Saudi International Petrochemical Company

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
With Independent Auditors' Report

EXCELLENCE everywhere

Saudi International Petrochemical Company
(A Saudi Joint Stock Company)
Statement of Directors' responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2018

The following statement which should be read in conjunction with independent auditors' responsibilities stated in the independent auditors report, set out on pages 1 to 7, is made with view to distinguish the responsibilities of management and those of the independent auditors in relation to the consolidated financial statement of Saudi International Petrochemical Company (Sipchem) or "the Company" & its subsidiaries together referred to as ("the Group).

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2018, the results of its operation, changes in equity and cash flow for the year then ended, in accordance with International Financial Reporting Standard "IFRS" issued by the International Accounting Standards Board ("IASB"), as endorsed in the Kingdom of Saudi Arabia by Saudi Organization for Certified Public Accountants (SOCPA).

In preparing the consolidated financial statements, the management is responsible for:

- Selecting suitable accounting policies and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS and other pronouncements that are issued by the Saudi Organization for Certified Public Accountants (SOCPA), as endorsed in the Kingdom of Saudi Arabia, have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing and presenting the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group and the companies will continue its business for the foreseeable future.

The management is also responsible for:

- Taking steps to safe-guard the assets of the group;
- Maintaining statutory accounting records in compliance with local legislation and IFRS in the respective jurisdiction in which the Group operates;
- Designing, implementing and maintaining an effective system of internal controls throughout the group; and
- Detecting and preventing fraud and other irregularities

The consolidated financial statements for the year ended 31 December 2018 appearing on pages 8 to 74, were approved and authorized for issue by the Board of Directors on 7 February 2019 and signed on their behalf by:

Ahmad Al-Ohali	Paul Jacobs
Chief Executive Officer and Managing Director	Vice President Corporate Finance

7 February 2019G
Corresponding to: 2 Jumada Al Akhir 1440H
Al Khobar, Kingdom of Saudi Arabia

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Independent auditors' report to the Shareholders of Saudi International Petrochemical Company

Opinion

We have audited the consolidated financial statements of Saudi International Petrochemical Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

Independent auditors' report to the Shareholders of Saudi International Petrochemical Company *(continued)*

Key audit matter (continued)

First Time adoption of IFRS 9 – "Financial Instruments"

See Note 2.3 (k) and 2.4 (B) to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group adopted IFRS 9 on its effective date of 1 January 2018 superseding the requirements of IAS 39 "Financial Instruments – recognition and measurement". Management has assessed that the key changes arising from adoption of IFRS 9 are related to the recognition and measurement of impairment allowance on financial assets carried at amortized cost. The Group assesses at each reporting date whether the financial assets carried at amortized cost are credit impaired, and consequently measures impairment allowances based on the Expected Credit Loss (ECL) model as envisaged in IFRS 9, rather than the incurred losses model detailed in IAS 39. The Group's management has applied the simplified expected credit loss ("ECL") model to determine the allowance for impairment of trade receivables. Further, the Group applied the exemption provided by IFRS 9 not to restate the comparative periods as a result of adoption of IFRS 9. The ECL model involves the use of various assumptions, covering both future macro-economic factors and study of historical trends. As at 31 December 2018 the carrying value of trade receivables amounted to SR 750.6 million (2017: 984.8 million), and the allowance for impairment of trade receivables amounted to SR 90.7 million (2017: 108 million). We considered this as a key audit matter due to the judgments and estimates involved in the application of the expected credit loss model.	We performed the following procedures in relation to the implementation of IFRS 9: • Reviewed management's assessment of the impact of IFRS 9 in terms of the classification and measurement of its financial assets and liabilities, and understood the approach taken towards implementation. • Considered and evaluated the validity of management's conclusion that the main area of impact was in respect of trade receivables impairment, using our experience and knowledge of entities operating in similar industries. • Ensured that the ECL model prepared by management is compliant with the requirements of IFRS 9, and tested the arithmetical accuracy of the model; • Tested key assumptions, including those related to future economic events that are used to calculate the likelihood of default and the expected loss on default; • Involved our subject matter specialist to review the methodology used in the ECL model; and compared with accepted best practice. • We also evaluated the adequacy of the disclosures included in the accompanying consolidated financial statements.

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Independent auditors' report to the Shareholders of Saudi International Petrochemical Company *(continued)*

Key audit matter (continued)

First Time adoption of IFRS 15 – "Revenue from contracts with customers"

See Note 2.3 (d) and 2.4 (A) to the consolidated financial statements.

The Key audit matter	How the matter was addressed in our audit
The Group adopted IFRS 15 "Revenue from contracts with customers" with effect from 1 January 2018 superseding the requirements of IAS 18 "Revenue". The application and adoption of IFRS 15 is complex. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. Management performed a detailed analysis of each type of revenue contract to identify differences between the requirements of the two standards, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required. As a result of management's analysis, the key changes arising from adoption of IFRS 15 are related to the recognition and measurement of revenue for specialized products, where revenue recognition has changed from point in time to over time recognition. However, the change has no material impact on the financial statements. The Group applied the exemption provided by IFRS 15 Revenue from Contracts with Customers not to restate the comparative periods as a result of the IFRS 15 adoption. We considered this as a key audit matter as revenue is a key financial statement caption and performance metric and the application of IFRS 15 can require judgment by the management and the use of significant assumptions.	We performed the following procedures in relation to the implementation of IFRS 15: • Reviewed management's detailed analysis of its various revenue streams and how the new accounting standard impacts the Group; • Gained an understanding of management's approach to the implementation of any changes to the accounting policy; • Obtained an understanding of the nature of revenue contracts used by the Group for each significant revenue stream, tested a sample of representative sales contracts to confirm our understanding and assess whether or not management's application of IFRS 15 requirements was in accordance with the accounting standard; • Tested relevant processes and controls established by management to ensure appropriate recognition of revenue; • Evaluated the appropriateness of provisional price adjustments for the unsold inventory with marketers as at the end of the year; • Performed cut-off procedures to ensure that revenue is recognized when the control is transferred to the customer and in the correct accounting period. • Evaluated the adequacy of the financial statement disclosures.

Independent auditors' report to the Shareholders of Saudi International Petrochemical Company (continued)

Key audit matter (continued)	
Impairment testing of Non-current assets	
See Note 2.3 (I) (vi) and 12 to the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
As at 1 January 2016, the date of transition to IFRS, the Group determined that the recoverable amounts of two of its cash generating units (CGUs) namely International Diol Company ("IDC") and Polybutylene terephthalate ("PBT") based on the CGU's value in use calculated by discounting the future cash flows using a pre-tax discount rate of 10%, were less than their carrying amount. This resulted in an impairment loss of SR 400 million in IDC and SR 300 million in PBT. During the current year, management reassessed the impairment of these CGU's. The recoverable amount of the CGUs, which is based on the higher of the value in use or the fair value less costs to sell, has been derived from discounted forecast cash flow models. These models use several key assumptions, including estimates of future sales volumes and prices, operating costs, terminal value growth rates and the weighted average cost of capital. The management of the Company has used external experts to estimate the forecasted prices of its products. Impairment testing of non-current assets is a key audit matter due to the complexity of the accounting requirements and the significant judgements required in determining the assumptions to be used to estimate the recoverable amount.	We performed the following procedures to address the key audit matter: • Assessed the methodology used by the management to determine a recoverable value based on value in use and compared to that required by IAS 36. We also tested the arithmetical accuracy of the model used. • Engaged our specialist to evaluate the structure of CGUs as reported by management and ensured that the structure is compliant with the requirements of IAS 36. • Evaluated the appropriateness of the assumptions applied to key inputs such as sales volumes and prices, operating costs, inflation and long-term growth rates, which included comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the client and the industry; • Involved our own valuation specialist to assist in evaluating the appropriateness of the discount rates applied, which included comparing the weighted average cost of capital with sector averages for the relevant markets in which the CGUs operate; • Performed our own sensitivity analysis, which included assessing the effect of reasonably possible reductions in growth rates and forecast cash flows to evaluate the impact on the cash flow forecasts for the IDC and PBT CGUs; and • Evaluated the adequacy of the disclosures in the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivities.

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Independent auditors' report to the Shareholders of Saudi International Petrochemical Company (continued)

Key audit matter (continued)

Compliance with debt covenants

See Note 16 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
During the year, the Group assessed the status of its compliance with applicable financial covenants and event of default. Certain expected covenants breaches were identified and the management of the Group communicated with the respective financial institutions, prior to year end, for the waiver of covenants as at 31 December 2018. Financial covenants compliance is a key audit matter as the Group's credit facilities and borrowing arrangements are subject to several covenants. Moreover, this is also a part of management's assessment of the going concern assumption.	We performed the following procedures to address the key audit matter: • Reviewed the financing agreements and obtained an understanding of key covenants including default conditions; • Obtained from management of the Group, the status of covenant compliance and corroborated the information received from the management with covenant compliance calculations performed during course of our audit; • Obtained waiver letters from the financial institutions for covenants that were not complied with; and • Evaluated the adequacy of the financial statement disclosures, including proper classification of loans and borrowing in current and non-current liabilities.

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Independent auditors' report to the Shareholders of Saudi International Petrochemical Company *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements.

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. The Group's audit committee is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Independent auditors' report to the Shareholders of Saudi International Petrochemical Company *(continued)*

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Saudi International Petrochemical Company ("the Company") and its subsidiaries ("the Group").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners

Certified Public Accountants

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KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Abdulaziz Abdullah Alnaim

License No: 394

Al Khobar, 7 February 2019G

Corresponding to: 2 Jumada Al Akhir 1440H

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
EXPRESSED IN SAUDI RIYALS

	Note	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	12	**11,274,556,019**	11,207,724,480
Intangible assets	13	**352,947,636**	386,244,686
Deferred tax assets	11	**9,871,687**	9,565,990
Employees' home ownership program	14	**681,202,775**	709,123,201
Goodwill	15	**29,543,923**	29,543,923
Total non-current assets		**12,348,122,040**	12,342,202,280
Current assets			
Inventories	17	**806,926,521**	668,354,907
Trade receivables	18	**659,894,597**	876,778,008
Current portion of employees' home ownership program	14	**32,063,330**	33,472,511
Prepayments and other current assets	19	**197,562,118**	83,057,749
Short term investments	16	**321,832,601**	253,532,643
Cash and cash equivalents	20	**1,013,514,234**	1,722,754,310
Total current assets		**3,031,793,401**	3,637,950,128
Total assets		**15,379,915,441**	15,980,152,408
Equity			
Equity attributable to the owners of the Company:			
Share capital	21	**3,666,666,660**	3,666,666,660
Share premium		**35,845,318**	35,222,266
Treasury shares		**(6,278,010)**	(7,831,990)
Statutory reserve	21	**1,205,397,395**	1,205,397,395
Reserve for results of sale / purchase of shares in subsidiaries	21	**12,849,799**	12,949,042
Foreign currency translation reserve		**(9,060,608)**	(7,761,813)
Share based payment transactions reserve	22	**2,619,506**	2,259,635
Retained earnings		**1,010,867,230**	795,805,766
Total owners' equity		**5,918,907,290**	5,702,706,961
Non-controlling interests	4	**1,206,078,868**	1,508,257,603
Total equity		**7,124,986,158**	7,210,964,564
Liabilities			
Non-current liabilities			
Long term bank loans and borrowings	16	**4,803,323,273**	5,439,699,614
Sukuk	16	**999,908,219**	998,136,277
Long term advances from non-controlling shareholders	16	**93,780,217**	87,920,236
Deferred revenue	28	**25,301,250**	35,421,750
Deferred tax liabilities	11	**35,319,260**	28,458,349
Employees' benefits	24	**269,449,010**	242,411,799
Decommissioning liability	25	**94,288,065**	86,995,365
Other non-current liabilities		**8,556,086**	8,556,086
Total non-current liabilities		**6,329,925,380**	6,927,599,476

EXPRESSED IN SAUDI RIYALS

	31 December 2018	31 December 2017
Cash flow from operating activities		
Profit before zakat and income tax for the year	**867,066,913**	671,186,604
Non-cash adjustments to reconcile profit before Zakat and income tax to net cash flow:		
Depreciation of property, plant and equipment	**754,914,876**	666,418,603
Amortization of intangible assets and deferred costs	**96,996,488**	53,390,258
Amortization of deferred revenue	**(10,120,500)**	(10,120,500)
Provision for employees' benefits	**34,746,391**	32,260,094
Provision for employees' home ownership receivables, net	**(24,303,609)**	4,749,312
Loss on property, plant and equipment – written off	**4,167,129**	1,361,233
Equity settled share based payments	**359,871**	791,476
Net foreign exchange difference	**(1,551,957)**	(915,963)
Finance income	**(28,419,990)**	(22,559,721)
Finance cost	**262,713,587**	298,162,233
	1,956,569,199	1,694,723,629
Changes in:		
Trade receivables	**216,883,411**	(253,210,468)
Inventories	**(129,526,616)**	86,047,827
Prepayments and other current assets	**(117,006,958)**	7,172,649
Accrued expenses, trade and other payables	**(137,209,914)**	160,807,375
Employee benefits paid	**(16,301,314)**	(5,285,780)
Proceeds from Employees' home ownership programs	**32,053,989**	38,893,837
Zakat and income tax paid	**(144,101,792)**	(35,514,149)
Net cash generated from operating activities	**1,661,360,005**	1,693,634,920
Cash flow from investing activities		
Additions to property, plant and equipment and employees' home ownership program	**(876,891,811)**	(634,692,062)
Additions to Intangibles	**(186,942)**	(2,236,549)
Additions to short term investments, net	**(68,299,958)**	(229,859,715)
Purchase of additional shares in subsidiaries	**(262,500,000)**	-
Finance income received	**30,922,579**	17,459,347
Net cash used in investing activities	**(1,176,956,132)**	(849,328,979)
Cash flow from financing activities		
Proceeds from long term loans and borrowings	**900,000,000**	649,995,545
Repayment of long term loans and borrowings	**(1,231,740,686)**	(1,035,443,265)
Repayments of short term loans	**-**	(200,000,000)
Net change in advances from non-controlling shareholders	**(15,567,016)**	9,117,305
Net change in share premium account	**623,052**	565,957
Movement in treasury shares, net	**1,553,980**	(241,990)
Dividend paid to shareholders	**(366,666,666)**	-
Dividends paid to non-controlling shareholders	**(220,163,326)**	(87,192,165)
Interest paid	**(261,936,449)**	(282,111,177)
Net cash used in financing activities	**(1,193,897,111)**	(945,309,790)
Net change in cash and cash equivalents	**(709,493,238)**	(101,003,849)
Cash and cash equivalents at 1 January	**1,722,754,310**	1,822,689,059
Effect of exchange rate fluctuations	**253,162**	1,069,100
Cash and cash equivalents at 31 December	**1,013,514,234**	1,722,754,310

EXPRESSED IN SAUDI RIYALS

	Note	31 December 2018	31 December 2017
Current liabilities			
Current portion of long term bank loans and borrowings	16	**1,196,631,553**	879,102,236
Current portion of deferred revenue	28	**10,120,500**	10,120,500
Trade and other payables	26	**183,578,427**	196,924,708
Accrued expenses and other current liabilities	27	**439,021,720**	591,580,737
Zakat and income tax payable	9	**95,651,703**	130,654,399
Short term advances from non-controlling shareholders	16	**-**	33,205,788
Total current liabilities		**1,925,003,903**	1,841,588,368
Total liabilities		**8,254,929,283**	8,769,187,844
Total liabilities and equity		**15,379,915,441**	15,980,152,408

The consolidated financial statements appearing on pages 8 to 74 were approved by the Board of Directors of the Company on 7 Februaury 2019, and have been signed on their behalf by:

Abdulaziz Al-Zamil Chairman	Ahmad Al-Ohali Chief Executive Officer and Managing director	Paul Jacobs Vice President Corporate Finance

The accompanying notes 1 through 33 form an integral part of these consolidated financial statements

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
A SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018
EXPRESSED IN SAUDI RIYALS

	Note	31 December 2018	31 December 2017
Revenue	3	5,035,801,237	4,459,491,037
Cost of sales		(3,401,023,029)	(3,033,436,886)
Gross profit		1,634,778,208	1,426,054,151
Selling and distribution expenses	6	(196,873,897)	(200,408,418)
General and administrative expenses	7	(342,127,247)	(290,948,584)
Operating profit		1,095,777,064	934,697,149
Finance income		28,419,990	22,559,721
Finance cost	8	(262,713,587)	(298,162,233)
Other income and expenses, net	5	9,750,575	13,453,200
Write-off of property, plant and equipment	12	(4,167,129)	(1,361,233)
Profit before zakat and income tax		867,066,913	671,186,604
Zakat and income tax expense	9	(115,654,310)	(83,836,261)
Profit for the year		751,412,603	587,350,343
Profit attributable to:			
Equity holders of the Company		582,952,319	437,393,221
Non-controlling interests		168,460,284	149,957,122
Total profit for the year		751,412,603	587,350,343
Earnings per share:			
Basic earnings per share attributable to the equity holders of Company	10	1.59	1.19

Abdulaziz Al-Zamil
Chairman

Ahmad Al-Ohali
Chief Executive Officer and Managing director

Paul Jacobs
Vice President Corporate Finance

The accompanying notes 1 through 33 form an integral part of these consolidated financial statements

EXPRESSED IN SAUDI RIYALS

	Note	31 December 2018	31 December 2017
Profit for the year		**751,412,603**	587,350,343
Other comprehensive income items that will be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		**(1,298,795)**	153,136
Net total other comprehensive income items that will be reclassified to profit or loss in subsequent periods:		**(1,298,795)**	153,136
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement (gains)/losses on defined benefit plan	24	**(1,077,916)**	342,813
Net total other comprehensive income items that will not be reclassified to profit or loss in subsequent periods:		**(1,077,916)**	342,813
Total other comprehensive income for the year		**(2,376,711)**	495,949
Total comprehensive income for the year		**749,035,892**	587,846,292
Total comprehensive income attributable to:			
Equity holders of the Company		**580,429,335**	437,553,177
Non-controlling interests		**168,606,557**	150,293,115
Total comprehensive income for the year		**749,035,892**	587,846,292

Abdulaziz Al-Zamil
Chairman

Ahmad Al-Ohali
Chief Executive Officer and Managing director

Paul Jacobs
Vice President Corporate Finance

The accompanying notes 1 through 33 form an integral part of these consolidated financial statements

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
A SAUDI JOINT STOCK COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
EXPRESSED IN SAUDI RIYALS

Sipchem
EXCELLENCE everywhere

	Attributable to the owners of the Company										
	Share capital	Share premium	Treasury shares	Statutory reserve	Reserve for results of sale / purchase of shares in subsidiaries	Retained earnings	Foreign currency translation reserve	Shares based payment transaction reserve	Total	Non-controlling interest	Total
As at 1 January 2017	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 year	-	-	-	-	-	437,393,221	-	-	437,393,221	149,957,122	587,350,343
Other comprehensive income	-	-	-	-	-	6,820	153,136	-	159,956	335,993	495,949
Total comprehensive income	-	-	-	-	-	437,400,041	153,136	-	437,553,177	150,293,115	587,846,292
Additional capital contributed	-	-	-	-	-	-	-	-	-	24,000,000	24,000,000
Net change in share premium account	-	565,957	-	-	-	-	-	791,476	1,357,433		1,357,433
Repurchase of treasury shares	-	-	(241,990)	-	-	-	-	-	(241,990)		(241,990)
Transfer to statutory reserve	-	-	-	-	-		-	-		(87,192,165)	(87,192,165)
As at 31 December 2017	3,666,666,660	35,222,266	(7,831,990)	1,205,397,395	12,949,042	795,805,766	(7,761,813)	2,259,635	5,702,706,961	1,508,257,603	7,210,964,564

	Attributable to the owners of the Company										
	Share Capital	Share premium	Treasury shares	Statutory reserve	Reserve for results of sale / purchase of shares in subsidiaries	Retained earnings	Foreign currency translation reserve	Shares based payment transaction reserve	Total	Non-controlling interest	Total
As at 1 January 2018	**3,666,666,660**	**35,222,266**	**(7,831,990)**	**1,205,397,395**	**12,949,042**	**795,805,766**	**(7,761,813)**	**2,259,635**	**5,702,706,961**	**1,508,257,603**	**7,210,964,564**
Profit for the year	-	-	-	-	-	**582,952,319**	-	-	**582,952,319**	**168,460,284**	**751,412,603**
Other comprehensive income	-	-	-	-	-	**(1,224,189)**	**(1,298,795)**	-	**(2,522,984)**	**146,273**	**(2,376,711)**
Total comprehensive income	-	-	-	-	-	**581,728,130**	**(1,298,795)**	-	**580,429,335**	**168,606,557**	**749,035,892**
Purchase of additional shares in subsidiary (1,2)	-	-	-	-	**(99,243)**	-	-	-	**(99,243)**	**(262,400,757)**	**(262,500,000)**
Advances from partners - discounting	-	-	-	-	-	-	-	-	-	**11,778,791**	**11,778,791**
Net change in share premium account	-	**623,052**	-	-	-	-	-	**359,871**	**982,923**	-	**982,923**
Repurchase of treasury shares	-	-	**1,553,980**	-	-	-	-	-	**1,553,980**	-	**1,553,980**
Dividends	-	-	-	-	-	**(366,666,666)**	-	-	**(366,666,666)**	**(220,163,326)**	**(586,829,992)**
As at 31 December 2018	**3,666,666,660**	**35,845,318**	**(6,278,010)**	**1,205,397,395**	**12,849,799**	**1,010,867,230**	**(9,060,608)**	**2,619,506**	**5,918,907,290**	**1,206,078,868**	**7,124,986,158**

Abdulaziz Al-Zamil
Chairman

Ahmad Al-Ohali
Chief Executive Officer and Managing director

Paul Jacobs
Vice President Corporate Finance

The accompanying notes 1 through 33 form an integral part of these consolidated financial statements

EXPRESSED IN SAUDI RIYALS

	31 December 2018	31 December 2017
Non-cash transactions		
Transfer from Capital Work in Progress (CWIP) to Sipchem Home Ownership Program (SHOP)	-	773,330,609
Transfer from CWIP to intangible assets	**23,930,890**	307,980,334
Amortization of deferred cost on Sukuk	**1,771,942**	733,313
Discounting impact on decommissioning liability	**7,292,700**	4,142,637
Finance cost on employees' end of service benefits	**7,514,222**	7,438,520

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EXPRESSED IN SAUDI RIYALS

1. CORPORATE INFORMATION

Saudi International Petrochemical Company “Sipchem” or “the Company” is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010156910 dated 14 Ramadan, 1420, corresponding to 22 December 1999. The Company's head office is in 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 especially those related to chemical and petrochemical industries. The Company incurs costs on projects under development and subsequently establishes a separate Company for each project that has its own commercial registration. Costs incurred by the Company are transferred to the separate companies when they are established.

As of 31 December, the Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as “the Group”):

Subsidiaries	**Ownership percentage at 31 December**	
	2018	2017
International Methanol Company ("IMC")	**65%**	65%
International Diol Company ("IDC")	**53.91%**	53.91%
International Acetyl Company ("IAC") (1.1)	**87%**	87%
International Vinyl Acetate Company (“IVC”) (1.1)	**87%**	87%
International Gases Company (" IGC") (1.2)	**97%**	72%
Sipchem Marketing Company ("SMC')	**100%**	100%
International Utility Company ("IUC")	**68.58%**	68.58%
International Polymers Company ("IPC")	**75%**	75%
Sipchem Chemical Company ("SCC")	**100%**	100%
Sipchem Europe Cooperative U.A and its subsidiaries	**100%**	100%
Gulf Advance Cable Insulation Company (GACI) (1.3)	**50%**	50%
Saudi Specialized products Company (SSPC)	**75%**	75%
Sipchem Asia PTE Ltd. (1.4)	**100%**	100%
Sipchem Specialized Technology Company (1.5)	**100%**	-

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

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

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

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

The principal activities of SMC and its subsidiary Sipchem Europe Cooperative U.A are to provide marketing services for the products manufactured by the group companies and other petrochemical products.

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

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.

1. CORPORATE INFORMATION (continued)

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

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

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

1.1 In February 2016, the Group acquired an additional 11% shares from a minority shareholder (Ikarus Petroleum Industries Company) in each of IAC and IVC, increasing its ownership from 76% to 87% for a consideration of SR 375.3 million. The Group recognized a reduction in non-controlling interests of SR 339.4 million and a reduction of SR 35.9 million in the equity attributable to the shareholders. Moreover, on 22 June 2009, one of the shareholders agreed to contribute less than required contribution towards shareholders advances and Sipchem has agreed to contribute more than its required level to support the project. As a result, the Group's effective percentage of interest in both the companies became 89.52%.

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

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

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

1.5. During 2018, Sipchem has established Sipchem Specialized Technology Company which is registered in Riyadh. As at 31 December 2018, the share capital of aforementioned Company amounting to SR 5,000,000 has not yet paid. The principal activity of this Company is the manufacturing of metal equipment and spare parts.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

These consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA ("IFRSs").

These consolidated financial statements have been prepared on a historical cost basis, using accrual basis of accounting unless stated otherwise, except for certain short term investments which are measured at fair value and defined benefit obligation which is measured at projected unit credit method. The financial statements are presented in Saudi Riyals.

Details of the Group's significant accounting policies are included in note 2.3.

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

2.2. Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- 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 year 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 group’s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Non-Controlling Interests (NCI) are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition.

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

2.2. Basis of consolidation (continued)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

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

2.3. 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 recognized 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 recognized in the income statement.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized 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 recognized 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 recognized 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.

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

2.3. Summary of significant accounting policies (continued)

b) Current and 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 realized or intended to sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized 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 utilize the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized 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.

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

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

2.3. Summary of significant accounting policies (continued)

c) Fair value measurement (continued)

External valuer are involved for valuation of significant assets, whenever required. The involvement of external valuer 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 valuer, 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 Group'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 from contract with customers

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

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

Sale of goods

i) Direct sales - Marketers/Off takers

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

Marketers/off takers obtain control of the products when the goods are delivered or shipped to them (i.e. at the time of placing the goods on the vessels) and they have accepted the goods by signing the bill of lading. Invoice are generated at that point in time. Invoices are usually payable within 90 days. Discounts are provided to the marketers/off takers based on mutual agreed terms. The portion of sales made through marketers/off takers are recorded at provisional prices agreed with such marketers/off takers at the time of shipment of goods, which are later adjusted based on actual selling prices received by the marketers/off takers from their final customers, after deducting the costs of shipping and distribution (settlement price). The Group estimates the variable consideration as the most likely amount based on available market information and recently published prices of petrochemical products. The Group includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the associated variable consideration is subsequently resolved.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3. Summary of significant accounting policies (continued)

d) Revenue from contract with customers (continued)

Sale of goods (continued)

ii) Direct sales - Final customers

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

Sales are made directly to the final customers. Sipchem, SMC and SMC affiliates provide trading activities of petrochemical products for Sipchem affiliates and third party entities. For all such arrangements, the Group reviews whether it acts as a principal or agent. Based on this review, the Group when acting as principal, records the sale on a gross basis, while net accounting is followed where it acts as an agent. Furthermore, in case of consignment sales by SMC, the Group recognizes revenue when the final customer obtains the control of the products delivered to them.

iii) Sale of specific product

The Group has determined that for these type of products, the customers control all of the work in progress as the products are being manufactured. This is because under those contracts, products are made to a customer's specifications and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin.

Invoices are issued according to contractual terms and are payable as per payment terms agreed with the customers. Uninvoiced amounts are presented as contract assets.

Revenue and associated costs are recognised over time - i.e. before the goods are delivered to the customers' premises. Progress is determined based on the cost-to-cost method.

Rendering of services

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

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

e) Other income

Interest income

For all financial instruments measured at amortized 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 income statement.

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

2.3. Summary of significant accounting policies (continued)

f) Foreign currency transactions

The Group's consolidated financial statements are presented in Saudi riyals, which is also the Group 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 recognized in 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 recognized 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 recognized in OCI or profit or loss are also recognized 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 - Foreign operations

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 income statement are translated at average exchange rates. The exchange differences arising on the translation are recognized in OCI and accumulated in foreign currency translation. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in the income statement. Components of shareholders equity are translated at the exchange rates in effect at the dates the related items originated.

g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, net of accumulated depreciation and accumulated impairment losses. Construction work in progress are not depreciated. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Repair and maintenance is charged to profit and loss. 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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3. Summary of significant accounting policies (continued)

g) Property, plant and equipment (continued)

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

Class of assets	No of Years
- Buildings and land improvements	10 – 33.33
- Plant and machinery	10 – 25
- Computers	4
- Furniture and fixtures	2 – 10
- Office and research and development equipment	2 – 20
- Vehicles	4
- Catalysts and tools	2 – 10
- Capital spares	2 – 20

An item of Property, plant and equipment (PPE) is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement 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 stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations and available for intended use.

h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the income statement when it is incurred.

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

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the 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 amortized, 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 derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3. Summary of significant accounting policies (continued)

h) Intangible assets (continued)

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized 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 amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Licenses

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	**Deferred costs**	**Right to use**
Useful lives	5 – 10 years	10 – 15 years	16 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

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

2.3. Summary of significant accounting policies (continued)

i) 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 fulfillment 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 income statement.

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 recognized as an operating expense in the consolidated income statement on a straight-line basis over the lease term.

j) 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 capitalized 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.

k) Financial instruments

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.

i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

ii) Financial assets - Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through OCI ("FVOCI"); or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

iii) Financial assets - Business model and assessment: Policy applicable from 1 January 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

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

2.3. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

iv) Financial assets* - Assessment whether contractual cash flows are solely payments of principal and interest:** ***Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

v) Financial assets - Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. However, see Note 2.3. k) (xi) for derivatives designated as hedging instruments.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

vi) Financial assets - Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
  - held for trading;
  - derivative hedging instruments; or
  - designated as at FVTPL.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

vii) Financial assets - Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income were recognised in profit or loss. However, Note see 2.3. k) (xi) for derivatives designated as hedging instruments.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

viii) Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. See Note 2.3. k) (xi) for financial liabilities designated as hedging instruments.

ix) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

x) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

2.3. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

xi) *Derivative financial instruments and hedge accounting*

Derivative financial instruments and hedge accounting - Policy applicable from 1 January 2018

The Group holds derivative financial instruments to hedge its foreign currency risk exposure. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss. The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with transactions arising from changes in foreign exchange rates.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognised. For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Derivative financial instruments and hedge accounting - Policy applicable before 1 January 2018

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. However, for all cash flow hedges, including hedges of transactions resulting in the recognition of non-financial items, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affected profit or loss. Furthermore, for cash flow hedges that were terminated before 2017, forward points were recognised immediately in profit or loss.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3. Summary of significant accounting policies (continued)

l) Impairment

i) Policy applicable from 1 January 2018 - Financial instruments and contract assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost except for receivables under Employees' home ownership program which are measured at 12 month ECLs.

The Group measures loss allowances at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12 month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ii) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. The Group applies simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on the payment profiles of the customers on due dates.

iii) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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

2.3. Summary of significant accounting policies (continued)

l) Impairment (continued)

iv) Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is no longer recoverable based on historical experience of recoveries of similar assets. For off takers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

v) Policy applicable before 1 January 2018 - Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost. The Group considered a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets at amortised cost

The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

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

2.3. Summary of significant accounting policies (continued)

l) Impairment (continued)

Available-for-sale financial assets	Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

vi) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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 recognized. 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.

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

2.3. Summary of significant accounting policies (continued)

m) 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 realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

n) Cash and cash equivalent

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.

o) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized 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 recognized in the share premium.

p) Cash dividends to owners of equity

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

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized 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 recognized in profit or loss.

q) Provisions

General

Provisions are recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated income statement 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 recognized 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 recognized 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 consolidated income statement 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.

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

2.3. Summary of significant accounting policies (continued)

r) 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 income statement 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.

Income tax is provided for in accordance with foreign fiscal regulations in which the Group’s foreign subsidiaries operate. Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

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

2.3. Summary of significant accounting policies (continued)

s) 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 recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized 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 recognized 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

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 consolidated income statement (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.

t) Employees' house ownership program

The Group has an employees' 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.

Long term employee receivable under SHOP is recognized initially as non-current financial asset at fair value and subsequently measured at amortised cost using the EIR method. The difference between the fair value and the actual amount of receivable from employee is recognised as a "non-current prepaid employee benefit" and is amortised as an expense equally over the period of service. The same amount is also amortised as finance income against the receivable from employees.

Other deferred costs relating to SHOP are recognized 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.

u) Employees' savings plan (thrift 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 income statement.

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

2.3. Summary of significant accounting policies (continued)

v) 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 income statement 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.

w) 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 favourable interest is regarded as a government grant.

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

2.3. Summary of significant accounting policies (continued)

x) 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 analysed 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 president 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 3 to these consolidated financial statements.

y) 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 31 December 2018 and 2017 were 366,666,666 shares.

z) 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.

aa) Statutory reserves

In accordance with Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

bb) Short term investments

Short term investments in the statements position are deposits with having maturity of more than three months but less than a year from date of placement.

2.4 Changes in significant accounting policies

The Group has initially applied IFRS 15 (see A) and IFRS 9 (see B) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

A. IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated (i.e. it is presented, as previously reported), under IAS 18 and related interpretations.

EXPRESSED IN SAUDI RIYALS

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

2.4 Changes in significant accounting policies (continued)

A. IFRS 15 - Revenue from Contracts with Customers

i) Revenue streams

The Group generates revenue primarily from the sale of petrochemical products.

	2018	2017
Revenue from contract with customers	**5,035,801,237**	4,459,491,037
Total revenue	**5,035,801,237**	4,459,491,037

ii) Disaggregation of revenue from contracts with customers

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

	2018	2017
Primary geographic markets		
Foreign countries	**4,784,386,507**	4,333,805,369
Saudi Arabia	**251,414,730**	125,685,668
	5,035,801,237	4,459,491,037

	2018	2017
Major products/service lines		
Petrochemical products	**5,018,784,693**	4,443,902,526
Product on contract basis	**17,016,544**	15,588,511
	5,035,801,237	4,459,491,037

	2018	2017
Timing of revenue recognition		
Product transferred at a point in time	**5,018,784,693**	4,443,902,526
Product transferred over time	**17,016,544**	15,588,511
	5,035,801,237	4,459,491,037

iii) Contract balances

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

	2018	2017
Receivables included in trade receivables	**652,710,725**	870,918,966
Contract assets included in trade receivables	**7,183,872**	5,859,042
Contract liabilities	**(568,499)**	(49,630)

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

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

iv) Revenue recognition policy

IFRS 15 did not have a significant impact on the Group's accounting policies for revenue recognition. For additional information about the Group's accounting policies relating to revenue recognition, see Note 2.3 (d).

EXPRESSED IN SAUDI RIYALS

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

2.4. Changes in significant accounting policies (continued)

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information. IFRS 9 did not have a significant impact on the Group's accounting policies for financial instruments. For additional information about the Group's accounting policies relating to financial instruments, see Note 2.3 (k).

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 2.3 (k).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates.

Financial assets	**Original classification under IAS 39**	**New Classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Employees' home ownership program receivable	Loans and Receivables measured at amortized cost	Amortized cost	427,349,301	427,349,301
Trade receivables	Loans and Receivables measured at amortized cost	Amortized cost	876,778,008	876,778,008
Short term investments	Held to maturity	Amortized cost	222,500,001	222,500,001
Short term investments	Available for sale	FVTPL	31,032,642	31,032,642
Cash and bank balances	Loans and Receivables measured at amortized cost	Amortized cost	1,722,754,310	1,722,754,310
Other current assets	Loans and Receivables measured at amortized cost	Amortized cost	8,815,698	8,815,698
Total financial assets			3,289,229,960	3,289,229,960

Financial liabilities	**Original classification under IAS 39**	**New Classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Loans and borrowings (Note 16)	Financial liabilities measured at amortized cost	Amortized cost	7,438,064,151	7,438,064,151
Trade and other payables (Note 16)	Financial liabilities measured at amortized cost	Amortized cost	196,924,708	196,924,708
Other current liabilities (Note 16)	Financial liabilities measured at amortized cost	Amortized cost	298,259,839	298,259,839
Total financial liabilities			7,933,248,698	7,933,248,698

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

2.4. Changes in significant accounting policies (continued)

B. IFRS 9 Financial Instruments (continued)

i) Classification and measurement of financial assets and financial liabilities

Short term investments represent deposits with banks having maturity of more than three months but less than a year from date of placement. The Group has the intention to hold the investment till maturity. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVTPL.

Trade receivables and other current assets that were classified as loans and receivables under IAS 39 are now classified at amortised cost. There are no material effect on the allowance for impairment over these receivables and other current assets.

ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not results in any additional allowance for impairment as at 1 January 2018 and 31 December 2018.

iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency receivables, sales and inventory purchases. The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

Under IAS 39, the change in fair value of the forward element of the forward exchange contracts ('forward points') was recognised immediately in profit or loss. However, under IFRS 9 the forward points are separately accounted for as a cost of hedging; they are recognised in OCI and accumulated in a cost of hedging reserve as a separate component within equity.

Under IAS 39, for all cash flow hedges the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast inventory purchases, the amounts accumulated in the cash flow hedge reserve are instead included directly in the initial cost of the inventory item when it is recognised. The same approach also applies under IFRS 9 to the amounts accumulated in the cost of hedging reserve.

For an explanation of how the Group applies hedge accounting under IFRS 9, see Note 2.3 (k) (v).

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

2.4. Changes in significant accounting policies (continued)

B. IFRS 9 Financial Instruments (continued)

iv) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

2.5. Significant accounting estimates and assumptions

The preparation of the Group's consolidated 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 consolidated 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.

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 WHO 15 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.

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

2.5. Significant accounting estimates and assumptions (continued)

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, plant and equipment

Management determines the estimated useful lives of property, plant 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. Useful lives of Intangible assets

Management reviews the amortization period and the amortization method for any intangible asset with a finite useful life at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the Company changes the amortization period accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the Company changes the amortization method to reflect the changed pattern.

v. 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.

vi. 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 recognized 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.

vii. 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.

2.6. New standards, amendments and interpretations

Following are the recent changes to IFRSs that are required to be adopted in annual periods beginning on 1 January 2018 and are not expected to have a significant impact on the Group's consolidated financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4);
- Transfers of Investment Property (Amendments to IAS 40);
- Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;

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

2.7 Accounting standards issued but not yet effective

A number of new standards are effective for annual periods beginning 1 January 2019 and early adoption is permitted. However, the Group's management decided not to choose the early adoption of new and amended standards in preparing these consolidated financial statements.

IFRS 16 - 'Leases'

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The new standard will be effective for annual periods beginning on or after 1 January 2019, early application is permitted and must be disclosed.

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

IFRS 16 replaces existing leases guidance, including:

- IAS 17 - 'Leases'
- IFRIC 4 - 'Determining whether an arrangement contains a lease'
- SIC 15 - 'Operating leases - Incentives'
- SIC 27 - 'Evaluating the substance of transactions involving the legal form of a lease'

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group is currently assessing the impact on the Group's consolidated financial statements.

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

Other standards

The following amended standards and interpretations are required to be adopted in annual periods beginning on 1 January 2019 and are not expected to have a significant impact on the Group's consolidated financial statements.

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

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

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

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

EXPRESSED IN SAUDI RIYALS

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

2.7 Accounting standards issued but not yet effective

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

- Amendments to References to Conceptual Framework in IFRS Standards;
- IFRS 17 Insurance Contracts.

3. SEGMENT INFORMATION

The Group has the following operating segments:

- **Basic Chemicals,** which includes Methanol, Butane products and Carbon monoxide.
- **Intermediate chemicals,** which includes Acetic acid, Vinyl acetate monomer, Ethyl acetate, Butyl acetate, and utilities.
- **Polymers,** which includes Low-density polyethylene, polyvinyl acetate, polyvinyl alcohol, Polybutylene terephthalate, and electrical connecting wire products.
- **Marketing,** which 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 financial statements.

Year ended 31 December 2018	**Basic Chemicals**	**Intermediate Chemicals**	**Polymers**	**Marketing**	**Corporate and Others**	**Consolidation elimination**	**Total**
Revenue							
External customers	**1,349,602,642**	**1,729,147,660**	**1,299,022,460**	**641,011,930**	**17,016,545**	**-**	**5,035,801,237**
Inter-segment	**439,235,868**	**1,085,379,846**	**55,747,224**	**2,326,637,719**	**127,728,945**	**(4,034,729,602)**	**-**
Total revenue	**1,788,838,510**	**2,814,527,506**	**1,354,769,684**	**2,967,649,649**	**144,745,490**	**(4,034,729,602)**	**5,035,801,237**
Gross Profit	**780,614,211**	**318,718,916**	**435,224,836**	**105,010,715**	**(3,560,519)**	**(1,229,951)**	**1,634,778,208**
Operating Profit	**557,539,116**	**160,459,118**	**342,561,638**	**57,428,862**	**(40,073,264)**	**17,861,594**	**1,095,777,064**
Profit before Zakat and tax	**518,357,117**	**61,174,905**	**301,571,519**	**59,806,072**	**(67,475,749)**	**(6,366,951)**	**867,066,913**
Total assets	**4,481,780,322**	**5,897,395,975**	**3,885,658,022**	**824,427,762**	**9,689,410,941**	**(9,398,757,581)**	**15,379,915,441**
Total liabilities	**2,007,213,662**	**2,535,878,843**	**2,158,752,387**	**467,361,674**	**3,583,998,216**	**(2,498,275,499)**	**8,254,929,283**
Capital expenditure	**585,556,276**	**230,922,839**	**30,937,011**	**3,517,159**	**25,958,526**	**-**	**876,891,811**

Year ended 31 December 2017	Basic Chemicals	Intermediate Chemicals	Polymers	Marketing	Corporate and Others	Consolidation elimination	Total
Revenue							
External customers	1,500,830,223	1,479,098,772	1,057,340,994	406,632,538	15,588,510	-	4,459,491,037
Inter-segment	361,011,623	823,586,568	35,832,316	2,483,054,925	109,508,205	(3,812,993,637)	-
Total revenue	1,861,841,846	2,302,685,340	1,093,173,310	2,889,687,463	125,096,715	(3,812,993,637)	4,459,491,037
Gross Profit	794,495,304	177,232,319	333,116,022	106,709,506	(4,432,125)	18,933,125	1,426,054,151
Operating Profit	573,789,124	70,545,822	225,621,861	65,372,208	(38,708,965)	38,077,099	934,697,149
Profit before Zakat and tax	536,499,161	(11,717,102)	167,600,467	65,446,969	(101,946,812)	15,303,921	671,186,604
Total assets	4,760,723,153	6,024,352,080	4,084,483,100	815,658,751	9,300,398,075	(9,005,462,751)	15,980,152,408
Total liabilities	2,174,920,108	2,814,738,426	2,394,199,361	512,354,587	3,403,619,779	(2,530,644,417)	8,769,187,844
Capital expenditure	416,019,298	109,922,642	80,649,112	881,306	27,219,704	-	634,692,062

EXPRESSED IN SAUDI RIYALS

3. SEGMENT INFORMATION (continued)

Disaggregation of revenue based on geographical information

	Saudi Arabia	Foreign countries	Total
Revenue from external customers			
31 December 2018	**251,414,730**	**4,784,386,507**	**5,035,801,237**
31 December 2017	125,685,668	4,333,805,369	4,459,491,037

Reconciliation of revenue disaggregated geographically to segment revenue

	For the year ended 31 December 2018					
	Basic chemicals	**Intermediate chemicals**	**Polymers**	**Marketing**	**Corporate and others**	**Total**
Revenue:						
Foreign countries	**1,251,018,240**	**1,729,147,660**	**1,194,519,858**	**609,700,749**	**-**	**4,784,386,507**
Saudi Arabia	**98,584,402**	**-**	**104,502,602**	**31,311,181**	**17,016,545**	**251,414,730**
Total revenue	**1,349,602,642**	**1,729,147,660**	**1,299,022,460**	**641,011,930**	**17,016,545**	**5,035,801,237**

	For the year ended 31 December 2017					
	Basic chemicals	Intermediate chemicals	Polymers	Marketing	Corporate and others	Total
Revenue:						
Foreign countries	1,455,599,312	1,479,098,772	1,025,467,617	373,639,668	-	4,333,805,369
Saudi Arabia	45,230,911	-	31,873,377	32,992,870	15,588,510	125,685,668
Total revenue	1,500,830,223	1,479,098,772	1,057,340,994	406,632,538	15,588,510	4,459,491,037

EXPRESSED IN SAUDI RIYALS

4. GROUP INFORMATION

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non- controlling interests:

Subsidiaries	**Country of Incorporation**	**2018**	2017
International Methanol Company ("IMC")	KSA	35.00%	35.00%
International Diol Company ("IDC")	KSA	46.09%	46.09%
International Acetyl Company ("IAC")	KSA	13.00%	13.00%
International Vinyl Acetate Company ("IVC")	KSA	13.00%	13.00%
International Gases Company ("IGC")	KSA	3.00%	28.00%
International Polymers Company ("IPC")	KSA	25.00%	25.00%
Gulf Advance Cable Insulation Company (GACI)	KSA	50.00%	50.00%
Saudi Specialized products Company (SSPC)	KSA	25.00%	25.00%

The summarized information of these subsidiaries is provided below:

Summarized statements of financial positions as at 31 December 2018

	IMC	**IDC**	**IAC**	**IVC**	**IGC**	**IPC**	**GACI**	**SSPC**	**Total**
Current assets	**599,855,366**	**132,320,687**	**330,834,087**	**511,338,983**	**129,086,107**	**440,665,358**	**53,353,414**	**38,943,732**	**2,236,397,734**
Non-current assets	**1,574,527,488**	**903,498,730**	**2,622,195,995**	**1,793,558,082**	**1,142,491,944**	**2,637,560,035**	**192,173,472**	**355,807,765**	**11,221,813,511**
Current liabilities	**(173,836,699)**	**(631,838,249)**	**(530,891,443)**	**(454,969,347)**	**(81,694,540)**	**(359,919,876)**	**(39,500,370)**	**(15,348,409)**	**(2,287,998,933)**
Non-current liabilities	**(407,444,749)**	**(589,684,160)**	**(777,024,608)**	**(422,778,115)**	**(122,715,269)**	**(1,191,452,803)**	**(144,060,863)**	**(251,725,558)**	**(3,906,886,125)**
Equity	**1,593,101,406**	**(185,702,992)**	**1,645,114,031**	**1,427,149,603**	**1,067,168,242**	**1,526,852,714**	**61,965,653**	**127,677,530**	**7,263,326,187**
Attributable to:									
Equity holder of parent	**1,079,073,813**	**(97,835,064)**	**1,465,870,709**	**1,278,919,984**	**1,031,711,978**	**1,174,873,584**	**33,356,126**	**91,276,189**	**6,057,247,319**
Non-controlling interests	**514,027,593**	**(87,867,928)**	**179,243,322**	**148,229,619**	**35,456,264**	**351,979,130**	**28,609,527**	**36,401,341**	**1,206,078,868**

EXPRESSED IN SAUDI RIYALS

4. GROUP INFORMATION (continued)

Summarized statements of financial positions as at 31 December 2017

	IMC	IDC	IAC	IVC	IGC	IPC	GACI	SSPC	Total
Current assets	898,590,980	167,735,614	316,437,425	431,517,871	174,315,058	512,507,877	63,696,035	19,506,869	2,584,307,729
Non-current assets	1,368,205,146	947,673,282	2,683,115,071	1,837,039,853	1,219,868,055	2,754,041,280	201,051,798	339,231,281	11,350,225,766
Current liabilities	(378,414,997)	(534,572,384)	(544,404,786)	(413,605,185)	(258,860,328)	(462,047,103)	(35,835,454)	(19,878,921)	(2,647,619,158)
Non-current liabilities	(249,569,468)	(614,335,718)	(868,392,730)	(504,848,154)	(159,137,044)	(1,346,071,882)	(161,031,539)	(207,489,060)	(4,110,875,595)
Equity	1,638,811,661	(33,499,206)	1,586,754,980	1,350,104,385	976,185,741	1,458,430,172	67,880,840	131,370,169	7,176,038,742
Attributable to:									
Equity holder of parent	1,117,250,773	(14,271,091)	1,417,523,165	1,212,066,384	702,772,660	1,101,087,118	33,329,721	98,022,409	5,667,781,139
Non-controlling interests	521,560,888	(19,228,115)	169,231,815	138,038,001	273,413,081	357,343,054	34,551,119	33,347,760	1,508,257,603

Summarized statements of comprehensive income for the year ended 31 December 2018

	IMC	IDC	IAC	IVC	IGC	IPC	GACI	SSPC	Total
Revenue	**1,196,030,566**	**279,145,935**	**819,495,670**	**1,359,506,528**	**313,662,009**	**1,104,226,276**	**104,502,602**	**17,016,544**	**5,193,586,130**
Cost of sales	**(464,132,578)**	**(354,137,594)**	**(660,405,410)**	**(1,210,542,706)**	**(189,954,128)**	**(711,757,209)**	**(92,014,460)**	**(30,893,034)**	**(3,713,837,119)**
Selling and distribution expenses	**(104,993,415)**	**(7,625,223)**	**(5,803,778)**	**(9,261,537)**	**-**	**(17,702,445)**	**(3,579,940)**	**(3,514,430)**	**(152,480,768)**
General and administrative expenses	**(48,220,813)**	**(32,227,851)**	**(37,939,546)**	**(32,234,722)**	**(29,791,479)**	**(68,794,938)**	**(14,413,413)**	**(8,920,923)**	**(272,543,685)**
Investment income	**11,519,379**	**-**	**1,108,685**	**605,959**	**1,286,911**	**2,491,762**	**39,721**	**-**	**17,052,417**
Finance cost	**(3,863,418)**	**(49,306,894)**	**(48,822,253)**	**(23,739,984)**	**(6,179,430)**	**(55,471,623)**	**(4,839,817)**	**(2,329,277)**	**(194,552,696)**
Other income (expense), net	**(8,588,229)**	**9,911,516**	**(7,561,718)**	**(1,361,744)**	**5,821,852**	**8,415,997**	**(504,859)**	**122,091**	**6,254,906**
Profit before Zakat and tax	**577,751,492**	**(154,240,111)**	**60,071,650**	**82,971,794**	**94,845,735**	**261,407,820**	**(10,810,166)**	**(28,519,029)**	**883,479,185**
Zakat and tax	**(42,225,685)**	**2,013,215**	**(243,110)**	**(5,850,228)**	**(4,641,102)**	**(35,679,978)**	**(6,984,055)**	**2,271,149**	**(91,339,794)**
Profit for the year	**535,525,807**	**(152,226,896)**	**59,828,540**	**77,121,566**	**90,204,633**	**225,727,842**	**(17,794,221)**	**(26,247,880)**	**792,139,391**
Comprehensive income	**767,811**	**23,111**	**(1,469,489)**	**(76,348)**	**777,867**	**846,823**	**102,746**	**-**	**972,521**
Total comprehensive income	**536,293,618**	**(152,203,785)**	**58,359,051**	**77,045,218**	**90,982,500**	**226,574,665**	**(17,691,475)**	**(26,247,880)**	**793,111,912**
Attributable to:									**-**
Equity holder of parent	**363,037,885**	**(83,563,973)**	**48,347,544**	**66,853,600**	**66,538,560**	**192,564,291**	**(5,861,738)**	**(23,410,814)**	**624,505,355**
Non-controlling interests	**173,255,733**	**(68,639,812)**	**10,011,507**	**10,191,618**	**24,443,940**	**34,010,374**	**(11,829,737)**	**(2,837,066)**	**168,606,557**

EXPRESSED IN SAUDI RIYALS

4. GROUP INFORMATION (continued)

Summarized statements of comprehensive income for the year ended 31 December 2017

	IMC	IDC	IAC	IVC	IGC	IPC	GACI	SSPC	Total
Revenue	1,237,395,105	359,235,733	731,401,863	1,069,204,668	265,211,008	1,008,617,810	84,555,500	15,588,511	4,771,210,198
Cost of sales	(457,391,263)	(375,844,230)	(656,426,128)	(1,007,045,243)	(204,676,394)	(677,212,781)	(82,844,508)	(30,585,561)	(3,492,026,108)
Selling and distribution expenses	(118,903,349)	(13,649,006)	(9,321,744)	(11,369,642)	-	(16,245,415)	(2,963,689)	(2,497,174)	(174,950,019)
General and administrative expenses	(39,294,249)	(24,985,391)	(30,559,123)	(26,521,981)	(23,874,186)	(63,713,965)	(11,949,502)	(7,064,902)	(227,963,299)
Investment income	6,026,680	52,302	59,522	285,839	168,808	2,646,610	127,045	-	9,366,806
Finance cost	(7,748,756)	(30,306,233)	(47,521,797)	(30,283,216)	(9,330,856)	(60,255,617)	(4,393,201)	(786,858)	(190,626,534)
Other income (expense), net	(8,936,292)	(18,760,539)	2,369,585	(213,280)	2,110,270	7,888,197	(759,214)	(986,224)	(17,287,497)
Profit before Zakat and tax	611,147,876	(104,257,364)	(9,997,822)	(5,942,855)	29,608,650	201,724,839	(18,227,569)	(26,332,208)	677,723,547
Zakat and tax	(68,674,950)	1,951,102	(3,063,695)	(48,898)	(428,339)	(7,522,654)	(461,285)	(1,710,365)	(79,959,084)
Profit for the year	542,472,926	(102,306,262)	(13,061,517)	(5,991,753)	29,180,311	194,202,185	(18,688,854)	(28,042,573)	597,764,463
Comprehensive income	(1,753,734)	1,787,933	966,226	96,127	(629,657)	131,478	(539,499)	1,710,365	1,769,239
Total comprehensive income	540,719,192	(100,518,329)	(12,095,291)	(5,895,626)	28,550,654	194,333,663	(19,228,353)	(26,332,208)	599,533,702
Attributable to:									
Equity holder of parent	384,650,561	(54,704,528)	(10,545,689)	(5,140,597)	20,556,471	144,288,093	(10,114,568)	(19,749,156)	449,240,587
Non-controlling interests	156,068,631	(45,813,801)	(1,549,602)	(755,029)	7,994,183	50,045,570	(9,113,785)	(6,583,052)	150,293,115

EXPRESSED IN SAUDI RIYALS

5. OTHER INCOME AND EXPENSES, NET

	Note	2018	2017
Other income	5.1	**66,262,623**	18,254,028
Other expenses	5.2	**(56,512,048)**	(4,800,828)
		9,750,575	13,453,200

5.1. Other income

	Note	2018	2017
Reversal of accruals	5.1.1	**24,831,336**	-
Reversal of provision - employees' home ownership program		**20,018,168**	-
Scrape sales		**6,542,980**	4,281,093
Claim settled		**5,237,412**	8,438,372
Others		**9,632,727**	5,534,563
		66,262,623	18,254,028

5.1.1 Management believes that certain liabilities are not required to be settled and so reversed these liabilities during current year resulting in reversal of excess accruals.

5.2. Other expenses

	2018	2017
Proposed merger expense	**23,699,971**	-
Delay fines on with holding tax	**17,859,258**	-
Consultancy for business processes improvement	**10,595,463**	-
Foreign exchange loss	**3,395,687**	4,800,828
Others	**961,669**	-
	56,512,048	4,800,828

6. SELLING AND DISTRIBUTION EXPENSES

	2018	2017
Freight costs	**168,945,514**	176,289,314
Transportation costs	**8,963,674**	13,306,358
Custom charges	**1,189,042**	1,580,092
Insurance costs	**1,467,589**	1,074,441
Others	**16,308,078**	8,158,213
	196,873,897	200,408,418

7. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2018	2017
Employee related costs	7.1	**204,757,867**	179,837,187
Depreciation and amortization	7.2	**71,603,838**	58,771,690
Legal and professional fees		**11,111,637**	9,165,636
Donations		**10,185,442**	7,713,234
Board of directors expenses		**8,219,368**	4,644,191
Research related expenses		**3,817,480**	3,470,293
Others		**32,431,615**	27,346,353
		342,127,247	290,948,584

7.1. Employee related costs

	2018	2017
Included in cost of sales	**397,629,423**	405,334,885
Included in general and administrative expenses	**204,757,867**	179,837,187
	602,387,290	585,172,072

7.2. Depreciation and amortization

	2018	2017
Included in cost of sales	**780,307,526**	661,037,171
Included in general and administrative expenses	**71,603,838**	58,771,690
	851,911,364	719,808,861

EXPRESSED IN SAUDI RIYALS

8. FINANCE COST

	2018	2017
Finance charges on loans	**267,867,106**	277,078,822
Commission on LC's & LG's	**6,266,851**	7,667,878
Interest cost on defined benefit obligation	**7,514,222**	7,438,520
Un-winding of employees' receivables discounting	**(26,184,671)**	-
Un-winding cost of decommissioning liability	**4,432,032**	4,142,635
Bank charges	**2,818,047**	1,834,378
	262,713,587	298,162,233

9. ZAKAT AND INCOME TAX PAYABLE

	2018	2017
Zakat payable	**77,272,882**	95,026,676
Income tax payable	**18,378,821**	35,627,723
	95,651,703	130,654,399

The principal elements of the Zakat base of the Group are as follows:

	2018	2017
Non-current assets	**12,332,605,281**	12,332,636,290
Non-current liabilities	**6,288,961,048**	6,899,141,127
Opening shareholders' equity	**5,702,706,961**	5,264,038,341
Net income before zakat and income tax	**867,066,913**	671,186,604
Consumables spares	**249,846,955**	193,605,436
Dividend paid	**366,666,666**	-

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

Zakat for the year is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to Saudi shareholders. Income tax is payable at 20% of taxable income.

The movement in the Zakat and income tax provision is as follows:

	Zakat	Income Tax	2018 Total	2017 Total
Balance as at 1 January	**95,026,676**	**35,627,723**	**130,654,399**	101,224,646
Charge for the year	**65,274,029**	**43,825,067**	**109,099,096**	64,943,902
Payments during the year	**(83,027,823)**	**(61,073,969)**	**(144,101,792)**	(35,514,149)
Balance as at 31 December	**77,272,882**	**18,378,821**	**95,651,703**	130,654,399

The Zakat, income tax and deferred tax charge/(credit) for the year ended 31 December comprises of the following:

	Zakat	Income Tax	Deferred tax	2018 Total	2017 Total
Company's share in Zakat and income taxes	**65,274,029**	**1,808,604**	**-**	**67,082,633**	26,468,755
Non controlling's share in the Zakat and income taxes	**-**	**42,016,463**	**-**	**42,016,463**	38,475,147
Deferred tax (Note 11)	**-**	**-**	**6,555,214**	**6,555,214**	18,892,359
	65,274,029	**43,825,067**	**6,555,214**	**115,654,310**	83,836,261

9. ZAKAT AND INCOME TAX (continued)

Outstanding assessments:

Saudi International Petrochemical Company (Sipchem)

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

International Methanol Company (IMC)

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

International Acetyl Company (IAC)

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

International Vinyl Acetate Company (IVC)

IVC has received assessment for the years 2011 and 2012 for tax/Zakat and withholding tax. For 2011, GAZT has assessed additional Zakat liability of SR 8.2 million and withholding tax and delay fine liability of SR 2.5 million. For 2012, the GAZT has assessed additional Zakat liability of SR 16.6 million and withholding tax and delay fine liability of SR 1.0 million. The assessments are currently under Company review.

Gulf Advanced Cable Insulation Company (GACI)

GACI has received assessment for the year 2016 for tax/Zakat. The GAZT has assessed additional Zakat liability of SR 0.3 million. The assessment is currently under Company review.

Saudi Specialized Products Company (SSPC)

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

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

EXPRESSED IN SAUDI RIYALS

10. EARNINGS PER SHARE

Basic earnings per share for profit attributable to ordinary shares holders for the year ended 31 December 2018 and 2017 are computed based on the weighted average number of shares outstanding during such years. The diluted earnings per share are the same as the basic earnings per share because the Group does not have any dilutive instruments in issue.

	2018	2017
Profit for the year attributable to equity holders of the company	**582,952,319**	437,393,221
Weighted average number of shares outstanding during the year	**366,666,666**	366,666,666
Basic and Dilutive earnings per share	**1.59**	1.19

11. DEFERRED TAX

Following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the year:

11.1 Deferred tax assets

	2018	2017
Balance as at 1 January	**9,565,990**	-
Credit for the year	**305,697**	9,565,990
Balance as at 31 December	**9,871,687**	9,565,990

Deferred tax assets relate to certain provisions that are not considered as deductible tax expense and unused tax losses for subsidiaries. Management believes that future taxable profits will be available against which deferred tax assets can be realised.

11.2 Deferred tax liabilities

	2018	2017
Balance as at 1 January	**28,458,349**	-
Charge for the year	**6,860,911**	28,458,349
Balance as at 31 December	**35,319,260**	28,458,349

Deferred tax liability relates to taxable temporary differences arising on property, plant and equipment.

EXPRESSED IN SAUDI RIYALS

12. PROPERTY, PLANT AND EQUIPMENT

2018	Land, Buildings and lease hold improvements	Plant and machinery	Catalyst and tools	Vehicles, computers, furniture, fixture and office equipment	Capital work in progress (CWIP)	Total
Cost:						
At 1 January 2018	**580,167,693**	**13,837,313,891**	**526,496,348**	**250,391,778**	**1,016,853,253**	**16,211,222,963**
Additions	**7,062**	**4,637,263**	**202,965,322**	**6,191,781**	**645,088,004**	**858,889,432**
Transfers*	**56,653,278**	**493,465,550**	**82,339,613**	**3,521,900**	**(645,025,339)**	**(9,044,998)**
Transfers to intangibles (note 13)	**-**	**-**	**-**	**(1,838,706)**	**(22,092,184)**	**(23,930,890)**
Write off	**-**	**(7,130,795)**	**(16,487,565)**	**-**	**-**	**(23,618,360)**
At 31 December 2018	**636,828,033**	**14,328,285,909**	**795,313,718**	**258,266,753**	**994,823,734**	**17,013,518,147**
Accumulated Depreciation:						
At 1 January 2018	**69,054,556**	**4,402,757,171**	**431,511,549**	**100,175,207**	**-**	**5,003,498,483**
Depreciation charge for the year	**17,029,559**	**587,467,844**	**132,401,194**	**18,016,279**	**-**	**754,914,876**
Write off	**-**	**(2,963,666)**	**(16,487,565)**	**-**	**-**	**(19,451,231)**
At 31 December 2018	**86,084,115**	**4,987,261,349**	**547,425,178**	**118,191,486**	**-**	**5,738,962,128**
Carrying amount at 31 December 2018	**550,743,918**	**9,341,024,560**	**247,888,540**	**140,075,267**	**994,823,734**	**11,274,556,019**

*Transfers include an amount of SR 423 million (2017: SR nil) related to PBT Plant which has commenced the commercial operations on 1 July 2018 after successful commissioning, testing and completion of acceptance formalities and SR 190.1 million (2017: SR nil) related to turnaround of IMC and IDC plants during 2018. The balance amount of SR 9.0 million mainly relates to transfer of spares parts and consumables from property, plant and equipment.

EXPRESSED IN SAUDI RIYALS

12. PROPERTY, PLANT AND EQUIPMENT (continued)

2017	Land, Buildings and lease hold improvements	Plant and machinery	Catalyst and tools	Vehicles, computers, furniture, fixture and office equipment	Capital work in progress (CWIP)	Total
Cost:						
At 1 January 2017	532,617,573	13,669,453,754	519,185,611	246,321,484	1,753,070,813	16,720,649,235
Additions	79,649	109,305,214	35,486,356	2,367,074	462,963,013	610,201,306
Transfers	47,470,471	61,267,226	7,403,707	1,728,226	(891,200,239)	(773,330,609)
Transfers to intangibles	-	-	-	-	(307,980,334)	(307,980,334)
Write off	-	(2,712,303)	(35,579,326)	(25,006)	-	(38,316,635)
At 31 December 2017	580,167,693	13,837,313,891	526,496,348	250,391,778	1,016,853,253	16,211,222,963
Accumulated Depreciation:						
At 1 January 2017	53,294,159	3,865,322,085	379,477,469	75,941,569	-	4,374,035,282
Depreciation charge for the year	15,760,397	538,798,122	87,613,406	24,246,678	-	666,418,603
Write off	-	(1,363,036)	(35,579,326)	(13,040)	-	(36,955,402)
At 31 December 2017	69,054,556	4,402,757,171	431,511,549	100,175,207	-	5,003,498,483
Carrying amounts at 31 December 2017	511,113,137	9,434,556,720	94,984,799	150,216,571	1,016,853,253	11,207,724,480

EXPRESSED IN SAUDI RIYALS

12. PROPERTY, PLANT AND EQUIPMENT (continued)

12.1. Capital Work In Progress

The Group's capital work-in-progress as at 31 December 2018 is SR 994.8 million (2017: SR 1,016.9 million) and comprises mainly of construction costs related to Ethylene-vinyl acetate - EVA film plant, Debottlenecking (DBN) plant expansion, Environmental Efficiency Centre (SEEC), Turnaround costs and other costs related to several projects for improvements and enhancements of operating plants. During the year, the Group transferred an amount of SR 23.9 million (2017: SR 6.7 million) from capital work in progress to intangible assets which represent costs in relation to ERP cost for enhancement of SAP configuration.

On account of test runs prior to commercial production of projects, the Group capitalized an amount of SR 17.7 million (2017: SR 22.2 million) with respect to EVAF project, net of test run revenue amounting to SR 11.5 million (2017: SR 4.4 million). Moreover, an amount of SR 2.9 million (2017: SR 64.6 million) was capitalized in PBT project net of test run revenue amounting to SR 159.2 million (2017: SR 242.7 million).

During 2018, SR 6.3 million (2017: SR 9.4 million) has been capitalized as borrowing cost which is part of capital work in progress.

12.2. Property, plant and equipment

Property plant and equipment are constructed on a land in Jubail Industrial City leased from the Royal Commission for Jubail and Yanbu for 30 years commencing on 16 Muharram 1432 (corresponding 30 March 2002). Certain of the Group's property, plant and equipment which has carrying amount of SR 8,222.5 million (2017: SR 8,213.4 million) are pledged as security against Saudi Industrial Development Fund Loans, syndicated bank loans and Public Investment Fund loans (note 16).

12.3. Impairment

As at 1 January 2016, the Group determined that the recoverable amounts of two of its CGUs namely International Diol Company ("IDC'') and Polybutylene terephthalate ("PBT'') of SR 1,541 million were less than its carrying amount of SR 2,241. An impairment loss of SR 400 million in IDC and SR 300 million in PBT was recognized in the 2016 financial results.

During the current year ended 31 December 2018, the recoverable amounts of CGUs have been analysed based on a value in use calculation using cash flow projections from financial budgets and forecasts covering a five-year period. The projected cash flows have been updated to reflect the industry trend. As a result of analysis, the management did not identify any additional impairment for the CGUs, hence, no impairment losses were recognized for 2018.

The key assumptions used in the estimation of value in use were as follows

	2018	2017
Discount rate	**10%**	10%
Terminal Value growth rate	**2%**	2%

The discount rate was a pre tax measure calculated based on weighted average cost of capital, using CAPM model to calculate the cost of equity. CAPM model used was adjusted for a risk premium to reflect both the increased risk of investing in equities generally and systematic risk of the specific CGU.

Five years of cash flows were included in the discounted cash flow model, and a terminal value growth rate of 2% from 2023 (2017: 2% from 2022) has been determined by reference to nominal Gross Domestic Product (GDP) of Saudi Arabia, i.e. the country where the CGUs operate.

12.4. Assets written off

Certain assets mainly related to IMC, IDC and IGC plant having a carrying amount of SR 4.2 million (2017: SR 1.4 million) were written off during the year.

EXPRESSED IN SAUDI RIYALS

13. INTANGIBLE ASSETS

	Software	Deferred costs	Rights	Total
Costs				
Balance as at 1 January 2018	133,418,236	81,723,351	301,200,799	**516,342,386**
Additions	186,942	-	-	**186,942**
Transfers	23,930,890	-	-	**23,930,890**
Balance as at 31 December 2018	157,536,068	81,723,351	301,200,799	**540,460,218**
Accumulated amortization				
Balance as at 1 January 2018	73,136,401	50,606,130	6,355,169	**130,097,700**
Amortization	33,362,455	4,986,920	19,065,507	**57,414,882**
Balance as at 31 December 2018	106,498,856	55,593,050	25,420,676	**187,512,582**
Carrying amount at 31 December 2018	**51,037,212**	**26,130,301**	**275,780,123**	**352,947,636**

	Software	Deferred costs	Rights	Total
Costs				
Balance as at 1 January 2017	125,066,784	81,058,719	-	206,125,503
Additions	1,571,917	664,632	-	2,236,549
Transfers	6,779,535	-	301,200,799	307,980,334
Balance as at 31 December 2017	133,418,236	81,723,351	301,200,799	516,342,386
Accumulated amortization				
Balance as at 1 January 2017	43,619,941	44,670,005	-	88,289,946
Amortization	29,516,460	5,936,125	6,355,169	41,807,754
Balance as at 31 December 2017	73,136,401	50,606,130	6,355,169	130,097,700
Carrying amount at 31 December 2017	60,281,835	31,117,221	294,845,630	386,244,686

Computer software mainly includes SAP and other programs which management has capitalized and amortization is calculated on 5 -10 years of useful life.

Deferred cost mainly includes costs related to Sipchem Total Optimization Project, and consideration paid to Tasnee for future price reduction. Amortization is calculated on 10 - 15 years of useful life.

Rights represent the costs incurred by the Group on one of the plants of a supplier in accordance with a tolling agreement, giving the Group a right to a fraction of the output produced by the plant. The risk and rewards of the plant and the related ownership is with the supplier. Amortization is calculated on 16 years of useful life.

14. EMPLOYEES' HOME OWNERSHIP PROGRAM

	Employees' receivables	**Deferred Costs**	**2018 Total**	2017 Total
Current portion	**32,063,330**	**-**	**32,063,330**	33,472,511
Non- current portion	**370,122,912**	**311,079,863**	**681,202,775**	709,123,201
Balance as at 31 December	**402,186,242**	**311,079,863**	**713,266,105**	742,595,712

The movement in employee's home ownership program as at 31 December as follows:

	Employees' receivables	**Deferred Costs**	**2018 Total**	2017 Total
Balance as at 1 January	**427,349,301**	**315,246,411**	**742,595,712**	-
Additions during the year	**-**	**18,002,379**	**18,002,379**	24,490,756
Transfers	**(17,412,679)**	**17,412,679**	**-**	773,330,609
Amortization	**-**	**(39,581,606)**	**(39,581,606)**	(11,582,504)
Recoveries	**(32,053,989)**	**-**	**(32,053,989)**	(38,893,837)
Un-winding of receivables' discounting	**26,519,535**	**-**	**26,519,535**	-
Provision for refund liability	**(2,215,926)**	**-**	**(2,215,926)**	(4,749,312)
Balance as at 31 December	**402,186,242**	**311,079,863**	**713,266,105**	742,595,712

EXPRESSED IN SAUDI RIYALS

15. GOODWILL

On 31 December 2011, SMC acquired 100% of the voting shares of Aectra SA, an unlisted Company registered in Switzerland and subsidiary of Sipchem Europe Cooperative U.A, for a consideration of SR 106 million. SR 30 million of goodwill arose on this transaction. Accordingly, the balance sheet of Aectra SA has been consolidated in these consolidated financial statements. The goodwill is subject to annual impairment testing.

The recoverable amount of the CGU is SR 261 million as at 31 December 2018 (2017: SR 95 million) was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the current trend in industry.

As a result of the analysis, there is headroom of SR 137 million (2017: SR 65 million) and management did not identify an impairment for Goodwill. Therefore, no impairment losses were recognised in 2018.

The key assumptions used in the estimation of value in use were as follows:

	2018	2017
Discount rate	**10%**	10%
Terminal Value growth rate	**1%**	1%

The pre-tax discount rate applied to the cash flow projections is 10%. The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 1%. Management of the Group believes this growth rate is justified based on the acquisition of Aectra SA Limited in the current market and is reflective of current growth rate of a country where the CGU operates.

For the purpose of sensitivity, any reasonable expected change in contribution margin, growth rate, discount rate or any other significant assumption will not have any material impact on the carrying value of Goodwill.

16. FINANCIAL INSTRUMENTS

16.1 Financial Assets

	2018	2017
Financial assets measured at fair value:		
Short term investments	**34,831,968**	31,032,642
Total financial instruments at fair value	**34,831,968**	31,032,642
Financial assets measured at amortized cost:		
Short term investment	**287,000,633**	222,500,001
Employees' home ownership program receivable (note 14)	**402,186,242**	427,349,301
Trade receivables (note 18)	**659,894,597**	876,778,008
Prepayments and other current assets (note 19)	**8,299,402**	8,815,698
Cash and cash equivalent (note 20)	**1,013,514,234**	1,722,754,310
Total financial assets at amortized cost	**2,370,895,108**	3,258,197,318
Total financial assets	**2,405,727,076**	3,289,229,960

EXPRESSED IN SAUDI RIYALS

16. FINANCIAL INSTRUMENTS (continued)

16.2 Financial Liabilities

Financial liabilities measured at amortized cost

a. Other financial liabilities

	2018	2017
Trade and other payables (note 26)	**183,578,427**	196,924,708
Accrued expenses and other current liabilities (note 27)	**295,214,117**	298,259,839
Total other financial liabilities measured at amortized cost	**478,792,544**	495,184,547

b. Loans and borrowings

	Effective interest rate %	**Maturity**	**2018**	2017
Current loans and borrowings				
Saudi industrial development fund	1.34% - 2.51%	2019 – 2022	**400,203,968**	296,073,107
Shari'a compliant bank loans	2.39% - 5.10%	2021 – 2027	**482,365,943**	249,098,049
Public investment fund loans	3.32% - 3.80%	2020 – 2026	**205,399,002**	202,901,689
Commercial loans	4.41% - 5.10%	2021 – 2023	**108,662,640**	131,029,391
			1,196,631,553	879,102,236
Other current loans				
Advances from non-controlling shareholders	3% - 6.19%	-	**-**	33,205,788
Total current loans and borrowings			**1,196,631,553**	912,308,024

	Effective interest rate %	**Maturity**	**2018**	2017
Non-current loans and borrowings				
Saudi industrial development fund	1.34% - 2.51%	2019 – 2022	**602,408,239**	1,021,861,206
Shari'a compliant bank loans	2.39% - 5.10%	2021 – 2027	**3,034,224,436**	2,956,742,465
Public investment fund loans	3.32% - 3.80%	2020 – 2026	**459,612,219**	648,086,991
Commercial loans	4.41% - 5.10%	2021 – 2023	**707,078,379**	813,008,952
			4,803,323,273	5,439,699,614
Other non-current loans				
Advances from non-controlling shareholders	5%	2021	**93,780,217**	87,920,236
Islamic Murabaha bonds (SUKUK)	5.19%	2021	**999,908,219**	998,136,277
Total non-current loans and borrowings			**5,897,011,709**	6,525,756,127
Total loans and borrowings			**7,093,643,262**	7,438,064,151
Total financial liabilities measured at amortized cost			**7,572,435,806**	7,933,248,698

EXPRESSED IN SAUDI RIYALS

16. FINANCIAL INSTRUMENTS (continued)

16.2 Financial Liabilities (continued)

Aggregate maturities of the long term loans at 31 December were as follows:

	2018	2017
2018	**-**	912,308,024
2019	**1,196,631,553**	1,399,258,781
2020	**1,332,790,344**	1,182,323,845
2021	**2,245,011,380**	2,006,541,874
2022	**820,071,717**	682,216,046
2023 and above	**1,499,138,268**	1,255,415,581
	7,093,643,262	7,438,064,151

Secured loan - Saudi Industrial Development Fund

The Saudi Industrial Development Fund ("SIDF") granted loans to IAC, IVC, IPC, SCC, SSPC and GACI. These loans are secured by guarantees from shareholders of relevant affiliates proportionate to their respective shareholdings and a first priority mortgage on all present and future assets. The loans are repayable in unequal semi-annual instalments. The loan agreements include covenants to maintain financial ratios during the loans period. Management fees and follow-up fees are charged to the loans as stated in the loan agreements.

As at 31 December 2018, IAC and IVC is in covenant breach of maintaining current ratio and capital expenditure requirement for SIDF loan. IAC and IVC obtained a waiver of the breach of covenant on 19 July 2018 for a period of 12 months.

Shari'a compliant bank loans

The Group entered into Shari'a compliant credit facility agreements with individual financial institutions as well as syndicates of financial institutions. The loans are secured by second priority mortgage on the assets already mortgaged to SIDF. Under shareholder support agreement for the projects financing. The loans are repayable in unequal semi-annual instalments. The agreements include covenants to maintain certain financial ratios. The loans carry financial charges at SIBOR plus a fixed margin.

Secured loan - Public Investment Fund

The Public Investment Fund ("PIF") granted loans to IAC, IVC, IGC and IPC to finance the construction of plants of these companies. The obligation under these loan agreements at all times are pari passu with all other creditors. The loans are repayable in equal semi-annual instalments. The agreements include covenants to maintain certain financial ratios. The loans carry financial charges at LIBOR plus a fixed margin.

Commercial loans

The Group entered into various commercial loan credit facilities with various financial institutions. The loans are secured by second priority mortgage on the assets already mortgaged to SIDF. The loans are repayable in unequal semi-annual instalments. The agreements include covenants to maintain certain financial ratios. The loans carry financial charges at SIBOR plus a fixed margin.

As at 31 December 2018, IDC is in breach of repayments to be made under the loan agreement. IDC has obtained a waiver from the banks for all the outstanding payments to be repaid on 31 December 2018.

Advances from non-controlling shareholders

The partners of GACI, and SSPC have agreed to contribute long term advances to finance certain percentage of their projects' costs as per the shareholder agreements. As per the shareholder agreements, long term shareholders' advances shall be repaid after the repayment of external indebtedness and funding of the reserve accounts.

As of 31 December 2018, the shareholders of the subsidiaries of the Company had granted long term advances of SR 93.8 million (2017: SR 87.9 million). The shareholders have also made short term advances of SR nil (2017: SR 33.2 million). Long term advances carry finance charges at market rates and have specific maturity dates as per agreed repayment schedules.

EXPRESSED IN SAUDI RIYALS

16. FINANCIAL INSTRUMENTS (continued)
16.2 Financial Liabilities (continued)

Sukuk

On June 2016, the Company issued new Mudaraba/Murabaha Sukuk amounting to SR 1,000 million with a maturity of five years and with commission payable semi-annually at a rate of SIBOR plus 2.35% per annum.

Bank Facilities

The Group has bank facilities from local banks in the form of working capital facilities, letters of credit and guarantee, and other facilities ("the Facilities"). The Facilities carry commission at the prevailing market rates. At 31 December 2018, the Group had no (2017: SR nil) working capital facilities.

16.3 Financial Assets measured at fair value

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the 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 31 December2018				
Short term investments					
Equity securities	**34,831,968**	**34,831,968**	**34,831,968**	**-**	**-**
Total	**34,831,968**	**34,831,968**	**34,831,968**	**-**	**-**

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

16. FINANCIAL INSTRUMENTS (continued)

16.3 Measurement at fair value (continued)

The financial assets and liabilities of the Group are recognised in the consolidated 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.

16.4 Measurement at amortized cost

This represents deposits with banks having maturity of more than three months but less than a year from date of placement. The group has the intention to hold the investment till maturity. The amount of such investments as at 31 December 2018 is SR 287.0 million (2017: SR 222.5 million).

16.5 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 arrive directly from its operations. The Group has entered into derivative transactions. The Group's principal financial liabilities, comprise short and long term loans and borrowings, including advances from partners, as well as trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's financial risk activities are governed by appropriate policies and procedures. Financial risks are identified, measured and managed in accordance with group policies and risk appetite. All derivative activities for risk management purposes are carried out by teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity price risk and commodity price risk. Financial instruments affected by market risk include: loans and borrowings, deposits, and derivative financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. To manage this, the Group has a policy to assess implications of changes in interest rates and evaluate need of entering into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2018, fixed amount of interest on long term loan is approximately around 20% (2017 : 23%) of finance charges on loans. As at 31 December 2018, the Group has no interest rate swaps.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings, after the impact of hedge accounting (if any). With all other variables held constant, the Group's profit before zakat and foreign income tax is affected through the impact on floating rate borrowings, as follows:

	Increase/ decrease in basis points	Effect on profit before zakat and foreign income tax
31 December 2018		
Impact in SR in million due to change in base point	+0.5%	(33.55)
Impact in SR in million due to change in base point	-0.5%	33.55
31 December 2017		
Impact in SR in million due to change in base point	+0.5%	(35.65)
Impact in SR in million due to change in base point	-0.5%	35.65

16. FINANCIAL INSTRUMENTS (continued)

16.5 Financial instruments risk management objectives and policies (continued)

Interest rate sensitivity (continued)

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing some volatility than in prior years.

Foreign Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries including foreign currency amounts due from related parties. The Group is subject to fluctuations in foreign exchange rates for Euros. The currency risk is monitored at the Group level. The Group monitors the fluctuations in Euro exchange rates and manages its foreign currency risk by entering into hedging transactions using forward exchange contracts. At 31 December 2018, the Group had receivables of € 35.7 million (2017: € 42.2 million) included in amounts due from related parties.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit before zakat and foreign income tax (due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives) and the Group's pre-tax equity, if any. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in Euro rate	**Effect on profit before tax**	**Effect on equity**
		SR in million	**SR in million**
31 December 2018			
Euro to Saudi Riyals	**+0.5**	**17.96**	**17.96**
Euro to Saudi Riyals	**-0.5**	**(17.96)**	**(17.96)**
31 December 2017			
Euro to Saudi Riyals	+0.5	27.16	27.16
Euro to Saudi Riyals	-0.5	(27.16)	(27.16)

Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities involve owning, establishing, operating and managing industrial projects specially those related to chemical and petrochemical industries. The Group's Board of Directors has developed and enacted a risk management strategy dealing with commodity price risk and its mitigation.

16. FINANCIAL INSTRUMENTS (continued)

16.5 Financial instruments risk management objectives and policies (continued)

Price sensitivity

The following table shows the effect of price changes for commodities:

	Change in year-end price	Effect on profit before tax SR in million	Effect on equity SR in million
31 December 2018			
Crude Oil (USD/MT)	+5%	223.7	223.7
Crude Oil (USD/MT)	-5%	(181.6)	(181.6)
31 December 2017			
Crude Oil (USD/MT)	+5%	175.4	175.4
Crude Oil (USD/MT)	-5%	(231.2)	(231.2)

Cash flow hedges

a) At 31 December 2018, the Group held the following instruments to hedge exposures to changes in foreign currency rates:

	Less than 6 months	6 to 12 months In million	More than 1 year In million
31 December 2018			
Forward exchange contract - Euro	**23.9**	**-**	**-**
31 December 2017			
Forward exchange contract - Euro	34.4	-	-

b) The amounts at the reporting date relating to items designated as hedged items were as follows:

	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Cost of hedging hedge reserve
31 December 2018	**SR in million**		
Sales and receivables	**0.8**	**-**	**-**
31 December 2017			
Sales and receivables	2.8	-	-

c) The amounts relating to items designated as hedging instruments and hedge effectiveness are as follows:

	Nominal amount	Carrying amount - Assets	Line item in the statement of financial position where hedging instrument is included	Hedge ineffectiveness recognized in profit or loss
31 December 2018	**SR in million**			
Forward contract - sales and receivables	**155.8**	**102.7**	**Revenue and Trade receivables**	**0.8**
31 December 2017				
Forward contract - sales and receivables	220.3	154.9	Revenue and Trade receivables	2.8

Ineffective portion of the hedge is recognized in finance cost in statement of profit or loss.

EXPRESSED IN SAUDI RIYALS

16. FINANCIAL INSTRUMENTS (continued)

16.5 Financial instruments risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets and contract assets disclosed in note 16.

Impairment losses on financial assets and contract assets recognised in profit or loss are as follows:

	2018	2017
Impairment loss reversed on trade receivables and contract assets arising from contracts with customers	**(17,316,414)**	(36,396,451)
	(17,316,414)	(36,396,451)

Trade receivables and contract assets

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance. At 31 December 2018, the Group had 15 customers (2017: 15 customers) that owed more than SR 416 million (2017: SR 523 million) altogether and accounted for approximately 63% (2017: 60%) of the total trade receivables.

The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as normal, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

At 31 December 2018, the exposure to credit risk for trade receivables and contract assets by geographic region is as follows:

	2018	2017
Foreign countries	**573,092,013**	809,536,908
Saudi Arabia	**86,802,584**	67,241,100
	659,894,597	876,778,008

At 31 December 2018, the exposure to credit risk for trade receivables and contract assets by type of counterparty is as follows:

	2018	2017
Marketers/off takers	**251,852,279**	300,238,096
End-user customers	**408,042,318**	576,539,912
	659,894,597	876,778,008

At 31 December 2018, the carrying amount of the Group's most significant customer (Marketer/off taker) is SR 132.8 million (2017: SR 132.9 million).

EXPRESSED IN SAUDI RIYALS

16. FINANCIAL INSTRUMENTS (continued)
16.5 Financial instruments risk management objectives and policies (continued)

Credit risk (continued)
Trade receivables and contract assets (continued)
Comparative information under IAS 39
For analysis of the credit quality of trade receivables that were neither past due nor impaired and the aging of trade receivables that were past due but not impaired as at 31 December 2017, see Note 18.

Impaired trade receivables at 31 December 2017 had a gross carrying amount of SR 731.6 million. The impairment loss at 31 December 2017 related to several customers which are not able to pay their outstanding balances mainly due to economic difficulties/circumstances.

Expected credit loss assessment for customers as at 31 December 2018
The Group allocates each exposure to a credit risk grade based credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of the customers on due dates.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from customers as at 31 December 2018:

	Weighted average loss rate	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	-	610,045,514	-	-
0-90 days past due	-	48,847,788	-	-
91-120 days past due	4%	579,200	(20,888)	Yes
121-180 days past due	9%	556,654	(113,671)	Yes
181-360 days past due	15%	-	-	Yes
More than 360 days past due	100%	90,561,802	(90,561,802)	Yes
		750,590,958	(90,696,361)	

Loss rates are based on actual credit loss experience over the past years. These rates are reflective of economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Financial instruments and cash deposits
Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts as illustrated in note 18, except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments are in note 27.

Liquidity risk
Liquidity risk is the risk that the Group may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manages its liquidity risk by managing the working capital and ensuring that the bank facilities are available.

16. FINANCIAL INSTRUMENTS (continued)

16.5 Financial instruments risk management objectives and policies (continued)

Credit risk (continued)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

As at 31 December 2018	**Carrying Value**	**On demand**	**Less than 6 months**	**6 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
	SR '000						
Trade and other payables	**183,578**	**140,453**	**42,776**	**148**	**169**	**32**	**183,578**
Accrued expenses and other current liabilities	**295,215**	**8,126**	**251,304**	**35,785**	**-**	**-**	**295,215**
Loans and borrowings	**7,093,643**	**-**	**479,322**	**723,728**	**5,083,107**	**827,658**	**7,113,815**
	7,572,436	**148,579**	**773,402**	**759,661**	**5,083,276**	**827,690**	**7,592,608**

As at 31 December 2017	Carrying Value	On demand	Less than 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
	SR '000						
Trade and other payables	196,925	39,104	157,524	221	72	4	196,925
Accrued expenses and other current liabilities	298,260	6,738	206,251	85,271	-	-	298,260
Loans and borrowings	7,438,064	33,206	433,768	445,334	5,288,675	1,269,969	7,470,952
	7,933,249	79,048	797,543	530,826	5,288,747	1,269,973	7,966,137

Capital management

Capital includes equity paid up capital and equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio and current ratio, the Group's policy is to keep the gearing ratio maximum 3:1 and current ratio minimum 1.5:1. The Group calculates the gearing ratio by total liabilities divided by total shareholder's equity including non-controlling interest.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants may lead to call-back of facilities. During the year, there were breach of loan covenants related to SIDF, PIF and commercial loans for which the Company contacted the financial institution and obtained necessary waiver letters before the end of the year ended 31 December 2018. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018.

17. INVENTORIES

	Note	2018	2017
Raw materials		**171,522,592**	148,457,366
Finished goods	17.1	**403,784,932**	326,292,105
Spare parts and consumables		**257,461,866**	218,765,408
Provision for slow moving stores and spares	17.2	**(25,842,869)**	(25,159,972)
		806,926,521	668,354,907

17.1. Finished goods includes the inventories amounting to SR 12.4 million (2017: SR 7.5 million) which are semi finished products as at 31 December 2018.

17.2. Movement in provision for slow moving stores and spares is as follows:

	2018	2017
Balance as at 1 January	**25,159,972**	-
Provision for the year	**682,897**	25,159,972
Balance as at 31 December	**25,842,869**	25,159,972

17.3. During the year ended 31 December 2018, the Group wrote down its finished goods inventory by SR 1.6 million (2017: SR 5.7 million) on account of an increase in the cost of production of certain finished goods exceeding the selling prices. The write-down is included in 'cost of sales' in the consolidated statement of profit or loss.

18. TRADE RECEIVABLES

	Note	2018	2017
Trade receivables		**750,590,958**	984,790,783
Less: Impairment loss	18.1	**(90,696,361)**	(108,012,775)
		659,894,597	876,778,008

18.1. Movement in impairment loss is as follows:

	2018	2017
Balance as at 1 January	**108,012,775**	144,409,226
Reversed during the year	**(17,316,414)**	(36,396,451)
Balance as at 31 December	**90,696,361**	108,012,775

Trade receivables include an amount of SR 251.9 million (2017: SR 300.2 million) from related parties. For terms and conditions relating to related party receivables, refer to note 30. Trade receivables are non-interest bearing and are generally on terms in accordance with the agreements with customers. The management analyse customers outstanding balance on regular basis and write off any balance which management realize to be un-collectible. Following is the provision matrix used by the Group for provision in case of trade receivables as at 31 December 2017:

			Past due but not impaired		
	Total	Neither past due nor impaired	< 6 months	6 to 12 months	>12 months
	SR '000				
31 December 2017	876,778	721,576	148,590	6,201	411

Trade receivables amounting to SR 230.2 million (2017: SR 333.6 million) are pledged as collateral.

Please refer note 16 on credit risk of trade receivables, which discusses how the Group manages and measures credit quality of trade receivables.

EXPRESSED IN SAUDI RIYALS

19. PREPAYMENTS AND OTHER CURRENT ASSETS

	2018	2017
Advances, deposits and prepayments	**167,577,457**	74,242,051
VAT input tax receivable	**21,685,259**	-
Accrued investments income	**5,602,244**	8,104,833
Others	**2,697,158**	710,865
	197,562,118	83,057,749

20. CASH AND CASH EQUIVALENTS

	2018	2017
Cash in hand	**110,000**	119,091
Cash at bank	**478,124,234**	442,035,219
Short term deposits	**535,280,000**	1,280,600,000
	1,013,514,234	1,722,754,310

Cash and cash equivalents include cash and bank balances, demand deposits, and highly liquid investments with original maturities of three months or less. Short term deposits represents deposits with commercial banks carrying profit rate ranging from 0.8% - 3.01% (2017: 0.5% - 2.5%).

21. SHARE CAPITAL AND RESERVES

	2018	2017
Authorized shares		
Ordinary shares @ SR 10 each		
Ordinary shares issued and fully paid		
As at 1 January	**366,666,666**	366,666,666
Issued during the year	**-**	-
As at 31 December	**366,666,666**	366,666,666

21.1 Statutory reserve

In accordance with Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for distribution to shareholders.

21.2 Reserve for result of sales / purchase of shares in subsidiaries

The gains or losses resulting from sale / purchase 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 / purchases of shares in subsidiaries.

22. SHARE BASED PAYMENTS ARRANGEMENTS

As at 31 December 2018, the Group had following share-based payments arrangements;

Share purchase plan (Equity-settled)

The Group had offered to its employees to participate in an employee share purchase plan. To participate in plan, employees must have fulfil eligibility criteria of the Company i.e. must have competed one year of services and good performance rating, approval of the Company. Under the terms of Plan, at the end of 36 months period the employees are entitled to purchase shares using funds saved at a price of 30% below the market price at grant date. Only employees that remain in services and save the required amount of their gross monthly salary for 36 consecutive months will become entitled to purchase the shares. The subscriber pays 25% of value of the allotted shares in cash and remaining is paid in equal monthly instalments not exceeding 20% of the subscriber's monthly salary. Employees who ceases their employment, before completion of 36 instalments, or elect not to exercise their options to purchase shares will be refunded their saved amounts.

EXPRESSED IN SAUDI RIYALS

22. SHARE BASED PAYMENTS ARRANGEMENTS (continued)

The key terms and conditions related to the grant under these programmes are as follows; all options are to be settled by the physical delivery of shares.

31 December 2018:

Grant date	Number of Instruments	Vesting conditions	Grant Date Fair Value	Exercise Price	Contractual life of options
1-May-16	**429,207**	**3 years services from grant date**	**14.19**	**9.9**	**3 Years**
1-May-17	**166,234**	**Same as above**	**18.06**	**12.6**	**3 Years**
1-Nov-17	**230,806**	**Same as above**	**15.17**	**10.6**	**3 Years**
1-May-18	**36,958**	**Same as above**	**22.63**	**15.8**	**3 Years**
1-Nov-18	**89,099**	**Same as above**	**21.09**	**14.8**	**3 Years**

31 December 2017:

Grant date	Number of instruments	Vesting conditions	Grant date fair value	Exercise price	Contractual life of options
1 May 2015	30,212	3 years services from grant date	30.69	21.5	3 Years
1 Nov 2015	117,851	Same as above	20.40	14.3	3 Years
1 May 2016	471,896	Same as above	14.19	9.9	3 Years
1 May 2017	185,743	Same as above	18.06	12.6	3 Years
1 Nov 2017	159,845	Same as above	15.17	10.6	3 Years

The Group has cash and cash equivalent of SR 1.5 million (2017: SR 1.2 million) and short-term investments of SR 34.8 million (2017: SR 31.0 million) under share based payments arrangements. The expense recognized during the year arising from amortization of discount offered under share based payments arrangements amounted SR 1.3 million (2017: SR 1.2 million).

23. DIVIDENDS

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

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

On December 23, 2018, the Board of directors recommended to distribute interim cash dividend for the second half of the year 2018 amounting to SR 238.3 million i.e. SR 0.65 per share, equivalent to 7% of the share capital. The distribution is limited to the shareholders who are registered in Tadawul at end of second trading day following the date of the meeting.

24. EMPLOYEES' BENEFITS

	Note	2018	2017
Post employments benefits	24.1	**244,162,923**	222,517,174
Thrift plan	24.2	**25,286,087**	19,894,625
		269,449,010	242,411,799

24.1. Post employments benefits

The group has a post-employment defined benefit plan. The benefits are required by Saudi Labour and Workmen Law. The Group and its subsidiaries recognized the benefits in the consolidated statement of profit and loss. The benefit is based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The following table summarizes the components of the net benefit expense recognized in the consolidated income statement and consolidated statement of other comprehensive income and amounts recognized in the consolidated statement of financial position.

EXPRESSED IN SAUDI RIYALS

24. EMPLOYEES' BENEFITS (continued)
24.1. Post employments benefits (continued)

Net benefit expense recognised in consolidated statement of profit or loss:

	2018	2017
Current service cost	**27,292,282**	27,346,808
Interest cost on benefit obligation	**7,514,222**	7,438,520
	34,806,504	34,785,328

Re-measurement: Actuarial (gains)/ losses recognised in consolidated statement of profit or loss and other comprehensive income:

	2018	2017
(Gain)/loss due to change in financial assumptions	**(12,339,312)**	3,196,023
Loss due to change in demographic assumptions	**-**	353,878
Loss/(gain) due to change in experience adjustments	**13,417,228**	(3,892,714)
	1,077,916	(342,813)

Movement in the present value of defined benefit obligation:

	2018	2017
As at 1 January	**222,517,174**	193,360,439
Current service cost	**27,292,282**	27,346,808
Interest cost	**7,514,222**	7,438,520
Actuarial loss/(gain) on the obligation	**1,077,916**	(342,813)
Benefits paid during the year	**(14,238,671)**	(5,285,780)
As at 31 December	**244,162,923**	222,517,174

Significant assumptions used in determining the post-employment defined benefit obligation includes the following:

	2018	2017
Discount rate	4.50%	3.30%
Future salary increases	4.50%	3.75%
Mortality rates	WHO 15	WHO 15
Rates of employee turnover	Moderate	Moderate

Assumptions regarding future mortality have been based on published statistics and mortality tables. For the current year ended World Health Organization "WHO" 15 mortality table is used. There is no major deviation in the mortality tables used.

A quantitative sensitivity analysis for discount rate assumption on the defined benefit obligation as at 31 December 2018 is shown below:

Assumptions	**Discount rate**	
Sensitivity analysis	**0.5% Increase**	**0.5% Decrease**
Defined benefit obligation as at 2018	**232,997,969**	**256,295,597**
Defined benefit obligation as at 2017	212,176,283	233,786,533
	Future Salary increase	
	0.5% Increase	**0.5% Decrease**
Defined benefit obligation as at 2018	**252,621,378**	**236,248,078**
Defined benefit obligation as at 2017	229,620,222	215,873,486

EXPRESSED IN SAUDI RIYALS

24. EMPLOYEES' BENEFITS (continued)

24.1. Post employments benefits (continued)

The sensitivity analyses above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. The average duration of the defined benefit obligation at the end of the reporting period is 9.15 years (2017: 8.43 years).

24.2. Thrift 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 income statement.

24.3. Employee benefit expenses

	2018	2017
Salaries and wages	**542,025,910**	528,811,435
End of service benefits	**27,292,282**	27,346,808
Social security contributions	**18,949,769**	18,400,112
Contribution towards thrift plan	**7,454,109**	6,225,655
Share based payment transactions	**1,278,712**	1,157,754
Others	**5,386,508**	3,230,308
	602,387,290	585,172,072

25. DECOMMISSIONING LIABILITY

	2018	2017
Balance as at 01, January	**86,995,365**	82,852,728
Additional provision*	**2,860,668**	-
Charge for the year	**4,432,032**	4,142,637
Balance as at 31, December	**94,288,065**	86,995,365

*Addition during the year relates to PBT Plant which was capitalized during the year.

26. TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	**182,664,233**	186,978,995
Retention payable	**914,194**	9,945,713
	183,578,427	196,924,708

27. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2018	2017
Goods received invoices not received	**251,303,048**	206,250,636
Distribution costs accruals	**66,361,212**	49,008,291
Donations	**23,642,993**	14,497,223
IT, maintenance accruals and projects accruals	**18,378,910**	29,603,812
SEIP payable	**8,126,066**	6,738,274
Employees related liabilities	**7,505,039**	31,886,641
Precious metals accruals	**3,736,549**	90,617,682
Forward contracts fair value provision	**725,335**	2,804,977
Others	**59,242,568**	160,173,201
	439,021,720	591,580,737

EXPRESSED IN SAUDI RIYALS

28. DEFERRED REVENUE

The Group had entered into a Carbon Monoxide ("CO") supply agreement with a customer to process Natural Gas and supply Carbon Monoxide. The Group had received an advance of SR 50.6 million which is adjustable against the supply of CO during the first sixty months from the commencement date of CO supply to the customer from 2017. As at 31 December 2018, outstanding advance was amounted to SR 35.4 million (2017: SR 45.5 million) including SR 10.1 million (2017: SR 10.1 million) which is classified as current.

29. COMMITMENTS AND CONTINGENCIES

29.1 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.

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

	2018	2017
Within one year	**2,569,548**	2,569,548
After one year but not more than five years	**10,278,192**	10,278,192
More than five years	**21,784,589**	24,354,137
	34,632,329	37,201,877

29.2 Commitments

	2018	2017
Capital commitments	**224,142,615**	502,191,501

29.3 Contingencies

	2018	2017
Letter of guarantees and credits	**731,563,834**	480,022,581

29.4 Contingent liabilities

The Group has no material contingent liabilities as at year ended 31 December 2018 except for those as disclosed in note 9 to the consolidated financial statements.

30. RELATED PARTY TRANSACTIONS AND BALANCES

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

Name	**Relationship**
Japan Arabia Methanol Company Limited (JAMIC)	Non-controlling interest
HELM – Arabia GmbH & Co. KG (Helm – Arabia)	Non-controlling interest
Hanwha Chemical Malaysia Sdn Bhd	Non-controlling interest

Non-controlling shareholders who are the foreign partners of the Company marketed part of the Group's products. Total sales made through those foreign partners amounted to SR 1,714.1 million (2017: SR 1,545.9 million).

The Company and non-controlling shareholders granted advances to the companies of the group to support their operations and comply with the debt covenants. Long term advances carry finance charges at market rates and have specific maturity dates as per agreed repayment schedules whilst short term advances carry finance charges ranging from 3% to 6%.(note 16).

The prices and terms of the above transactions were approved by the Board of Directors of the subsidiaries of the Group. The above transactions resulted in the following balances with related parties as at 31 December:

EXPRESSED IN SAUDI RIYALS

30. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

a) Due from related parties

	Note	2018	2017
Japan Arabia Methanol Company Limited (JAMC)		**19,555,153**	52,492,518
HELM -Arabia GmbH & Co. KG (Helm -Arabia)		**132,773,476**	132,957,969
Hanwha Chemical Malaysia Sdn Bhd		**99,523,650**	114,787,609
	18	**251,852,279**	300,238,096

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Group has assessed and recorded an impairment related to amounts owed by a related party. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

b) Key management personnel

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

c) Transaction with Key management personnel

	2018	2017
Directors' loan	**9,469,753**	-
	9,469,753	-

d) Compensations of key management personnel of the Group

The key management personnel compensation is as follows:

	2018	2017
Short-term employee benefits	**22,053,711**	22,895,561
End of service benefits	**2,782,357**	3,099,251
Termination benefits	**9,007,247**	-
Thrift plan	**1,592,652**	1,074,280
Share based payment transaction	**147,600**	106,200
Total compensation paid to key management personnel	**35,583,567**	27,175,292

e) Directors' interest in the Senior Executive Plan

Share options held by executive members of the Board of Directors under the senior executive plan to purchase ordinary shares have the following expiry dates and exercise prices:

31 December 2018

Grant date employees entitled	**Number of instruments**	**Vesting conditions**	**Contractual life of options**
On 1 May 2014	**5,000**	**3 years service**	**3 years**
On 1 November 2015	**75,000**	**3 years service**	**3 years**
On 1 May 2016	**10,000**	**3 years service**	**3 years**
On 1 November 2017	**10,000**	**3 years service**	**3 years**
On 1 November 2018	**10,000**	**3 years service**	**3 years**
Total share options	**110,000**		

EXPRESSED IN SAUDI RIYALS

30. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

f) Directors' interest in the Senior Executive Plan (continued)

31 December 2017

Grant date employees entitled	Number of instruments	Vesting conditions	Contractual life of options
On 1 May 2014	5,000	3 years service	3 years
On 1 November 2015	75,000	3 years service	3 years
On 1 May 2016	10,000	3 years service	3 years
On 1 November 2017	10,000	3 years service	3 years
Total share options	100,000		

31. PROPOSED MERGER

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

During 2018, Sipchem announced that they have resumed the discussions with Sahara in relation to the proposed merger. On 12 December 2018, Sipchem announced that, subject to necessary regulatory approvals, Sipchem and Sahara have entered into a legally binding agreement (the "Implementation Agreement") governing the terms and conditions on which Sipchem and Sahara propose to implement a business merger of equals by way of Sipchem making a recommended offer to acquire all of the issued shares in Sahara in exchange for the issue of new shares in Sipchem in accordance with the applicable rules and regulations of the Capital Market Authority ("CMA") and the Companies Regulations (the "Transaction"). Upon completion of the Transaction, all of the Sahara shares will be delisted from the Tadawul and Sahara will become a wholly-owned subsidiary of Sipchem.

32. COMPARATIVE FIGURES

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

33. POST BALANCE SHEET EVENTS

No adjusting event occurred at the date of authorization of consolidated financial statements by Board of Directors which may have impact on these consolidated financial statements.