

f) Property, plant and equipment

Property, plant and equipment (PPE) are initially recorded at cost, net of accumulated depreciation and accumulated impairment losses. Construction work in progress are not depreciated. Expenditure on maintenance and repairs is expensed while expenditure for improvement is capitalized. Plant and machinery include planned turnaround costs which are depreciated over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the net book value of planned turnaround costs are immediately expensed and the new turnaround costs are depreciated over the period likely to benefit from such costs. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Number of years</u>
Buildings	10- 33.33
Plant and machinery	10 -25
Computers	2-10
Furniture and fixtures	2-10
Office equipment	2-10
Vehicles	4
Catalysts and tools	2-10
Capital spares	2-20

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognized.

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

Capital work in progress is states at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations and available for intended use.

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2.3. Summary of significant accounting policies (Continued)

g) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Licences

Intangibles mainly represent ERP license costs.

Right to use

Right to use represent the cost incurred as per the tolling agreement on one of the supplier's plant that entitles the Group for portion of the output produced by the plant. The Group has recognized the right to use the output of the plant as intangible asset.

A summary of the policies applied to the Group's intangible assets is as follows:

	Software license cost	Development costs	Right to use
Useful lives	5 years	5 – 15 years	15 years
Amortisation method used	Amortised on a straight-line over the useful life	Amortised on a straight- line basis over the period of expected future benefits from the related project	Amortised on a straight- line basis over the period of expected future benefits from the related project
Internally generated or acquired	Acquired	Internally generated	Acquired

h) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

As a Lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of profit or loss.

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2.3. Summary of significant accounting policies (Continued)

h) Leases (Continued)

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

j) Financial instruments – initial recognition and subsequent 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.

j) Financial asset

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables or held-to-maturity investments as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the consolidated statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of profit or loss. The losses arising from impairment are recognised in the income statement in finance costs.

De recognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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2.3. Summary of significant accounting policies (Continued)

j) Financial instruments – initial recognition and subsequent measurement (Continued)

ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective interest rate ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

De recognition

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

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2.3. Summary of significant accounting policies (Continued)

j) Financial instruments – initial recognition and subsequent measurement (Continued)

iv) Offsetting of financial Instruments

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

k) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets, excluding goodwill an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following specific criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at each year end. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses related to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

l) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. The cost of spare parts, finished goods and raw materials are arrived at using the weighted average cost method.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

m) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks, cash on hand and short-term deposits with a maturity of three months or less, net of outstanding bank overdrafts which are subject to an insignificant risk of changes in value.

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2.3. Summary of significant accounting policies (Continued)

n) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

o) Cash dividend to owners of equity

The Group recognises a liability to make cash or non-cash distributions to owners of equity when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon settlement of the distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in profit or loss.

p) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a discount rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Decommissioning liability

Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed in the statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied, are added to or deducted from the cost of the asset.

q) Zakat and income tax

The Group is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat and income taxes are provided on an accrual basis. The zakat charge is computed on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. The Zakat and income tax charge in the consolidated statement of profit or loss represents:

- i) the Zakat for the Company and the Company's share of zakat in subsidiaries and the foreign income tax on foreign shareholders' income.
- ii) the Zakat and income tax assessable on the non-controlling shareholders.

Foreign income tax is provided for in accordance with foreign fiscal regulations in which the Group's foreign subsidiaries operate.

r) Employees' end of service benefits

The Group is operating an unfunded end of service defined benefit plan. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses are recognised in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognised and are not reclassified to profit or loss in subsequent periods. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date on which the Group recognizes related restructuring costs

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For the nine months period ended 30 September 2017

2.3. Summary of significant accounting policies (Continued)

r) Employees' end of service benefits (Continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability. The Group recognizes the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in the statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

The defined benefit liability comprises the present value of the defined benefit obligation, less past service costs.

s) Employee's home ownership program

The Group has an employee's home ownership programs called SIPCHEM home ownership program (SHOP) under which eligible Saudi employees have the opportunity to buy residential units constructed by SIPCHEM through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment.

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

Costs relating to SHOP are recognised as a non-current prepaid employee benefit expense at time the residential units are allocated to the employees and are amortized over the period during which employees repay such residential unit costs

t) Employees' savings plan

The Group maintains an employee's savings plan for Saudi employees. The contribution from the participants are deposited in separate bank account. The Company's contribution under the savings plan is charged to the consolidated statement of profit or loss.

u) Share based payments transactions

Employees of the group receives some remuneration in the form of share based payment, whereby employees render services as consideration for equity instruments (equity settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is recognised in employee benefits expense, together with a corresponding increase in equity over the period in which the services and the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. There are no market and non-vesting market conditions. No expense is recognised for awards that do not ultimately vest because service conditions have not been met.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a binomial model.

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2.3. Summary of significant accounting policies (Continued)

v) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant.

w) Segment reporting

A business segment is group of assets, operations or entities:

- (i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Company's other components;
- (ii) the results of its operations are continuously analyzed by chief operating decision maker (CODM) in order to make decisions related to resource allocation and performance assessment; and
- (iii) for which financial information is discretely available

The Group's president is considered to be the chief operating decision maker. Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The details of Group's segments are presented in note 4 to these consolidated interim financial statements.

x) Earnings per share

Earnings per share are computed by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Weighted average number of ordinary shares as of 30 September 2017 and 2016 were 366,666,666 shares.

y) Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the Annual General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

z) Statutory reserve

In accordance with Company's Articles of Association and bye laws, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

aa) Short term investments

Short term investments in the statement of financial position represents deposits with banks having maturity of more than three months but less than a year from date of placement and investment in quoted equity securities. The deposits with banks are carried at their historical values and investment in quoted securities are valued at the market values as at the reporting date.

2.4. Significant accounting estimates and assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the interim financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

i. Employees' end of service benefits

The cost of end of service defined benefit and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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2.4. Significant accounting estimates and assumptions (Continued)

i. Employees' end of service benefits (Continued)

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, yield and duration of Saudi government bonds obligation with at least an 'A' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

Age-wise "light" withdrawal rates are used in carrying out the valuation. These age-wise withdrawal rates are generally used in the MENA region to carry out the actuarial valuation of end of service benefit Schemes of companies in Oil & Gas and Energy sectors.

The rates assumed are based on the LIC (1975-79) Ultimate mortality tables, rated down one year. In the absence of any standard mortality tables in the region, these rates are generally used in Kingdom of Saudi Arabia in carrying out the actuarial valuation of EOSB Schemes. If any other mortality table is used it will not make any significant difference in the results.

ii. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget and marketing terms forecast for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

iii. Useful lives of property and equipment

Management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

iv. Provisional price

The Group markets and sells its petrochemical products primarily through distribution platform of various marketers. The portion of sales made through the distribution platforms are initially recorded at provisional estimated prices agreed with marketers at the time of shipment, which requires estimation. These prices are subsequently adjusted based on actual selling prices received by the marketers from their customers after deducting shipping and distribution costs.

v. Decommissioning liability

The Group reviews decommissioning liability provisions along with the interest rate used in discounting the cash flows at each balance sheet date and adjusts them to reflect the current best estimate. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Changes in the estimated future costs or in the discount rate applied, are added to or deducted from the cost of the asset.

vi. Zakat

The Company is subject to Zakat in accordance with the General Authority of Zakat and Income Tax ("GAZT") regulations. Zakat 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 is carried out until which the Company retains exposure to additional Zakat liability.

2.5. ACCOUNTING STANDARDS NOT YET EFFECTIVE

IFRS 15 – 'Revenue from Contracts with Customers'

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

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2.5. ACCOUNTING STANDARDS NOT YET EFFECTIVE (Continued)

Management is currently in the process of assessing the impact of this new standard on the Group's consolidated financial statements.

Mandatory application date / Date of adoption by the Company

Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the Company: 1 January 2018.

IFRS 16 – 'Leases'

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

IAS 17 – 'Leases'

IFRIC 4 – 'Whether an arrangement contains a lease'

SIC 15 – 'Operating leases – Incentives'

SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Management is currently in the process of assessing the impact of this new standard on the Group's consolidated financial statements.

Mandatory application date / Date of adoption by the Company

Mandatory for financial years commencing on or after 1 January 2019. Expected date of adoption by the Company: 1 January 2019.

IFRS 9 – 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Management is currently in the process of assessing the impact of this new standard on the Group's consolidated financial statements.

Mandatory application date / Date of adoption by the Company

IFRS 9 is effective for annual period beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

3. First time adoption of IFRS

As stated in note 2, these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and are for part of a period covered by its first IFRS financial statements. IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

The accounting policies set out in note 2.3 have been applied consistently across all the periods presented.

In preparing its first condensed consolidated interim financial statements, the Group has adjusted amounts reported previously in opening statement of financial position as at 1 January 2016 and the financial statements for the year ended 31 December 2016 and for the three and nine months' period ended 30 September 2016 prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by Saudi Organization of Certified Public Accountants ("SOCPA"). An explanation of how the transition from SOCPA to IFRSs has affected the Group's financial position and financial performance is set out in the tables 3.2 to 3.8 and the notes that accompany the tables.

3.1. Exemptions

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

- The group has opted not to apply the requirements of IFRS 2- Share Based Payment to equity instruments that were granted after 7 November 2002 and vested before date of transition to IFRS.
- The Group has applied the transitional provision in IFRIC 4 Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition to IFRS i.e. 1 January 2016.
- The Group has applied the transitional provisions in IAS 23 Borrowing Costs and has not restated for borrowing costs capitalized under SOCPA prior to 1 January 2016.

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3. First time adoption of IFRS (Continued)

3.1. Exemptions (Continued)

- IFRS 3 Business Combinations has not been applied to acquisition of 100% voting shares of Aectra SA by Sipchem marketing Company which is a business combination that occurred before 1 January 2016 as the company opted to use the exemption from retrospective application of IFRS 3 as per IFRS 1. Use of this exemption means that the SOCPA carrying amounts of assets and liabilities were considered as their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with applicable IFRSs. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS Statement of financial position. However, the Group did not recognize or exclude any previously recognised amounts as a result of IFRS recognition requirement.
- IFRS 1 exemption related to retrospective application of IFRS 3, also requires that the SOCPA carrying amount of goodwill must be used in the opening IFRS statement of financial position, apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets. (In accordance with above said requirement of IFRS 1, goodwill in respect of acquisition of Aectra is required to be tested for impairment at the date of transition to IFRS).
- The Group opted to apply the exemption under IFRS 1 related to decommissioning. As per the said exemption the Group measured the decommissioning liability in respect of its plants and machinery at the date of transition in accordance with IAS 37, then estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate of 5 %. The Group calculated the accumulated depreciation on that amount on the basis of current estimate of useful life of the plants.

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Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

3. First time adoption of IFRS (Continued)

3.2. Group reconciliation of financial position as at 1 January 2016 (date of transition to IFRS)

	Notes	SOCPA as at 31 December 2015 SR	Reclassifications SR	Re measurements due to conversion SR	IFRS as at 1 January 2016 SR
Assets					
Non-current assets					
Property, plant and equipment	A,B,C,G,J,K J	13,293,725,235	10,521,133	(703,780,173)	12,600,466,195
Projects development cost	C,I,K	29,464,693	(29,464,693)	-	-
Intangible assets		131,134,567	21,634,798	(11,702,968)	141,066,397
Goodwill		29,543,923	-	-	29,543,923
Total non-current assets		13,483,868,418	2,691,238	(715,483,141)	12,771,076,515
Current assets					
Inventories	G	698,344,835	(29,222,863)	-	669,121,972
Trade and other receivables		556,595,014	-	-	556,595,014
Prepayments and other assets		195,890,783	-	-	195,890,783
Short term investments	F	-	-	31,095,389	31,095,389
Cash and cash equivalent	F	2,124,558,823	-	2,597,731	2,127,156,554
Total current assets		3,575,389,455	(29,222,863)	33,693,120	3,579,859,712
Total assets		17,059,257,873	(26,531,625)	(681,790,021)	16,350,936,227
Equity and liabilities					
Equity					
Issued capital		3,666,666,660	-	-	3,666,666,660
Share premium	F	-	-	34,948,097	34,948,097
Treasury shares	F	-	-	(6,626,760)	(6,626,760)
Statutory reserve		1,198,394,633	-	-	1,198,394,633
Reserve for results of sale of shares in subsidiaries		48,893,677	-	-	48,893,677
Foreign currency translation reserve		(7,194,646)	-	-	(7,194,646)
Share based payment transactions reserve	F	-	-	1,539,004	1,539,004
Retained earnings	A-G,K	905,614,950	(6,128,958)	(582,870,510)	316,615,482
Non-controlling interests	A-E,G,K	1,892,418,827	(3,379,812)	(208,775,212)	1,680,263,803
Total equity		7,704,794,101	(9,508,770)	(761,785,381)	6,933,499,950
Non-current liabilities					
Long term bank loans and borrowings	E	5,488,283,977	96,429	(21,939,033)	5,466,441,373
Sukuk	E,I	1,800,000,000	(2,287,639)	(9,402,163)	1,788,310,198
Long term advances from partners		59,953,703	-	-	59,953,703
Deferred revenue	H	-	50,602,500	-	50,602,500
Employee benefit liabilities	D	165,818,715	-	29,267,850	195,086,565
Decommissioning liability	B	50,602,500	(50,602,500)	76,696,923	76,696,923
Total non-current liabilities		7,564,658,895	(2,191,210)	74,623,577	7,637,091,262
Current liabilities					
Short term bank loans		300,000,000	-	-	300,000,000
Current portion of long term bank loans		711,319,128	-	-	711,319,128
Trade and other payables	F,I	78,713,741	-	-	78,713,741
Accrued expenses and other liabilities		512,739,590	(14,831,645)	5,371,783	503,279,728
Zakat and foreign income tax payable		104,555,524	-	-	104,555,524
Short term advances from partners		82,476,894	-	-	82,476,894
Total Current liabilities		1,789,804,877	(14,831,645)	5,371,783	1,780,345,015
Total liabilities		9,354,463,772	(17,022,855)	79,995,360	9,417,436,277
Total equity and liabilities		17,059,257,873	(26,531,625)	(681,790,021)	16,350,936,227

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3. First time adoption of IFRS (Continued)

3.3. Group reconciliation of financial position as at 31 December 2016

Notes	SOCPA as at 31 December 2016 SR	Reclassifications SR	Re measurements due to conversion SR	IFRS as at 31 December 2016 SR	
Assets					
Non-current assets					
Property, plant and equipment	A,B,C,G,J,K	13,030,616,123	(9,017,612)	(674,984,558)	12,346,613,953
Intangible assets	C,I,K	103,733,502	22,919,267	(8,817,212)	117,835,557
Goodwill		29,543,923	-	-	29,543,923
Total non-current assets		13,163,893,548	13,901,655	(683,801,770)	12,493,993,433
Current assets					
Inventories	G	782,232,793	(27,830,059)	-	754,402,734
Trade and other receivables		623,567,540	-	-	623,567,540
Prepayments and other assets		85,130,024	-	-	85,130,024
Short term investments	F	-	-	23,672,928	23,672,928
Cash and cash equivalent	F	1,815,653,353	-	7,035,706	1,822,689,059
Total current assets		3,306,583,710	(27,830,059)	30,708,634	3,309,462,285
Total assets		16,470,477,258	(13,928,404)	(653,093,136)	15,803,455,718
Equity and liabilities					
Equity					
Issued capital		3,666,666,660	-	-	3,666,666,660
Share premium	F	-	-	34,656,309	34,656,309
Treasury shares	F	-	-	(7,590,000)	(7,590,000)
Statutory reserve		1,205,397,395	-	-	1,205,397,395
Reserve for results of sale of shares in subsidiaries		12,949,042	-	-	12,949,042
Foreign currency translation reserve		(7,914,949)	-	-	(7,914,949)
Share based payment transactions reserve	F	-	-	1,468,159	1,468,159
Retained earnings	A -G,K	966,439,804	(9,027,085)	(599,006,992)	358,405,727
Non-controlling interests	A-E,G,K	1,626,586,783	(4,901,319)	(200,528,811)	1,421,156,653
Total equity		7,470,124,735	(13,928,404)	(771,001,335)	6,685,194,996
Non-current liabilities					
Long term bank loans and borrowings	E	5,609,122,755	-	3,807,608	5,612,930,363
Sukuk	E,I	997,590,797	-	(187,833)	997,402,964
Long term advances from partners		68,888,323	-	-	68,888,323
Deferred revenue	H	-	50,602,500	-	50,602,500
Employee benefit liabilities	D	182,003,261	-	26,338,517	208,341,778
Decommissioning liability	B	52,241,076	(50,602,500)	82,852,728	84,491,304
Total non-current liabilities		6,909,846,212	-	112,811,020	7,022,657,232
Current liabilities					
Short term bank loans		200,000,000	-	-	200,000,000
Current portion of long term bank loans		1,053,110,874	-	-	1,053,110,874
Trade and other payables	F,I	135,088,911	-	-	135,088,911
Accrued expenses and other liabilities		533,961,484	-	5,097,179	539,058,663
Zakat and foreign income tax payable		101,224,646	-	-	101,224,646
Short term advances from partners		67,120,396	-	-	67,120,396
Total Current liabilities		2,090,506,311	-	5,097,179	2,095,603,490
Total liabilities		9,000,352,523	-	117,908,199	9,118,260,722
Total equity and liabilities		16,470,477,258	(13,928,404)	(653,093,136)	15,803,455,718

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3. First time adoption of IFRS (Continued)

3.4. Group reconciliation of profit and loss statement for the year ended 31 December 2016

	Notes	SOCPA for the year ended 31 December 2016 SR	Reclassifications SR	Re measurements due to conversion SR	IFRS for the year ended 31 December 2016 SR
Revenue	L	3,367,475,412	147,568,115	-	3,515,043,527
Cost of sales	A-D,G,K	(2,677,137,887)	(1,757,613)	25,304,080	(2,653,591,420)
Gross profit		690,337,525	145,810,502	25,304,080	861,452,107
Selling and marketing expenses	L	(57,188,792)	(147,568,115)	-	(204,756,907)
Administrative expenses	C,F	(216,545,718)	1,757,613	(4,570,858)	(219,358,963)
Operating profit		416,603,015	-	20,733,222	437,336,237
Operating profit					
Finance income	B,D,E	38,223,703	-	-	38,223,703
Finance charges		(245,657,026)	-	(42,940,568)	(288,597,594)
Other income / (expenses)		8,853,352	-	-	8,853,352
Write-off of property, plant and equipment		(31,321,937)	-	-	(31,321,937)
Profit before Zakat and income tax		186,701,107	-	(22,207,346)	164,493,761
Zakat and income tax		(72,950,875)	-	-	(72,950,875)
Profit for the year		113,750,232	-	(22,207,346)	91,542,886
Attributable to					
Equity holders of the parent		70,027,616	-	(26,943,125)	43,084,491
Non-controlling interests		43,722,616	-	4,735,779	48,458,395
		113,750,232	-	(22,207,346)	91,542,886

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

3. First time adoption of IFRS (Continued)

3.5. Group reconciliation of total other comprehensive income for the year ended 31 December 2016

	SOCPA for the year ended 31 December 2016 SR	Reclassifications SR	Re measurements due to conversion SR	IFRS for the year ended 31 December 2016 SR
Profit for the year	<u>113,750,232</u>	-	<u>(22,207,346)</u>	<u>91,542,886</u>
Other comprehensive income				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Exchange difference on translation of foreign operations	-	-	(7,914,949)	(7,914,949)
Net total other comprehensive income to be reclassified to profit or loss in subsequent periods:	-	-	(7,914,949)	(7,914,949)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>				
Re-measurement gains and (losses) on defined benefit plans	-	-	7,698,366	7,698,366
Net total other comprehensive income not to be reclassified to profit or loss in subsequent periods:	-	-	7,698,366	7,698,366
Total other comprehensive income for the year	-	-	(216,583)	(216,583)
Total comprehensive income for the year	113,750,232	-	(22,423,929)	91,326,303
Attributable to				
Equity holders of the parent	70,027,616	-	(31,145,076)	38,882,540
Non-controlling interests	43,722,616	-	8,721,147	52,443,763
	<u>113,750,232</u>	-	<u>(22,423,929)</u>	<u>91,326,303</u>

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

3. First time adoption of IFRS (Continued)

3.6. Group reconciliation of financial position as at 30 September 2016

Notes	SOCPA as at 30 September 2016 SR	Reclassifications SR	Re measurements due to conversion SR	IFRS as at 30 September 2016 SR	
Assets					
Non-current assets					
Property, plant and equipment	A,B,C,E,G,J,K	13,095,106,037	(8,728,512)	(673,485,596)	12,412,891,929
Projects development cost	J	26,373,664	-	(26,373,664)	-
Intangible assets	C,I,K	107,158,068	23,424,397	(9,536,500)	121,045,965
Goodwill		29,543,923	-	-	29,543,923
Total non-current assets		13,258,181,692	14,695,885	(709,395,760)	12,563,481,817
Current assets					
Inventories		774,216,220	(27,487,118)	-	746,729,102
Trade and other receivables	G	593,124,215	-	-	593,124,215
Prepayments and other assets		137,904,350	-	-	137,904,350
Short term investments	F	-	-	23,511,608	23,511,608
Cash and cash equivalent	F	1,684,646,614	-	6,818,673	1,691,465,287
Total current assets		3,189,891,399	(27,487,118)	30,330,281	3,192,734,562
Total assets		16,448,073,091	(12,791,233)	(679,065,479)	15,756,216,379
Equity and liabilities					
Equity					
Issued capital		3,666,666,660	-	-	3,666,666,660
Share premium		-	-	32,923,372	32,923,372
Treasury shares	F	-	-	(7,599,000)	(7,599,000)
Statutory reserve	F	1,198,394,633	-	-	1,198,394,633
Reserve for results of sale of shares in subsidiaries		12,949,042	-	-	12,949,042
Foreign currency translation reserve		(8,006,587)	-	-	(8,006,587)
Share based payment transactions reserve		-	-	1,651,215	1,651,215
Retained earnings	A - F,G,K	921,130,825	(8,363,105)	(584,936,863)	327,830,857
Non-controlling interests	A-E,G,K	1,599,331,253	(3,877,062)	(203,502,226)	1,391,951,965
Total equity		7,390,465,826	(12,240,167)	(761,463,502)	6,616,762,157
Non-current liabilities					
Long term bank loans and borrowings	E	6,154,550,540	(1,160,000)	(1,349,440)	6,152,041,100
Sukuk	E	996,294,427	1,160,000	(12,095,753)	985,358,674
Long term advances from partners		68,452,622	-	-	68,452,622
Deferred revenue	H	-	50,602,500	-	50,602,500
Employees' benefits payable	D	179,198,275	(19,444)	27,090,295	206,269,126
Decommissioning liability	B	52,008,564	(50,602,500)	81,313,777	82,719,841
Total non-current liabilities		7,450,504,428	(19,444)	94,958,879	7,545,443,863
Current liabilities					
Short term bank loans		50,000,000	-	-	50,000,000
Current portion of long term bank loans		735,333,160	-	-	735,333,160
Trade and other payables		175,082,087	-	-	175,082,087
Accrued expenses and other liabilities	F,I	476,592,406	(531,622)	(12,560,856)	463,499,928
Zakat and foreign income tax payable		103,481,989	-	-	103,481,989
Short term advances from partners		66,613,195	-	-	66,613,195
Total Current liabilities		1,607,102,837	(531,622)	(12,560,856)	1,594,010,359
Total liabilities		9,057,607,265	(551,066)	82,398,023	9,139,454,222
Total equity and liabilities		16,448,073,091	(12,791,233)	(679,065,479)	15,756,216,379

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Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

3. First time adoption of IFRS (Continued)

3.7. Group reconciliation of profit and loss statement for the nine months period ended 30 September 2016

	Notes	For the nine months period ended 30 September 2016 (SOCPA) SR	Reclassifications SR	Re measurements due to conversion SR	For the nine months period ended 30 September 2016 (IFRS) SR
Revenue	L	2,453,278,586	112,170,506	-	2,565,449,092
Cost of sales	A-D,G,K	(1,976,467,956)	(2,541,615)	25,906,521	(1,953,103,050)
Gross profit		476,810,630	109,628,891	25,906,521	612,346,042
Selling and marketing expenses	L	(46,416,993)	(112,170,506)	-	(158,587,499)
Administrative expenses	C,D,F	(148,054,513)	(850,459)	(1,758,824)	(150,663,796)
Operating profit		282,339,124	(3,392,074)	24,147,697	303,094,747
Operating profit					
Finance income		27,557,068	-	-	27,557,068
Finance charges	B,D,E	(184,998,963)	-	(23,044,634)	(208,043,597)
Provision for loss on disposal of assets		(31,321,936)	-	-	(31,321,936)
Other (expenses) / income, net		10,295,487	-	-	10,295,487
Profit before Zakat and income tax		103,870,780	(3,392,074)	1,103,063	101,581,769
Zakat and income tax		(69,123,572)	-	-	(69,123,572)
Profit for the period		34,747,208	(3,392,074)	1,103,063	32,458,197
Attributable to					
Equity holders of the parent		17,715,875	(3,501,286)	(2,999,214)	11,215,375
Non-controlling interests		17,031,333	109,212	4,102,277	21,242,822
		34,747,208	(3,392,074)	1,103,063	32,458,197

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

3. First time adoption of IFRS (Continued)

3.8. Group reconciliation of total other comprehensive income for the nine months period ended 30 September 2016

	For the nine months period ended 30 September 2016 (SOCPA) SR	Reclassifications SR	Re measurements due to conversion SR	For the nine months period ended 30 September 2016 (IFRS) SR
Profit for the period	34,747,208	(3,392,074)	1,103,063	32,458,197
Other comprehensive income				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Exchange difference on translation of foreign operations	-	-	(811,941)	(811,941)
Net total other comprehensive income to be reclassified to profit or loss in subsequent periods:	-	-	(811,941)	(811,941)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>				
Re-measurement gains and (losses) on defined benefit plans	-	-	-	-
Net total other comprehensive income not to be reclassified to profit or loss in subsequent periods:	-	-	-	-
Total other comprehensive income for the period	-	-	(811,941)	(811,941)
Total comprehensive income for the period	34,747,208	(3,392,074)	291,122	31,646,256
<i>Attributable to</i>				
Equity holders of the parent	17,715,875	(3,501,286)	(3,811,155)	10,403,434
Non-controlling interests	17,031,333	109,212	4,102,277	21,242,822
	34,747,208	(3,392,074)	291,122	31,646,256

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

3. First time adoption of IFRS (Continued)

3.9. Group reconciliation of profit and loss statement for the three months period ended 30 September 2016

	Notes	For the three months period ended 30 Sep 2016 (SOCPA) SR	Reclassifications SR	Re measurements due to conversion SR	For the three months period ended 30 Sep 2016 (IFRS) SR
Revenue	L	681,459,405	36,385,180	-	717,844,585
Cost of sales	A-D,G,K	(597,503,437)	(2,433,920)	10,329,918	(589,607,439)
Gross profit		83,955,968	33,951,260	10,329,918	128,237,146
Selling and marketing expenses	L	(12,063,354)	(36,385,180)	-	(48,448,534)
Administrative expenses	C,D,F	(47,842,807)	(1,002,320)	618,568	(48,226,559)
Operating profit		24,049,807	(3,436,240)	10,948,486	31,562,053
Operating profit					
Finance income		5,680,824	-	-	5,680,824
Finance charges	B,D,E	(63,902,419)	-	3,634,811	(60,267,608)
Provision for loss on disposal of assets		1,678,012	-	-	1,678,012
Other (expenses) / income, net		6,407,324	-	-	6,407,324
Profit before Zakat and income tax		(26,086,452)	(3,436,240)	14,583,297	(14,939,395)
Zakat and income tax		(33,939,674)	-	-	(33,939,674)
Profit for the period		(60,026,126)	(3,436,240)	14,583,297	(48,879,069)
Attributable to					
Equity holders of the parent		(58,984,984)	1,771,060	7,831,307	(49,382,617)
Non-controlling interests		(1,041,142)	(5,207,300)	6,751,990	503,548
		(60,026,126)	(3,436,240)	14,583,297	(48,879,069)

Saudi International Petrochemical Company (A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements (unaudited)

For the nine months period ended 30 September 2017

3. First time adoption of IFRS (Continued)

3.10. Group reconciliation of total other comprehensive income for the three months period ended 30 September 2016

	For the three months period ended 30 Sep 2016 (SOCPA) SR	Reclassifications SR	Re measurements due to conversion SR	For the three months period ended 30 Sep 2016 (IFRS) SR
Profit for the period	(60,026,126)	(3,436,240)	14,583,297	(48,879,069)
Other comprehensive income				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Exchange difference on translation of foreign operations	-	-	(176,682)	(176,682)
Net total other comprehensive income to be reclassified to profit or loss in subsequent periods:	-	-	(176,682)	(176,682)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>				
Re-measurement gains and (losses) on defined benefit plans	-	-	-	-
Net total other comprehensive income not to be reclassified to profit or loss in subsequent periods:	-	-	-	-
Total other comprehensive income for the period	-	-	(176,682)	(176,682)
Total comprehensive income for the period	(60,026,126)	(3,436,240)	14,406,615	(49,055,751)
<i>Attributable to</i>				
Equity holders of the parent	(58,984,984)	1,771,060	7,654,625	(49,559,299)
Non-controlling interests	(1,041,142)	(5,207,300)	6,751,990	503,548
	(60,026,126)	(3,436,240)	14,406,615	(49,055,751)

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For the nine months period ended 30 September 2017

3. First time adoption of IFRS (Continued)

Notes to the reconciliation of equity and total comprehensive income.

Re-measurements

A) Impairment of property, plant and equipment

Under SOCPA, non-current assets were reviewed for impairment when events or changes in circumstances indicated that their carrying value may exceed the sum of the undiscounted future cash flows expected from use and eventual disposal. For the purposes of assessing impairment, assets were grouped at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets. If the estimated undiscounted cash flows for the asset group were less than the asset group's carrying amount, the impairment loss was measured as the excess of the carrying value over fair value.

Under IFRS, as explained in note 2.3 (k), impairment of assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, is assessed at the cash generating unit ("CGU") level based on the CGU's recoverable amount using discounted cash flows. At the date of transition to IFRS, as a result of the changes in methodology, the Group determined that the recoverable amounts of two of its CGUs namely International Diol Company ("IDC") and Polybutylene terephthalate ("PBT") were less than its carrying amount based on the CGU's value in use which discounts cash flows using a pre-tax discount rate of 10%. This resulted in an impairment loss of SR 400 million in IDC and SR 300 million in PBT as at 1 January 2016. The impact arising from the change is summarized as follows:

	Year ended 31 December 2016	Nine months period ended 30 Sep 2016	Three months period ended 30 Sep 2016
	-----SR-----		
Consolidated statement of total comprehensive income			
Reduction in cost of sales	(25,890,128)	(19,417,595)	(6,472,532)
Total adjustment on total comprehensive income	(25,890,128)	(19,417,595)	(6,472,532)
	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Property, plant and equipment	(700,000,000)	(674,109,872)	(680,582,404)
Retained earnings	515,640,000	501,686,632	505,171,974
Non-controlling interests	184,360,000	172,423,240	175,410,430

B) Decommissioning liability

Management has calculated the liability for decommissioning the Group's existing plant and machinery in accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at the date of transition to IFRS.

While the ultimate decommissioning costs or assets retirement obligation are uncertain to the Group, and cost estimates can vary in response to several factors, the Management has concluded in arriving at the above IFRS re-measurement adjustments based on certain assumptions and estimates in relation to discount rate, the expected cost of dismantling and the removal of the plant and equipment from the site, and the expected timing of those costs. The impact arising from the change is summarized as follows:

	Year ended 31 December 2016	Nine months period ended 30 Sep 2016	Three months period ended 30 Sep 2016
	-----SR-----		
Consolidated statement of total comprehensive income			
Increase in cost of sales:	2,292,247	1,719,185	573,062
Finance charges	6,155,805	4,616,854	1,538,951
Total adjustment on total comprehensive income	8,448,052	6,336,039	2,112,013
	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Property, plant and equipment	44,196,925	41,904,677	42,477,738
Other non-current liabilities	(76,696,923)	(82,852,728)	(81,313,777)
Retained earnings	22,269,614	29,825,403	27,035,717
Non-controlling interests	10,230,384	11,122,648	11,800,322

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3. First time adoption of IFRS (Continued)

C) Costs not eligible for capitalization

At the date of transition, certain pre-operating costs were derecognised from PPE against retained earnings as they did not meet the criteria for capitalization under either IAS 38 or IAS 16.

Further, certain costs relating to branding and creation of succession plans, etc. were derecognised from intangibles as they did not meet the criteria for capitalization as intangibles as per IAS 38.

The impact arising from the change is summarized as follows:

	Year ended 31 December 2016	Nine months period ended 30 Sep 2016	Three months period ended 30 Sep 2016
	-----SR-----		
Consolidated statement of total comprehensive income			
Reduction in cost of sales – Depreciation	(512,205)	(384,153)	(128,051)
Reduction in administrative expenses – Amortisation	(2,891,556)	(2,166,467)	(725,088)
Increase in administrative expenses – additional de recognition	1,043,873	782,905	(260,968)
Total adjustment on total comprehensive income	(2,359,888)	(1,767,715)	(1,114,107)
	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Property, plant and equipment	(38,493,166)	(39,024,834)	(38,891,917)
Intangible assets	(11,702,967)	(8,811,412)	(9,536,500)
Retained earnings	45,038,933	42,801,378	43,363,169
Non-controlling interests	5,157,200	5,034,868	5,065,249

D) Defined benefit obligation

Under SOCPA, the Company was not required to measure the defined benefit liability in accordance with the projected unit credit method. However, under IFRS, end of service benefits liability (“EOSB”) is recognised on an actuarial basis. Therefore, as at the date of transition to IFRS, the Company re-measured the defined benefit liability in accordance with the projected unit credit method (as required by IAS 19) through an actuarial valuation of the EOSB. The impact arising from the change is summarized as follows:

	Year ended 31 December 2016	Nine months period ended 30 Sep 2016	Three months period ended 30 Sep 2016
	-----SR-----		
Consolidated statement of total comprehensive income			
Increase / (decrease) in EOSB expense – cost of sales	(2,759,503)	(7,823,958)	(2,028,052)
Increase / (decrease) in EOSB expense – Administrative expense	(104,486)	(78,364)	(26,121)
Increase in EOSB expense – finance costs	7,633,024	5,724,767	1,908,256
Re-measurement gains and (losses) on defined benefit plans	(7,698,366)	-	-
Total adjustment on total comprehensive income	(2,929,331)	(2,177,555)	(145,917)
	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Employees' benefits payable	(29,267,850)	(26,338,517)	(27,090,295)
Retained earnings	21,561,750	19,416,922	19,955,194
Non-controlling interests	7,706,100	6,921,595	7,135,101

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3. First time adoption of IFRS (Continued)

E) Amortised cost – long term loans and borrowing and SUKUK

At the date of transition to IFRS, the existing interest bearing loans and borrowings were re-measured by the Company at amortised cost using the effective interest rate method ("EIR"). Amortised cost was calculated by taking into account any discount or premium on acquisition and fees or costs that represent an integral part of the EIR.

Under SOCPA, fees paid on the establishment of loan facilities were recognised as transaction costs of the loan and were being amortised over the period of the loan on a straight-line basis.

The EIR amortisation impact representing the difference between the up-front fees amortisation on straight-line basis versus EIR method for the periods prior to the date of the opening IFRS statement of financial position, was reflected in either accumulated losses or was capitalized as part of PPE. The latter assumes such costs were directly attributable to the acquisition, construction or production of qualifying assets until such time the assets were ready for their intended use.

The impact arising from the change is summarized as follows:

	Year ended 31 December 2016	Nine months period ended 30 Sep 2016	Three months period ended 30 Sep 2016
	-----SR-----		
Consolidated statement of total comprehensive income			
Finance charges	29,152,478	12,703,013	(7,082,018)
Total adjustment on total comprehensive income	29,152,478	12,703,013	(7,082,018)

	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Long term bank loans and borrowings	21,842,604	(3,819,144)	1,349,439
Sukuk	9,402,163	187,833	12,095,753
Retained earnings	(23,166,905)	3,510,445	(13,148,946)
Non-controlling interests	1,406,070	3,881,197	4,091,124
Property, plant and equipment – Under construction plants	(9,483,932)	(3,760,331)	(4,387,370)

F) Sipchem Employees Incentive Program

The Group offers a share-based payment award plan to its employees that meet a certain criteria called Sipchem Employees Incentive Program ("SEIP"). The shares are purchased using a fund bank account.

At inception of the fund bank account, the Group offered a loan to this fund bank account to purchase certain shares before the IPO from the Group at a nominal premium. After the IPO, a portion of those shares was sold and the money was used to pay off the Group's loan to the fund bank account. Following this transaction, the Group treated the fund bank account for SEIP as independent of the Group. This fund was managed by a treasurer bank and any cash held, amounts received from employees who are part of SEIP, finance income or dividends on the marked shares for employees were kept in this fund bank account and were not recognised in Group's financial statements.

Assessment under IFRS shows that there are no legal restrictions in place on Group to treat this fund as independent of the Group. As such, at the date of transition, this share-based payment plan has been accounted as an equity-settled share award plan under IFRS 2. The impact arising from the change is summarized as follows:

	Year ended 31 December 2016	Nine months period ended 30 Sep 2016	Three months period ended 30 Sep 2016
	-----SR-----		
Consolidated statement of total comprehensive income			
Increase in administrative expenses – Share based payment transactions	1,384,011	1,020,751	393,610
Total adjustment on total comprehensive income	1,384,011	1,020,751	393,610

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3. First time adoption of IFRS (Continued)

F) Sipchem Employees Incentive Program (Continued)

	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Short term investments	31,095,389	23,672,928	23,511,608
Cash and cash equivalent	2,597,731	7,035,706	6,818,673
Share premium	(34,948,097)	(34,656,309)	(32,923,372)
Treasury shares	6,626,760	7,590,000	7,599,000
Share based payment transactions reserve	(1,539,004)	(1,468,159)	(1,651,215)
Accrued expenses and other liabilities	(5,371,783)	(5,097,179)	(5,914,448)
Retained earnings	1,539,004	2,923,015	2,559,755

Re-classifications

G) Inventories

At the date of transition to IFRS, spare parts of capital nature were reclassified from Inventories to property, plant and equipment as they meet the recognition criteria of PPE.

Further, the related depreciation charge was recognised to account for the retrospective depreciation of spare parts until the date of transition to IFRS. The impact arising from the change is summarized as follows:

	Year ended 31 December 2016	Nine months period ended 30 Sep 2016	Three months period ended 30 Sep 2016
	-----SR-----		
Consolidated statement of total comprehensive income			
Increase in cost of sales - Depreciation	2,035,971	1,560,103	520,034
Total adjustment on total comprehensive income	2,035,971	1,560,103	520,034

	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Inventories	(29,222,863)	(27,830,059)	(27,487,117)
Property, plant and equipment	21,400,396	17,971,621	18,148,714
Retained earnings	5,146,649	6,568,358	6,269,790
Non-controlling interests	2,675,818	3,290,080	3,068,614

H) Deferred Revenue

Under SOCPA, the Group classified an advance of SR 50.6 million (received by IGC for entering into Carbon Monoxide (CO) supply agreement with a customer to process natural gas and supply of CO) as other non-current liability. Given the advance is to be adjusted against billings to the customer during the first sixty months from the commencement date of CO supply, at the date of transition this has been reclassified as deferred revenue. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Deferred revenue	(50,602,500)	(50,602,500)	(50,602,500)
Other non-current liabilities	50,602,500	50,602,500	50,602,500

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3. First time adoption of IFRS (Continued)

I) Upfront fee on SUKUK loan

Upfront fee paid on SUKUK loan was previously capitalized as an intangible. At the date of transition, the net carrying value of upfront fee has been reclassified and recorded as part of SUKUK liabilities. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
SUKUK	2,287,639	-	-
Intangible assets	(2,287,639)	-	-

J) Project development cost

At the date of transition, amounts of SR 14.6 million were reclassified to PPE from Project development costs as they meet the recognition criteria of PPE. Further, SR 14.8 million of project development costs relating to projects no longer viable were written off by utilizing a provision created for such projects and held under accrued expenses and other liabilities. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Property, plant and equipment	14,644,587	-	7,898,359
Projects development cost	(29,464,693)	-	(26,373,664)
Accrued expenses and other liabilities	14,820,106	-	18,475,305

K) Reclassification of certain software costs from PPE to Intangibles

Under SOCPA, the Group had capitalized certain software costs as property, plant and equipment. As these software costs were not integral part of any property, plant or equipment and met the definition of an intangible, such costs were reclassified to intangible assets. Further, the software costs are now amortised over five years, whereas previously under SOCPA the useful economic life varied depending on the class of assets they were part of. The impact of additional amortisation has been adjusted in retained earnings. The impact arising from the change is summarized as follows:

	Year ended 31 December 2016	Nine months period ended 30 Sep 2016	Three months period ended 30 Sep 2016
	-----SR-----		
Consolidated statement of total comprehensive income			
Increase in cost of sales - Depreciation	2,468,553	1,851,414	617,138
Total adjustment on total comprehensive income	2,468,553	1,851,414	617,138

	1 January 2016	31 December 2016	30 Sep 2016
	-----SR-----		
Consolidated statement of financial position			
Property, plant and equipment	(25,523,850)	(26,983,432)	(26,877,226)
Intangible assets	23,922,436	22,913,463	23,424,397
Retained earnings	982,310	2,458,727	1,980,408
Non-controlling interests	619,104	1,611,242	1,472,421

L) Changes in presentation of direct distribution costs

The Group sells their products directly to customers and also through marketers' distribution platforms. These marketers act in the capacity of a principal and revenue is recorded net of the margins of these marketers and any other freight and distribution charges that the marketers bear directly and deduct in arriving at the settlement price. Under SOCPA, certain distribution charges paid by the Group directly to third parties where sales were made through marketers, were also deducted from revenue. Such costs have now been presented separately as selling and distribution expenses instead of being deducted from revenue, to align with the presentation requirements of IAS18. The impact from the reclassification of these costs is summarized as follows:

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3. First time adoption of IFRS (Continued)

	Year ended 31 December 2016	Nine months period ended 30 Sep 2016	Three months period ended 30 Sep 2016
	-----SR-----		
Consolidated statement of comprehensive income			
Increase in revenue	(147,568,115)	(112,170,506)	(36,385,180)
Increase in selling and marketing expense	147,568,115	112,170,506	36,385,180

4. 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 include 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 consolidated interim financial statements.

Period ended 30 Sep 2017	Basic Chemicals SR	Intermediate Chemicals SR	Polymers SR	Marketing SR	Corporate and Others SR	Total SR
Revenue						
External customers	1,123,853,888	930,906,318	792,906,295	271,542,751	12,717,480	3,131,926,732
Inter-segment	242,998,513	624,109,303	33,826,489	1,843,338,883	97,493,623	2,841,766,811
Total revenue	<u>1,366,852,401</u>	<u>1,555,015,621</u>	<u>826,732,784</u>	<u>2,114,881,634</u>	<u>110,211,103</u>	<u>5,973,693,543</u>
Gross Profit	616,169,719	33,219,952	257,366,539	77,917,498	(59,653)	984,614,055
Operating Profit	460,640,371	(36,929,304)	172,158,528	53,081,517	(19,309,653)	629,641,459
Segment profit	428,964,675	(102,851,051)	133,772,234	52,726,444	(60,117,535)	452,494,767
Total assets	<u>4,612,617,896</u>	<u>5,882,481,565</u>	<u>4,158,384,571</u>	<u>825,033,028</u>	<u>9,337,654,455</u>	<u>24,816,171,515</u>
Total liabilities	<u>1,971,315,858</u>	<u>2,763,361,340</u>	<u>2,489,306,533</u>	<u>534,650,984</u>	<u>3,599,150,583</u>	<u>11,357,785,298</u>
Other disclosures						
Capital expenditure	<u>252,055,468</u>	<u>128,698,773</u>	<u>14,289,731</u>	<u>2,242,273</u>	<u>22,161,260</u>	<u>419,447,505</u>
Reconciliation						
	<u>Total revenue</u>	<u>Gross Profit</u>	<u>Operating Profit</u>	<u>Segment profit (before zakat & tax)</u>	<u>Total assets</u>	<u>Total liabilities</u>
	SR	SR	SR	SR	SR	SR
As reported by segment	5,973,693,543	984,614,055	629,641,459	452,494,767	24,816,171,515	11,357,785,298
Reconciliation / Eliminations						
Elimination of Inter Segment revenue	(2,798,358,448)	-	-	-	-	-
Other Adjustments	5,528,232	15,766,657	30,071,170	16,432,251	(8,685,532,887)	(2,289,669,867)
As per financials statements	<u>3,180,863,327</u>	<u>1,000,380,712</u>	<u>659,712,629</u>	<u>468,927,018</u>	<u>16,130,638,628</u>	<u>9,068,115,431</u>

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4. Segment information

Period ended 30 Sep 2016	Basic Chemicals SR	Intermediate Chemicals SR	Polymers SR	Marketing SR	Corporate and Others SR	Total SR
Revenue						
External customers	699,644,734	984,059,270	709,555,416	171,613,183	-	2,564,872,603
Inter-segment	255,299,819	570,205,675	73,414,762	1,148,376,352	-	2,047,296,608
Total revenue	954,944,553	1,554,264,945	782,970,178	1,319,989,535	-	4,612,169,211
Gross Profit	278,553,381	31,229,642	251,774,158	50,688,326	(475,955)	611,769,552
Operating Profit	115,802,410	(41,733,426)	193,061,826	29,092,982	(12,388,019)	283,835,773
Segment profit	56,294,124	(108,101,479)	143,800,966	29,153,910	(22,753,530)	98,393,991
Total assets	4,172,508,397	6,542,925,466	3,627,477,953	743,990,879	8,664,258,337	23,751,161,032
Total liabilities	1,808,820,051	3,995,895,824	2,335,167,321	516,273,160	3,102,240,191	11,758,396,547
Other disclosures						
Capital expenditure	102,399,656	56,578,116	91,153,325	1,485,695	20,770,294	272,387,086
Reconciliation						
	Total revenue	Gross Profit	Operating Profit	Segment profit (before zakat & tax)	Total assets	Total liabilities
	SR	SR	SR	SR	SR	SR
As reported by segment	4,612,169,211	611,769,552	283,835,773	98,393,991	23,751,161,032	11,758,396,547
Reconciliation / Eliminations						
Elimination of Inter Segment revenue	(2,047,296,609)	-	-	-	-	-
Other Adjustments	576,490	576,490	19,258,974	3,187,778	(7,994,944,653)	(2,618,942,325)
As per financials statements	2,565,449,092	612,346,042	303,094,747	101,581,769	15,756,216,379	9,139,454,222

**Geographical information
30 September 2017**

Revenue from external customers

Saudi Arabia SR	Foreign countries SR	Total SR
163,937,297	3,016,926,030	3,180,863,327

**Geographical information
30 September 2016**

Revenue from external customers

Saudi Arabia SR	Foreign countries SR	Total SR
143,926,781	2,421,522,311	2,565,449,092

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5. Zakat and income tax

Sipchem received Zakat assessments for the years 2007 to 2010 with additional zakat liability of SR 109 million against which Sipchem appealed to Higher Appeal Committee's (HAC). In March 2017, Sipchem received HAC's decision No 1695 of 1438H in relation to assessments for the year 2007 and 2008, which was in the Sipchem's favour and would result in zakat saving of approximately SR 37 million. The revised assessment from GAZT following the HAC decision is in process and expected to be received during the Q4, 2017. In respect of years 2009 and 2010, Sipchem filed an appeal with HAC against GAZT's revised assessment of SR 72 million. The HAC conducted appeal hearing session on 26 Sep 2017 and requested certain additional information which is duly submitted to them. HAC ruling is awaited.

IMC received withholding tax assessment for the years 2007 to 2012 for the delay fines of SR 18 million. IMC does not agree with the delay fines and has filed an appeal against this assessment.

IAC received an assessment for the year 2006 to 2008 with an additional tax, withholding tax and zakat liability of SR 572,109, SR 2,837,948 and SR 3,907,339 respectively. IAC paid SR 1.1 million out of SR 7.3 million and has appealed against these assessments.

All of the companies within the Group submitted their zakat and income tax declarations up to the year ended December 31, 2016 within the statutory deadline and these are still under review of the GAZT.

6. Capital work in progress

The Group's capital work-in-progress as at Sep 30, 2017 is SR 869 million and comprises mainly of construction costs related to Polybutylene terephthalate plant, 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. During the quarter ended 30 September 2017, the Group transferred an amount of SR 301 million representing costs in relation to construction of one of its supplier's assets from capital work-in-progress to intangible assets. The asset constructed gives the beneficial right to the group to use a portion of the asset output.

7. Financial instruments risk management objectives and policies

The Group's principal financial assets include cash and cash equivalents, accounts 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 and as its associates.

Fair value hierarchy

Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are 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 consolidated 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 value	Fair value	Level 1	Level 2	Level 3
As at 30 September 2017					
Short term investments					
Equity securities	12,351,048	12,351,048	12,351,048	-	-
Deposits *	9,154,724	-	-	-	-
Total	21,505,772	12,351,048	12,351,048	-	-
As at 31 December 2016					
Short term investments					
Equity securities	23,672,928	23,672,928	23,672,928	-	-
Deposits *	-	-	-	-	-
Total	23,672,928	23,672,928	23,672,928	-	-

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7. Financial instruments risk management objectives and policies (continued)

Fair value hierarchy (Continued)

	Carrying value	Fair value	Level 1	Level 2	Level 3
	As at 1 January 2016				
Short term investments					
Equity securities	31,095,389	31,095,389	31,095,389	-	-
Deposits	-	-	-	-	-
Total	31,095,389	31,095,389	31,095,389	-	-

* This represents deposits with banks having maturity of more than three months but less than a year from date of placement.

The financial assets and liabilities of the Group are recognised in the consolidated interim statement of financial position in accordance with the accounting policies.

The carrying value of the financial assets and financial liabilities of the Group approximate the fair value.

8. Commitments and contingencies

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain IT equipment, motor vehicles and land leases. The main leases are with the Royal Commission and the Port Authority. The lease with Royal Commission is for an initial term of 30 Hijri years and is renewal upon the agreement of the two parties.

The group also leased precious metals, such as gold, palladium and rhodium for manufacturing catalysts. The lease terms for precious metals are for one year term and renewable for further term.

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

	30 September 2017 SR	31 December 2016 SR	1 January 2016 SR
Within one year	2,569,548	2,569,548	2,569,548
After one year but not more than five years	10,278,192	10,278,192	10,278,192
More than 5 years	24,996,524	26,923,685	29,193,233
Total	37,844,264	39,771,425	42,040,973

Commitments

	30 September 2017 SR	31 December 2016 SR	1 January 2016 SR
Capital commitments	506,707,614	687,072,285	344,138,114

Guarantees

	30 September 2017 SR	31 December 2016 SR	1 January 2016 SR
Letter of guarantees and credits	488,456,108	502,232,250	594,166,940

Contingent liabilities

The Group has no material contingent liabilities as at period ended 30 September 2017.