METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
AND INDEPENDENT AUDITOR'S REPORT

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Independent auditor's report to the shareholders of Methanol Chemicals Company

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Methanol Chemicals Company (the "Company") as at 31 December 2018, and its financial performance and its 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 issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2018;
- the statement of financial position as at 31 December 2018;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key Audit Matter	• Adoption of IFRS 9 "Financial Instruments" ("IFRS 9") and IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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Independent auditor's report to the shareholders of Methanol Chemicals Company (continued)

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Adoption of IFRS 9 and IFRS 15 (collectively the "new accounting standards") Effective 1 January 2018, the Company changed its accounting policies due to the mandatory application of the following accounting standards: • IFRS 9 "Financial Instruments" which supersedes the requirements of IAS 39 "Financial Instruments - Recognition and Measurement"; and • IFRS 15 which supersedes the requirements of IAS 18 "Revenue" and certain other standards. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces a new impairment model for financial assets. Management has determined that the most significant impact of the new standard on the Company's financial statements relates to the calculation of the allowance for expected credit loss on trade receivables. IFRS 15 introduces a new five step model for recognition of revenue which is primarily based on the transfer of control to the customers. Management performed a detailed analysis of each type of revenue contract to identify the changes required to be made to existing accounting policies and to determine if any changes are required particularly in connection with the separation of different performance obligations that may exist within a given contract. Management also assessed the additional disclosures required to be made by the new accounting standards in the financial statements.	Our audit procedures included the following: • Obtained an understanding of the analysis performed by management to identify all significant differences between previous accounting standards and the new accounting standards which can impact the financial statements; • Reviewed management's assessment of the impact of new accounting standards on the Company's financial statements; • Evaluated the key decisions made by the Company with respect to accounting policies, estimates and judgements in relation to adoption of the new accounting standards and assessed their appropriateness based on our understanding of the Company's business and its operations; • Compared the impairment model for trade receivables developed by management to that required by IFRS 9 and reviewed the reasonableness of the methodology in comparison with accepted best practice. We also tested the arithmetical accuracy of the model; • Involved our accounting subject matter specialists to review the methodology used in the impairment model for trade receivables; • Tested the adjustments made, where applicable, as part of the transition process based on the differences identified; and

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Independent auditor's report to the shareholders of Methanol Chemicals Company (continued)

Key audit matter	How our audit addressed the Key audit matter
Resulting adjustment from the application of the new accounting standards was recorded in equity as at 1 January 2018 under the modified retrospective approach. We considered this as a key audit matter since the adoption of the new accounting standards has a pervasive impact on the financial statements from recognition, measurement and disclosure perspective. *Refer to Note 4, which explains the impact of the adoption of the new accounting standards.*	• Evaluated the adequacy and appropriateness of disclosures made in the financial statements in relation to adoption of the new accounting standards.

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report.

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Independent auditor's report to the shareholders of Methanol Chemicals Company (continued)

Auditor's responsibilities for the audit of the financial statements

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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Independent auditor's report to the shareholders of Methanol Chemicals Company (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

PricewaterhouseCoopers

Ali A. Alotaibi
License Number 379
14 March 2019

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Statement of comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December 2018	2017
Revenue	5	701,612,727	683,214,577
Cost of sales	6	(506,041,471)	(550,154,984)
Gross profit		195,571,256	133,059,593
Selling and distribution expenses	7	(60,921,472)	(87,729,574)
General and administrative expenses	8	(42,726,425)	(41,731,509)
Other operating income - net	10	2,295,677	16,825,616
Operating profit		94,219,036	20,424,126
Financial costs	9	(41,955,569)	(44,532,125)
Financial income		3,036,391	1,407,986
Financial costs - net		(38,919,178)	(43,124,139)
Profit (loss) before zakat		55,299,858	(22,700,013)
Zakat expense	22	(9,146,015)	(5,000,000)
Profit (loss) for the year		46,153,843	(27,700,013)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gain on remeasurements of employee benefit obligations	19	243,185	1,429,653
Other comprehensive income for the year		243,185	1,429,653
Total comprehensive income (loss) for the year		46,397,028	(26,270,360)
Earnings (loss) per share:			
Basic and diluted	28	0.383	(0.230)

The accompanying notes are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on 14 March 2019 and were approved on their behalf by:

Khalid Sulaiman Al Obeid Chief Financial Officer	Saud Abdullah Al Sanea Chief Executive Officer	Abdullah Al Sanea Chairman

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December 2018	2017
Assets			
Non-current assets			
Property, plant and equipment	11	1,646,052,549	1,715,158,354
Intangible assets	12	10,828,167	16,514,176
Total non-current assets		1,656,880,716	1,731,672,530
Current assets			
Inventories	13	118,231,188	113,968,088
Trade and other receivables	14	162,792,119	170,325,659
Short-term murabaha deposits		63,000,000	-
Cash and cash equivalents	15	119,823,733	241,101,643
Total current assets		463,847,040	525,395,390
Total assets		2,120,727,756	2,257,067,920
Equity and liabilities			
Equity			
Share capital	16	1,206,000,000	1,206,000,000
Share premium		72,850,071	72,850,071
Statutory reserve	17	44,118,693	44,118,693
Accumulated deficit		(181,921,196)	(227,551,389)
Net equity		1,141,047,568	1,095,417,375
Liabilities			
Non-current liabilities			
Long-term borrowings	18	685,359,324	840,842,224
Employee benefit obligations	19	41,085,887	39,477,475
Total non-current liabilities		726,445,211	880,319,699
Current liabilities			
Trade and other payables	20	87,643,360	89,242,890
Current portion of long-term borrowings	18	157,613,395	183,763,588
Zakat payable	22	7,978,222	8,324,368
Total current liabilities		253,234,977	281,330,846
Total liabilities		979,680,188	1,161,650,545
Total equity and liabilities		2,120,727,756	2,257,067,920

The accompanying notes are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on 14 March 2019 and were approved on their behalf by:

Khalid Sulaiman Al Obeid	Saud Abdullah Al Sanea	Abdullah Al Sanea
Chief Financial Officer	Chief Executive Officer	Chairman

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Share premium	Statutory reserve	Accumulated deficit	Total
At 1 January 2017		**1,206,000,000**	**72,850,071**	**44,118,693**	(201,281,029)	**1,121,687,735**
Loss for the year		-	-	-	(27,700,013)	(27,700,013)
Other comprehensive income for the year		-	-	-	1,429,653	1,429,653
Total comprehensive loss for the year		-	-	-	(26,270,360)	(26,270,360)
At 31 December 2017		**1,206,000,000**	**72,850,071**	**44,118,693**	(227,551,389)	**1,095,417,375**
Change in accounting policy	4	-	-	-	(766,835)	(766,835)
Profit for the year		-	-	-	46,153,843	46,153,843
Other comprehensive income for the year		-	-	-	243,185	243,185
Total comprehensive income for the year		-	-	-	46,397,028	46,397,028
At 31 December 2018		1,206,000,000	72,850,071	44,118,693	(181,921,196)	1,141,047,568

The accompanying notes are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on 14 March 2019 and were approved on their behalf by:

Khalid Sulaiman Al Obeid
Chief Financial Officer

Saud Abdullah Al Sanea
Chief Executive Officer

Abdullah Al Sanea
Chairman

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December 2018	2017
Cash flows from operating activities			
Profit (loss) before zakat		55,299,858	(22,700,013)
Adjustments for:			
Depreciation and amortization	11,12,18	127,257,463	122,925,662
Provision for slow-moving inventories	13	1,370,571	2,981,312
Reversal of provision for doubtful debts	14	-	(28,328)
Reversal on allowance for expected credit loss ("ECL") of trade receivables, net	14	(251,591)	-
Loss on disposal of property plant, and equipment		273,975	495,861
Financial costs - net		35,305,725	39,187,697
Provision for employee benefit obligations	19	7,030,337	6,506,895
Changes in operating assets and liabilities:			
Increase in inventories		(5,633,671)	(54,684)
Decrease in trade and other receivables		7,018,296	191,978
Decrease in trade and other payables		(1,599,528)	(32,584,816)
Cash generated from operations		226,071,435	116,921,564
Financial costs paid on borrowings		(50,819,614)	(46,128,756)
Financial income received on short-term deposits		3,036,391	1,407,986
Zakat paid	22	(9,492,161)	(320,196)
Employee benefit obligations paid	19	(5,178,740)	(2,786,414)
Net cash inflow from operating activities		163,617,311	69,094,184
Cash flows from investing activities			
Payments for purchase of property, plant and equipment	11	(49,306,441)	(49,827,366)
Proceeds from disposal of property, plant and equipment		180,270	89,258
Payments for purchase of intangible assets	12	-	(101,453)
Placements in short-term murabaha deposits		(63,000,000)	-
Net cash outflow from investing activities		(112,126,171)	(49,839,561)
Cash flows from financing activities			
Repayments of long-term borrowings		(172,769,050)	-
Cash outflow from financing activities		(172,769,050)	-
Net change in cash and cash equivalents		(121,277,910)	19,254,623
Cash and cash equivalents at beginning of year		241,101,643	221,847,020
Cash and cash equivalents at end of year		119,823,733	241,101,643
Non-cash operating activity:			
Allowance for ECL on trade receivables recognized in accumulated deficit	4	766,835	-

The accompanying notes are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on 14 March 2019 and were approved on their behalf by:

Khalid Sulaiman Al Obeid	Saud Abdullah Al Sanea	Abdullah Al Sanea
Chief Financial Officer	Chief Executive Officer	Chairman

1 General information

Methanol Chemicals Company (the "Company" or "Chemanol") is engaged in the production of Formaldehyde liquid and Urea Formaldehyde liquid or their mixture with different concentrations, Paraformaldehyde, liquid and powder Formaldehyde resins, Hexane Methylene Tetramine, Phenol Formaldehyde resins, concrete improvers, Methanol, Carbon monoxide, Di-methylamine, Mono-methylamine, Tri-mon-methylamine, Di-methyl Formamide, Di-methyl carbon, Penta Aritheretol, Sodium Formate and Acetaldehyde.

The Company is a joint stock company registered in the Kingdom of Saudi Arabia and operating under Commercial Registration (CR) No. 2050057828 issued in Dammam on 30 Dhu al-Hijjah 1428 H (9 January 2008). The accompanying financial statements include the accounts of the Company and its branch registered in Jubail under CR No. 2055001870 dated 28 Dhu al-Hijjah 1409 H (1 August 1989). The registered address of the Company is P.O. Box 2101, Jubail 31951, Kingdom of Saudi Arabia.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of financial statements of the Company are set out below.

2.1 Basis of preparation

(a) Statement of compliance

These financial statements of the Company have been prepared in compliance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

(b) Historical cost convention

The financial statements are prepared under the historical cost convention.

(c) New and amended standards adopted by the Company

Certain new or amended standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting the following standards:

i. IFRS 9 'Financial Instruments' ("IFRS 9"); and
ii. IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15").

The impact of the adoption IFRS 9 and IFRS 15 and the related accounting policies are disclosed in Note 4.

(d) Standards issued but not yet effective

Certain new standards and amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning 1 January 2019 or later period, but have not been early adopted by the Company.

IFRS 16 - "Leases"

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

The Company will recognize new assets and liabilities for its operating leases of various types of contracts including land, warehouse facilities and storage tanks. The nature of expenses related to those leases will change as the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

The Company plans to apply IFRS 16 using the modified retrospective transitional method, taking into consideration the exemption allowing it not to restate comparative information or prior periods. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balances as at 1 January 2019. The Company has done an initial assessment for the impact of IFRS 16's adoption and believes that such impact will not be material. The actual impact of adopting IFRS 16 may change at the time of final assessment.

There are no other relevant IFRS or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have an impact on the Company's financial statements.

2.2 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in "Saudi Riyals", which is the Company's presentation as well as functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognised in profit or loss.

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.

2.3 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on property, plant and equipment so as to allocate its cost, less estimated residual value, on a straight line basis. Depreciation is charged to profit or loss.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

Major spare parts and stand-by equipment qualify for recognition as property, plant and equipment when the Company expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use.

Catalysts are treated as capital spares and are depreciated as and when put into use.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount and is reviewed at each reporting date for possible reversal of impairment loss.

Assets in the course of construction or development are capitalised in the construction work-in-progress account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of construction work-in-progress comprises its purchase price, construction / development cost and any other cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Construction work-in-progress is not depreciated.

2.4 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be finite.

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 is reviewed at least at the end of each annual reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is 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 charged to profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the disposal proceeds and carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives which are between 4 to 20 years.

2.5 Financial instruments

2.5.1 Financial assets

(i) Classification

From 1 January 2018, the Company's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

(ii) Recognition and derecognition

At initial recognition, the Company 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 that are directly attributable to the acquisition of the financial asset.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

Subsequent measurement of Company's financial assets are at amortised cost. Interest income from financial assets is measured and recognised in profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised in profit or loss. Impairment losses are presented under "General and administrative expenses" in the statement of comprehensive income.

iv) Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the related financial assets. The amount of loss is charged to profit or loss.

The loss rates are based on probability of default based on historical trends relating to collections of Company's trade receivables. The loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the expected weighted average rate of increase in inflation for the upcoming year in the regions where its sales are concentrated as the most relevant factor and accordingly, adjusts the loss rates based on such expected changes.

Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant decrease in credit worthiness of the customer, the failure of the customer to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 365 days past due.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

While cash and cash equivalents are also subject to impairment requirements of IFRS 9, the identified impairment loss was immaterial.

2.5.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in profit or loss.

2.5.3 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

2.6 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's 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 is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are charged to profit or loss in those expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date 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 Company 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. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 Inventories

Raw materials and spares, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased Inventory are determined after deducting rebates and discounts.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.8 Trade receivables

Trade receivables are carried at the transaction price related to a performance obligation less allowance for ECL on trade receivables. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. The Company holds trade receivables with the objective to collect the contractual cash flows and therefore measures them at amortized cost using effective interest rate method.

2.9 Cash and cash equivalents

Cash is cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investments normally only qualify as cash equivalent if they have a short maturity of three months or less from the date of acquisition.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.10 Short-term murabaha deposits

Short-term murabaha deposits include placements in murabaha deposits with banks and other short term highly liquid investments, with original maturities of more than three months but not more than one year from the date of acquisition. Short-term murabaha deposits are placed with financial institutions with investment grade rating, which are considered to have low credit risk, hence a provision is recognised at an amount equal to 12 month"s expected credit loss, unless there is evidence of significant increase in credit risk of the counter party.

2.11 Share capital

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.12 Trade payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

2.13 Borrowings

Borrowings are initially recognized at fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition long-term borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

2.14 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are charged to profit or loss in the year in which they are incurred.

2.15 Employee benefit obligations

The Company operates a single post-employment benefit scheme of defined benefit plan driven by the labor laws and workman laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefit scheme is not funded. Accordingly, valuation of the obligations under the plan is carried out by an independent actuary based on the projected unit credit method. The costs relating to such plan primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits and unwinding of the liability at discount rates used are charged to profit or loss. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurements in the other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to retained earnings in the statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are charged to profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.16 Revenue

Revenue from sale of goods is measured at the fair value of the consideration received or receivable in the ordinary course of the Company's activities. The Company recognizes revenue when control of the goods has transferred, being when the products are delivered to the customer, the customer has full discretion over the use or sale of such goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location as per the terms of the contract, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2.17 Financial income

Financial income is calculated using the effective interest rate method.

2.18 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the term of the lease.

2.19 Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Zakat is calculated based on higher of approximate zakat base and adjusted profit and charged to profit or loss. Additional zakat, if any, is accounted for when determined to be required for payment.

Amounts accrued for zakat expense in one year may have to be adjusted in a subsequent year if the estimate of the annual charge changes.

2.20 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, and which are reviewed by the Chief Operating Decision Maker of the Company.

The Board of Directors of the Company has appointed a Chief Executive Officer, who assesses the financial performance and position of the Company, and makes strategic decisions. Chief Executive Officer has been identified as being the Chief Operating Decision Maker.

The financial statements are prepared on the basis of a single reporting segment consistent with the information reviewed by the Chief Operating Decision Maker of the Company.

2.21 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimated impairment of property, plant and equipment

Management, in accordance with the accounting policy stated in Note 2.6, tests assets or CGUs for impairment whenever impairment indicators exist. Among others, the events or changes in circumstances which could indicate that an asset or CGU may be impaired mainly include the following:

- A significant decrease in the market prices of Company's products;
- A significant change in the extent or manner in which an asset is being used or in its physical condition including a significant decrease in current and projected sales volumes; and
- A current-period operating loss combined with a history and forecast of operating or cash flow losses.

Management determines the recoverable amounts of CGUs based on value-in-use calculations. These calculations require the use of estimates in relation to the future cash flows and use of an appropriate discount rate applicable to the circumstances of the Company. At 31 December 2018, there has been no significant change in these estimates.

(All amounts in Saudi Riyals unless otherwise stated)

Future events could cause the estimates used in these value-in-use calculations to change adversely with a consequent effect on the future results of the Company. Management has performed a sensitivity analysis around the estimates. Reasonably possible changes in discount and growth rates and forecasted market prices used may cause the carrying value to exceed the recoverable value of the CGUs resulting in additional impairment in future periods.

4 Impact of adoption of new accounting standards

4.1 IFRS 9

IFRS 9 replaces the provisions of IAS 39 that related to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions in IFRS 9, the Company has followed modified retrospective transitional method, taking into consideration the exemption allowing it not to restate comparative information or prior periods.

The total impact on the Company's accumulated deficit as at 1 January 2018 is as follows:

Closing accumulated deficit as at 31 December 2017	**(227,551,389)**
Adjustment related to adoption of IFRS 9 on 1 January 2018 - increase in allowance for ECL on trade receivables	(766,835)
Opening accumulated deficit as at 1 January 2018	**(228,318,224)**

On 1 January 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. The following table shows a comparison between the carrying amounts and original measurement categories in accordance with IAS 39 and under IFRS 9 for the Company's financial instruments as at 1 January 2018:

	New classification under IFRS 9 1 January 2018	**Carrying amount under IFRS 9 as at 1 January 2018**	**Original classification under IAS 39 1 January 2018**	**Carrying amount under IAS 39 as at 1 January 2018**
Financial assets				
Trade and other receivables	Amortized cost	150,323,831	Loans and receivables (at amortized cost)	151,090,666
Cash and cash equivalents	Amortized cost	241,101,643	Amortized cost	241,101,643
Financial liabilities				
Long-term borrowings	Amortized cost	1,024,605,812	Amortized cost	1,024,605,812
Trade and other payables	Amortized cost	87,930,474	Amortized cost	87,930,474

In the comparison above, non-financial assets amounting to Saudi Riyals 19.2 million and non-financial liabilities amounting to Saudi Riyals 1.3 million have been excluded from "Trade and other receivables" and "Trade and other payables", respectively.

Accounting policy for the year ended 31 December 2017

As the Company has opted for modified retrospective approach, statement of financial position and statement of comprehensive income as of and for the year ended 31 December 2017 have not been restated upon of adoption of IFRS 9. Accordingly, the financial information presented as of and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and is not comparable to the financial information presented as of and for the year ended 31 December 2018. The accounting policies applicable to the statement of financial position and statement of comprehensive income as of and for the year ended 31 December 2017 is as follows:

Financial assets

Classification

The Company classifies its financial assets as loans and receivables.

Recognition and derecognition

At initial recognition, the Company 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 that are directly attributable to the acquisition of the financial asset.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in profit or loss.

4.2 IFRS 15

In accordance with the transitional provisions in IFRS 15, the Company has followed modified retrospective transitional method, taking into consideration the exemption allowing it not to restate comparative information or prior periods. The impact of adoption of IFRS 15 on the accompanying financial statements for the year ended 31 December 2018 was not significant.

Accounting policy for the year ended 31 December 2017

As the Company has opted for modified retrospective approach, statement of financial position and statement of comprehensive income for the year ended 31 December 2017 has not been restated upon adoption of IFRS 15. Accordingly, the financial information presented for the year ended 31 December 2017 does not reflect the requirements of IFRS 15 and is not comparable to the financial information presented for the year ended 31 December 2018. The accounting policy for revenue applicable to the statement of comprehensive income for the year ended 31 December 2017 is as follows:

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities. The Company bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from sale of goods

Revenue is recognized upon delivery of goods to the customers. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers (that also include marketers) and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criterias for acceptance have been satisfied.

(All amounts in Saudi Riyals unless otherwise stated)

5 Revenue

The Company derives revenue from the sale of goods at a point in time.

	Export sales	Local sales	Total
2018			
Revenue from contracts with customers all recognized at a point in time	549,946,421	151,666,306	**701,612,727**
2017			
Revenue from contracts with customers all recognized at a point in time	527,840,739	155,373,838	683,214,577

6 Cost of sales

	Note	2018	2017
Cost of materials		**264,504,888**	310,100,258
Salaries, wages and benefits		**99,005,518**	104,389,801
Depreciation	11	**115,542,697**	110,521,294
Amortization	12	**4,295,239**	3,125,651
Repair and maintenance		**13,317,773**	10,943,154
Rent		**2,139,498**	2,530,905
Insurance		**4,992,383**	5,107,794
Other		**2,243,475**	3,436,127
		506,041,471	550,154,984

7 Selling and distribution expenses

	Note	2018	2017
Freight charges		**36,495,099**	62,245,483
Sales commission		**8,115,512**	10,603,946
Salaries and benefits		**8,915,284**	8,927,373
Rent		**4,566,219**	3,172,145
Depreciation	11	**453,207**	479,500
Other		**2,376,151**	2,301,127
		60,921,472	87,729,574

8 General and administrative expenses

	Note	2018	2017
Salaries and benefits		**19,381,911**	19,879,736
Repair and maintenance		**6,641,716**	4,261,349
Professional and legal fees		**3,892,539**	5,315,400
Board of directors' fees		**2,043,788**	2,000,000
Depreciation	11	**1,962,097**	2,140,171
Amortization	12	**1,390,770**	2,722,604
Other		**7,413,604**	5,412,249
		42,726,425	41,731,509

(All amounts in Saudi Riyals unless otherwise stated)

9 Financial costs

	Note	2018	2017
Financial cost on borrowings		**38,342,116**	40,595,683
Amortization of transaction costs	18	**3,613,453**	3,936,442
		41,955,569	44,532,125

10 Other operating income - net

	2018	2017
Liquidated damages	-	20,652,500
Scrap sales	**2,101,798**	564,705
Other, net	**193,879**	(4,391,589)
	2,295,677	16,825,616

During 2016, the Company liquidated a performance bank guarantee, amounting to United States (US) dollars 10.0 million (Saudi Riyals 37.5 million), issued by one of its marketers due to non-compliance with its off-take and other contractual obligations under the marketing agreement. The Company recorded the cash received under "Cash and cash equivalents" with a corresponding liability included under "Trade and other payables" at 31 December 2016 with no impact on the net loss for the year ended 31 December 2016. The Company entered into arbitration with the marketer to resolve the matter and the parties reached an agreement during the year ended 31 December 2017 resulting in an obligation of the marketer towards the Company amounting to US dollars 5.5 million (Saudi Riyals 20.7 million) which the Company recorded under "Other operating income" for the year ended 31 December 2017. The remaining liability of the Company towards the marketer amounting to US dollars 4.5 million (Saudi Riyals 16.9 million) was paid back to the marketer during 2017.

11 Property, plant and equipment

	1 January	Additions	Disposals / Write-offs	Transfers	31 December
2018					
Cost					
Buildings and leasehold improvements	362,124,486	439,377	-	3,027,463	**365,591,326**
Plant, machinery and equipment	2,663,362,679	8,215,777	(1,044,599)	12,257,184	**2,682,791,041**
Furniture, fixtures and office equipment	113,220,109	5,147,071	(14,784)	-	**118,352,396**
Planned turnaround costs	51,984,449	18,300,707	(350,000)	18,018,716	**87,953,872**
Vehicles	7,519,194	-	(839,840)	-	**6,679,354**
Construction-in-progress	34,787,873	17,203,509	-	(33,303,363)	**18,688,019**
	3,232,998,790	49,306,441	(2,249,223)	-	**3,280,056,008**
Accumulated depreciation and impairment					
Buildings and leasehold improvements	(117,997,113)	(10,103,955)	-	-	**(128,101,068)**
Plant, machinery and equipment	(1,256,595,350)	(86,329,050)	590,360	-	**(1,342,334,040)**
Furniture, fixtures and office equipment	(89,933,668)	(10,288,119)	14,783	-	**(100,207,004)**
Planned turnaround costs	(46,449,344)	(11,034,560)	350,000	-	**(57,133,904)**
Vehicles	(6,864,961)	(202,317)	839,835	-	**(6,227,443)**
	(1,517,840,436)	(117,958,001)	1,794,978	-	**(1,634,003,459)**
Net book value	1,715,158,354				**1,646,052,549**

(All amounts in Saudi Riyals unless otherwise stated)

During the year, the Company shut down certain of its plants for scheduled periodic maintenance for a period of twenty one days. The Company incurred turnaround and related costs of Saudi Riyals 36.3 million related to such maintenance which were capitalized under property, plant and equipment in 2018.

Construction-in-progress balance as at 31 December 2018 principally represents costs incurred on certain expansion projects. The Company expects such projects to be completed in 2019.

	1 January	Additions	Disposals / Write-offs	Transfers	31 December
2017					
Cost					
Buildings and leasehold improvements	361,574,576	549,910	-	-	362,124,486
Plant, machinery and equipment	2,650,372,755	9,234,158	(1,032,609)	4,788,375	2,663,362,679
Furniture, fixtures and office equipment	106,877,678	6,363,109	(20,678)	-	113,220,109
Planned turnaround costs	44,000,983	7,983,466	-	-	51,984,449
Vehicles	8,870,794	-	(1,351,600)	-	7,519,194
Construction-in-progress	14,128,855	25,696,723	-	(5,037,705)	34,787,873
	3,185,825,641	49,827,366	(2,404,887)	(249,330)	3,232,998,790
Accumulated depreciation and impairment					
Buildings and leasehold improvements	(107,863,359)	(10,133,754)	-	-	(117,997,113)
Plant, machinery and equipment	(1,166,878,562)	(90,246,612)	529,824	-	(1,256,595,350)
Furniture, fixtures and office equipment	(82,688,876)	(7,265,466)	20,674	-	(89,933,668)
Planned turnaround costs	(41,472,965)	(4,976,379)	-	-	(46,449,344)
Vehicles	(7,615,477)	(518,754)	1,269,270	-	(6,864,961)
	(1,406,519,239)	(113,140,965)	1,819,768	-	(1,517,840,436)
Net book value	1,779,306,402				1,715,158,354

See Note 12 for transfer of computer software costs of Saudi Riyals 0.2 million during 2017 to intangible assets.

The Company's production facilities are constructed on land parcels leased from the Royal Commission for Jubail and Yanbu (the "Royal Commission") at nominal annual rent for the years ranging from 10 to 30 Hijri years with an option to renew on similar terms upon expiry.

	Number of years
• Buildings and leasehold improvements	5 - 33
• Plant, machinery and equipment	3 - 35
• Furniture, fixtures and office equipment	3 - 10
• Vehicles	4

(All amounts in Saudi Riyals unless otherwise stated)

12 Intangible assets

	Computer software	Payment to acquire contractual rights of pipeline	Total
2018			
Cost			
1 January and 31 December	25,008,775	15,750,000	**40,758,775**
Accumulated amortization			
1 January	(18,338,349)	(5,906,250)	**(24,244,599)**
Charge	(4,898,509)	(787,500)	**(5,686,009)**
31 December	(23,236,858)	(6,693,750)	**(29,930,608)**
Net book value			
31 December	**1,771,917**	**9,056,250**	**10,828,167**

	Computer software	Payment to acquire contractual rights of pipeline	Total
2017			
Cost			
1 January	24,657,992	15,750,000	40,407,992
Additions	101,453	-	101,453
Transfers from construction-in-progress	249,330	-	249,330
31 December	25,008,775	15,750,000	40,758,775
Accumulated amortization			
1 January	(13,277,594)	(5,118,750)	(18,396,344)
Charge	(5,060,755)	(787,500)	(5,848,255)
31 December	(18,338,349)	(5,906,250)	(24,244,599)
Net book value			
31 December	6,670,426	9,843,750	16,514,176

13 Inventories

	2018	2017
Finished products	**23,026,977**	29,115,097
Raw materials	**18,442,874**	16,692,472
Consumables and spare parts, held not for sale	**77,732,298**	69,154,905
Goods-in-transit	**11,154,799**	9,404,323
Other	**3,364,907**	3,721,387
	133,721,855	128,088,184
Less: provision for slow-moving inventories	**(15,490,667)**	(14,120,096)
	118,231,188	113,968,088

Finished products at 31 December 2018 have been written-down by Saudi Riyals 0.2 million (31 December 2017: Saudi Riyals 0.3 million) to bring them to their net realizable values which has been charged to "Cost of sales" in the accompanying statement of comprehensive income.

(All amounts in Saudi Riyals unless otherwise stated)

The movement in provision for slow-moving inventories is as follows:

1 January 2017	11,138,784
Provision	2,981,312
31 December 2017	14,120,096
Provision	1,370,571
31 December 2018	**15,490,667**

14 Trade and other receivables

	Note	2018	2017
Trade receivables		**139,261,200**	145,080,647
Less: provision for doubtful debts	14.2	**-**	(700,881)
Less: allowance for ECL on trade receivables	14.2	**(1,216,125)**	-
		138,045,075	144,379,766
Advances to suppliers		**2,852,407**	7,165,052
Advances to employees		**4,841,660**	5,178,049
Prepayments		**7,462,109**	6,891,892
Other		**9,590,868**	6,710,900
		162,792,119	170,325,659

14.1 Payments against trade receivables are due based on individual credit terms of each customer. There were no contracts with a significant financing component or variable consideration during the year ended 31 December 2018. As at 31 December 2018, trade receivables of Saudi Riyals 30.3 million (31 December 2017: Saudi Riyals 30.9 million) were past due but not impaired. These relate to a number of individual customers for whom there is no recent history of default. The trade receivables have been overdue for:

	2018	2017
Not due	**108,988,593**	114,215,328
Overdue for up to 3 months	**25,553,069**	28,445,851
Overdue for a period between 4 to 6 months	**2,790,085**	335,583
Overdue for a period between 7 to 12 months	**755,605**	659,844
Overdue for over 12 months	**1,173,848**	1,424,041
	139,261,200	145,080,647

The Company considers any trade receivables overdue for more than a year to be in default and are accordingly fully provided for. The loss rates for the other ageing brackets are not significant.

14.2 The movement in allowance for ECL on trade receivables is as follows:

1 January 2017	729,209
Reversals	(28,328)
31 December 2017	700,881
Restatement due to change in accounting policy (Note 4.1)	766,835
	1,467,716
Allowance on trade receivables originating during the year	42,277
Reversals due to collection of trade receivables	(293,868)
31 December 2018	**1,216,125**

(All amounts in Saudi Riyals unless otherwise stated)

14.3 The Company has assessed expected lifetime losses pertaining to trade receivables as per the simplified approach as permitted by IFRS 9 and the total impact on the Company's accumulated deficit as at 1 January 2018 is disclosed in Note 4.

14.4 The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at reporting date is the carrying amount of each receivable.

14.5 The Company does not hold any collateral as security.

15 Cash and cash equivalents

	2018	2017
Cash in hand	**10,000**	14,801
Cash at banks	**18,813,733**	18,086,842
Time deposits	**101,000,000**	223,000,000
	119,823,733	241,101,643

Time deposits are murabaha deposits placed with commercial banks, with a maturity period of three months or less from date of placement, and yield financial income ranging from 1.10% to 2.95% per annum (2017: 1.60% to 1.85% per annum).

16 Share capital

As at 31 December 2018, the authorized, issued and fully paid-up share capital comprised of 120.6 million ordinary shares (31 December 2017: 120.6 million ordinary shares) of Saudi Riyals 10 per share.

17 Statutory reserve

In accordance with the Company's By-laws and Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of the net income for the year to a statutory reserve until such reserve equal 30% of its share capital. This reserve is currently not available for distribution to the shareholders of the Company. No such transfer was made for the years ended 31 December 2018 and 2017 due to accumulated deficit at the end of such years.

18 Long-term borrowings

	2018	2017
Saudi Industrial Development Fund ("SIDF")	**295,000,000**	385,000,000
Murabaha Facilities-Syndicate loans	**285,085,950**	327,685,000
Murabaha Facilities-Bilateral loans	**268,830,000**	309,000,000
	848,915,950	1,021,685,000
Accrued financial costs	**2,141,352**	14,618,848
	851,057,302	1,036,303,848
Less unamortized transaction costs related to:		
SIDF	**(1,473,071)**	(2,679,913)
Murabaha Facilities-Syndicate loans	**(3,594,432)**	(4,919,256)
Murabaha Facilities-Bilateral loans	**(3,017,080)**	(4,098,867)
	(8,084,583)	(11,698,036)
	842,972,719	1,024,605,812

Long-term borrowings are presented as follows:

	2018	2017
Long-term borrowings	**685,359,324**	840,842,224
Current maturity shown under current liabilities	**157,613,395**	183,763,588
	842,972,719	1,024,605,812

Movements in unamortized transaction costs are as follows:

	2018	2017
January 1	**11,698,036**	15,634,478
Less: amortization	**(3,613,453)**	(3,936,442)
December 31	**8,084,583**	11,698,036
Related to:		
Long-term borrowings	**4,888,126**	8,073,726
Current maturity shown under current liabilities	**3,196,457**	3,624,310
	8,084,583	11,698,036

Other movements in long-term borrowings during 2018 comprised principal repayments of Saudi Riyals 172.8 million.

18.1 SIDF loan

The loan agreements with SIDF provided for loans of Saudi Riyals 600.0 million to finance expansion and construction of the Company's production facilities, which were fully drawn by June 2010. Up-front and annual administrative fees are charged by SIDF under the loan agreements.

The covenants of the borrowing facilities require the Company to maintain certain level of financial conditions, limiting dividends distribution and annual capital expenditure above certain limits and certain other matters. As at 31 December 2018, the Company was in compliance with these covenants. The loan is secured by mortgage of the property, plant and equipment of the Company at 31 December 2018 with a carrying value of Saudi Riyals 1.6 billion. The carrying values of the SIDF loan are denominated in Saudi Riyals.

During the year ended 31 December 2017, the Company restructured the SIDF loan and finalized the restructuring agreement with SIDF. The restructuring did not result in substantial modification of the terms of the loan agreement. The aggregate maturity of the loan, is spread in 2019 through 2021.

18.2 Murabaha facilities

During 2007, the Company entered into an agreement with a syndicate of banks, namely, Arab Banking Corporation (B.S.C), Riyad Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and Saudi British Bank (collectively called as "Murabaha Facility Participants") to provide Murabaha Facilities and Syndicate and Bilateral loans for financing of expansion projects. These loans bear financial charges based on prevailing market rates which are based on Saudi inter-bank offer rates.

The covenants of the above borrowing facilities require the Company to maintain certain level of financial conditions, limiting dividends distribution and annual capital expenditure above certain limits and certain other matters. As at 31 December 2018, the Company was in compliance with these covenants. The carrying values of such long-term borrowings are denominated in Saudi Riyals.

The aggregate maturities of these loans, based on their respective repayment schedules, are spread in 2019 through 2022.

18.3 Maturity profile of long-term borrowings

	2018	2017
Years ending 31 December:		
2018	-	172,769,050
2019	**158,668,500**	158,668,500
2020	**195,502,750**	195,502,750
2021	**316,472,900**	316,472,900
2022	**178,271,800**	178,271,800
	848,915,950	1,021,685,000

(All amounts in Saudi Riyals unless otherwise stated)

19 Employee benefit obligations

19.1 General description of the plan

The Company operates an unfunded defined benefit plan in line with the labour law requirement in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the labour laws of the Kingdom of Saudi Arabia. The benefit payments are due upon termination of or resignation from employment.

	2018	2017
1 January	**39,477,475**	37,186,647
Current service cost	**5,565,210**	5,140,707
Interest expense	**1,465,127**	1,366,188
Payments	**(5,178,740)**	(2,786,414)
Remeasurements	**(243,185)**	(1,429,653)
31 December	**41,085,887**	39,477,475

19.2 Amounts recognized in the statement of comprehensive income

The amounts recognized in the statement of comprehensive income related to employee benefit obligations are as follows:

	2018	**2017**
Current service cost	**5,565,210**	5,140,707
Interest expense	**1,465,127**	1,366,188
Total amount charged to profit or loss	**7,030,337**	6,506,895
Remeasurements		
Gain from change in demographic assumptions	**(2,010)**	-
(Gain) loss from change in financial assumptions	**(1,544,749)**	311,334
Loss (gain) from change in experience adjustments	**1,303,574**	(1,740,987)
Total amount recognized in other comprehensive income	**(243,185)**	(1,429,653)

19.3 Key actuarial assumptions

	2018	**2017**
Discount rate	**4.75%**	3.25%
Salary growth rate	**4.75%**	3.25%

19.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		**Impact on employee benefit obligations**	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	0.5%	(2,441,770)	2,662,090
Salary growth rate	0.5%	0.5%	2,119,443	(1,975,824)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee benefits obligation.

(All amounts in Saudi Riyals unless otherwise stated)

19.5 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 11.4 years (31 December 2017: 11.4 years). The expected maturity analysis of undiscounted employee benefits obligations is as follows:

	Less than a year	Between 1 - 2 years	Between 2 - 5 years	Over 5 years	Total
31 December 2018	**2,009,051**	**2,960,767**	**8,588,040**	**30,074,273**	**43,632,131**
31 December 2017	1,324,190	1,995,810	7,848,876	29,688,395	40,857,271

20 Trade and other payables

	Note	2018	2017
Trade payables		**50,028,805**	54,637,221
Accrued expenses		**35,674,845**	32,672,505
Advances from customers		**1,799,202**	1,312,416
Related parties	21	**-**	480,240
Other		**140,508**	140,508
		87,643,360	89,242,890

21 Related party transactions and balances

Related parties comprise the shareholders, directors, associated companies and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest ("other related parties").

(a) Following are the significant transactions with related parties entered into by the Company during the year ended 31 December 2018:

Nature of transactions and relationship	For the year ended 31 December	
	2018	2017
Purchases from other related parties	**1,481,220**	3,871,752
Costs and expenses charged by other related parties	**620,086**	917,322

(b) Key management personnel compensation

	For the year ended 31 December	
	2018	2017
Salaries and other short-term employee benefits	**6,844,638**	6,136,338
Employee benefit obligations	**250,114**	190,762
Board of directors' fees	**2,043,788**	2,000,000
	9,138,540	8,327,100

(c) Due to related parties

	2018	2017
BASF Services Europe GmbH	-	65,292
Al-Zamil CoolCare	-	118,848
Yusuf Bin Ahmed Kanoo Co. Ltd.	-	296,100
	-	480,240

(All amounts in Saudi Riyals unless otherwise stated)

The above-mentioned business entities no longer meet the definition of related parties due to a change in composition of the Company's board of directors during 2018. Accordingly, the balances payable to such entities as at 31 December 2018 are presented under trade payables.

22 Zakat

22.1 Significant components of zakat base

	2018	2017
Shareholders' equity at beginning of year	**1,095,417,375**	1,121,687,735
Adjusted net profit (loss)	**59,251,588**	(13,790,135)
Long-term borrowings	**842,972,719**	1,006,050,522
Property, plant and equipment, as adjusted	**(1,732,811,260)**	(1,800,827,435)
Other	**54,298,458**	49,054,640
Approximate zakat base	**319,128,880**	362,175,327

22.2 Provision for zakat

	2018	2017
1 January	**8,324,368**	3,644,564
Provision for the year	**7,978,222**	8,324,368
Adjustment related to prior years	**1,167,793**	(3,324,368)
Payments	**(9,492,161)**	(320,196)
31 December	**7,978,222**	8,324,368

22.3 Status of zakat assessments and certificates

The Company has received the zakat assessments from the GAZT for the years through 2010. Zakat assessments for the years 2011 through 2017 have not been finalized by the GAZT. The Company has obtained zakat certificates for the years through 2017.

(All amounts in Saudi Riyals unless otherwise stated)

23 Financial risk management

23.1 Financial risk factors

The Company's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on having cost effective funding as well as managing financial risk to minimize earnings volatility and provide maximum return to shareholders.

23.2 Financial assets and liabilities as per their respective maturities

	Interest / Mark-up bearing			Non-interest / Non mark-up bearing			
	Maturity up to one year	Maturity after one year	Subtotal	Maturity up to one year	Maturity after one year	Subtotal	Total
Financial assets							
Trade and other receivables	-	-	-	148,852,068	-	**148,852,068**	**148,852,068**
Short-term murabaha deposits	63,000,000	-	**63,000,000**	-	-	-	**63,000,000**
Cash and cash equivalents	101,000,000	-	**101,000,000**	18,823,733	-	**18,823,733**	**119,823,733**
31 December 2018	164,000,000	-	**164,000,000**	167,675,801	-	**167,675,801**	**331,675,801**
31 December 2017	223,000,000	-	223,000,000	169,893,190	-	169,893,190	392,893,190
Financial liabilities							
Trade and other payables	-	-	-	85,844,158	-	**85,844,158**	**85,844,158**
Long-term borrowings	158,668,500	690,247,450	**848,915,950**	2,141,352	-	**2,141,352**	**851,057,302**
Future financial cost on long-term borrowings	38,087,286	67,899,252	**105,986,538**	-	-	-	**105,986,538**
31 December 2018	196,755,786	758,146,702	**954,902,488**	87,985,510	-	**87,985,510**	**1,042,887,998**
31 December 2017	215,665,102	945,448,805	1,161,113,907	102,408,814	-	102,408,814	1,263,522,721

The carrying value of financial assets and financial liabilities approximate their fair value.

Non-financial assets and non-financial liabilities amounting to Saudi Riyals 15.2 million and Saudi Riyals 1.8 million, respectively (2017: Saudi Riyals 19.2 million and Saudi Riyals 1.3 million, respectively) have been excluded from trade and other receivables and trade and other payables, respectively).

(i) Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The maximum exposure to credit risk is equal to the carrying amount of financial assets. At 31 December 2018, 36% of accounts receivable were due from three customers (31 December 2017: 23% from two customers). Management believes that this concentration of credit risk is mitigated as the customers have established track record of regular and timely payments.

For trade receivables, an internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Individual risk limits are set based on internal or external credit worthiness ratings in accordance with limits set by the management. The carrying amount of trade receivables relates to a number of independent customers for whom there is no recent history of default. Also see Note 2.5.

Cash and cash equivalents and short-term murabaha deposits represent low credit risk as they are placed with reputable local banks.

Management believes that it is not exposed to significant credit risk.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

Cash flow forecasting is performed by management on an annual basis. Management also monitors monthly rolling forecasts of the Company's liquidity requirements and takes necessary measures to ensure it has sufficient cash to meet its operational needs.

(iii) Market risk

Market risk is the risk that changes in foreign exchange rate and interest rates will affect the Company's income or value of its holding in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

a) Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions and financial instruments are primarily in Saudi Riyals and US dollars. Since Saudi Riyal is pegged to US dollar, management of the Company believes that the currency risk for the financial instruments is not significant.

b) Interest rate risk

Interest rate risk arises due to changes in market interest rates that result in fluctuation in fair value or future cash flows of a financial instrument. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk.

At 31 December 2018, the Company had variable interest bearing financial assets of Saudi Riyals 164.0 million (31 December 2017: Saudi Riyals 223.0 million) and financial liabilities of Saudi Riyals 848.9 million (31 December 2017: Saudi Riyals 1.0 billion), and had the interest rate varied by 1% with all the other variables held constant, net change in profit before zakat for the year would have been approximately Saudi Riyals 4.8 million (31 December 2017: Saudi Riyals 8.2 million) lower / higher, mainly as a result of lower / higher financial charges on floating rate borrowings.

c) Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial assets and liabilities are not exposed to price risk.

(All amounts in Saudi Riyals unless otherwise stated)

24 Fair value of assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

As at 31 December 2018 and 2017, the fair values of the Company's current financial instruments are estimated to approximate their carrying values since the financial instruments are short term in nature, carry interest rates which are based on prevailing market interest rates and are expected to be realized at their current carrying values within twelve months from the date of statement of financial position. The fair values of the non-current financial liabilities are estimated to approximate their carrying values as these carry interest rates which are based on prevailing market interest rates.

25 Categories of financial assets and financial liabilities

As at 31 December 2018 and 2017, all financial assets and financial liabilities were carried at amortized cost.

26 Capital risk management

The Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the following gearing ratio:

	Note	2018	2017
Total borrowings	18	**842,972,719**	1,024,605,812
Less: Cash and cash equivalents	15	**(119,823,733)**	(241,101,643)
Net debt		**723,148,986**	783,504,169
Total equity		**1,141,047,568**	1,095,417,375
Gearing ratio		**63%**	72%

27 Operating leases

The Company has various operating lease arrangements for its land, warehouse facilities and storage tanks which generally have a lease term of 4 - 30 years. Rental expense for the year ended 31 December 2018 amounted to Saudi Riyals 2.6 million (2017: Saudi Riyals 2.5 million). Maturity profile of such leases is as follows:

	2018	2017
Not later than 1 year	**2,479,196**	1,193,529
Later than 1 year but not later than 5 years	**9,751,750**	4,774,116
Later than 5 years	**4,192,864**	6,902,522
	16,423,810	12,870,167

(All amounts in Saudi Riyals unless otherwise stated)

28 Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the profit (loss) for the year by the weighted average number of ordinary shares in issue during the year. As the Company does not have any dilutive potential shares, the diluted earnings (loss) per share is the same as the basic earnings (loss) per share.

	For the year ended 31 December	
	2018	**2017**
Profit (loss) for the year	**46,153,843**	(27,700,013)
Weighted average number of ordinary shares for basic and diluted earnings (loss) per share	**120,600,000**	120,600,000
Earnings (loss) per share	**0.383**	(0.230)

29 Contingencies and commitments

(i) At 31 December 2018, the Company was contingently liable for bank guarantees and letters of credit issued in the normal course of business amounting to Saudi Riyals 57.2 million and Nil, respectively (31 December 2017: Saudi Riyals 61.2 million and Saudi Riyals 1.0 million, respectively).

(ii) The capital expenditure contracted by the Company but not incurred till 31 December 2018 was approximately Saudi Riyals 17.4 million (31 December 2017: Saudi Riyals 28.7 million).