المتقدمة
Advanced

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

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

المتقدمة
Advanced

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

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

INDEX	PAGE
Independent auditor's report	1-6
Consolidated statement of profit or loss	7
Consolidated statement of other comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12-58

Ernst & Young & Co. (Certified Public Accountants)
General Partnership
Adeer Tower - 15th floor
Prince Turki Bin Abdulaziz Street - Al Khobar Corniche
P.O. Box 3795
Al Khobar 31952
Kingdom of Saudi Arabia
Head Office - Riyadh

Registration No. 45/11/323
C.R. No. 2051058792

Tel: +966 13 840 4600
Fax: +966 13 882 0087

alkhobar@sa.ey.com
www.ey.com/mena

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

Report on the Audit of the Consolidated Financial Statements

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 2018, and the consolidated statement of profit or loss, consolidated statement of other 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 2018, 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 issued by the Saudi Organization for Certified Public Accountants ("IFRSs as endorsed in KSA").

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 our opinion thereon, and we do not provide a separate opinion on these matters. For the key audit 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.

Building a better working world

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. Further International Accounting Standards Board (IASB) issued a new standard for revenue recognition IFRS 15 Revenue from contract with customers. This new standard has been endorsed in the Kingdom of Saudi Arabia and is applicable for all entities for periods beginning on or after 1 January 2018.	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 tested 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;

Building a better working world

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
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 and 4 to the consolidated financial statements for the Group's accounting policy relating to revenue recognition.	- 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 2018 Annual Report

Other information consists of the information included in the Group's 2018 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 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. If, based on the work we have performed, 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 issued 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.

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.

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)

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.

- 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.

Building a better working world

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)

- 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
Registration No. 422

16 Jumada' II 1440H
21 February 2019
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 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2018	2017
Sales		**2,748,212**	2,384,537
Cost of sales	24	**(1,920,634)**	(1,646,414)
GROSS PROFIT		**827,578**	738,123
Selling and distribution expenses		**(19,800)**	(10,850)
General and administration expenses	25	**(107,403)**	(107,610)
OPERATING PROFIT		**700,375**	619,663
Finance costs		**(38,515)**	(36,710)
Realised gain on disposal of available-for-sale investments, net		**-**	10,173
Share in results of an associate	9	**66,878**	47,608
Other income, net		**16,624**	11,149
PROFIT BEFORE ZAKAT AND INCOME TAX		**745,362**	651,883
Zakat and income tax expense	23		
Zakat		**(27,640)**	(22,134)
Current tax		**(963)**	(956)
Deferred tax		**201**	2,323
PROFIT FOR THE YEAR		**716,960**	631,116
Earnings per share			
- Basic and diluted	27	**3.643**	3.207

KHALIFA A. AL-MULHEM
Chairman of the Board

ABDULLAH M. AL-GARAWI
President & CEO

PATRICK TOWNSEND
Chief Financial Officer

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	**2018**	2017
PROFIT FOR THE YEAR		**716,960**	631,116
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of investment in an associate	9	**(22,186)**	54,473
Unrealised fair value losses on available-for-sale investments	11	**-**	(50,466)
Net other comprehensive (loss)/ income) to be reclassified to profit or loss in subsequent periods		**(22,186)**	4,007
Other comprehensive income/(loss) 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	**(51,573)**	-
Re-measurements of retirement benefit obligations	21	**18,703**	(7,104)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(32,870)**	(7,104)
Other comprehensive loss for the year		**(55,056)**	(3,097)
Total comprehensive income for the year		**661,904**	628,019

KHALIFA A. AL-MULHEM
Chairman of the Board

ABDULLAH M. AL-GARAWI
President & CEO

PATRICK TOWNSEND
Chief Financial Officer

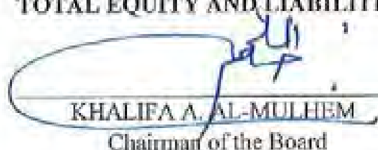
The attached notes 1 to 32 form an integral part of these consolidated financial statements.

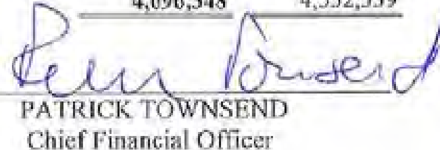
ثقافة التميز
Culture Of Excellence

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	**31 December 2018**	31 December 2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	**2,018,405**	1,957,367
Intangible assets	8	**2,439**	3,334
Investment in an associate	9	**579,074**	534,382
Investment in an unconsolidated subsidiary	10	**376**	376
Available-for-sale investments	11	-	660,772
Equity investment at Fair Value Through Other Comprehensive Income	11	**609,199**	-
Other non-current assets	12	**144,087**	154,954
TOTAL NON-CURRENT ASSETS		**3,353,580**	3,311,185
CURRENT ASSETS			
Inventories	13	**152,023**	143,004
Trade receivables	14	**276,581**	300,938
Prepayments and other current assets	15	**61,444**	46,943
Short term investments	16	**660,000**	490,000
Cash and cash equivalents	17	**192,720**	260,269
TOTAL CURRENT ASSETS		**1,342,768**	1,241,154
TOTAL ASSETS		**4,696,348**	4,552,339
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	**1,967,940**	1,967,940
Statutory reserve		**561,012**	489,316
Other components of equity		**157,039**	230,798
Retained earnings		**538,331**	425,387
TOTAL EQUITY		**3,224,322**	3,113,441
NON-CURRENT LIABILITIES			
Sukuk	20	-	998,582
Employees' defined benefit liabilities and other benefits	21	**101,690**	101,747
Deferred tax liabilities, net	23	**1,293**	1,494
TOTAL NON-CURRENT LIABILITIES		**102,983**	1,101,823
CURRENT LIABILITIES			
Sukuk	20	**999,298**	-
Trade payable		**141,541**	123,474
Accruals and other current liabilities	22	**199,339**	177,374
Current portion of term loan	19	**-**	10,000
Zakat and income tax provision	23	**24,156**	21,237
Dividends payable	30	**4,709**	4,990
TOTAL CURRENT LIABILITIES		**1,369,043**	337,075
TOTAL LIABILITIES		**1,472,026**	1,438,898
TOTAL EQUITY AND LIABILITIES		**4,696,348**	4,552,339





KHALIFA A. AL-MULHEM — Chairman of the Board

ABDULLAH M. AL GARAWI — President & CEO

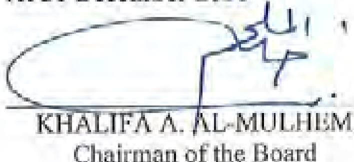
PATRICK TOWNSEND — Chief Financial Officer

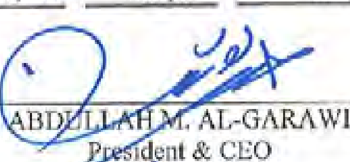
The attached notes 1 to 32 form an integral part of these consolidated financial statements.

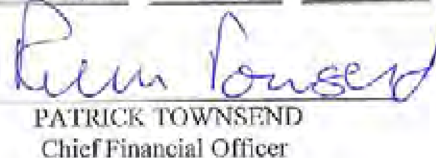
ثقافة التميز
Culture Of Excellence

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

			Other components of equity			
	Share capital	Statutory reserve	Unrealized fair value gains/ (losses) on available-for-sale investments / equity investment at Fair Value through Other Comprehensive Income	Foreign currency translation reserve	Retained earnings	Total
At 1 January 2017	1,967,940	426,204	240,325	(13,534)	415,510	3,036,445
Profit for the year	-	-	-	-	631,116	631,116
Other comprehensive income/(loss) for the year	-	-	(50,466)	54,473	(7,104)	(3,097)
Total comprehensive income/(loss) for the year	-	-	(50,466)	54,473	624,012	628,019
Transfer to statutory reserve	-	63,112	-	-	(63,112)	-
Dividends (Note 30)	-	-	-	-	(551,023)	(551,023)
At 31 December 2017	1,967,940	489,316	189,859	40,939	425,387	3,113,441
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)/ income for the year	-	-	(51,573)	(22,186)	18,703	(55,056)
Total comprehensive (loss)/ income 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**


KHALIFA A. AL-MULHEM
Chairman of the Board


ABDULLAH M. AL-GARAWI
President & CEO


PATRICK TOWNSEND
Chief Financial Officer

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

ثقافة التميز
Culture Of Excellence

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2018	2017
OPERATING ACTIVITIES			
Profit before zakat and income tax		**745,362**	651,883
Adjustment to reconcile profit before zakat and income tax to net cash flows:			
Depreciation		**206,500**	190,697
Amortisation		**1,243**	1,323
Realised gains on disposal of available-for-sale investments, net		**-**	(10,173)
Loss on disposal of property, plant and equipment		**69**	2
Finance costs		**38,515**	36,710
Share in results of an associate	9	**(66,878)**	(47,608)
Employees' defined benefits liabilities and other benefits	21	**19,952**	18,122
		944,763	840,956
Working capital adjustments:			
Inventories		**(9,019)**	(26,319)
Trade receivables		**24,357**	31,628
Prepayments and other current assets		**(14,501)**	(9,779)
Trade payable		**18,067**	37,305
Accruals and other current liabilities		**20,752**	36,338
Cash from operations		**984,419**	910,129
Employees' defined benefits liabilities and other benefits paid		**(1,306)**	(3,520)
Finance costs paid		**(36,586)**	(36,516)
Zakat and income tax paid	23	**(25,684)**	(23,678)
Net cash flows from operating activities		**920,843**	846,415
INVESTING ACTIVITIES			
Net movement in available-for-sale investments		**-**	92,820
Additions to short term investments, net		**(170,000)**	(368,286)
Additions to intangible assets	8	**(348)**	(1,194)
Additions to property, plant and equipment	7	**(267,607)**	(179,037)
Net movement in other non-current assets		**10,867**	7,427
Net cash flows used in investing activities		**(427,088)**	(448,270)
FINANCING ACTIVITIES			
Repayment of term loan		**(10,000)**	(40,000)
Dividends paid		**(551,304)**	(550,862)
Net cash flows used in financing activities		**(561,304)**	(590,862)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(67,549)**	(192,717)
Cash and cash equivalents at the beginning of the year		**260,269**	452,986
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**192,720**	260,269

KHALIFA A. AL-MULHEM	ABDULLAH M. AL-GARAWI	PATRICK TOWNSEND
Chairman of the Board	President & CEO	Chief Financial Officer

The attached notes 1 to 32 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 October 1, 2005). The paid up share capital of the Company is SR 1,967,940,000 divided into 196,794,000 shares of SR 10 each.

The consolidated financial statements as at 31 December 2018 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%

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 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 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 engage 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

Basis of preparation

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 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the Company 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.

These consolidated financial statements of the Group were approved on 21 February 2019.

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 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 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 Company 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 Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax (continued)

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.

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 statement of financial position.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

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 Company

The Company recognises a liability to make cash or non-cash distributions to equity holders of the Company when the distribution is authorised and the distribution is no longer at the discretion of the Company. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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	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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are 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 are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

Financial assets (continued)

Financial assets at amortised cost (debt instruments) (continued)

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 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.

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 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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

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).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

Impairment of financial assets (continued)

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.

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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities (continued)

Financial liabilities (continued)
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 statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

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 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 the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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.

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 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 Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. The reserve is not available for distribution.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 POLICIES

The Group applied for the first time International Financial Reporting Standard 9 'Financial Instruments' ("IFRS 9") and IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") which are on effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any new standard, interpretation or amendment that has been issued but which are not yet effective. The nature and the impact is elaborated below:

IFRS 9 - Financial Instruments

The Group adopted the new standard and has not restated comparative information. The difference between the carrying amounts of the financial assets resulting from adopting IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The financial liabilities are not affected.

The following assessments have been made based on the facts and circumstances at the date of initial application:

- The determination of the business model within which a financial asset is held
- The designation and revocation of previous designated financial assets as measured at FVIS
- The designation of certain investments in equity instruments not held for trading as FVOCI
- The designation of debt instruments as financial assets at amortised cost

The following table shows changes in measurement and classification of the different categories in accordance with IAS 39 and the new measurement and classification categories in accordance with IFRS 9 for the Group's financial assets as per 1 January 2018:

	Measurement under IAS 39	Measurement under IFRS 9	Carrying value under IAS 39	Carrying value under IFRS 9	Changes on adoption of IFRS 9
Financial assets:					
Equity investment at fair value through other comprehensive income	Availabe for sale	FVOCI	660,772	660,772	-
Trade receivables	Loans and receivables	Amortised cost *	300,938	300,938	-
Cash and cash equivalents	Loans and receivables	Amortised cost	260,269	260,269	-

ثقافة التميز
Culture Of Excellence

4. CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company is licensed to engage in production and selling Polyproylene, Polysilicon and Polysilicon downstream products. The sale of product is generally expected to be the only performance obligation for the Company and accordingly, adoption of IFRS 15 does not have any impact on the Company's revenues and profit or loss.

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.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

Other disclosures relating to the Company’s exposure to risks and uncertainties include:
• Capital management, financial instrument risk management and policies (Note 28)
• Sensitivity analyses disclosures (Notes 21 and 28)

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:

Initial recognition of investments – *applicable before 1 January 2018*
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Impairment of available-for-sale investments - *applicable before 1 January 2018*
The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

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

Impairment of trade receivables - *applicable before 1 January 2018*
An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due.

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 Company 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)

Measurement of Financial Instruments – *applicable from 1 January 2018*
By adopting IFRS 9, the Group is required to make judgements about:
• The regional and business related risk profiles of the Group's customers to assess the expected credit losses on trade receivables.
• The basis to determine the fair value of its equity investments, in reference to similar kind of investments being sold in the market. The selection of the investments to determine the basis requires judgement by management to recognise equity investments at fair value through other comprehensive income. For fair value determination, these investments qualify as level 3 items.

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 NOT YET EFFECTIVE AND NOT EARLY ADOPTED

At the date of authorization of these consolidated financial statements, the following new and amended IFRS accounting standards, which are applicable to the Group, were issued by the IASB but not yet effective. At this stage, the Group is finalising its assessment of the impact of the new standard on the consolidated financial statements. Management intends to adopt these standards when they become effective.

IFRS 16 – "Leases"

IFRS 16 was issued in January 2016 and it replaces 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group plans to adopt IFRS 16 retrospectively with a cumulative effect of initially applying the Standard recognised in retained earnings at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17.

The Group will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value.

6. NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE AND NOT EARLY ADOPTED (Continued)

IFRS 16 – "Leases" (continued)

During 2018, the Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/ (decrease)) as at 31 December 2018:

	SR'000
Operating lease commitments as at 31 December 2018	70,191
Discounted using the Group's incremental borrowing rate at 4.19%	24,943
(Less): short-term leases recognised on a straight-line basis as expense	(630)
(Less): low-value leases recognised on a straight-line basis as expense	(3,486)
Lease liability recognised as at 1 January 2019	20,827

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

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.

6. NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE AND NOT EARLY ADOPTED (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 and 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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date.

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 the 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.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

6. NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE AND NOT EARLY ADOPTED (Continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The Amendments to IAS 19 specifies how companies determine pension expenses when changes to a defined benefit pension plan occur.

The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments are effective on or after 1 January 2019. The Group expects no significant impact from this amendment and will adopt it when it becomes effective.

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. The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

• IFRS 3 Business Combinations

In October 2018 the International Accounting Standards Board issued Definition of a Business (Amendments to IFRS 3). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a Group of assets rather than a business. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning or after 1 January 2020. The Group will apply it once it become effective and it enters into a business combination.

• IFRS 11 Joint Arrangements

A party 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 are currently not applicable to the Group but may apply to future transactions.

6. NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE AND NOT EARLY ADOPTED (Continued)

Annual Improvements 2015-2017 Cycle (issued in December 2017) (continued)

• 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 the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an 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, the Group does not expect any effect on its consolidated financial statements.

• 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.

An entity applies those 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, the Group does not expect any effect on its 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 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**

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 2019, with an estimated cost of SR 169.4 million (2017: SR 169.4 million). During the year, the Group had not capitalised any financial charges (2017: SR nil).

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.

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 2017
Cost:										
At 1 January 2017	2,791,995	99,681	120,920	55,106	9,333	174,661	18,009	5,152	107,825	3,382,682
Additions	-	3,010	-	10,689	353	-	2,326	1,015	161,644	179,037
Transfers	21,641	-	286	-	-	1,030	-	-	(22,957)	-
Disposals	-	-	-	(91)	(16)	-	(1,209)	(658)	-	(1,974)
At 31 December 2017	2,813,636	102,691	121,206	65,704	9,670	175,691	19,126	5,509	246,512	3,559,745
Depreciation:										
At 1 January 2017	1,155,968	24,931	22,301	32,842	7,701	151,529	15,319	3,062	-	1,413,653
Charge for the year	152,387	5,095	6,490	7,193	412	17,434	791	895	-	190,697
Disposals	-	-	-	(89)	(16)	-	(1,209)	(658)	-	(1,972)
At 31 December 2017	1,308,355	30,026	28,791	39,946	8,097	168,963	14,901	3,299	-	1,602,378
Net Book Value:										
At 31 December 2017	1,505,281	72,665	92,415	25,758	1,573	6,728	4,225	2,210	246,512	1,957,367

Allocation of depreciation charge for the year is as follows:

	2018	2017
Cost of sales (note 24)	**197,023**	181,033
General and administration expenses (note 25)	**9,433**	9,622
Selling and distribution expenses	**44**	42
	206,500	190,697

8. INTANGIBLE ASSETS

	31 December 2018	31 December 2017
At the beginning of the year	**3,334**	3,463
Additions	**348**	1,194
Amortisation	**(1,243)**	(1,323)
At the end of the year	**2,439**	3,334

Intangible assets mainly represents employees' furniture allowance.

9. INVESTMENT IN AN ASSOCIATE

The Group has an investment in a Propane De-Hydrogenation Plant ("PDH Plant") with SK Gas ("the JV Co.") in which AGIC owns 30% shareholding at 31 December 2018. In 2016, The JV Co. is 45% owned by SK Gas, 30% by AGIC and 25% by PIC. The summarised financial position and operating results of the associate is given below:

	31 December 2018	31 December 2017
Current assets	**1,065,691**	596,617
Non-current assets	**2,758,154**	2,955,606
Current liabilities	**1,255,141**	328,188
Non-current liabilities	**737,307**	1,541,566
Equity	**1,831,397**	1,682,469
The Group's carrying amount of the investment	**579,074**	534,382

	2018	2017
Sales	**2,924,848**	2,351,002
Costs of sales	**(2,548,919)**	(2,043,971)
Selling, general and administration expenses	**(35,323)**	(64,098)
Other income and expenses	**(37,696)**	(45,134)
Profit before tax	**302,910**	197,799
Income tax expense	**(70,945)**	(34,596)
Profit for the year	**231,965**	163,203
Group's share of profit for the year	**66,878**	47,608

9. INVESTMENT IN AN ASSOCIATE (Continued)

The movement in investment in an associate is as follows:

	31 December 2018	31 December 2017
At the beginning of the year	**534,382**	432,301
Share of results for the year	**66,878**	47,608
Exchange differences on translation of foreign operations	**(22,186)**	54,473
At the end of the year	**579,074**	534,382

10. INVESTMENT IN AN UNCONSOLIDATED SUBSIDIARY

	Effective percentage of ownership		**31 December 2018**	31 December 2017
	2018	2017		
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/ AVAILABLE FOR SALE INVESTMENT

	31 December 2018	31 December 2017
Cost:		
At the beginning of the year	**470,913**	553,560
Additions	**-**	176,636
Disposals	**-**	(259,283)
At the end of the year	**470,913**	470,913
Valuation adjustments:		
At the beginning of the year	**189,859**	240,325
Net movement during the year	**(51,573)**	(50,466)
At the end of the year	**138,286**	189,859
Net carrying value	**609,199**	660,772

At 31 December 2018, equity investment at fair value through other comprehensive income comprise strategic investments in another listed entity 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 2018	31 December 2017
Employees' home ownership program (note a)	**138,586**	149,162
Others	**5,501**	5,792
	144,087	154,954

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 reporting date, SR 138.59 million represents non-current portion and SR 12.03 million represents current portion.

13. INVENTORIES

	31 December 2018	31 December 2017
Spare parts	**103,947**	100,536
Finished goods	**16,005**	2,131
Semi-finished goods	**15,442**	16,767
Catalyst	**6,549**	11,303
Others	**13,080**	12,267
	155,023	143,004
Less: Provision for slow moving items	**(3,000)**	-
	152,023	143,004

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.

14. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Trade receivables	**276,660**	301,017
Less: Provisions for doubtful debts	**(79)**	(79)
	276,581	300,938

Trade receivables are non-interest bearing and are generally on 30 to 45 days terms. At 31 December 2018, trade receivables at nominal value of SR 0.08 million (2017: 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 2018	31 December 2017
At the beginning of the year	**79**	600
Utilised during the year	**-**	(521)
At the end of the year	**79**	79

14. TRADE RECEIVABLES (continued)

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 2018	**276,581**	**275,358**	**481**	**20**	**-**	**200**	**522**
31 December 2017	300,938	297,076	54	819	539	251	2,199

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 2018	31 December 2017
Prepayments	**15,662**	15,757
Net VAT refundable from GAZT	**23,692**	-
Current portion of employees' HOP receivable (note 12)	**12,026**	12,026
Deposits	**2,375**	2,375
Advances to suppliers	**3,162**	11,293
Accrued commission income	**4,006**	5,304
Others	**521**	188
	61,444	46,943

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 2.90% to 3.47% per annum (31 December 2017: 2.05% to 2.45% per annum).

17. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Bank balances and cash	**106,470**	205,269
Short term murabaha investments	**86,250**	55,000
	192,720	260,269

Short term murabaha investments are kept with local commercial banks and are maintained in Saudi Riyals and US Dollars. All investments had original maturities of less than 3 months and earn financial income at an average rate of 2.58% per annum (31 December 2017: 1.70% per annum).

18. SHARE CAPITAL

	31 December 2018	31 December 2017
	No. of shares	*No. of shares*
Authorised shares		
Ordinary shares of SR 10 each ('000)	**196,794**	196,794
Shares issued and fully paid		
Ordinary shares of SR 10 each ('000)	**196,794**	196,794

19. TERM LOAN

	31 December 2018	31 December 2017
Murabaha loan		10,000
Less: current portion	-	(10,000)
Non-current portion	-	-

In 2013, the Company obtained a murabaha loan facility of SR 200 million from a local commercial bank to finance the housing project for its employees as explained under Note 12. The balance was paid fully during the year.

20. SUKUK

	31 December 2018	31 December 2017
Sukuk	**1,000,000**	1,000,000
Less: Present value discounting using EIR method	**(702)**	(1,418)
	999,298	998,582

On 17 November 2014, the Company issued its Sukuk amounting to SR 1 billion (1000 units) 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 has an EIR of 4.26% and due for payment in full at par value on its maturity date of 17 November 2019. As at 31 December 2018, the sukuk has been classified as the current liability i.e. SR 1 billion, net of the unamortized cost of issuance discounted using the EIR method.

21. EMPLOYEES' TERMINAL BENEFITS AND OTHER BENEFITS

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

	31 December 2018	31 December 2017
Present value of defined benefit obligation	**89,056**	92,135
Less: fair value of plan assets	-	-
Net defined liability (Note 21.1)	**89,056**	92,135
Other long term benefit (i.e. employees' saving plan)	**12,634**	9,612
Employees terminal benefits and other benefits	**101,690**	101,747

Note 21.1 The amounts recognised and the movements in the net defined benefits obligation over the year are as follows:

At 1 January 2017	72,668
Service cost	11,894
Interest cost	3,330
Benefits paid	(2,861)
Actuarial losses on re-measurement of net defined benefits obligation	7,104
At 31 December 2017	92,135
Service cost	13,176
Interest cost	3,522
Benefits paid	(1,074)
Actuarial gains on re-measurement of net defined benefits obligation	(18,703)
At 31 December 2018	**89,056**

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 2018	31 December 2017
Discount rate	**5.15%**	3.60%
Salary increase rate for first two years	**4.00%**	4.00%
Long term salary increase rate	**5.15%**	4.50%

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

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

	31 December 2018	31 December 2017
Discount rate:		
Increase by 0.5% points	**(6,272)**	(7,123)
Decrease by 0.5% points	**6,977**	7,975
Long term salary increase rate:		
Increase by 0.5% points	**5,136**	5,927
Decrease by 0.5% points	**(4,731)**	(5,435)

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. 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.

22. ACCRUALS AND OTHER CURRENT LIABILITIES

	31 December 2018	31 December 2017
Accrued purchases and expenses	**194,920**	176,003
Others	**4,419**	1,371
	199,339	177,374

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:

	2018	2017
Zakat and current income tax:		
Zakat charge	**27,640**	22,134
Current income tax charge	**963**	956
	28,603	23,090
Deferred tax:		
Relating to origination and reversal of temporary differences	**(201)**	(2,323)
	28,402	20,767

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

	2018	2017
At 1 January	**21,237**	21,825
Current year provision	**28,603**	23,090
Payments during the year	**(25,684)**	(23,678)
At 31 December	**24,156**	21,237

23. ZAKAT AND INCOME TAX (continued)

Zakat

Charge for the year

The zakat charge consists of:	**2018**	2017
Current year provision	**24,127**	20,737
Adjustment relating to prior years	**3,513**	1,397
Charge for the year	**27,640**	22,134

The principal elements of the zakat base are as follows:

	2018	2017
Non-current assets	**3,353,580**	3,311,185
Non-current liabilities	**102,983**	1,101,823
Opening shareholders' equity	**3,113,441**	3,036,445
Zakatable income	**749,752**	645,226
Dividends paid	**551,304**	550,862

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:

	2018	2017
Current year provision	**963**	2,108
Adjustment relating to prior years	-	(1,152)
Charge for the year	**963**	956

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 2017. 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 based on the advice from the Company's zakat and tax advisor.

Advanced Renewable Energy Company ("AREC")

AREC has been filing its annual Zakat & Income Tax returns with the GAZT for the years 2013 to 2017. 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 2017. 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 2018	31 December 2017
Deferred tax asset		
Provisions allowed on cash basis	**124**	121
Deferred tax liability		
Accelerated depreciation differential for tax purposes	**(1,417)**	(1,615)
Deferred tax liabilities, net	**1,293**	1,494

Reconciliation of deferred tax liabilities, net was as follows:

	31 December 2018	31 December 2017
At 1 January	**1,494**	3,817
Tax expense reversed in profit or loss during the year	**(201)**	(2,323)
At 31 December	**1,293**	1,494

24. COST OF SALES

	2018	2017
Raw materials, utilities, consumables and change in inventories	**1,600,996**	1,331,172
Salaries and related benefits	**80,772**	83,578
Depreciation (note 7)	**197,023**	181,033
Others	**41,843**	50,631
	1,920,634	1,646,414

25. GENERAL AND ADMINISTRATION EXPENSES

	2018	2017
Salaries and related benefits	**70,234**	66,152
Depreciation (note 7)	**9,433**	9,622
Contracted services	**7,340**	8,038
Legal and professional	**3,100**	7,308
Director's remuneration, allowances and expenses	**2,421**	2,224
Software licenses and fees	**1,987**	2,098
Communication	**1,433**	1,490
Advertising and promotions	**847**	1,001
Rent	**1,199**	1,302
Others	**9,409**	8,375
	107,403	107,610

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 less than 5% of the total sales and overseas sales represent more than 95% of the total sales.

27. EARNINGS PER SHARE

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

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

	2018	2017
Net profit attributable to equity holders of the Group	**716,960**	631,116
Weighted average number of ordinary shares ('000)	**196,794**	196,794
Earnings Per Share (SR)	**3.643**	3.207

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, accruals and other current liabilities, dividend payable, term loan, 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 2018, the Group had 3 marketing agents that owed more than SR 248 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 criteria. 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 2018 and 2017 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)

Credit risk (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 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:						
- Term loan	-	-	-	-	-	-
- 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**

Year ended 31 December 2017	*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:						
- Term loan	-	10,000	-	-	-	10,000
- Sukuk	-	-	-	1,000,000	-	1,000,000
Trade payables and other liabilities	13,905	275,170	3,891	3,198	4,684	300,848
Dividends payable	4,990	-	-	-	-	4,990
	18,895	285,170	3,891	1,003,198	4,684	1,315,838

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 2018	31 December 2017
Variable interest rate – repricing dates 6 months or less	**1,000,000**	1,010,000

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 2018	31 December 2017
Interest rate – increase by 100 basis points	**(10,139)**	(10,455)
Interest rate – decrease by 100 basis points	**10,139**	10,455

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 609.2 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 121.8 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*	
	%	**2018**	2017
Equity investment at fair value through other comprehensive income	+/- 20	**121,840**	132,154

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 2018	31 December 2017
Long term debt	**999,298**	1,008,582
Total equity	**3,224,322**	3,113,441
Capital and long term debt	**4,223,620**	4,122,023
Debt to equity ratio	**0.310**	0.324

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

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 2018.

- 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 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	-	-

Year ended 31 December 2017	*SR '000*	*Level 1* *SR '000*	*Level2* *SR '000*	*Level 3* *SR '000*
Assets measured at fair value				
Available for sale investments	660,772	660,772	-	-

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 2018:

	Carrying value	*Fair value*
Financial liabilities		
Sukuk	999,298	1,000,000

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 2018, Capital commitments contracted but not yet incurred amounted to SR 8.0 million in respect of the employees home ownership program (2017: SR 23.2 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. 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 (2017: SR 301.95 million).

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 31 December 2018 amounted to SR 0.65 million (2017: 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:

	2018	2017
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	**8,458**	9,108
Net minimum lease payments	**11,708**	12,358

30. DIVIDENDS

On 18 December 2018, the Board of Directors proposed to distribute final cash dividend of SR 0.70 per share (totaling SR138 million) for the fourth quarter of 2018. This will be paid during 2019 subsequent to approval by the General Assembly in their next meeting to be held in March 2019.

On 25 September 2018, the Board of Directors resolved to distribute interim cash dividend for the third quarter of 2018 of SR 0.70 per share (totaling SR 138 million).

On 07 June 2018, the Board of Directors resolved to distribute interim cash dividend for the second quarter of 2018 of SR 0.70 per share (totaling SR 138 million).

On 18 March 2018, the Board of Directors resolved to distribute interim cash dividend for the first quarter of 2018 of SR 0.70 per share (totaling SR 138 million).

On 5 December 2017, the Board of Directors proposed to distribute final cash dividend of SR 0.70 per share (totaling SR138 million) for the fourth quarter of 2017. This has been approved by the General Assembly in their meeting held on 18 March 2018.

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

	2018	2017
Salaries and allowances	**10,224**	9,555
Short term and other benefits	**5,857**	6,298
	16,081	15,853

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 2.42 million (2017: SR 2.22 million) as director’s 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 2018 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.