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

CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

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

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

المتقدمة
Advanced

INDEX	PAGE

Building a better working world

Ernst & Young & Co. (Public Accountants)
4th Floor – Juffali Building
PO Box 3795
Al Khobar 31952
Saudi Arabia
Registration Number: 45

Tel: +966 13 849 9500
Fax: +966 13 882 7224

www.ey.com

AUDITORS' REPORT TO THE SHAREHOLDERS OF ADVANCED PETROCHEMICAL COMPANY

Scope of Audit:

We have audited the accompanying consolidated balance sheet of Advanced Petrochemical Company ("the Company"), a Saudi Joint Stock Company, and its subsidiaries ("the Group") as at 31 December 2016 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion:

In our opinion, the consolidated financial statements taken as a whole:

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339

8 Jumada' I 1438H
5 February 2017

Alkhobar

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

المتقدمة
Advanced

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	4	452,986	84,984
Trade receivables		332,566	221,798
Short term investments	5	121,714	-
Prepayments and other current assets	6	37,164	21,917
Inventories	7	116,685	124,291
Total current assets		1,061,115	452,990
Non-current assets			
Available for sale investments	8	793,208	801,143
Investment in an unconsolidated subsidiary	9	376	376
Investment in an associated company	10	445,835	421,239
Property, plant and equipment	11	1,925,854	2,179,171
Intangible assets	12	3,463	5,128
Other non-current assets	13	162,381	26,006
Total non-current assets		3,331,117	3,433,063
TOTAL ASSETS		4,392,232	3,886,053
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable		86,169	96,792
Accruals and other current liabilities	14	141,549	120,882
Zakat and income tax provision	15	21,825	19,578
Dividend payable	16	4,829	5,843
Current portion of term loan	17	40,000	40,000
Total current liabilities		294,372	283,095
Non-current liabilities			
Term loan	17	10,000	50,000
Sukuk	18	998,719	998,267
Employees' terminal benefits and other benefits	19	60,473	45,730
Total non-current liabilities		1,069,192	1,093,997
TOTAL LIABILITIES		1,363,564	1,377,092
Shareholders' equity			
Share capital	1	1,967,940	1,639,950
Statutory reserve		426,204	353,138
Unrealized fair value gains/ (losses) on available for sale investments	8	214,401	(96,937)
Retained earnings		420,123	612,810
Total shareholders' equity		3,028,668	2,508,961
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,392,232	3,886,053

KHALIFA A. AL-MULHEM Chairman of the Board	ABDULLAH M. ALGARAWI President & CEO	MOHAMMED H. QAHTANI Finance and Accounting Manager

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements

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

المتقدمة
Advanced

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2016	2015
Sales		2,139,372	2,377,026
Cost of sales		(1,381,313)	(1,592,875)
GROSS PROFIT		758,059	784,151
EXPENSES			
Selling and distribution		(8,961)	(9,027)
General and administration	20	(34,888)	(32,609)
INCOME FROM MAIN OPERATIONS		714,210	742,515
Financial charges		(33,666)	(17,922)
Realized gains/ (losses) on disposal of available for sale investments, net		10,929	(3,286)
Impairment losses against available for sale investments	8	(40,227)	-
Share in results of an associated company	10	47,223	(3,046)
Other income/ (expense), net		16,147	(5,236)
Gain on disposal of shares in an associated company	10	16,044	-
NET INCOME FOR THE YEAR		730,660	713,025
Earnings per share			
Earnings per share from main operations (adjusted)	1	3.63	3.77
Earnings per share from net income (adjusted)	1	3.71	3.62
Weighted average number of shares outstanding (in thousands) (adjusted)	1	196,794	196,794

KHALIFA A. AL-MULHEM
Chairman of the Board

ABDULLAH M. AL-GARAWI
President & CEO

MOHAMMED H. QAHTANI
Finance and Accounting Manager

المتقدمة
Advanced

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Unrealized fair value gains/ (losses) on available for sale investments	Retained earnings	Total
Balance at 31 December 2014		1,639,950	281,835	(32,149)	487,392	2,377,028
Net income for the year		-	-	-	713,025	713,025
Transfer to statutory reserve		-	71,303	-	(71,303)	-
Dividends	16	-	-	-	(491,985)	(491,985)
Provision for zakat and income tax for the year	15	-	-	-	(20,719)	(20,719)
Movement during the year, net	8	-	-	(64,788)	-	(64,788)
Board remunerations					(3,600)	(3,600)
Balance at 31 December 2015		1,639,950	353,138	(96,937)	612,810	2,508,961
Net income for the year		-	-	-	730,660	730,660
Transfer to statutory reserve		-	73,066	-	(73,066)	-
Dividends	16	-	-	-	(496,905)	(496,905)
Increase in share capital through issuance of bonus shares	1	327,990	-	-	(327,990)	-
Provision for zakat and income tax for the year	15	-	-	-	(23,586)	(23,586)
Movement during the year, net	8	-	-	311,338	-	311,338
Board remunerations		-	-	-	(1,800)	(1,800)
Balance at 31 December 2016		**1,967,940**	**426,204**	**214,401**	**420,123**	**3,028,668**

KHALIFA A. AL-MULHEM
Chairman of the Board

ABDULLAH M. AL-GARAWI
President & CEO

MOHAMMED H. QAHTANI
Finance and Accounting Manager

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

المتقدمة
Advanced

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2016	2015
OPERATING ACTIVITIES			
Net income for the year		**730,660**	713,025
Adjustments for:			
Depreciation	11	**195,753**	195,075
Amortization	12	**2,552**	15,255
Losses on disposal of property, plant and equipment		**-**	139
Realized (gains)/losses on disposal of available for sale investments, net		**(10,929)**	3,286
Gain on disposal of shares in an associated company	10	**(16,044)**	-
Financial charges		**33,666**	17,922
Provision for employees' terminal benefits and other benefits	19	**16,386**	12,566
Impairment losses against available for sale investments	8	**40,227**	-
Share of results of an associated company	10	**(47,223)**	3,046
		945,048	960,314
Changes in operating assets and liabilities:			
Trade receivables		**(110,768)**	(23,746)
Prepayments and other current assets		**(14,745)**	7,014
Inventories		**7,606**	(943)
Accounts payable		**(10,623)**	(21,629)
Accruals and other current liabilities		**20,037**	(31,607)
Cash from operations		**836,554**	889,403
Employees' terminal benefits and other benefits paid	19	**(1,643)**	(3,076)
Financial charges paid		**(33,036)**	(19,137)
Zakat and income tax paid	15	**(21,339)**	(22,759)
Net cash from operating activities		**780,537**	844,431
INVESTING ACTIVITIES			
Additions to available for sale investments	8	**(224,799)**	(1,097,705)
Proceeds from disposal of available for sale investments		**514,774**	382,860
Additions to short term investments		**(121,714)**	-
Additional investment in an associated company	10	**(44,463)**	(201,409)
Additions to intangible assets	12	**(887)**	(2,325)
Additions to property, plant and equipment	11	**(122,390)**	(204,475)
Proceeds from disposal of property, plant and equipment		**-**	93
Proceeds from disposal of shares in an associated company		**83,084**	-
Net movement in other non-current assets		**43,579**	2,174
Net cash from (used in) investing activities		**127,184**	(1,120,787)
FINANCING ACTIVITIES			
Repayment of term loan		**(40,000)**	(30,000)
Dividends paid		**(497,919)**	(490,864)
Board of directors' remunerations paid		**(1,800)**	(1,800)
Net cash used in financing activities		**(539,719)**	(522,664)
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**368,002**	(799,020)
Cash and cash equivalents at the beginning of the year		**84,984**	884,004

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements

المتقدمة
Advanced

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**452,986**	84,984

	Note	2016	2015
Non-cash transactions:			
Unrealized fair value gains/ (losses) on available for sale investments	8	**311,338**	64,788
Transferred from property, plant and equipment to other non-current assets (HOP)	11	**179,954**	-
Amortization of prepaid financing costs related to Sukuk		**453**	570

KHALIFA A. AL-MULHEM
Chairman of the Board

ABDULLAH M. AL-GARAWI
President & CEO

MOHAMMED H. QAHTANI
Finance and Accounting Manager

(All amounts in Saudi Riyals thousands unless otherwise stated)

1. ORGANIZATION AND ACTIVITIES

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 October 1, 2005). The Company has a branch registered in Jubail Industrial City under commercial registration number 2055008094 dated 3 Safar 1428H (corresponding to 21 February 2007). The paid up share capital of the Company is SR 1,967,940,000 divided into 196,794,000 shares (2015: SR 1,639,950,000 divided into 163,995,000 shares) of SR 10 each.

During the Company's extraordinary general assembly meeting held on 28 July 2016, a 20% increase in share capital 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 bonus share for every five shares held by the existing shareholders. The number of issued shares increased from One Hundred Sixty Three Million Nine Hundred and Ninety Five Thousand (163,995,000) shares to One Hundred Ninety Six Million Seven Hundred and Ninety Four Thousand (196,794,000) shares. The earning per share for the comparative period has been adjusted retrospectively to reflect the increase in share capital as required by the relevant accounting standard.

The consolidated financial statements as at 31 December 2016 includes 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 Group. The related party has assigned its share to the Group and accordingly, the Group included 100% financial statements of AREC in the 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 Group. The related party has assigned its share to the Group and accordingly, the Group included 100% financial statements of AGIC in the 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 the absence of any activities during the year and has 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

The Ministry of Commerce and Investment commenced the implementation of the new Companies Regulations effective 25 Rajab1437H corresponding to 2 May 2016 ("the Effective Date"). The new regulations shall replace the Companies Regulations promulgated by Royal Decree No. M/6 dated 22 Rabi'I 1385H and it shall supersede all provisions that are inconsistent therewith. Companies existing as at the Effective Date of the regulations shall make all necessary amendments to their By Laws to comply with the requirements of the provisions of the new Companies Regulations within a period of one year of the Effective Date of the new Companies' Regulations.

During the year, the Company's Board of Directors have resolved to make the necessary amendments to the Company's By Laws as required by the new regulations. Management expects to complete all formalities prior to the end of the grace period granted by the new regulations (24 Rajab 1438H corresponding to 21 April 2017). Accordingly, these financial statements have been prepared in accordance with the old Companies Regulations.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its material subsidiaries. Material subsidiaries are consolidated from the date the Group obtains control until such time as control ceases. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profit and loss resulting from intra-group transactions that are recognized as assets, are eliminated in full.

Accounting convention
The consolidated financial statements are prepared under the historical cost convention, modified to include the measurement at fair value of available for sale investments.

Use of estimates
The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are considered reasonable in the given circumstances of the Group.

Cash and cash equivalents
Cash and cash equivalents consist of bank balances, cash on hand, short term murabaha that is readily convertible into known amounts of cash and have original maturities of three months or less.

Trade receivables
Trade receivables are stated at the original invoice amounts less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when the collection of the trade receivables amount is considered doubtful. Bad debts are written off as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realizable value, with due allowance for obsolete or slow moving items. Cost is determined as follows:

Raw materials, consumables and spare parts	- purchase cost on a weighted average basis.
Production in progress and finished products	- cost of direct materials and labor plus attributable overheads based on a normal level of activity.

Available for sale investments

After initial recognition, investments purchased neither with the intention of being held to maturity nor for trading purposes are classified as available for sale investments and are measured at fair value. Unrealized gains and losses are reported as a separate component of shareholders' equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in shareholders' equity is included in the consolidated statement of income for the year.

Investment in an unconsolidated subsidiary

Investment in unconsolidated subsidiary which is considered immaterial is accounted for under the equity method.

Investment in an associated company

The Group's investment in an associated company is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment of value. Construction work in progress is not depreciated. The cost of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Improvements on assets are amortized on a straight-line basis over the shorter of the useful life of the improvement or the related assets.

Expenditure for repair and maintenance are charged to the consolidated statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

The estimated useful lives of the principal classes of assets are as follows:

	Years
Plants	20
Capital spares	20
Buildings (including leasehold improvements)	10 – 33
Machinery and equipment	10
Furniture, fixtures and office equipment	3 – 8
Catalysts	2 – 8
Laboratory and safety equipment	5
Vehicles and trucks	4 – 10

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Turnaround maintenance
Planned turnaround maintenance costs are capitalized and depreciated 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 remaining net book value is immediately expensed and the new turnaround costs are capitalised and depreciated over the period likely to benefit from such costs. Planned turnaround maintenance costs are included under the assets in the consolidated balance sheet.

Capital spare parts
Capital spare-parts which are considered essential to ensure continuous plant operation, are classified under property, plant and equipment. The following two conditions must apply to all capitalized spare-parts:

- They are not readily available in the market, or unavailable.
- Their manufacturing requires an extended time to complete.

Employees' home ownership program
The Company has a Home Ownership Program (HOP) that offers eligible Saudi employees home ownership opportunities. Unsold housing units constructed for eventual sale to eligible Saudi employees are included under property, plant and equipment and depreciated over its estimated useful life. Upon signing the sale contract, the related cost and accumulated depreciation are derecognized and the loans receivable from the employees are recognised in respect of the purchase of the housing units are classified under long term assets as "other non-current assets". Installments recoverable within twelve months period from the date of the balance sheet are classified under current assets as "prepayments and other current assets".

Intangible assets
Costs that have future benefits are initially recognised as intangible assets. Intangible assets are amortized over a period not exceeding seven years. The amortization expenses are included under cost of sales in the consolidated statement of income.

Impairment of non-current assets
The Group reviews the carrying values of its non-current assets for impairment when events or circumstances indicate that carrying value may not be recoverable. If such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The carrying value of the asset (or cash generating unit) is reduced to the recoverable value when the recoverable value is below the carrying value. Impairment loss is recognized as expense when incurred.

Where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. The reversal of impairment loss is recognized as income once identified.

Accounts payable and accruals
Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulation. The liability is charged to retained earnings. Additional amounts, if any, that may become due on finalization of an assessment are accounted for at that time.

Employees' terminal benefits and other benefits

Employees' terminal benefits

Provision is made for amounts payable under the Group's policies applicable to employees accumulated periods of service at the consolidated balance sheet date.

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 income.

Statutory reserve

In accordance with the Saudi Companies' Regulations, the Company must set aside 10% of its consolidated net income in each year until it has built up a reserve equal to one half of the capital. The reserve is not available for distribution.

Revenue recognition

For international markets, all products are sold to the marketers, while for local markets (Saudi Arabia and GCC countries) the products are sold directly by the Group. Upon delivery to the marketers, sales are recorded at provisional sales prices that are later adjusted based upon actual selling prices received by the marketers from third parties, after deducting the costs of shipping and marketing fees etc. Adjustments are made, as they become known to the Group. Sales in local markets are recognized upon delivery of products to customers.

Expenses

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Group's products. All other expenses other than cost of sales, financial charges, realized gain/ losses on available for sale investments and impairment losses against available for sale investments are classified as general and administration expenses.

General and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between general and administration expenses and production costs, when required, are made on a consistent basis.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee.

Operating leases are charged to consolidated statement of income on a straight-line basis over the term of the operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction for a long period or production of a qualifying asset, are capitalized as part of the cost of that asset.

Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

Earnings per share
Basic earnings per share from net income are calculated by dividing the net income for the year by the weighted average number of shares outstanding at year end. Basic earnings per share from main operations are calculated by dividing income from main operations for the year by the weighted average number of shares outstanding at year end.

Foreign currency transactions
Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the consolidated balance sheet date. All differences are taken to the consolidated statement of income.

Segmental Analysis
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.

Substantially all of the Group's operations are related to one operating segment which is the production and selling of Polypropylene. Substantially all of the Group's operations are conducted in the Kingdom of Saudi Arabia and accordingly segmental analysis by geographical and operating segment has not been presented.

Fair values
For investments traded in organized markets, fair value is determined by reference to quoted market bid prices. The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

4. CASH AND CASH EQUIVALENTS

	2016	2015
Bank balances and cash	52,986	84,984
Short term murabaha investments	400,000	-
	452,986	84,984

Short term murabaha investments are kept with local and regional commercial banks and are maintained in Saudi Riyals. All investments had original maturities of less than 3 months.

5. SHORT TERM INVESTMENTS

Short term investments consist of murabaha deposits with regional banks with a term of one year from original placement date and are denominated in Saudi Riyals.

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. PREPAYMENTS AND OTHER CURRENT ASSETS

	2016	2015
Prepayments	15,555	15,946
Current portion of employees' HOP receivable (note 13)	11,139	-
Deposits	2,202	2,995
Advances to suppliers	1,817	1,198
Accrued commission income	4,025	-
Others	2,426	1,778
	37,164	21,917

7. INVENTORIES

	2016	2015
Spare parts	87,228	77,200
Catalyst	6,375	16,987
Semi-finished goods	6,389	10,149
Finished goods	6,235	9,634
Others	10,458	10,321
	116,685	124,291

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.

8. AVAILABLE FOR SALE INVESTMENTS

	2016	2015
Cost:		
At the beginning of the year	898,080	186,521
Additions	224,799	1,097,705
Disposals	(503,845)	(386,146)
Impairment losses recorded during the year	(40,227)	-
At the end of the year	578,807	898,080
Valuation adjustments:		
At the beginning of the year	(96,937)	(32,149)
Net movement during the year	311,338	(64,788)
At the end of the year	214,401	(96,937)
Net carrying value	793,208	801,143

At 31 December 2016, available for sale investments includes strategic investments in another listed entity, investments in discretionary portfolios and marketable securities managed by local financial institutions and investments in debt securities and Murabaha funds and are presented at fair value. The balance includes restricted cash held with the portfolio managers amounting to SR nil (2015: SR 15.8 million) classified as part of investments available for sale.

(All amounts in Saudi Riyals thousands unless otherwise stated)

8. AVAILABLE FOR SALE INVESTMENTS (continued)

Management has performed a review of investments to assess whether impairment has occurred in the value of these investments. Based on specific information, management has recorded impairment loss of SR 40.23 million (2015: SR nil) in the consolidated statement of income for the year in respect of investments available for sale.

9. INVESTMENT IN AN UNCONSOLIDATED SUBSIDIARY

	Effective percentage of ownership		2016	2015
	2016	2015		
Advanced Global Holding Limited ("AGHL")	100%	100%	376	376
			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.

10. INVESTMENT IN AN ASSOCIATED COMPANY

	2016	2015
At the beginning of the year	421,239	222,876
Additions during the year	44,463	201,409
Share of results for the year	47,223	(3,046)
Sale of 5% equity interest	(67,040)	-
Adjustment for share of minority interest	(50)	-
At the end of the year	445,835	421,239

On 3 September 2014, the Board of Directors of the Group approved the equity investment in PDH Plant with SK Gas (the "JV Co."), for the production of Propylene in South Korea, through AGIC. The total cost of the project is approximately US$ 900 million (SR 3.37 billion) and the project is financed 40% by equity from shareholders and 60% by the JV Co. through borrowing from lenders. AGIC previously owned 35% equity stake which was financed and guaranteed by the Group. Total commitment of the Group for investment in the associate was US$ 125.14 million (SR 469.23 million) which was fully paid in January 2016. The project has commenced the trial production in March 2016 and started commercial operations from April 1, 2016 with a designed capacity of 600,000 metric tons (MT) per annum.

On 19 January 2016, the Group announced in Tadawul the admission of Petrochemical Industries Company (PIC), a 100% owned subsidiary of Kuwait Petroleum Corporation (the national oil company of State of Kuwait, KPC) as a 3rd joint venture partner in the JV Co. PIC has acquired 25% equity and AGIC has sold 5% of its equity ownership in the JV Co. Accordingly, the new shareholding of the JV Co. is 45% by SK Gas, 30% by AGIC and 25% by PIC. As a result of this transaction, the Group has recorded a gain in the consolidated statement of income amounting to SR 16.04 million (31 December 2015: nil) and the sales proceeds have been received in full during the month of June 2016.

(All amounts in Saudi Riyals thousands unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT

	Plants	Capital spares	Buildings	Machinery and equipment	Furniture, fixtures and office equipment	Catalyst	Laboratory and safety equipment	Vehicles and trucks	Capital work-in-progress	Total 2016	Total 2015
Cost:											
At the beginning of the year	2,850,028	96,227	64,367	46,922	9,055	174,363	15,867	5,152	247,868	3,509,849	3,307,359
Additions		3,454	-	8,184	278	-	2,142	1,300	107,032	122,390	204,475
Transfers	10,270	-	236,507	-	-	298	-	-	(247,075)	-	-
Transfer to other non-current assets	-	-	(179,954)	-	-	-	-	-	-	(179,954)	-
Disposals	-	-	-	-	-	-	-	(1,300)	-	(1,300)	(1,985)
At the end of the year	2,860,298	99,681	120,920	55,106	9,333	174,661	18,009	5,152	107,825	3,450,985	3,509,849
Depreciation:											
At the beginning of the year	1,107,628	19,992	17,326	26,798	7,052	133,593	15,051	3,238	-	1,330,678	1,137,356
Charge for the year	159,818	4,939	4,975	6,044	649	17,936	268	1,124	-	195,753	195,075
Disposals	-	-	-	-	-	-	-	(1,300)	-	(1,300)	(1,753)
At the end of the year	1,267,446	24,931	22,301	32,842	7,701	151,529	15,319	3,062	-	1,525,131	1,330,678
Net book value:											
At 31 December 2016	1,592,852	74,750	98,619	22,264	1,632	23,132	2,690	2,090	107,825	1,925,854	
At 31 December 2015	1,742,400	76,235	47,041	20,124	2,003	40,770	816	1,914	247,868		2,179,171

Capital work-in-progress primarily represents costs incurred on construction of a housing project (Phase II) for the Group's employees which is expected to be completed in 2018, with an estimated cost of SR 169.4 million (2015: SR 169.4 million).

During the year, the Group had capitalized SR 1 million of financial charges (2015: SR 4 million).

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

12. INTANGIBLE ASSETS

	2016	2015
At the beginning of the year	**5,128**	18,058
Additions	**887**	2,325
Amortization	**(2,552)**	(15,255)
At the end of the year	**3,463**	5,128

13. OTHER NON-CURRENT ASSETS

	2016	2015
Employees' home ownership program (note a)	**161,589**	-
Employee share ownership program (note b)	**-**	24,714
Others	**792**	1,292
	162,381	26,006

a) It represents balances related to employees' Home Ownership Program (HOP). The Company 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. The employee pays 17% of his monthly basic salary in addition to his housing allowance which is being applied as loan repayment/installment until the total HOP loan is fully repaid. As at balance sheet date, SR 161.59 million represents non-current portion and SR 11.14 million represents current portion shown under note 6.

b) During 2012, the Board of Directors approved an Employee Share Ownership Program ("ESOP") which provides a 5 year service benefits to eligible employees effective 1 June 2012. These employees, subject to their subscription to ESOP and meeting the underlying conditions, are given an option to buy the Company's shares, at an agreed exercise price, at a future date (the "vesting date") once they become fully entitled to the shares. The ESOP cost is recognized as an expense over the period in which the service conditions are fulfilled by the employees.

In relation to ESOP, the Company purchased its shares at SR 30 million through a local financial institution under a custody arrangement and these shares are held by the local financial institution as the Group at no point will become legal owner. The value of such shares has been recorded under other non-current assets. The eligible employees will repay the exercise price of the shares to the Company at the completion of the vesting period. During the year, the Company has collected the dividends pertaining to the current and prior years amounting to SR 24.71 million from a local financial institution (acting as the custodian) on behalf of the employees and the Company has adjusted the same with the ESOP receivable from employees.

14. ACCRUALS AND OTHER CURRENT LIABILITIES

	2016	2015
Accrued purchases and expenses	**133,109**	116,969
Customers' rebate	**7,440**	3,040
Others	**1,000**	873
	141,549	120,882

(All amounts in Saudi Riyals thousands unless otherwise stated)

15. ZAKAT AND INCOME TAX

a) Zakat

	2016	2015
Current year provision	19,931	18,876
Adjustment relating to prior years	11	(676)
Charge for the year	19,942	18,200

The principal elements of the zakat base are as follows:

	2016	2015
Non-current assets	3,331,117	3,433,063
Non-current liabilities	1,069,192	1,093,997
Opening shareholders' equity	2,508,961	2,377,028
Zakatable income	734,751	751,620
Dividends paid	497,918	490,864
Spare parts	87,228	77,200

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

b) Income tax

	2016	2015
Current year provision	3,655	2,522
Adjustment relating to prior years	(11)	(3)
Charge for the year	3,644	2,519

Income tax has been provided for based on the estimated taxable profit at fixed rate of 20% (2015: 20%)

c) Movements in provisions

The movement in the zakat and income tax provisions for the year was as follows:

31 December 2016:	*Zakat*	*Income tax*	*Total*
At the beginning of the year	18,901	677	19,578
Provided during the year	19,942	3,644	23,586
Payments during the year	(18,790)	(2,549)	(21,339)
At the end of the year	20,053	1,772	21,825
31 December 2015:			
At the beginning of the year	19,156	2,462	21,618
Provided during the year	18,200	2,519	20,719
Payments during the year	(18,455)	(4,304)	(22,759)
At the end of the year	18,901	677	19,578

(All amounts in Saudi Riyals thousands unless otherwise stated)

15. ZAKAT AND INCOME TAX (continued)

d) 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 2015. However, there is no assessment received so far from the GAZT with respect of those years.

Advanced Renewable Energy Company ("AREC")
AREC has been filing its annual Zakat & Income Tax returns with the General Authority of Zakat and Tax (the "GAZT") for the years 2013 to 2015. However, there is no assessment received so far from the GAZT with respect of those years.

Advanced Global Investment Company ("AGIC")
AGIC has been filing its annual Zakat & Income Tax returns with the General Authority of Zakat and Tax (the "GAZT") for the years 2013 to 2015. However, there is no assessment received so far from the GAZT with respect of those years.

Zakat base has been computed based on the Company's understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations and a new zakat regulation is expected to be announced in due course. The assessments to be raised by the GAZT could be different from the declarations filed by the Company.

16. DIVIDENDS

In November 2016, the Board of Directors proposed to distribute final cash dividend of SR 0.70 per share (totaling to SR 138 million) for the fourth quarter of 2016. This will be paid during 2017 subject to approval by the General Assembly in their meeting to be held in March 2017.

On 4 October 2016, the Board of Directors resolved to distribute interim cash dividend for the third quarter of 2016 of SR 0.65 per share (totaling SR 128 million).

On 17 May 2016, the Board of Directors resolved to distribute interim cash dividend for the second quarter of 2016 of SR 0.75 per share (totaling SR 123 million).

On 1 March 2016, the Board of Directors resolved to distribute interim cash dividend for the first quarter of 2016 of SR 0.75 per share (totaling SR 123 million).

In November 2015, the Board of Directors proposed to distribute final cash dividend of SR 0.75 per share (totaling to SR 123 million) for the fourth quarter of 2015. This has been approved by the General Assembly in their meeting held on 1 March 2016.

17. TERM LOAN

	2016	2015
Murabaha loan	**50,000**	90,000
Less: current portion	**(40,000)**	(40,000)
Non-current portion	**10,000**	50,000

(All amounts in Saudi Riyals thousands unless otherwise stated)

17. TERM LOAN (continued)

In 2013, the Company obtained Murabaha loan facility of SR 200 million from a local commercial bank to finance the housing project for its employees as explained under Note 13. Balance drawn as of 31 December 2016 against this facility amounted to SR 120 million (2015: SR 120 million). The loan is being repaid in 12 equal quarterly installments commencing from 30 June 2015.

The aggregate maturities of the loans as of 31 December, are summarized as follows:

	2016	2015
Years ending December 31:		
2016	-	40,000
2017	40,000	40,000
2018	10,000	10,000
	50,000	90,000

18. SUKUK

On 17 November 2014, the Company issued its Sukuk amounting to SR 1 billion at a par value of SR 1 million each with no discount or premium. The Sukuk issuance bears a rate of return at SIBOR plus a specified margin, payable semi-annually in arrears. The Sukuk is due for payment in full at par value on its maturity date of 17 November 2019. As at 31 December 2016, total outstanding amount under the Sukuk has been classified as non-current liability net-off unamortised deferred cost amounting to SR 1.3 million (2015: SR 1.7 million).

19. EMPLOYEES' TERMINAL BENEFITS AND OTHER BENEFITS

	2016	2015
At the beginning of the year	45,730	36,240
Provided during the year	16,386	12,566
Paid during the year	(1,643)	(3,076)
At the end of the year	60,473	45,730

20. GENERAL AND ADMINISTRATION EXPENSES

	2016	2015
Salaries and related benefits	25,930	21,411
Legal and professional charges	2,703	3,031
Advertising and promotions	1,995	2,310
Depreciation	789	900
Rent	266	270
Others	3,205	4,687
	34,888	32,609

(All amounts in Saudi Riyals thousands unless otherwise stated)

21. OPERATING LEASE ARRANGEMENTS

The Group has leased land from the Royal Commission for Jubail and Yanbu, for its building and plants facilities. Rental expenses for the year ended December 31, 2016 amounted to SR 0.65 million (2015: SR 0.65 million). The lease will expire in the year 1456H, with the option for renewal.

Commitments for minimum lease payments under non-cancelable operating leases are as follows:

	2016	2015
Not later than one year	**650**	650
Year two	**650**	650
Year three	**650**	650
Year four	**650**	650
Year five	**650**	650
Later than five years	**9,758**	10,408
Net minimum lease payments	**13,008**	13,658

22. COMMITMENTS

Capital commitments contracted but not yet incurred amounted to SR 88.4 million in respect of the employees home ownership program (2015: SR 160.3 million).

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.

23. 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 302.01 million (2015: SR 302.19 million).

24. RISK MANAGEMENT

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group is not significantly exposed to credit risk. Cash and cash equivalents are generally placed with banks with sound credit ratings and, in general, most of the Group's sales are made to credible customers having strong market reputation. The Group entered into a distributor agency agreement with its marketing agents to act as the exclusive sales agent of the product. The marketing fees charged by the marketing agents are charged to expense when incurred. The majority of credit risk is mitigated by the distribution agreement referred above as credit risk is eventually undertaken by the marketing agents, who market the off taken products and also provide the standby letters of credit to the Group as a security against trade receivables.

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Group is subject to commission rate risk on its commission bearing assets such as short term Murabaha deposits and Murabaha funds (classified as available for sale investments). The Group is also subject to commission bearing risk on its commission bearing liabilities including term loans and sukuk.

(All amounts in Saudi Riyals thousands unless otherwise stated)

24. RISK MANAGEMENT (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages its liquidity risk by ensuring that sufficient cash flows are available. The Group's sales invoices are usually settled within 45 days of the date of the invoices. Payables are normally settled within 45 to 90 days of the date of the invoices.

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 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.

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 reports on the equity portfolio are submitted to the Group's senior management on a regular basis.

The effect on equity (as a result of a change in the fair value of investments available for sale at 31 December 2016) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	Change in equity price	*Effect on equity*	
	%	**2016**	2015
Investments available for sale	±20	**146,777**	75,543

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

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. The Group's financial assets consist of cash and cash equivalents, trade receivables, short term investments and investments available for sale. Its financial liabilities consist of payables, sukuk and term loan. The fair values of Group's financial instruments are not materially different from their carrying value at the consolidated balance sheet date.

26. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent shareholders, associated company, 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.

A summary of the key management remuneration is as follows:

	2016	2015
Salaries and allowances	**9,460**	10,423
Short term and other benefits	**6,261**	7,115
	15,721	17,538