

**Saudi Industrial Investment Group  
and Its Subsidiary**

**(A Saudi Joint Stock Company)**

Interim Consolidated Financial Statements

**For the three and nine months ended  
September 30, 2016**

**and independent auditor's limited review report**

SAUDI INDUSTRIAL INVESTMENT GROUP AND ITS SUBSIDIARY  
(A Saudi Joint Stock Company)

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For the three and nine months ended 30 September 2016

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## **INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT**

**To the shareholders of Saudi Industrial Investment Group  
(A Saudi Joint Stock Company)  
Riyadh-Kingdom of Saudi Arabia**

### **Scope of review**

We have reviewed the interim consolidated balance sheet of **Saudi Industrial Investment Group** a Saudi Joint Stock Company – and its subsidiary as at 30 September 2016, the related interim consolidated statement of income for the three and nine months then ended, and the related interim consolidated statements of cash flows and changes in equity for the nine months then ended, including the related notes from 1 to 16. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and presented to us together with all the information and explanations which we required.

We conducted our limited review in accordance with Saudi Organization for Certified Public Accountants (SOCPA) standards on interim financial information. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of a limited review is substantially less than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### **Review conclusion**

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.

Dr. Mohamed Al-Amri  
Certified Public Accountant  
Registration No. 60

Muharram 18, 1438 H  
October 19, 2016 G

Saudi Industrial Investment Group and Its Subsidiary  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (Unaudited)

As at 30 September 2016

(Amounts in SR '000)

	<i>Note</i>	<i>2016</i>	<i>2015</i>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	<b>3,361,386</b>	2,562,581
Short term deposits		<b>500,000</b>	530,000
Receivables		<b>810,128</b>	967,439
Prepayments and other receivables		<b>110,959</b>	96,770
Due from related parties	5	<b>226,248</b>	216,256
Inventories	6	<b>1,138,619</b>	1,135,288
<b>TOTAL CURRENT ASSETS</b>		<b>6,147,340</b>	5,508,334
<b>NON-CURRENT ASSETS</b>			
Employee loans		<b>64,314</b>	46,841
Turnaround costs		<b>214,430</b>	39,250
Subordinated loan to jointly controlled ventures		<b>877,500</b>	740,625
Investments in jointly controlled ventures	7	<b>3,282,169</b>	3,311,527
Property, plant and equipment, net		<b>16,539,035</b>	17,178,685
<b>TOTAL NON-CURRENT ASSETS</b>		<b>20,977,448</b>	21,316,928
<b>TOTAL ASSETS</b>		<b>27,124,788</b>	26,825,262
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable		<b>172,799</b>	55,239
Accruals and other payables		<b>339,821</b>	392,442
Due to related parties	5	<b>188,232</b>	195,569
Current portion of long term loans	9	<b>1,318,545</b>	1,225,961
Zakat provision	8	<b>488,181</b>	349,990
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,507,578</b>	2,219,201
<b>NON-CURRENT LIABILITIES</b>			
Sukuk	10	<b>1,070,000</b>	1,070,000
Non-current portion of long term loans	9	<b>8,832,350</b>	10,136,678
Subordinated loan from non-controlling partner	11	<b>1,066,172</b>	1,131,797
End of service benefits		<b>78,180</b>	44,908
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,046,702</b>	12,383,383
<b>TOTAL LIABILITIES</b>		<b>13,554,280</b>	14,602,584
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	1	<b>4,500,000</b>	4,500,000
Statutory reserve		<b>599,701</b>	526,987
Retained earnings		<b>2,455,382</b>	2,006,631
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>7,555,083</b>	7,033,618
Non-controlling interests		<b>6,015,425</b>	5,189,060
<b>TOTAL EQUITY</b>		<b>13,570,508</b>	12,222,678
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>27,124,788</b>	26,825,262

The attached notes from 1 to 16 form part of these interim consolidated financial statements

Saudi Industrial Investment Group and Its Subsidiary  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)  
(Amounts in SR '000)

	Note	For the three months period ended 30 September		For the nine months period ended 30 September	
		2016	2015	2016	2015
Net sales		<b>1,601,003</b>	1,911,704	<b>4,903,176</b>	5,649,481
Cost of sales		<b>(1,042,607)</b>	(1,153,886)	<b>(3,346,106)</b>	(3,713,954)
<b>GROSS INCOME</b>		<b>558,396</b>	757,818	<b>1,557,070</b>	1,935,527
Share in earnings of jointly controlled ventures	7	<b>74,237</b>	57,268	<b>241,105</b>	344,988
Selling and marketing expenses		<b>(99,710)</b>	(106,685)	<b>(297,287)</b>	(355,597)
General and administrative expenses		<b>(56,183)</b>	(61,287)	<b>(152,704)</b>	(197,430)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>476,740</b>	647,114	<b>1,348,184</b>	1,727,488
Financial charges, net		<b>(44,477)</b>	(38,753)	<b>(128,265)</b>	(108,414)
<b>INCOME BEFORE NON-CONTROLLING INTERESTS AND ZAKAT</b>		<b>432,263</b>	608,361	<b>1,219,919</b>	1,619,074
Zakat	8	<b>(44,292)</b>	(44,151)	<b>(137,078)</b>	(124,338)
<b>INCOME BEFORE NON-CONTROLLING INTERESTS</b>		<b>387,971</b>	564,210	<b>1,082,841</b>	1,494,736
Non-controlling interest share in net income of subsidiary		<b>(225,360)</b>	(357,095)	<b>(616,539)</b>	(822,764)
<b>NET INCOME FOR THE PERIOD</b>		<b>162,611</b>	207,115	<b>466,302</b>	671,972
<b>BASIC EARNINGS PER SHARE FROM (SR)</b>	12				
Income from main operations		<b>1.06</b>	1.44	<b>3</b>	3.84
Net income		<b>0.36</b>	0.46	<b>1.04</b>	1.49

The attached notes from 1 to 16 form part of these interim consolidated financial statements

Saudi Industrial Investment Group and Its Subsidiary  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

For the nine months period ended 30 September

(Amounts in SR '000)

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income before zakat and non-controlling interests	1,219,919	1,619,074
<b>Adjustments to reconcile net income before zakat and non-controlling interests to net cash provided by operating activities:</b>		
Depreciation	601,755	603,704
Amortization	10,370	14,030
Provision for end of service benefits, net	28,242	10,047
Share in income of jointly controlled ventures	(241,105)	(344,988)
<b>(Increase)/decrease in operating assets and liabilities:</b>		
Receivables	40,099	21,175
Prepayments and other receivables and employee loans	(22,777)	9,197
Inventories	(119,808)	107,851
Related parties, net	(19,031)	(30,501)
Accounts payable	45,652	(149,865)
Accrued expenses and other accruals	(28,896)	4,427
Zakat paid	(20,786)	(23,703)
<b>Net cash provided by operating activities</b>	<u>1,493,634</u>	<u>1,840,448</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property, plant , equipment and projects under construction	(74,020)	(46,652)
Dividends received from jointly controlled ventures	168,750	187,500
Short term deposits	140,000	29,000
Turnaround costs	(162,713)	(20,686)
<b>Net cash provided by investing activities</b>	<u>72,017</u>	<u>149,162</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of term loans	(648,210)	(567,752)
Repayment of subordinated loan to jointly controlled ventures	(61,875)	(206,250)
Dividends	-	(450,000)
Board of Directors remuneration	-	(1,800)
<b>Net cash used in financing activities</b>	<u>(710,085)</u>	<u>(1,225,802)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>855,566</b>	<b>763,808</b>
Cash and cash equivalents at the beginning of the period	<u>2,505,820</u>	<u>1,798,773</u>
<b>CASH AND CASH EQUIVALENTS AT PERIOD END</b>	<u><u>3,361,386</u></u>	<u><u>2,562,581</u></u>

The attached notes from 1 to 16 form part of these interim consolidated financial statements

Saudi Industrial Investment Group and Its Subsidiary  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

For the nine months period ended 30 September 2016

(Amounts in SR '000)

	<i>Share capital</i>	<i>Statutory reserove</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Non- controlling interests</i>	<i>Total equity</i>
<b><u>For the nine months period ended 30 September 2016</u></b>						
Balance as at 1 January 2016 ( Audited)	4,500,000	599,701	1,989,080	7,088,781	5,398,886	12,487,667
Net income for the period	-	-	466,302	466,302	616,539	1,082,841
<b>Balance as at 30 September 2016</b>	<b>4,500,000</b>	<b>599,701</b>	<b>2,455,382</b>	<b>7,555,083</b>	<b>6,015,425</b>	<b>13,570,508</b>
<b><u>For the nine months period ended 30 September 2015</u></b>						
Balance as at 1 January 2015 ( Audited)	4,500,000	526,987	1,786,459	6,813,446	4,366,296	11,179,742
Net income for the period	-	-	671,972	671,972	822,764	1,494,736
Declared dividends	-	-	(450,000)	(450,000)	-	(450,000)
Board of directors remuneration	-	-	(1,800)	(1,800)	-	(1,800)
<b>Balance as at 30 September 2015</b>	<b>4,500,000</b>	<b>526,987</b>	<b>2,006,631</b>	<b>7,033,618</b>	<b>5,189,060</b>	<b>12,222,678</b>

The attached notes from 1 to 16 form part of these interim consolidated financial statements

# Saudi Industrial Investment Group and Its Subsidiary (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2016 (UNAUDITED)  
(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

## 1. ORGANIZATION AND ACTIVITIES

Saudi Industrial Investment Group (the “Company”) is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration number 1010139946 dated 10 Sha’aban 1416H (corresponding to 1 January 1996G). The Company was formed pursuant to Ministry of Commerce and Industry’s resolution number 610 dated 10 Jumad Al-Ula 1416H (corresponding to 5 October 1995G).

The Company is engaged in enhancing the growth and development of the industrial base of the Kingdom, specifically the petrochemicals industry, opening more channels for the exportation of the products and more ways for the private sector in the Kingdom to enter into other industries by using petrochemical products after obtaining the required licenses from the relevant authorities.

The Company’s share capital amounts to SR 4,500,000,000 and consists of 450,000,000 shares with par value of SR 10 each.

The financial year of the Company and its subsidiaries starts on January 1st and ends on December 31 of each calendar year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared under the historical cost convention on the accruals basis of accounting, in accordance with generally accepted accounting principles applicable in the Kingdom of Saudi Arabia. The Company has applied the same accounting policies and principles for preparing these interim consolidated financial statements with those set out in the audited financial statements for the year ended December 31, 2015. Significant accounting policies adopted in the preparation of these interim consolidated financial statements are summarized below:

The figures in these interim consolidated financial statements are rounded to the nearest thousand.

### *Basis of Consolidation*

For the purposes of consolidation, intra-Group transactions and balances are eliminated between the Company and its subsidiary, and non-controlling interests (the Company’s other partners in the consolidated subsidiary) are calculated based on the subsidiary’s net assets and net profit.

The subsidiary company included in these interim consolidated financial statements is as follows:

	Shareholding %		Country of
	2016	2015	Incorporation
National Petrochemical Company (“Petrochem”)*	50	50	Saudi Arabia

\* The subsidiaries of Petrochem are as follows:

Saudi Polymers Company (“SPCo”)	65	65	Saudi Arabia
Gulf Polymers Distribution Company FZCO (“GPDCo”)	65	65	United Arab Emirates

### **Saudi Polymers Company (“SPCo”)**

SPCo is a Mixed Limited Liability Company, registered in Jubail in the Kingdom of Saudi Arabia under Commercial Registration number 2055008886 dated 29 Dhu Al Qedah, 1428H (corresponding to 9 December, 2007G). SPCo is engaged in production and sale of ethylene, propylene, hexene, gasoline, polyethylene, polypropylene and polystyrene.



# Saudi Industrial Investment Group and Its Subsidiary (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2016 (UNAUDITED)

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

## **Gulf Polymers Distribution Company FZCO (“GPDCo”)**

GPDCo is a Free Zone Limited Liability Company registered in the Dubai Airport Free Zone, in the United Arab Emirates dated 12 Rabi Awal, 1432H (corresponding to 15 February, 2011G). GPDCo's activity is restricted to selling and storing SPCo's polymer products.

### ***Accounting Estimates***

The preparation of interim consolidated financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgments which might affect the valuation of recorded assets, liabilities and the disclosure of contingencies in the notes to the interim consolidated financial statements at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the best information available to the management at the date of issuing the interim consolidated financial statements, the actual end results might differ from those estimates.

Accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years. The significant areas of estimation uncertainty and critical adjustments in applying accounting policies that have the most significant effect on the amounts recognized in the interim consolidated financial statements are as follows:

- estimated useful economic lives and residual values of property, plant and equipment
- estimated costs of long term contracts
- provisions for doubtful debts
- provisions and accruals
- provision for slow moving inventory

### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, balances and deposits with banks, and all highly liquid investments with maturity of 90 days or less from their acquisition date.

### ***Accounts Receivable***

Accounts receivable is stated net of provisions. Provision is made for accounts receivable where recovery is considered doubtful by the management.

### ***Employee Home Ownership Program***

The Company has a home ownership program that offers home ownership opportunities for its Saudi employees. The Company provides interest-free housing loans for eligible employees to purchase or construct their own residential units. Such loans are repayable in installments over a maximum period of 15 years and are secured by mortgages over property purchases. The installments repayable within one year are classified as other receivables under current assets.

### ***Inventories***

Inventories are stated at the lower of cost or net realizable value.

Cost is determined as follows:

Raw materials, spare parts and catalysts	- purchase cost on the weighted average basis.
Work in progress & finished goods	- cost of direct materials and labor plus attributable overheads based on a normal level of activity

Net realizable value is selling price less costs to sell.

# Saudi Industrial Investment Group and Its Subsidiary (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2016 (UNAUDITED)

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

## ***Property, Plant and Equipment***

Property, plant and equipment are stated at cost less accumulated depreciation except the platinum catalyst, which is stated at cost. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method and residual values. Assets sold or otherwise disposed of and the related accumulated depreciation is removed from the accounts at the time of disposal. The estimated operational useful lives are as follows:

	<u>Years</u>
Buildings	25 years
Leasehold improvements	5 years or the term of lease, whichever is shorter
Plant and equipment	5 - 25 years
Office equipment and furniture	4 - 10 years
Computers and communications devices	4 years
Vehicles	4 - 5 years

## ***Projects under Construction***

Projects under construction are accounted for at cost until the asset is ready for its intended use, thereafter they are capitalized in the relevant assets categories. Projects under construction include the cost of contractors, materials, services, borrowing costs, salaries and other direct costs and overheads allocated on a systematic basis. Projects under construction are not depreciated.

## ***Turnaround Costs***

Planned turnaround costs are deferred and amortized over the period until the next planned turnaround. Should unplanned turnaround costs occur prior to the previously envisaged date of a planned turnaround, then the previously unamortized turnaround costs are immediately expensed and the new turnaround costs are deferred and amortized over the period likely to benefit from such costs. The amortization is charged to cost of sales in the consolidated statement of income.

## ***Borrowings and Borrowings Costs***

Borrowings are recognized at the proceeds received less transaction costs (deferred charges – see below). Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowings costs that are directly attributable to the construction of an asset are capitalized up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed, and thereafter, are charged to the consolidated statement of income.

Deferred charges comprise agency and upfront fees on term loans and are amortized over the period of the related loans using the effective rate method. The amortization is capitalized in the cost of the plant under construction, until the project is ready for its intended use, and thereafter, is charged to the consolidated statement of income.

## ***Investment in Jointly Controlled Ventures***

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, i.e. the strategic financial and operating policies and decisions relating to the activities require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each party has an interest are referred to as jointly controlled ventures. The Group's share in the jointly controlled ventures is accounted for under the equity method whereby the Group's share in the jointly controlled ventures is carried in the consolidated balance sheet at cost as adjusted by post-incorporation changes in the Group's share in the net assets of the jointly controlled ventures, less impairment in the value of the investment, if any. The Group's share in the results of jointly controlled ventures is accounted for under the equity method.

# Saudi Industrial Investment Group and Its Subsidiary (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2016 (UNAUDITED)

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

## ***Impairment of Non-Current Assets***

At each balance sheet date, the carrying amounts of non-current assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the interim consolidated statement of income immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim consolidated statement of income.

## ***Accounts Payable and Accruals***

Liabilities are recognized for amounts to be paid in the future for goods or services received or when the risks and rewards of associated with the goods are transferred to the Group, whether claimed by the suppliers or not.

## ***Zakat and Income Tax***

Zakat is provided for in accordance with the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia and on the accruals basis. The provision is charged to the interim consolidated statement of income on an estimated basis during interim periods, and will be accurately calculated in the annual financial statements. Differences, if any, resulting from the final Zakat assessments are adjusted in the year of their finalization. Foreign partners in subsidiaries are subject to income tax, which is included in non-controlling interests in the interim consolidated financial statements, if applicable.

Zakat charge is computed on the basis of the zakat base for the Company and the subsidiaries separately.

## ***Provisions***

Provisions are recognized when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle these obligations are both probable and may be measured reliably.

## ***Employees' End of Service Benefits***

Employees' end of service benefits, required by Saudi Arabian Labor Law, is provided in the interim consolidated financial statements based on the employees' length of service.

## ***Statutory Reserve***

In accordance with the Company's Articles of Association, 10% of annual net income is required to be set aside to form a statutory reserve until such reserve equals 50% of paid-in capital, at which time the Company may discontinue such transfers. The reserve is not currently available for distribution to the Shareholders. Transfers are only made at year ends.

## ***Dividends***

Final dividends are recorded as liabilities at the time of their approval by the Shareholders' General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

# Saudi Industrial Investment Group and Its Subsidiary (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2016 (UNAUDITED)

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

## ***Revenue recognition***

Sales represents the invoiced value of goods supplied by the Company during the period and are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably normally on delivery to the customer.

Other revenue is recognized when incidence.

## ***Expenses***

All direct expenses related to revenue recognition including salaries, wages, cost of goods and indirect costs which are related to revenue, are recorded as cost of revenues. Selling and marketing expenses includes salaries, marketing and distribution expenses and indirect costs which are related to selling and marketing. All other expenses are recorded as general and administrative and expenses. Shared expenses are allocated between cost of revenues and general, administrative and selling distribution expenses, and are made on a consistent basis.

## ***Foreign Currencies***

The Company maintains its accounts in Saudi Riyals. Transactions denominated in foreign currencies are converted into Saudi Riyals at rates prevailing at the dates of such transactions. Monetary assets and liabilities recorded in foreign currencies are converted into Saudi Riyals at rates prevailing on the balance sheet date. Gains and losses from settlement and translation of foreign currencies are included in the interim consolidated statement of income.

Financial statements of foreign subsidiaries of the Company are translated into Saudi Riyals by using exchange rates prevailing on the balance sheet date for assets and liabilities, and average exchange rates for revenues, expenses, gains and losses. The remaining shareholders' equity, except retained earnings, is translated into Saudi Riyals using the prevailing exchange rate at the inception date for each item. Translation differences are recognized as a separate line item within shareholders' equity.

## ***Segment Reporting***

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

## ***Earnings Per Share***

Earnings per share are calculated by using the weighted average number of shares outstanding during the period. The Company's share capital amounting to SR 450 million of common share.

## ***Fair Value***

The fair values of commission-bearing items are estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

### **3. INTERIM RESULTS**

All necessary adjustments have been made by the Company's management to present fairly the interim consolidated financial statements for the Company and the results of its interim consolidated operations. The results of operations for the interim period may not be an accurate indication of the actual consolidated results for the full year.

### **4. CASH AND CASH EQUIVALENTS**

Banks balances of Saudi Polymers Company (subsidiary of Petrochem Company) amounting to SR 2.809 million (30 September 2015 SR 2.362 million) are assigned as security against loan facilities from public Investment Fund and consortium of commercial banks (note 9).

Saudi Industrial Investment Group and Its Subsidiary  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2016 (UNAUDITED)

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

**5. RELATED PARTIES TRANSACTIONS**

The following are the details of major related parties' transactions during the period ended 30 September:

<u>Related party</u>	<u>Nature of transaction</u>	<u>Amount of transaction</u>	
		<u>2016</u>	<u>2015</u>
Saudi Chevron Phillips Company (affiliated Company)	Sales	<b>108,757</b>	139,759
	Purchases	<b>(20,980)</b>	(37,037)
	Cost of sales - services provided	<b>(208,158)</b>	(208,503)
	General & administration expenses - services provided	<b>(84,706)</b>	(81,270)
Jubail Chevron Phillips Company (affiliated Company)	Sales	<b>103,538</b>	59,220
	Purchases	<b>(739,503)</b>	(649,414)
Chevron Phillips Chemical International Sales LLC (affiliated Company)	General & administration expenses - services provided	<b>(78,132)</b>	(130,646)
	Marketing fees	<b>(297,656)</b>	(223,684)

The amounts due from and due to related parties is as follows:

**Amounts due from related parties:**

	<i>As of September 30,</i>	
	<i>2016</i>	<i>2015</i>
Saudi Chevron Philips Company (jointly controlled venture)	<b>185,133</b>	180,090
Jubail Chevron Philips Company (jointly controlled venture)	<b>41,109</b>	36,160
Petrochemical Conversion Company (jointly controlled venture)	<b>6</b>	6
	<b>226,248</b>	216,256

**Amounts due to related parties:**

	<i>2016</i>	<i>2015</i>
Saudi Chevron Philips Company (jointly controlled venture)	<b>92,123</b>	54,519
Jubail Chevron Philips Company (jointly controlled venture)	<b>52,020</b>	67,160
Chevron Philips Chemical International sales LLC (affiliated Company)	<b>44,089</b>	73,890
	<b>188,232</b>	195,569

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**6. INVENTORIES**

	<u>2016</u>	<u>2015</u>
Finished goods	<b>582,047</b>	632,739
Spare parts	<b>386,610</b>	322,170
Raw materials	<b>1,367</b>	3,525
Catalysts	<b>168,595</b>	176,854
	<b><u>1,138,619</u></b>	<u>1,135,288</u>

**7. INVESTMENTS IN JOINTLY CONTROLLED VENTURES**

Investments in jointly controlled ventures comprise the Company's investments in the following companies which are incorporated as Limited Liability Companies and operating in the Kingdom of Saudi Arabia:

<u>Joint venture</u>	<u>Shareholding %</u>
Saudi Chevron Philips Company ("SCP")	50
Jubail Chevron Philips Company ("JCP")	50
Petrochemical Conversion Company ("PCC") (*)	50

The following summarize the investments movement during the year ended 30 September:

	<u>2016</u>	<u>2015</u>
At the beginning of the Period	<b>3,209,814</b>	3,154,039
Share of income	<b>241,105</b>	344,988
Dividends	<b>(168,750)</b>	(187,500)
At the end of the Period	<b><u>3,282,169</u></b>	<u>3,311,527</u>

**8. ZAKAT**

The Company has filed zakat returns with the Department of Zakat and Income Tax ("DZIT") for all prior years up to 2014. The DZIT has raised zakat assessments up to 2006 and the Company has agreed on DZIT's assessments up to 2001.

- The Company has filed an appeal against the assessments for the years 2002 and 2003 before the Higher Appeal Committee against certain items disallowed by the DZIT which resulted in a difference of SR 24.4 million. The Higher Appeal Committee issued its ruling, reducing the claim amount to SR 12.4 million and the Company has filed an appeal against the ruling before the Board of Grievances.
- The Company also appealed before The Preliminary Appeal Committee against zakat assessments for the years 2004 to 2006 against disallowance of certain items which resulted in a difference of SR 17.5 million. The Committee issued its ruling, reducing the claim to SR 16.8 million. The Company has paid the amount of SR 5.7 million and appealed before the Higher Appeal Committee against the amount of SR 11.1 million. As per the management's assessment, the Company has made adequate provision against items under appeals.

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As for Petrochem, Zakat returns have been filed with the Department of Zakat & Income Tax (DZIT) up to the year 2015, zakat has been settled accordingly and the Company has received a restricted certificate. A number of assessments have been issued by the DZIT:

- DZIT has issued an assessment to the Company for the year 2014 claiming additional Zakat of SR 52.5 million. The Company has provided an appeal against the claim within the allowed period. The management believes that the provision made in the consolidated financial statements is adequate to cover any differences that may arise from this claim.
- DZIT has issued an assessment to the Company for the year 2012 claiming additional Zakat of SR 35.5 million. The Company has provided an appeal against the claim within the legal period. Since then, the DZIT has claimed for the years of 2011, 2012 and 2013, which combined, resulted in a difference of SR 95.5 million. This claim includes the 2012 difference that was appealed against by the Company. Petrochem is working on appealing against this claim during the allowed period.
- The DZIT Elementary Committee has issued a decision for the year 2010 and claimed an additional Zakat amount of SR 74.42 million. The Elementary Committee has issued its ruling, reducing the claim by the amount of SR 74.1 million and paying Zakat for the mentioned year with an amount of SR 241.485. The Company and the DZIT appealed against the ruling before the Higher Appeal Committee. The management believes that the ultimate outcome of this appeal will be in the favor of Petrochem.

## **9. TERM LOANS**

The balance of term loans represents funding from the term facilities obtained by SPCo (“the Borrower”) from the syndicate of local and foreign commercial banks, Public Investment Fund (“PIF”) and Saudi Industrial Development Fund (“SIDF”), to finance its projects.

The loans are secured by pledges over the machinery, equipment and bank accounts of the project. These loans carry commission at normal commercial rates with identical risks. The Borrower is required to comply with covenants stipulated for in all the loan facility agreements.

## **10. SUKUK**

On 25 Shaban 1435H (corresponding to 23 June 2014 G), Petrochem issued Sukuk amounting to SR 1.2 billion at par value of SR 1,000,000 each with no discount or premium. The Sukuk issuance bears a variable rate of return at SIBOR plus 1.7 % margin, payable semi-annually. The Sukuk is due at maturity at par value on its expiry date of 20 Shawal 1440 H (corresponding to 23 June 2019 G).

The Sukuk balance in these interim consolidated financial statements amounting to SR 1,070 million represents the value of Sukuk issued after eliminating the value of the Group’s investment in these Sukuk.

## **11. SUBORDINATED LOAN FROM A NON-CONTROLLING PARTNER**

The subordinated loan from Arabian Chevron Phillips Petrochemical Company Limited is a commission-free loan granted to SPCo; its repayment is subject to certain covenants being met and minimum cash balances being maintained by SPCo under the terms of the commercial loan facility (note 9).

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**12. EARNINGS PER SHARE**

The weighted average of outstanding common shares for the three and nine months period then ended 30 September 2016 and 2015 is and 450,000,000 shares. The loss per shares from the other activities for the three months was SR (0.70) and SR (0.46) respectively and for the nine months SR (1.96) and SR (2.35) respectively, it is calculated based on dividing total financial charges, other income, Zakat and Non-controlling interests share in net income of the subsidiaries on the average outstanding common shares.

**13. SEGMENTAL INFORMATION**

Results and balances are attributable to the business segment approved by management to be used as a basis for the financial reporting and are consistent with the internal reporting process.

The Group's operations consist of the following business segments:

- Petrochem

Engaged in the development, establishment, operation, management and maintenance of petrochemical, gas, petroleum and other industrial plants, and wholesale and retail trading in petrochemical materials and products.

- Saudi Chevron Philips Company ("SCP")

Engaged in producing and selling of aromatics, solvents and cyclohexane.

- Jubail Chevron Philips Company ("JCP")

Engaged in manufacturing and selling styrene, mogas blend stock, aromatic benzene, fuel oil, ethyl benzene, ethylene, propylene, liquefied petroleum gas and aromax feed.

- Petrochemical Conversion Company ("PCC")

Engaged in nylon 6.6 production, nylon compounds, and other by-products.

**For the period ended 30 September 2016**

	<b>SCP</b>	<b>JCP</b>	<b>Petrochem</b>	<b>PCC</b>	<b>Head office</b>	<b>Elimination and reconciliation of financial statements on consolidation</b>	<b>Total</b>
<b>Net sales</b>			<b>4,903,176</b>				<b>4,903,176</b>
<b>Gross income</b>	-	-	<b>1,557,070</b>	-	-	-	<b>1,557,070</b>
<b>Net income (loss)</b>	<b>168,081</b>	<b>221,192</b>	<b>466,302</b>	<b>(146,854)</b>	<b>(11,947)</b>	<b>(230,472)</b>	<b>466,302</b>
<b>Total assets</b>	-	-	<b>22,734,137</b>	-	<b>7,684,164</b>	<b>(3,293,513)</b>	<b>27,124,788</b>
<b>Total liabilities</b>	-	-	<b>13,556,595</b>	-	<b>129,081</b>	<b>(131,396)</b>	<b>13,554,280</b>



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*For the period ended 30 September 2015*

	SCP	JCP	Petrochem	PCC	Head office	Elimination and reconciliation of financial statements on consolidation	Total
Net sales	-	-	5,649,481	179,525	-	-	5,649,481
Gross income	-	-	1,935,527	1,388,901	-	-	1,935,527
Net income (loss)	179,525	231,545	728,330	(66,081)	(37,174)	(364,173)	671,972
Total assets	1,388,901	1,082,323	22,645,190	840,302	7,160,506	(6,291,960)	26,825,262
Total liabilities	-	-	14,644,336	-	126,886	(168,638)	14,602,584

**14. CAPITAL COMMITMENTS**

The balance of unused capital expenditure approved by the Board of directors in connection with the construction of the additional units and facilities for SPCo's plant is SR 69 million (30 September 2015: SR 97.5 million).

**15. CONTINGENT LIABILITIES**

During the normal course of business, the Group's bankers have issued, on its behalf, bank guarantees amounting to SR 893 million (30 September 2015: SR 2.6 billion), which included SR 857.3 million (30 September 2015: SR 860 million) from SPCo to the benefit of Saudi Aramco Company for the feedstock cost.

During 2010, Petrochem and the non-controlling partner resolved to increase the capital of SPCo by SR 3,394 million through the conversion of subordinated shareholder loans which may result in the non-controlling partner incurring additional costs as a result of a reduction in distributable cash from SPCo from the conversion of the shareholder loans. The management of Petrochem decided to keep the non-controlling partner whole by agreeing to make annual payments to the non-controlling partner in the future, as needed, based on the future earnings of SPCo and the non-distributable cash from the capital increase.

**16. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to reflect the current year presentation.