ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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Independent Auditor's Report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Advanced Petrochemical Company ("the Company"), a Saudi Joint Stock Company, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section* of our report. We are independent of the Group in accordance with professional code of conduct and ethics 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 auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements section* of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Independent Auditor's Report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Revenue from sales of goods is recognized when control of the products sold is transferred to the customer and is measured at a provisional price which is a pre agreed price between the Group and its marketers. The Group is making majority of its sales through its marketers, and as per the terms of the agreement, the Group records sales for the products sold to its marketers at a pre-approved provisional price which is mutually agreed between both the parties. This provisional price is the best estimate based on the prices prevailing in the market at that time. Subsequent to the sale of the products to third parties by marketers on actual market price, a positive or negative net back adjustment is made by the Group with the provisional price serving as the base price. This adjustment is finalized on a regular basis whenever the product is sold. The Group focuses on revenue as a key performance measure, which could create an incentive for misstatement of revenue. Based on the above factors and the materiality of the amounts involved, we have considered revenue recognition as a key audit matter. Refer to note 3 to the consolidated financial statements for the Group's accounting policy relating to revenue recognition.	We performed the following procedures to address the key audit matter: - Reviewed the revenue recognition policy applied by the Group to ensure its compliance with IFRS requirements that are endorsed in the Kingdom of Saudi Arabia; - Assessed the processes and controls over revenue stream; - Inspected a sample of contracts to validate that revenue recognition was in accordance with the contract terms and the Group's revenue recognition policies; - Evaluated provisional price adjustment as at year end for the sales made near to the year end. - Tested transactions around the year-end, to ensure revenues were recognised in the correct accounting period; - Assessed adequacy of the disclosure included in the notes to the consolidated financial statements.

Independent Auditor's Report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company) (continued)

Other information included in The Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2019 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 do 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 Group's 2019 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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law 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.

Those charged with governance is responsible for overseeing the Group's financial reporting process.

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Independent Auditor's Report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company) (continued)

Auditor's 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 auditor's 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 the 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 judgment and maintain professional skepticism 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.

- 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, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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Independent Auditor's Report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company) (continued)

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

- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 auditor's 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 Ernst & Young

Marwan Al Afaliq
Certified Public Accountant
License No. 422

2 Rajab 1441H
26 February 2020
Al Khobar

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

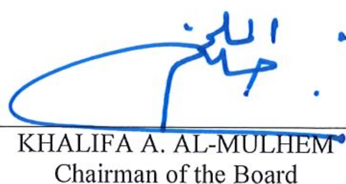
	Note	**2019**	2018
Sales		**2,594,508**	2,748,212
Cost of sales	24	**(1,695,313)**	(1,920,634)
GROSS PROFIT		**899,195**	827,578
Selling and distribution expenses		**(26,377)**	(19,800)
General and administration expenses	25	**(140,595)**	(107,403)
OPERATING PROFIT		**732,223**	700,375
Finance costs		**(39,809)**	(38,515)
Share in profit of an associate	9	**76,587**	66,878
Other income, net		**19,616**	16,624
PROFIT BEFORE ZAKAT AND INCOME TAX		**788,617**	745,362
Zakat and income tax expense	23		
Zakat		**(28,310)**	(27,640)
Current tax		**(1,276)**	(963)
Deferred tax		**277**	201
PROFIT FOR THE YEAR		**759,308**	716,960
Earnings per share			
- Basic and diluted (*adjusted*)	27	**3.508**	3.312

KHALIFA A. AL-MULHEM	FAHAD S. AL-MATRAFI	PATRICK TOWNSEND
Chairman of the Board	President & CEO	Chief Financial Officer

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
PROFIT FOR THE YEAR		**759,308**	716,960
OTHER COMPREHENSIVE INCOME			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of investment in an associate	9	**(18,178)**	(22,186)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(18,178)**	(22,186)
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:			
Unrealized fair value loss on equity investment at fair value through other comprehensive income	11	**(55,136)**	(51,573)
Re-measurements of retirement benefit obligations	21	**(6,010)**	18,703
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(61,146)**	(32,870)
Other comprehensive loss for the year		**(79,324)**	(55,056)
Total comprehensive income for the year		**679,984**	661,904



KHALIFA A. AL-MULHEM
Chairman of the Board

FAHAD S. AL-MATRAFI
President & CEO

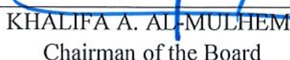
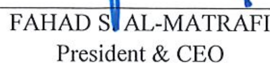
PATRICK TOWNSEND
Chief Financial Officer

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	**1,778,970**	2,018,405
Right-of-use assets		**13,397**	-
Intangible assets	8	**2,092**	2,439
Investment in an associate	9	**637,483**	579,074
Investment in an unconsolidated subsidiary	10	**376**	376
Equity investment at fair value through other comprehensive income	11	**582,448**	609,199
Other non-current assets	12	**259,953**	144,087
TOTAL NON-CURRENT ASSETS		**3,274,719**	3,353,580
CURRENT ASSETS			
Inventories	13	**131,989**	152,023
Trade receivables	14	**311,056**	276,581
Prepayments and other current assets	15	**36,925**	61,444
Short term investments	16	**-**	660,000
Cash and cash equivalents	17	**47,899**	192,720
TOTAL CURRENT ASSETS		**527,869**	1,342,768
TOTAL ASSETS		**3,802,588**	4,696,348
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	**2,164,734**	1,967,940
Statutory reserve		**636,943**	561,012
Other components of equity		**83,725**	157,039
Retained earnings		**464,929**	538,331
TOTAL EQUITY		**3,350,331**	3,224,322
NON-CURRENT LIABILITIES			
Non-current portion of lease liabilities		**12,338**	-
Employees' defined benefit liabilities and other benefits	21	**110,561**	101,690
Deferred tax liabilities, net	23	**1,016**	1,293
TOTAL NON-CURRENT LIABILITIES		**123,915**	102,983
CURRENT LIABILITIES			
Sukuk	20	**-**	999,298
Current portion of lease liabilities		**1,190**	-
Trade payable		**88,030**	141,541
Accruals and other current liabilities	22	**208,275**	199,339
Zakat and income tax provision	23	**25,433**	24,156
Dividends payable	30	**5,414**	4,709
TOTAL CURRENT LIABILITIES		**328,342**	1,369,043
TOTAL LIABILITIES		**452,257**	1,472,026
TOTAL EQUITY AND LIABILITIES		**3,802,588**	4,696,348

KHALIFA A. AL-MULHEM	FAHAD S. AL-MATRAFI	PATRICK TOWNSEND
Chairman of the Board	President & CEO	Chief Financial Officer

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

			Other components of equity			
	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Total
At 1 January 2018	1,967,940	489,316	189,859	40,939	425,387	3,113,441
Profit for the year	-	-	-	-	716,960	716,960
Other comprehensive loss for the year	-	-	(51,573)	(22,186)	18,703	(55,056)
Total comprehensive loss for the year	-	-	(51,573)	(22,186)	735,663	661,904
Transfer to statutory reserve	-	71,696	-	-	(71,696)	-
Dividends (Note 30)	-	-	-	-	(551,023)	(551,023)
At 31 December 2018	**1,967,940**	**561,012**	**138,286**	**18,753**	**538,331**	**3,224,322**
At 1 January 2019	1,967,940	561,012	138,286	18,753	538,331	3,224,322
Profit for the year	-	-	-	-	759,308	759,308
Other comprehensive loss for the year	-	-	(55,136)	(18,178)	(6,010)	(79,324)
Total comprehensive loss for the year	-	-	(55,136)	(18,178)	753,298	679,984
Increase in share capital (note 1)	196,794	-	-	-	(196,794)	-
Transfer to statutory reserve	-	75,931	-	-	(75,931)	-
Dividends (note 30)	-	-	-	-	(553,975)	(553,975)
At 31 December 2019	**2,164,734**	**636,943**	**83,150**	**575**	**464,929**	**3,350,331**

KHALIFA A. AL-MULHEM
Chairman of the Board

FAHAD S. AL-MATRAFI
President & CEO

PATRICK TOWNSEND
Chief Financial Officer

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

المتقدمة
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
OPERATING ACTIVITIES			
Profit before zakat and income tax		**788,617**	745,362
Adjustment to reconcile profit before zakat and income tax to net cash flows:			
Depreciation		**214,111**	206,500
Amortisation		**1,139**	1,243
Depreciation of right-of-use assets	4	**1,201**	-
Loss on disposal of property, plant and equipment		**3,446**	69
Finance costs		**39,809**	38,515
Share in profit of an associate	9	**(76,587)**	(66,878)
Employees' defined benefits liabilities and other benefits	21	**19,421**	19,952
		991,157	944,763
Working capital adjustments:			
Inventories		**(5,323)**	(9,019)
Trade receivables		**(34,475)**	24,357
Prepayments and other current assets		**22,584**	(14,501)
Trade payable		**(53,511)**	18,067
Accruals and other current liabilities		**14,051**	20,752
Cash from operations		**934,483**	984,419
Employees' defined benefits liabilities and other benefits paid	21	**(16,560)**	(1,306)
Finance costs paid		**(43,662)**	(36,586)
Zakat and income tax paid	23	**(28,309)**	(25,684)
Net cash flows from operating activities		**845,952**	920,843
INVESTING ACTIVITIES			
Net movement in short term investments		**660,000**	(170,000)
Additions to equity investment at FVOCI	11	**(28,385)**	-
Additions to intangible assets	8	**(792)**	(348)
Additions to property, plant and equipment	7	**(80,847)**	(267,607)
Net movement in other non-current assets		**13,536**	10,867
Net cash flows from/ used in investing activities		**563,512**	(427,088)
FINANCING ACTIVITIES			
Repayment of term loan		**-**	(10,000)
Repayment of Sukuk		**(1,000,000)**	-
Payment of lease liabilities	4	**(1,015)**	-
Dividends paid		**(553,270)**	(551,304)
Net cash flows used in financing activities		**(1,554,285)**	(561,304)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(144,821)**	(67,549)
Cash and cash equivalents at the beginning of the year		**192,720**	260,269
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**47,899**	192,720

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

NON-CASH TRANSACTIONS:	Note	2019	2018
Transfer from Assets Under Construction to HOP receivable	12	**128,082**	-
VAT on HOP houses included in HOP receivable	12	**6,772**	-
Transfer from HOP Receivable-Long Term to current portion	12	**5,452**	-
Transfer from spare parts inventory to capital spares	7	**25,357**	-
Recognition of right-of-use assets on first time adoption of IFRS 16	4	**14,598**	-
Recognition of lease liabilities on first time adoption of IFRS 16	4	**13,983**	-
Derecognition of prepayments on first time adoption of IFRS 16	4	**615**	-
Finance charges recognized/amortized on deferred sukuk costs	20	**702**	-
Financial charges on lease liabilities against right-of-use assets	4	**560**	-

KHALIFA A. AL-MULHEM Chairman of the Board	FAHAD S. AL-MATRAFI President & CEO	PATRICK TOWNSEND Chief Financial Officer

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

Advanced Petrochemical Company (the "Company") is a Saudi joint stock company registered in Dammam, Kingdom of Saudi Arabia under commercial registration number 2050049604 dated 27 Sha'ban, 1426H (corresponding to 1 October 2005). The paid-up share capital of the Company is SR 2,164,734,000 divided into 216,473,400 shares of SR 10 each. During the Company's extraordinary General Assembly meeting held on 18 Muharram, 1441H (corresponding to 17 September 2019), an increase in share capital by 10% was approved by the shareholders by way of issuance of bonus shares. The increase in share capital was funded from the retained earnings account through the distribution of one share for every ten shares held by the existing shareholders. The number of shares increased from 196,794,000 shares to 216,473,400 shares which represents an increase of 19,679,400 shares. The earning per share (note 27) for the comparative year has been adjusted retrospectively to reflect the treatment of effect of issuance of bonus shares as required by the relevant accounting standard.

The consolidated financial statements as at 31 December 2019 include the financial statements of the Company and the following subsidiaries (collectively referred to as the "Group"):

	Effective ownership
Advanced Renewable Energy Company ("AREC") - note (a)	100%
Advanced Global Investment Company ("AGIC") - note (b)	100%

Notes:

a- Advanced Renewable Energy Company ("AREC"), is a mixed limited liability company registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 2055015327 dated 27 Rabi'I 1433H (corresponding to 19 February 2012). 5% of this investment is held under a related party's name, on behalf of the Company. The related party has assigned its share to the Company and accordingly, the Group included 100% financial statements of AREC in the condensed consolidated financial statements.

b- Advanced Global Investment Company ("AGIC") is a mixed limited liability company registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 2055017024 dated 12 Ramadan 1433H (corresponding to 1 August 2012). 5% of this investment is held under a related party's name, on behalf of the Company. The related party has assigned its share to the Company and accordingly, the Group included 100% financial statements of AGIC in the condensed consolidated financial statements.

During 2014, AGIC made 100% investment in Advanced Global Holding Limited ("AGHL"), a limited liability company incorporated in Luxembourg. AGHL has not been consolidated in these consolidated financial statements due to immaterial financial position.

The Group is licensed to engaged in production and selling Polypropylene, Polysilicon and Polysilicon downstream products which includes Photovoltaic cells and Photovoltaic, and establishing, operating and investing in industrial projects including petrochemical, chemical, basic and conversion industries and industries relating to renewable energy both within and outside the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

These consolidated financial statements are prepared using historical cost convention expect for the equity investments at fair value through other comprehensive income ("FVOCI") which is measured at fair value. For employees' defined benefit liabilities, actuarial present value calculation is used. These consolidated financial statements are presented in Saudi Riyals ("SR") which is also the functional currency of the Group. All values are rounded to the nearest thousands ("SR '000"), expect when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- 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 Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between 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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit or loss. Any investment retained is recognised at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share in results of an associate' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

Current versus non-current classification

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

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

All other assets are classified as non-current.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)
A liability is current when:

- It is expected to be settled in 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. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement
The Group measures financial instruments and non-financial assets at fair value at each balance sheet date.

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 principal or the most advantageous market must be accessible to by the Group.

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 by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

External valuers are involved for valuation of significant assets, if required. The involvement of external valuers is decided by the Group after discussion and approval by the Group's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group decides, after discussion with the Group's external valuers, which valuation technique 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 based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue recognition

Sale of goods

The Group recognises revenue when control of the products sold, transfers to the customer, which shall be considered in the context of a five step approach and applying the applicable pricing terms.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue arrangements are assessed against specific criteria to determine whether the Group is acting as a principal or agent.

For international markets, all of the sales are made to the marketers of the Group under off take agreements. Upon delivery of products to the Marketers, sales are recorded at provisional selling prices which are later adjusted based upon actual selling prices received by Marketers from third parties, after deducting costs of shipping, distribution and marketing. Adjustments are recorded as they become known to the Group.

Variable pricing – preliminary pricing
Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of control of the products while the final price for the products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of the products at an amount representing the expected final amount of consideration that the Group receives.

Where the Group records an 'accounts receivable' for the preliminary price, subsequent changes in the estimated final price shall not be recorded as revenue until such point in time at which the actual final price is determined (as long as these changes result from changes in the market price/market price index of the products). They may however be considered in subsequent re-measurement as a financial asset at fair value. Such re-measurement may be recorded as a separate revenue.

All other updates to the preliminary price is recorded against revenue with the additional receivable amount recorded under a contract asset or contract liability. Such contract asset or liability is derecognised against an accounts receivable at the point in time at which the actual final price is determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Dividend
Dividend is recognised when the Group's right to receive the payment is established, which is generally when the shareholders approves the dividend.

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

Earnings on time deposits are recognised on an accrual basis.

Expenses
Operating costs are recognised on a historical cost basis. Production costs and direct expenses are classified as cost of sales.

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the products. All other expenses other than cost of sales and financial charges are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of production costs. Allocations between general and administrative expenses and production costs, when required, are made on a consistent basis.

Zakat and income tax

Zakat and current tax
Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("the GAZT") in the Kingdom of Saudi Arabia. Under the revised zakat standard issued by SOCPA, zakat provision is charged to the consolidated statement of profit or loss, as IAS 12 'Income Taxes' do not provide any guidance on the accounting treatment of zakat. Non-Saudi shareholder in the Group are subject to income tax in the Kingdom of Saudi Arabia.

Current income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax is recognised in the consolidated statement of profit or loss. Management periodically evaluates positions taken in the Group's tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised on all deductible temporary difference, carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which these assets can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset/liability to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax (continued)

Deferred income tax (continued)
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Withholding tax
The Group withholds taxes on certain transactions with non-resident parties in the KSA, including dividend payments to the non-resident shareholders, as required under Saudi Arabian Income Tax Law.

Value added tax
Expenses and assets are recognised net of the amount of value added tax, except:
- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Foreign currencies
The Group's consolidated financial statements are presented in Saudi Riyal, which is also the Group'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 the consolidated statement of 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's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Transactions and balances
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or consolidated statement of profit or loss are also recognised in OCI or consolidated statement of profit or loss, respectively).

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyals at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to the consolidated statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation 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

Cash dividend and non-cash distribution to equity holders of the Group
The Group recognises a liability to make cash or non-cash distributions to equity holders of the Group when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the corporate laws in the KSA, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Property, plant and equipment
Property, plant and equipment and capital work-in-progress are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of profit or loss as incurred. Further, the Group capitalised the spare parts having value above SR 50,000 and meeting the capitalization criteria; and depreciate them over the plant life.

Depreciation is calculated from the date the item of property, plant and equipment are available for intended use or in respect of self-constructed assets, from the date such assets are completed and ready for the intended use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (Continued)
Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

	Years
Plant, machinery and equipment	10 - 25
Capital spares	10 - 20
Buildings and leasehold improvements	10 - 33
Furniture, fixtures and office equipment	3 - 8
Catalysts	2 - 8
Laboratory and safety equipment	5
Vehicles and trucks	4 - 10

Land and capital work-in-progress which are not ready for its intended use, are not depreciated.

An item of property, plant and equipment and any significant part initially recognised is derecognised 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 consolidated statement of profit or loss when the asset is derecognised.

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

Planned turnaround costs are deferred and amortised over the period until the date of next planned turnaround. Should unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortised turnaround costs are immediately expensed and the new turnaround costs are deferred and amortised over the period likely to benefit from such costs.

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

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

The useful life of an intangible asset with a definite life is reviewed regularly to determine whether there is any indication that its current life assessment continues to be supportable. If not, the change in the useful life assessment is made on a prospective basis. Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually either individually or at the aggregated cash generating unit level.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (Continued)
Gains or losses arising from derecognising an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

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

In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

The Group's impairment calculation is based on detailed budgets and forecast calculations which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. These budgets and forecast calculations are generally covering a five-year period. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the budget period.

Impairment losses of continuing operations, including impairment on working capital, if applicable, are recognised in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset

For assets other than goodwill, an assessment is made at each financial year-end as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group's estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. This reversal is limited such that the recoverable amount doesn't exceed what the carrying amount would have been, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities
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.

Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies for revenue recognition.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

• The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and;

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the consolidated statement of profit or loss when the right of payment has been established.

Derecognition

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

- The rights to receive cash flows from the asset have expired; Or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; And either;

(a) the Group has transferred substantially all the risks and rewards of the asset, or

(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

Financial assets (continued)

Derecognition (continued)

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

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

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

Financial liabilities (continued)

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss.

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

Inventories
Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and includes expenditures 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 finished goods and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks, cash on hand, short term deposits, demand deposits and highly liquid investments with original maturity of three months or less, net of outstanding bank overdrafts which are subject to an insignificant risk of changes in value. For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Onerous contract
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract.

Provision for inventory obsolescence
When inventories become old or obsolete, an estimate is made for their net realisable value. For individually significant amounts, this amount is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively, and an allowance applied according to the inventory type and degree of ageing or obsolescence based on expected selling prices. Inventories are measured at the lower of cost and net realisable value.

Employees' terminal benefits and other benefits

Employees' end-of-service benefits
The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognised in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post-employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognised in equity through the consolidated statement of comprehensive income in the period in which they arise.

Employees' saving plan
The Group maintains an employees' saving plan for its Saudi employees. The contributions from the participants are deposited in separate bank account and liability is established for the Group's contributions. The Group's contribution under the saving plan is charged to the consolidated statement of profit or loss.

Employees' home ownership program
Unsold housing units constructed for eventual sale to eligible employees are included under land and buildings and are depreciated over 33 years. Upon signing the sale contract with the eligible employees, the relevant housing units are classified under other non-current assets.

Statutory reserve
In accordance with the Saudi Arabian Regulations for Companies, the Group must set aside 10% of its consolidated income for the year after deducting losses brought forward in each year until it has built up a reserve equal to 30% of the capital. The Group may resolve to discontinue such transfers when the reserve totals 30% of the capital. The reserve is not available for distribution.

Contingencies
Contingent liabilities are not recognised in the consolidated statement of financial position. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

4. CHANGES IN ACCOUNTING POLICES

New and amended standards and interpretations

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 – "Leases"

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group applied modified retrospective method, which requires the recognition of the cumulative effect of initially applying IFRS 16 at, 1 January 2019, to the retained earnings and not restate prior years. Since the Group recognized the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments relating to that lease recognized at consolidated statement of financial position as at 31 December 2018, therefore, there was no impact to the retained earnings at the date of initial application.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short- term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 as at 1 January 2019 (increase / (decrease) is as follows:

	1 January 2019
Assets	
Right of use assets	13,983
Prepayments	615
Total Assets	**14,598**
Liabilities	
Lease liabilities	13,983
Total Liabilities	**13,983**

4. CHANGES IN ACCOUNTING POLICES (continued)

IFRS 16 – "Leases" (continued)

Nature of the effect of adoption of IFRS 16
The Group has lease contracts for plant and port land, and office building. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised 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 were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased land was not capitalised and the lease payments were recognised as rent expense in profit or loss straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group

Leases previously accounted for as operating leases
The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	18,149
Discounting impact for gross lease liability	(4,166)
Lease liability as at 1 January 2019	**13,983**

Gross lease liabilities at 1 January 2019 have been discounted using a weighted average incremental borrowing rate of 4.19%.

4. CHANGES IN ACCOUNTING POLICES (continued)

IFRS 16 – "Leases" (continued)

Summary of new accounting policies
Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below SR 18,750). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Variable lease payments
Some leases contain variable payments that are linked to the usage / performance of the leased asset. Such payments are recognised in consolidated statement of profit or loss and comprehensive income.

4. CHANGES IN ACCOUNTING POLICES (continued)

IFRS 16 – "Leases" (continued)

Summary of new accounting policies (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to renew the leases at the end of lease term. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognised in the consolidated statement of financial position and statement of profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	Lease Liabilities
As at 1 January 2019	**14,598**	13,983
Accumulated depreciation	**(1,201)**	-
Interest expense	-	560
Payments	-	(1,015)
Current portion of lease liability	-	(1,190)
As at 31 December 2019	**13,397**	12,338

The maturity analysis of lease liabilities is disclosed in note 28.

The following are the amounts recognised in profit or loss during the period;

	2019
Depreciation expense of right-of-use assets (included in cost of sales)	**1,009**
Depreciation expense of right-of-use assets (included in general and administration expenses)	**192**
Interest expense on lease liabilities	**560**
Expense relating to short-term leases (included in cost of sales)	**608**
Expense relating to short-term leases (included in general and administrative expenses)	**961**
Total amount recognised in profit or loss	**3,330**

The Group had total cash outflows for leases of SR 2.58 million in 2019 (2018: 2.22 million).

4. CHANGES IN ACCOUNTING POLICES (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

• Whether an entity considers uncertain tax treatments separately
• The assumptions an entity makes about the examination of tax treatments by taxation authorities
• How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
• How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

4. CHANGES IN ACCOUNTING POLICES (continued)

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual Improvements 2015-2017 Cycle

- **IFRS 3 Business Combinations**

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

- **IFRS 11 Joint Arrangements**

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.
These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

- **IAS 12 Income Taxes**

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events. An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

- **IAS 23 Borrowing Costs**

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognised in the consolidated financial statements) includes:

Deferred tax assets/liabilities

The management determines the estimated tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognised in the consolidated statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations and judgment about the application of existing tax laws in each jurisdiction.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

Useful lives of property, plant and equipment and intangible assets

The management determines the estimated useful lives of its property, plant and equipment and intangible assets for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment test of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit 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 off the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget 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 performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net cash-inflows and the growth rate used for extrapolation purposes.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Provisions

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Management's estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination, as well as on the technology required for clean up. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's judgement in estimating the expected cash outflows for severance payments and site closures or other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

Valuation of defined benefit obligations

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation 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 and there has been no material change in the related assumptions in the current period.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' 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 excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

6. NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

6. NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 17 Insurance Contracts (continued)

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

7. PROPERTY, PLANT AND EQUIPMENT

	Plant	Capital spares	Buildings and leasehold improvements	Machinery and equipment	Furniture, fixtures and office equipment	Catalyst	Laboratory and safety equipment	Vehicles and trucks	Capital work-in-progress	**Total 2019**
Cost:										
At 1 January 2019	3,016,564	162,872	124,392	92,806	10,521	230,758	19,557	5,315	164,032	**3,826,817**
Additions	-	4,128	-	3,025	88	-	-	508	73,098	**80,847**
Transfers from CWIP	3,270	-	53,734	1,632	-	-	1,737	-	(188,455)	**(128,082)**
Transfers from inventory (note 13)	-	25,357	-	-	-	-	-	-	-	**25,357**
Disposals	(7,672)	(1,116)	-	-	(107)	(315)	(869)	(826)	-	**(10,905)**
At 31 December 2019	3,012,162	191,241	178,126	97,463	10,502	230,443	20,425	4,997	48,675	**3,794,034**
Depreciation:										
At 1 January 2019	1,471,191	37,755	35,364	48,239	8,499	187,475	16,043	3,846	-	**1,808,412**
Charge for the year	166,984	9,102	7,126	9,354	472	18,672	1,337	1,064	-	**214,111**
Disposals	(5,297)	(361)	-	-	(107)	-	(868)	(826)	-	**(7,459)**
At 31 December 2019	1,632,878	46,496	42,490	57,593	8,864	206,147	16,512	4,084	-	**2,015,064**
Net Book Value:										
At 31 December 2019	**1,379,284**	**144,745**	**135,636**	**39,870**	**1,638**	**24,296**	**3,913**	**913**	**48,675**	**1,778,970**

Capital work-in-progress primarily represents costs incurred for Turn around maintenance (materials and catalysts) and new Propane Dehydrogenation (PDH) & Polypropylene plant (PP) Project. During the year, the Group had not capitalised any financial charges (2018: SR nil). During the year, the Group has transferred SR 128.1 million from CWIP to other non-current assets upon completion of HOP Phase-2.

Buildings and plant facilities of the Group are constructed on a land leased at nominal annual rent from the Royal Commission of Jubail and Yanbu for 30 Hijra years ending 1456H.

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Plant	Capital spares	Buildings and leasehold improvements	Machinery and equipment	Furniture, fixtures and office equipment	Catalyst	Laboratory and safety equipment	Vehicles and trucks	Capital work-in-progress	Total 2018
Cost:										
At 1 January 2018	2,813,636	102,691	121,206	65,704	9,670	175,691	19,126	5,509	246,512	**3,559,745**
Additions	-	60,181	**-**	397	964	-	-	161	205,904	**267,607**
Transfers	202,928	-	3,186	26,772	-	55,067	431	-	(288,384)	**-**
Disposals	-	-	-	(67)	(113)	-	-	(355)	-	**(535)**
At 31 December 2018	3,016,564	162,872	124,392	92,806	10,521	230,758	19,557	5,315	164,032	**3,826,817**
Depreciation:										
At 1 January 2018	1,308,355	30,026	28,791	39,946	8,097	168,963	14,901	3,299	-	**1,602,378**
Charge for the year	162,836	7,729	6,573	8,360	446	18,512	1,142	902	-	**206,500**
Disposals	-	-	-	(67)	(44)	-	-	(355)	-	**(466)**
At 31 December 2018	1,471,191	37,755	35,364	48,239	8,499	187,475	16,043	3,846	-	**1,808,412**
Net Book Value:										
At 31 December 2018	**1,545,373**	**125,117**	**89,028**	**44,567**	**2,022**	**43,283**	**3,514**	**1,469**	**164,032**	**2,018,405**

Allocation of depreciation charge for the year is as follows:

	2019	2018
Cost of sales (note 24)	**203,451**	197,023
General and administration expenses (note 25)	**10,615**	9,433
Selling and distribution expenses	**45**	44
	214,111	206,500

8. INTANGIBLE ASSETS

	31 December 2019	31 December 2018
At the beginning of the year	**2,439**	3,334
Additions	**792**	348
Amortisation	**(1,139)**	(1,243)
At the end of the year	**2,092**	2,439

9. INVESTMENT IN AN ASSOCIATE

The Group has an investment in SK Advanced Co. Limited, classified as investment in an associate in these consolidated financial statements. It was incorporated in accordance with the Commercial Act of the Republic of Korea and it's shareholders are SK Gas Co. Limited 45%, AGIC 30% and 25% by Petrochemical Industries Company K.S.C. It operates a PDH Plant with nameplate capacity of 600,000 MT per annum. The summarised financial position and operating results of the associate is given below:

	31 December 2019	31 December 2018
Current assets	**542,307**	1,065,691
Non-current assets	**2,730,649**	2,758,154
Current liabilities	**381,055**	1,255,141
Non-current liabilities	**865,519**	737,307
Equity	**2,026,382**	1,831,397
The Group's carrying amount of the investment	**637,483**	579,074

	2019	2018
Sales	**2,524,979**	2,924,848
Costs of sales	**(2,187,735)**	(2,548,919)
Selling, general and administration expenses	**(32,388)**	(35,323)
Other income and expenses	**(21,361)**	(37,696)
Profit before tax	**283,495**	302,910
Income tax expense	**(33,871)**	(70,945)
Profit for the year	**249,624**	231,965
Group's share of profit for the year	**76,587**	66,878

9. INVESTMENT IN AN ASSOCIATE (Continued)

The movement in investment in an associate is as follows:

	31 December 2019	31 December 2018
At the beginning of the year	**579,074**	534,382
Share of results for the year	**76,587**	66,878
Exchange differences on translation of foreign operations	**(18,178)**	(22,186)
At the end of the year	**637,483**	579,074

10. INVESTMENT IN AN UNCONSOLIDATED SUBSIDIARY

	Effective percentage of ownership		**31 December 2019**	31 December 2018
	2019	2018		
Advanced Global Holding Limited ("AGHL")	**100%**	100%	**376**	376

In 2014, AGIC made 100% investment in AGHL, a limited liability company incorporated in Luxembourg. The share capital contribution in AGHL was kept in its bank account and there were no other assets or liabilities, including contingent liabilities at the balance sheet date. AGHL does not have any operations for the reported year.

11. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018
Cost:		
At the beginning of the year	**470,913**	470,913
Additions	**28,385**	-
At the end of the year	**499,298**	470,913
Valuation adjustments:		
At the beginning of the year	**138,286**	189,859
Net movement during the year	**(55,136)**	(51,573)
At the end of the year	**83,150**	138,286
Net carrying value	**582,448**	609,199

11. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

At 31 December 2019, equity investment at fair value through other comprehensive income comprise strategic investments in listed entities (Tasnee and Aramco) and is presented at fair value. All equity investment at fair value through other comprehensive income are in Saudi Riyals and inside KSA.

12. OTHER NON-CURRENT ASSETS

	31 December 2019	31 December 2018
Employees' home ownership program (note a)	**254,452**	138,586
Others	**5,501**	5,501
	259,953	144,087

a) It represents balances related to employees' Home Ownership Program (HOP). The Group started building residential houses for its employees in 2013. In May 2016, completed housing units were distributed to direct hire Saudi employees under a long term repayment agreement in Phase-I. Further, in July 2019, additional completed housing units were distributed in Phase-2. The employees pays 17% of their monthly basic salary in addition to their housing allowance which is being applied as loan repayment/installment until the total HOP loan is fully repaid. As at reporting date, SR 254.45 million represents non-current portion and SR 17.48 million represents current portion.

13. INVENTORIES

	31 December 2019	31 December 2018
Spare parts	**114,008**	103,947
Transfer to capital spares (note 7)	**(25,357)**	-
	88,651	103,947
Finished goods	**2,137**	16,005
Semi-finished goods	**20,616**	15,442
Catalyst	**15,611**	6,549
Others	**12,610**	13,080
	139,625	155,023
Less: Provision for slow moving items	**(7,636)**	(3,000)
	131,989	152,023

The spare parts inventory primarily relates to periodic maintenance of plants and machinery and accordingly, is expected to be utilized over a period exceeding one year.

During the year, the Group has transferred SR 25.4 million from spare parts inventory to capital spares.

14. TRADE RECEIVABLES

	31 December 2018	31 December 2019
Trade receivables	**311,135**	276,660
Less: Provisions for doubtful debts	**(79)**	(79)
	311,056	276,581

Trade receivables are non-interest bearing and are generally on 30 to 45 days terms. At 31 December 2019, trade receivables at nominal value of SR 0.08 million (2018: SR 0.08 million) were impaired and provided for. Other receivables are excluded as these are not related with the payment behavior of customers. See below for the movements in the provisions for doubtful debts:

	31 December 2019	31 December 2018
At the beginning of the year	**79**	79
Utilised during the year	-	-
At the end of the year	**79**	79

The ageing analysis of trade receivable is as follows:

			Past due but not impaired *SAR '000*				
	Total	***Neither past due nor impaired***	***< 30 days***	***30 – 60 days***	***60 – 90 days***	***90 – 120 days***	***>120 days***
31 December 2019	**311,056**	**303,277**	**7,390**	-	-	-	**389**
31 December 2018	276,581	275,358	481	20	-	200	522

See note 28 on credit risk of trade receivables, which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

15. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
Prepayments	**12,408**	15,662
Net VAT refundable from GAZT	**5,294**	23,692
Current portion of employees' HOP receivable (note 12)	**17,479**	12,026
Deposits	**17**	2,375
Advances to suppliers	**1,608**	3,162
Accrued commission income	**-**	4,006
Others	**119**	521
	36,925	61,444

16. SHORT TERM INVESTMENTS

Short term investments consist of murabaha deposits with regional banks with a term of more than 90 days up to one year from original placement date and are denominated in Saudi Riyals and US Dollars. These deposits earn financial income at an average rate of 2.48% to 2.72% per annum (31 December 2018: 2.90% to 3.47% per annum). There is no outstanding short term investments as of 31 December 2019, as they were used to repay Sukuk.

17. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Bank balances and cash	**47,899**	106,470
Short term murabaha investments	**-**	86,250
	47,899	192,720

Short term murabaha investments are kept with local commercial banks and are maintained in Saudi Riyals and US Dollars. All short term murabaha investments were liquidated in November 2019 and used to repay Sukuk. There is no outstanding short term murabaha investments as of 31 December 2019.

18. SHARE CAPITAL

	31 December 2019	31 December 2018
Authorised shares		
Ordinary shares of SR 10 each	**2,164,734**	**1,967,940**
Shares issued and fully paid (See Note 1)		
Ordinary shares of SR 10 each	**2,164,734**	**1,967,940**

19. BANK FACILITY

During the year, the Group entered into a Murabaha Facility Agreement ("Agreement") with a local commercial bank amounting to SR 250 million, bearing a commission rate of SIBOR plus a specified margin. At 31 December 2019, the entire facility is unutilised.

20. SUKUK

	31 December 2019	31 December 2018
Sukuk	**-**	1,000,000
Less: Present value discounting using EIR method	**-**	(702)
	-	999,298

During the year, the Group has paid the full maturity value of its Sukuk amounting to SR 1 billion on its maturity date of 17 November 2019.

21. EMPLOYEES’ TERMINAL BENEFITS AND OTHER BENEFITS

The following table represents the components of the defined benefit and other liabilities:

	31 December 2019	31 December 2018
Present value of defined benefit obligation	**99,752**	89,056
Less: fair value of plan assets	**-**	-
Net defined liability (Note 21.2)	**99,752**	89,056
Other long term benefit (i.e. employees’ saving plan) (note 21.1)	**10,809**	12,634
Employees terminal benefits and other benefits	**110,561**	101,690

Note 21.1 The movement in employees' saving plan was as follows:

	31 December 2019	31 December 2018
At the beginning of the year	**12,635**	9,612
Provision during the year	**3,289**	3,254
Payment during the year	**(5,115)**	(231)
At the end of the year	**10,809**	12,635

21. EMPLOYEES' TERMINAL BENEFITS AND OTHER BENEFITS (continued)

Note 21.2 The amounts recognised and the movements in the net defined benefits obligation over the year are as follows:

At 1 January 2018	92,135
Service cost	13,176
Interest cost	3,522
Benefits paid	(1,074)
Actuarial losses on re-measurement of net defined benefits obligation	(18,703)
At 31 December 2018	89,056
Service cost	11,339
Interest cost	4,792
Benefits paid	(11,445)
Actuarial gains on re-measurement of net defined benefits obligation	6,010
At 31 December 2019	**99,752**

Employees' terminal benefits are determined by actuarial valuations using a method based on projected end-of-career salaries ("The Projected Unit Credit Method"). Appropriate assumptions concerning mortality, employee turnover and interest rates are applied to determine the Group's projected benefit obligation for long-term employee benefits.

Actuarial gains and losses are recognised immediately through the consolidated statement of other comprehensive income, a component of shareholder's equity. Past service costs are recognised directly in the consolidated statement of profit or loss in the reporting period as incurred.

The principal actuarial assumptions used for valuing pension obligations are as follows (in percentages):

	31 December 2019	31 December 2018
Discount rate	**3.20%**	**5.15%**
Salary increase rate for first two years	**3.00%**	**4.00%**
Long term salary increase rate	**3.20%**	**5.15%**

A change in the material actuarial assumptions would have the following effects on the defined benefit obligation:

	31 December 2019	31 December 2018
Discount rate:		
Increase by 0.5% points	**(7,558)**	(6,272)
Decrease by 0.5% points	**8,410**	6,977
Long term salary increase rate:		
Increase by 0.5% points	**6,187**	5,136
Decrease by 0.5% points	**(5,705)**	(4,731)

The sensitivity analysis above have 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.

21. EMPLOYEES' TERMINAL BENEFITS AND OTHER BENEFITS (continued)

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 the assumptions would occur in isolation of one another.

The following payments are expected against the defined benefit liability in future years:

	31 December 2019	31 December 2018
Within the next 12 months (next annual reporting period)	**2,626**	3,235
Between 2 and 5 years	**15,682**	12,227
Beyond 5 years upto 10 years	**24,212**	22,262
	42,520	37,724

The average duration of the defined benefit plan obligation at 31 December 2019 is 15.96 years (2018: 14.83 years).

22. ACCRUALS AND OTHER CURRENT LIABILITIES

	31 December 2019	31 December 2018
Accrued purchases and expenses	**206,644**	194,920
Others	**1,631**	4,419
	208,275	199,339

The Group's exposure to currency and liquidity risk related to accounts payable, accruals and other liabilities is disclosed in note 28.

23. ZAKAT AND INCOME TAX

The major components of zakat and income tax expense are:

	2019	2018
Zakat and current income tax:		
Zakat charge	**28,310**	27,640
Current income tax charge	**1,276**	963
	29,586	28,603
Deferred tax:		
Relating to origination and reversal of temporary differences	**(277)**	(201)
	29,309	28,402

Movement in zakat and income tax liability for the year was as follows:

	2019	2018
At 1 January	**24,156**	21,237
Current year provision	**29,586**	28,603
Payments during the year	**(28,309)**	(25,684)
At 31 December	**25,433**	24,156

23. ZAKAT AND INCOME TAX (continued)

Zakat

Charge for the year

The zakat charge consists of:	**2019**	2018
Current year provision	**24,144**	24,127
Adjustment relating to prior years	**4,166**	3,513
Charge for the year	**28,310**	27,640

The principal elements of the zakat base are as follows:

	2019	2018
Non-current assets	**3,274,719**	3,353,580
Non-current liabilities	**123,915**	102,983
Opening shareholders' equity	**3,224,322**	3,113,441
Zakatable income	**773,324**	749,752
Dividends paid	**553,270**	551,304

The difference between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable results.

Income tax

Charge for the year
The income tax charge consists of:

	2019	2018
Current year provision	**1,285**	963
Adjustment relating to prior years	**(9)**	-
Charge for the year	**1,276**	963

No reconciliation of taxable profit and accounting profit relating to tax provision provided as there are no significant reconciling items that needs to be disclosed.

Status of assessments

Advanced Petrochemical Company ("The Company")
The Company has been filing its annual Zakat & Income Tax returns with the General Authority of Zakat and Tax (the "GAZT") for the years 2005 to 2018. A provisional assessment was received from GAZT covering the periods 2005 to 2013. However, this is currently under discussion/protest with GAZT and management believed that there will be no significant liability once the final assessment is issued.

Advanced Renewable Energy Company ("AREC")
AREC has been filing its annual Zakat & Income Tax returns with the GAZT for the years 2013 to 2018. However, there's no assessment received so far from the GAZT with respect of those years.

23. ZAKAT AND INCOME TAX (continued)

Status of assessments (continued)

Advanced Global Investment Company ("AGIC")
AGIC has been filing its annual Zakat & Income Tax returns with the GAZT for the years 2013 to 2018. However, there's no assessment received so far from the GAZT with respect of those years.

Zakat and income tax base has been computed based on the Company's understanding of the zakat and income tax regulations enforced in the Kingdom of Saudi Arabia. The zakat and income tax regulations in Saudi Arabia are subject to different interpretations. The assessments to be raised by the GAZT could be different from the declarations filed by the Company and its subsidiaries.

Deferred tax
The deferred tax comprises of timing differences relating to:

	31 December 2019	31 December 2018
Deferred tax asset		
Provisions allowed on cash basis	**143**	124
Deferred tax liability		
Accelerated depreciation differential for tax purposes	**(1,159)**	(1,417)
Deferred tax liabilities, net	**1,016**	1,293

Reconciliation of deferred tax liabilities, net was as follows:

	31 December 2019	31 December 2018
At 1 January	**1,293**	1,494
Tax expense reversed in profit or loss during the year	**(277)**	(201)
At 31 December	**1,016**	1,293

24. COST OF SALES

	2019	2018
Raw materials, utilities, consumables and change in inventories	**1,344,877**	1,600,996
Salaries and related benefits	**90,202**	80,772
Depreciation (note 7)	**203,451**	197,023
Depreciation on right-of-use assets (note 4)	**1,009**	-
Others	**55,774**	41,843
	1,695,313	1,920,634

25. GENERAL AND ADMINISTRATION EXPENSES

	2019	2018
Salaries and related benefits	**91,186**	70,234
Depreciation (note 7)	**10,615**	9,433
Contracted services	**7,330**	7,340
Legal and professional	**4,166**	3,100
Director's remuneration, allowances and expenses	**4,351**	2,421
Software licenses and fees	**2,523**	1,987
Depreciation on right-of-use assets (note 4)	**192**	-
Communication	**877**	1,433
Advertising and promotions	**737**	847
Rent	**977**	1,199
Others	**17,641**	9,409
	140,595	107,403

26. SEGMENT INFORMATION

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

The Group's management is of the view that all activities and operations of the Group comprise of a single operating segment for the purpose of decision making with respect to performance appraisal and resources allocation.

Substantial portion of the Group's sales are made to the marketers and Group's operations are related to one operating segment. Accordingly, segmental analysis by geographical and operating segment has not been presented.

Operating assets of the Group are located in the KSA. The sales are geographically distributed between domestic sales in the Kingdom representing more than 5% of the total sales and overseas sales represent less than 95% of the total sales.

27. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares during the year.

The earnings per share for the comparative year has been adjusted retrospectively as explained in Note 1.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2019	2018
Net profit attributable to equity holders of the Group	**759,308**	716,960
Weighted average number of ordinary shares ('000)	**216,473**	**216,473**
Earnings Per Share (SR)	**3.508**	3.312

There has been no item of dilution affecting the weighted average number of ordinary shares.

28. RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board's Executive Committee is also responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Financial instruments principally include cash and cash equivalents, short term investments, trade receivables, equity investment at fair value through other comprehensive income, trade payables, other current liabilities, dividend payable, sukuk and other non-current liabilities.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and equity investment at fair value through other comprehensive income.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each marketing agent who act as the exclusive sales agent of the product. The trade receivable from these marketing agents is cover through standby letter of credit issued by credit-worthy financial institutions. At 31 December 2019, the Group had 4 marketing agents that owed more than SR 281 million and accounted for approximately 90% of all receivables owing.

28. RISK MANAGEMENT (continued)

Credit risk (continued)

Trade receivables (continued)

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all direct customers who wish to trade on credit terms are subject to credit verification procedures. Credit quality of the customer is assessed based on an extensive credit rating scorecard. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Credit limits are established for all customers using an internal and external rating criterion. Credit quality of the customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Executive Committee; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Equity investment at fair value through other comprehensive income

The Group limits its exposure to credit risk by investing only in liquid securities with approved counterparties and within credit limit assigned to each counterparty by the Investment Committee. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

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 Investment Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2019 and 2018 is the carrying amounts as illustrated in Note 14 except for financial guarantees.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

28. RISK MANAGEMENT (continued)

Liquidity risk (continued)

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Additionally, access to sources of funding is available and debt maturing within 12 months can be rolled over with existing lenders, if required.

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. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

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

Year ended 31 December 2019	***On Demand SR '000***	***Less than 3 months SR '000***	***3 to 12 months SR '000***	***1 to 5 years SR '000***	***More than 5 years SR '000***	***Total SR '000***
Interest bearing loans and borrowings:						
- Lease liabilities	295	-	895	2,897	9,845	13,932
- Sukuk	-	-	-	-	-	-
Trade payables and other liabilities	112,321	169,124	1,571	5,854	7,435	296,305
Dividends payable	5,414	-		-	-	5,414
	118,030	**169,124**	**2,466**	**8,751**	**17,280**	**315,651**

Year ended 31 December 2018	*On Demand SR '000*	*Less than 3 months SR '000*	*3 to 12 months SR '000*	*1 to 5 years SR '000*	*More than 5 years SR '000*	*Total SR '000*
Interest bearing loans and borrowings:						
- Lease liabilities	-	-	-	-	-	-
- Sukuk	-	-	1,000,000			**1,000,000**
Trade payables and other liabilities	143,623	183,631	6,193	3,421	4,012	**340,880**
Dividends payable	4,709	-	-	-	-	**4,709**
	148,332	183,631	1,006,193	3,421	4,012	**1,345,589**

28. RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily US Dollars. The Group is not significantly subject to fluctuations in foreign exchange rates in the normal course of its business as the Group did not undertake significant transactions during the year in currencies other than Saudi Riyals and US Dollars which is pegged against Saudi Riyal.

Interest rate risk

Interest rate risk is the risk that the fair value of 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. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowing which expose the Group to cash flow interest rate risk.

The Group's receivables and fixed rate borrowings carried at amortised cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the fixed interest rate borrowings at the end of the reporting period are as follows:

Interest rate exposure

	31 December 2019	31 December 2018
Variable interest rate – repricing dates 6 months or less	**-**	1,000,000

Interest rate sensitivity analysis

Profit or loss and equity is sensitive to higher / lower interest expense from long term borrowings as a result of changes in interest rates. The Group's profit before tax is affected as follows:

	31 December 2019	31 December 2018
Interest rate – increase by 100 basis points	**-**	(10,139)
Interest rate – decrease by 100 basis points	**-**	10,139

Commodity risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including propane, propylene, natural gas and electricity. From time to time, the Group manages some elements of commodity price risk through the use of fixed price contracts.

28. RISK MANAGEMENT (Continued)

Equity price risk

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to equity securities at fair value listed on the Saudi Stock Exchange was SR 582.4 million. Given that the changes in fair values of the equity investments held are strongly positively correlated with changes of the Saudi Stock Exchange market index, the Group has determined that a decrease of 20% on the Saudi Stock Exchange market index could have an impact of approximately SR 116.5 million on the other comprehensive income or equity attributable to the Group, depending on whether the decline is significant or prolonged. An increase of 20% in the value of the listed securities would only impact equity, but would not have an effect on the consolidated statement of profit or loss.

	Change in equity price	*Effect on equity/other comprehensive income*	
	%	**2019**	2018
Equity investment at fair value through other comprehensive income	+/- 20	**116,480**	**121,840**

Capital management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio:

The gearing ratios as at the end of year were as follows:

	31 December 2019	31 December 2018
Long term debt	**-**	999,298
Total equity	**3,350,331**	3,224,322
Capital and long term debt	**3,350,331**	4,223,620
Debt to equity ratio	**0**	0.310

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

28. RISK MANAGEMENT (Continued)

Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the consolidated financial statements are prepared under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

The Group has categorised its financial assets and liabilities into a three-level fair value hierarchy, based on the nature of the inputs used in determining fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

Following is a description of each category in the fair value hierarchy and the financial assets and liabilities of the Group that are included in each category at 31 December 2019.

- Level 1: Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market.

- Level 2: Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

- Level 3: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Year ended 31 December 2019	*SR '000*	***Level 1*** *SR '000*	***Level2*** *SR '000*	***Level 3*** *SR '000*
Assets measured at fair value				
Equity investment at fair value through other comprehensive income	582,448	582,448	-	-

Year ended 31 December 2018	*SR '000*	*Level 1* *SR '000*	*Level2* *SR '000*	*Level 3* *SR '000*
Assets measured at fair value				
Equity investment at fair value through other comprehensive income	609,199	609,199	-	-

The Group has not disclosed the fair value of financial instruments such as cash and cash equivalent, trade receivables, trade payable, accruals and other current liabilities, because their carrying amounts are a reasonable approximation of fair value largely because of short term maturity of these instruments.

28. RISK MANAGEMENT (Continued)

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried at amortised cost in the consolidated financial statements as at 31 December 2019:

	Carrying value	*Fair value*
Financial liabilities		
Lease liabilities	13,528	13,528

The fair value of the financial assets and liabilities is included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Floating-rate borrowings approximate their carrying amounts largely due to the fact that the floating rate approximates the market interest rate.
- The fair value of loans from banks and other financial indebtedness as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities.

29. COMMITMENTS AND CONTINGENCIES

At 31 December 2019, Capital commitments contracted but not yet incurred amounted to SR 20.4 million in respect of the new PDH and PP project (2018: SR 8.0 million in respect of employees' home ownership program).

The Group has signed a five years agreement for the purchase of 80,000 MT per annum of propylene (an intermediate product) which have been used in the production of polypropylene since 1 October 2014. In 2017, this agreement is extended up to 31 July 2023 with increase in the quantity to 100,000 MT per annum.

Contingencies
The Group's banker has given payment guarantees on behalf of the Group in favor of Saudi Aramco for the propane and sales gas supply agreements and others amounting to SR 301.95 million (2018: SR 301.95 million).

30. DIVIDENDS

On 8 December 2019, the Board of Directors proposed to distribute final cash dividend of SR 0.65 per share (totaling SR 140.7 million for the fourth quarter of 2019. This will be paid during 2020 subsequent to approval by the General Assembly in their next meeting to be held in March 2020.

On 13 October 2019, the Board of Directors resolved to distribute interim cash dividend for the third quarter of 2019 of SR 0.65 per share (totaling SR 140.7 million).

On 23 May 2019, the Board of Directors resolved to distribute interim cash dividend for the second quarter of 2019 of SR 0.70 per share (totaling SR 137.8 million).

On 19 March 2019, the Board of Directors resolved to distribute interim cash dividend for the first quarter of 2019 of SR 0.70 per share (totaling SR 137.8 million).

On 18 December 2018, the Board of Directors proposed to distribute final cash dividend of SR 0.70 per share (totaling SR 137.8 million) for the fourth quarter of 2018. This has been approved by the General Assembly in their meeting held on 19 March 2019.

As at 31 December 2019, dividend amounting to SR 5.4 million (2018: SR 4.7 million) is outstanding and is shown under current liabilities.

31. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, associated company, subsidiaries, key personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties.

During the year, no significant transactions with the related parties resulting in the balances other than those disclosed in note 1 to the consolidated financial statements.

Compensation of key management personnel

	2019	2018
Salaries and allowances	**10,458**	10,224
Short term and other benefits	**23,519**	5,857
	33,977	16,081

The amounts disclosed in the table are the amounts recognised as an expense during the reporting year related to key management personnel.

The non-executive directors do not receive pension entitlements from the Group. The Group has paid SR 2.78 million (2018: SR 2.42 million) as directors’ remuneration, allowances and expenses during the year.

32. SUBSEQUENT EVENT

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2019 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.

33. COMPARATIVE AMOUNTS

Other than the change in earnings per share referred to in note 26, no other changes were made to the comparative amounts.