SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)

(SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
AND INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report on the Audit of the Financial Statements To the Shareholders of Saudi Kayan Petrochemical Company (A Saudi Joint Stock Company)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Saudi Kayan Petrochemical Company (Saudi Kayan - A Saudi Joint Stock Company ("the Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, 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 that are issued by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with professional code of 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. 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 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities for the audit of the 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 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 financial statements.

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Independent Auditor's Report on the Audit of the Financial Statements To the Shareholders of Saudi Kayan Petrochemical Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
Transition to IFRS As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Company is required to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia ("KSA"). For all periods up to and including the year ended 31 December 2016, the Company prepared and published its audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA (SOCPA GAAP). The financial statements for the year ended 31 December 2017 are the Company's first annual financial statements in accordance with IFRS as endorsed in KSA. Accordingly, the Company has applied IFRS as endorsed in KSA for preparation of its financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative periods. In compliance with requirements of IFRS 1 as endorsed in KSA, the Company's opening statement of financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous SOCPA GAAP. The Company has assessed the impact and signficant adjustments are made on transitioning from SOCPA GAAP to IFRS as endorsed in KSA in the Company's opening statement of financial position and financial statements as at 1 January 2016 and 31 December 2016, respectively. We considered this as a key audit matter since the first time adoption of IFRS has significant impact on the financial statements from the recognition, measurement and disclosure perspective. Refer to note 6 to the financial statements for the details of transition and reconciliation adjustments between SOCPA GAAP and IFRS as endorsed in KSA.	We performed the following procedures in respect of the transition to IFRS as endorsed in KSA: • Assessed the appropriateness of the implementation of IFRS as endorsed in KSA in accordance with the provisions of IFRS 1; • Assessed the appropriateness of the accounting policies adopted; • Evaluated the position papers on technical matters, detailed implementation plans (DIPs) and GAAP differences identified by the Company's Management; • Tested the sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA; • Assessed the appropriateness of disclosures made in relation to the transition impact from SOCPA GAAP to IFRS as endorsed in KSA; and • Assessed the appropriateness of exceptions to retrospective application of other IFRSs as endorsed in KSA and optional exemptions availed by the Company from full retrosective application of certain IFRSs as endorsed in KSA, in preparing the financial statements.

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Independent Auditor's Report on the Audit of the Financial Statements To the Shareholders of Saudi Kayan Petrochemical Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
Uncertain Zakat Position During the year, the General Authority of Zakat and Tax ("GAZT") issued the zakat assessments for the years from 2012 to 2015 with an additional liability of SR 144 million. The Company has filed an appeal against the assessments. The Company's management is of the view that they will win this appeal and based on that they did not account for the additional zakat liability. The accounting for this uncertain zakat positions comprises significant judgement by the management mainly in the area whether to recognise this uncertain position as a contingent liability or as a provision. Given the high level of management's judgement we considered this area to be important for our audit.	We performed the following procedures in relation to the additional assessed zakat liability: • Evaluated this zakat case by evaluating the report issued by the GAZT; • Gained an understanding of the process management followed to assess the impact of the assessment; • Evaluated the zakat opinion of management's experts obtained by the Company on the respective case; • Together with specialists in our team, evaluated the reasonableness of management's assessment for the accounting of the uncertain zakat position in the light of zakat regulations, recent practices of GAZT and merits of the appeal filed with the GAZT against the assessments raised; and • Assessed the appropriatness of the disclosure made in relation to the contingent liability in respect of the additional liability for the zakat assessed and the status of the related appeal.

Other information included in the Company's 2017 Annual Report

Other information consists of the information included in the Company's 2017 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Company's 2017 annual report is expected to be made available to us after 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 when it becomes available 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.

When we read the Company's 2017 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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Independent Auditor's Report on the Audit of the Financial Statements To the Shareholders of Saudi Kayan Petrochemical Company (A Saudi Joint Stock Company) (continued)

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 that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law 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 is responsible for overseeing the Company's financial reporting process.

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 skepticism 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.

Independent Auditor's Report on the Audit of the Financial Statements To the Shareholders of Saudi Kayan Petrochemical Company (A Saudi Joint Stock Company) (continued)

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

- 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.

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.

for Ernst & Young

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EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

Waleed Ghazi Tawfiq
Certified Public Accountant
Registration No. 437

12 Jumada II 1439H
28 February 2018
Al Khobar

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Note	**31 December 2017**	31 December 2016
		SR '000	*SR '000* *(note 6)*
Sales		**9,983,926**	8,608,817
Cost of sales	*7*	**(7,684,166)**	(6,842,560)
GROSS PROFIT		**2,299,760**	1,766,257
Selling and distribution expenses	*8*	**(203,938)**	(217,109)
General and administrative expenses	*9*	**(465,711)**	(489,952)
OPERATING PROFIT		**1,630,111**	1,059,196
Share of profits of an associate	*16*	**49,477**	35,951
Financial income		**84,134**	44,267
Other expenses, net	*10*	**(61,085)**	(22,275)
Finance costs	*11*	**(910,335)**	(868,366)
INCOME BEFORE ZAKAT		**792,302**	248,773
Zakat	*29*	**(124,128)**	(96,716)
NET INCOME FOR THE YEAR		**668,174**	152,057
OTHER COMPREHENSIVE (LOSS) INCOME			
Other comprehensive (loss) income not to be reclassified to income in subsequent periods:			
Re-measurement (loss) gain on defined employees' benefit plans	*26*	**(11,473)**	12,497
OTHER COMPREHENSIVE (LOSS) INCOME		**(11,473)**	12,497
TOTAL COMPREHENSIVE INCOME		**656,701**	164,554
Earnings per share (Saudi Riyals)			
Basic and diluted earnings per share from net income for the year attributable to the equity holders of the Company	*30*	**0.44**	0.10

Chairman of the Board of Directors	**Designate Member**	**Company's President**	**Finance and Planning Manager**
Omar Abdullah Al-Amoudi	**Mohammed Abdullah Al-Ghamdi**	**Omar Al-Ruhaily**	**Ayed Habib Al-Haider**

The attached notes 1 to 37 form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	***31 December 2017 SR '000***	*31 December 2016 SR '000 (note 6)*	*1 January 2016 SR '000 (note 6)*
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	*13*	**32,754,054**	34,140,903	35,566,725
Intangible assets	*15*	**222,869**	238,381	253,800
Investments in an associate and advances	*16*	**303,005**	318,330	298,484
Other non-current assets	*17*	**219,952**	270,540	416,922
TOTAL NON-CURRENT ASSETS		**33,499,880**	34,968,154	36,535,931
CURRENT ASSETS				
Inventories	*19*	**1,286,060**	1,500,979	1,645,239
Trade receivables	*20*	**2,556,844**	2,557,103	2,061,182
Prepayments		**107,047**	101,526	100,263
Other current assets	*21*	**347,460**	515,775	401,664
Cash and cash equivalents	*22*	**2,513,999**	1,387,001	1,706,476
TOTAL CURRENT ASSETS		**6,811,410**	6,062,384	5,914,824
TOTAL ASSETS		**40,311,290**	41,030,538	42,450,755
EQUITY AND LIABILITIES				
EQUITY				
Share capital	*23*	**15,000,000**	15,000,000	15,000,000
Statutory reserve		**49,408**	49,408	49,408
Other components of equity	*24*	**620,874**	620,874	620,874
Accumulated losses		**(1,762,236)**	(2,418,937)	(2,583,491)
TOTAL EQUITY		**13,908,046**	13,251,345	13,086,791
LIABILITIES				
NON-CURRENT LIABILITIES				
Term loans	*25*	**19,812,633**	21,184,258	22,042,852
Subordinated loans from a shareholder	*14*	**2,675,837**	2,602,863	2,524,072
Employees' benefits	*26*	**564,372**	479,843	414,459
Other non-current liabilities		**-**	19,409	60,914
TOTAL NON-CURRENT LIABILITIES		**23,052,842**	24,286,373	25,042,297
CURRENT LIABILITIES				
Current portion of term loans	*25*	**1,600,087**	1,761,845	2,167,550
Trade payables and accruals	*27*	**1,388,681**	1,447,195	1,814,034
Other current liabilities	*28*	**235,993**	185,024	255,953
Zakat provision	*29*	**125,641**	98,756	84,130
TOTAL CURRENT LIABILITIES		**3,350,402**	3,492,820	4,321,667
TOTAL LIABILITIES		**26,403,244**	27,779,193	29,363,964
TOTAL EQUITY AND LIABILITIES		**40,311,290**	41,030,538	42,450,755

Chairman of the Board of Directors	**Designate Member**	**Company's President**	**Finance and Planning Manager**
Omar Abdullah Al-Amoudi	**Mohammed Abdullah Al-Ghamdi**	**Omar Al-Ruhaily**	**Ayed Habib Al-Haider**

The attached notes 1 to 37 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Statutory reserve	Other components of equity	Accumulated losses	Total
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance as at 1 January 2016 (note 6)	15,000,000	49,408	620,874	(2,583,491)	13,086,791
Net income for the year	-	-	-	152,057	152,057
Other comprehensive income	-	-	-	12,497	12,497
Total comprehensive income	-	-	-	164,554	164,554
Balance at 31 December 2016 (note 6)	15,000,000	49,408	620,874	(2,418,937)	13,251,345
Net income for the year	-	-	-	668,174	668,174
Other comprehensive loss	-	-	-	(11,473)	(11,473)
Total comprehensive income	-	-	-	656,701	656,701
Balance at 31 December 2017	**15,000,000**	**49,408**	**620,874**	**(1,762,236)**	**13,908,046**

Chairman of the Board of Directors	Designate Member	Company's President	Finance and Planning Manager
Omar Abdullah Al-Amoudi	**Mohammed Abdullah Al-Ghamdi**	**Omar Al-Ruhaily**	**Ayed Habib Al-Haider**

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Income before zakat	**792,302**	248,773
Adjustments to reconcile income before zakat to net cash flows		
Depreciation of property, plant and equipment	**2,296,723**	2,305,540
Amortisation of intangible assets	**15,512**	15,419
Employees' benefits, net	**73,056**	77,881
Write-off of property, plant and equipment	**76,808**	29,862
Share of profits of an associate	**(49,477)**	(35,951)
Provision for slow moving/obsolete inventory	**101,247**	39,061
Finance costs	**910,335**	868,366
Financial income	**(84,134)**	(44,267)
	4,132,372	3,504,684
Working capital adjustments:		
Inventories	**113,672**	95,612
Trade receivables	**259**	(495,921)
Prepayments	**(5,521)**	(1,263)
Other current and non-current assets	**286,473**	76,004
Trade payables, accruals and other current/non-current liabilities	**(63,640)**	(486,110)
	4,463,615	2,693,006
Finance costs paid	**(774,048)**	(751,903)
Zakat paid	**(97,243)**	(82,090)
Net cash flow provided by operating activities	**3,592,324**	1,859,013
Investing activities:		
Additions to property, plant and equipment	**(986,682)**	(899,993)
Dividends received from an associate	**10,000**	-
Financial income received	**71,366**	16,639
Net cash flow used in investing activities	**(905,316)**	(883,354)
Financing activity:		
Net movements on term loans	**(1,560,010)**	(1,295,134)
Net cash flow used in a financing activity	**(1,560,010)**	(1,295,134)
Net increase (decrease) in cash and cash equivalents	**1,126,998**	(319,475)
Cash and cash equivalents at the beginning of the year	**1,387,001**	1,706,476
Cash and cash equivalents at the end of the year	**2,513,999**	1,387,001

The attached notes 1 to 37 form part of these financial statements

NON-CASH TRANSACTIONS:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Amortisation of upfront fees on term loans	**26,627**	*30,836*
Finance costs for the fair value differential on loans from a shareholder	**72,974**	78,790
Financial income for the fair value differential on long term advances to an associate	**12,768**	27,628
Net of non-cash movement in accrued finance costs	**36,686**	6,837
Transfer from inventory to property, plant and equipment	**-**	9,587
Reclassification from investments in an associate and advances to other current assets	**54,802**	16,105

Chairman of the Board of Directors	**Designate Member**	**Company's President**	**Finance and Planning Manager**
Omar Abdullah Al-Amoudi	**Mohammed Abdullah Al-Ghamdi**	**Omar Al-Ruhaily**	**Ayed Habib Al-Haider**

The attached notes 1 to 37 form part of these financial statements

1 Corporate information

Saudi Kayan Petrochemical Company (Saudi Kayan) ("the Company") is a Saudi Joint Stock Company registered under Commercial Registration No. 2055008450 issued in Al Jubail on 26 Jumada'I 1428H (12 June 2007). The registered address of the Company is P.O. Box 10302, Al Jubail Industrial City, the Kingdom of Saudi Arabia. 35% of the Company's shares are owned by Saudi Basic Industries Corporation ("SABIC") and remaining held by general public.

The Company is engaged in production of polypropylene, propylene, acetone, polyethylene, ethoxylate, ethylene, ethylene glycol, bisphenol, ethanolamine, industrial Fatty alcohol , polycarbonate and other petrochemical products under an industrial license No. (218) dated 12 Muharram 1438 H (13 October 2016) and ending on 11 Muharram 1441 H (10 September 2019) issued by the Ministry of Energy, Industry and Mineral Resources.

The Company commenced commercial operations of majority of its plants including olefins, ethylene glycol, polypropylene, high density polyethylene, polycarbonate and phenolics from 1 October 2011. The Company's Amines plant commenced commercial operations on 15 August 2012. Low Density Polyethylene Plant commenced commercial operations on 1 April 2013 and Natural Detergent Alcohol (NDA) plant commenced commercial operation on 4 June 2015.

2 Basis of preparation

2.1 Statement of compliance

Effective 1 January 2017, all entities listed in Saudi Stock Exchange are required to prepare their financial statements in accordance with the International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA') and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA"). These Financial Statements have been prepared in accordance with the IFRSs as endorsed in KSA and represent the Company's first annual financial statements prepared in accordance with IFRSs as endorsed in KSA.

The preparation of these financial statements resulted in changes to the significant accounting policies as compared to those presented in the financial statements of the Company for the year ended 31 December 2016, which were prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia ("SOCPA GAAP").

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") endorsed in KSA requires that an entity's accounting policies used in its opening statement of financial position and throughout all periods presented in its first IFRS financial statements comply with IFRSs as endorsed in KSA effective at the end of its first IFRS reporting period. Accordingly, the IFRSs endorsed in KSA issued and effective as at 31 December 2017 have been applied in preparing the financial statements as at and for the year ended 31 December 2017, the comparative information presented as at and for the year ended 31 December 2016, and in preparation of the opening IFRS Statement of Financial Position as at 1 January 2016. The impacts of the transition to IFRSs as endorsed in KSA for the comparative information are presented in note 6.

2.2 Basis of measurement

The financial statements are prepared under the historical cost convention, using the accruals basis of accounting. For employee and other post-employment benefits, actuarial present value calculations are used.

The financial statements are presented in Saudi Riyals (SR) which is also the functional currency of the Company.

All values are rounded to the nearest thousand (SR '000), except when otherwise indicated.

3 Significant accounting estimates, assumptions and judgments

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. 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 recognized 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.

3.1 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material carrying amounts of assets and liabilities within the financial year include:

3.1.1 Impairment 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 asset's 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 cash-inflows and the growth rate used for extrapolation purposes.

The management believes, that all constructed plants were pre-conditioned with gas allocation agreement, and the Company does not have the option to curtail/discontinue any one of these plants, accordingly the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or group of assets is the cash inflows generated by all plants together. Therefore, the Company as whole considered as single cash generating unit for the purpose of impairment calculation testing.

3.1.2 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. 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 judgment 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.

3.1.3 Long-term assumptions for employee benefits

Post-employment defined benefits, end-of-service benefits and indemnity payment represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets, if any. The accounting standard requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

3 Significant accounting estimates, assumptions and judgments (continued)

3.2 Critical judgments in applying accounting standards

The following critical judgments have the most significant effect on the amounts recognized in the financial statements:

3.2.1 Component parts of property, plant and equipment

The Company's assets, classified within property, plant and equipment, are depreciated on a straight-line basis over their economic useful lives. When determining the economic useful life of an asset, it is broken down into significant component parts such that each significant component part is depreciated separately. Judgement is required in ascertaining the significant components of a larger asset, and while defining the significance of a component, management considers quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to mother asset, its pattern of consumption, and its replacement cycle/maintenance schedule.

4 Standards issued but not yet effective

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Company has assessed the impact of the standard for the year of 2017 and concluded that there will be no material impacts related to adopting such standard. The Company did not adopt the new standard before 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The International Accounting Standard Board (IASB) has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

The Company has assessed the impact of the standard for the year of 2017 and concluded that there will be no material impacts related to adopting such standard. The Company did not adopt the new standard before 1 January 2018.

4 Standards issued but not yet effective (continued)

IFRS 16 Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace:

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

Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and lease assets; however, this exemption can only be applied by lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The mandatory date for adoption for the standard is 1 January 2019.

5 Summary of significant accounting polices

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in 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 Company classifies all other liabilities as non-current.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs 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. Where such assets are constructed in-house, their cost includes all amounts necessary to bring the asset to the present condition and location to be ready for intended use by management and excludes all costs such as general and administrative expenses and training costs. Any feasibility study costs are expensed as incurred unless they relate to specifically identifiable asset being constructed in-house and are directly attributable to it. Pre-operating costs during startup period net of proceeds from sale of trial production, are included as part of cost of the relevant item of property, plant and equipment, provided it is a directly attributable cost which meets the recognition criteria, and only up to the point the asset is in a condition ready for intended use.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/components have a useful life different than other parts and are required to be replaced at different intervals, the Company shall recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection (turnaround/shutdown, planned) is performed, its directly attributable cost is recognized in the carrying amount of the property, plant and equipment if the recognition criteria are satisfied. This is recorded as a separate component with a useful life generally equal to the time period up to the next scheduled major inspection (turnaround). If the next turnaround occurs prior to the planned date, any existing book value of the previous turnaround is expensed immediately. All other repair and maintenance costs are recognized in the statement of income and other comprehensive income as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. The Company will periodically assess the expectation and estimation for the decommissioning liability.

5 Summary of significant accounting polices (continued)

Property, plant and equipment (continued)

<u>Owned assets (continued)</u>

Environment, health, safety and security (EHS&S) related expenditures, including contamination treatment costs, are capitalized if they meet the recognition criteria, mainly, that such costs are required by prevailing applicable legislation and are required to continue the license to operate or is imposed by the Company's own mandatory requirements relating to EHS&S. These are capitalized together with the cost of the relevant item of property, plant and equipment to which they relate.

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

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings	13-40 years
Plant and equipment	4-50 years
Furniture, fixture and office equipment	3-10 years
Vehicles	4 years
Catalysts	1.5-20 years

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

Assets under construction, which are not ready for its intended use, are not depreciated.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income and other comprehensive income.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Leased assets

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. This may indicate existence of a potential embedded lease in a transaction which may prima facie not be in the nature of a lease agreement. All leases, whether an explicit lease agreement or an embedded lease within any other agreements or arrangements, shall be assessed for classification as finance lease or operating lease.

Leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, shall be classified as finance lease and shall be capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of income and other comprehensive income.

A leased asset will be depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company 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.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income and other comprehensive income on a straight-line basis over the period of the lease.

5 Summary of significant accounting polices (continued)

Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

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

The amortization period for intangible assets with a finite useful life is as follows:

License	3-20 years

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and are recognized in the statement of income and other comprehensive income when the asset is derecognized.

Associate

An associate is an entity over which the Company 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 investment in an associate is accounted for using equity method. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses of the investee in the statement of income and other comprehensive income, and the Company's share of movements in other comprehensive income (OCI) of the investee in other comprehensive income.

Dividends received or receivable from associate are recognized as a reduction in the carrying amount of the investment.

The statement of income and other comprehensive income reflects the Company's share of the profits of operations of the associate. Any change in OCI of this associate is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity.

When the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

5 Summary of significant accounting polices (continued)

Associate (continued)

The aggregate of the Company's share in net result of an associate is shown on the face of the statement of income and other comprehensive income outside operating profit.

The financial statements of the associate should be for the same reporting period as the Company. If not, then adjustments are made to bring the balances and transactions to be at / for the reporting period similar to the Company. Adjustments shall also be made to bring the balances and transactions in line with the accounting policies of the Company, in case the accounting policies of such associate differ from those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as 'Share in net result of an associate' in the statement of income and other comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognizes 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 recognized in the statement of income and other comprehensive income.

Impairment of non-financial assets

The Company 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 Company estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's 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 (pre-zakat) that reflects current market assessment of the time value of money and the risks specific to the asset.

The Company's impairment calculation is based on detailed budgets and forecast calculations which are prepared for the Company as whole, as the Company considered as single CGU. 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 recognized in the statement of income and other comprehensive income in those expense categories consistent with the function of the impaired asset.

Irrespective of whether there is any indication of impairment, the Company shall also test intangible assets with an indefinite useful life (including goodwill) or intangible assets not yet available for use for impairment annually by comparing their carrying amount with respective recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.

5 Summary of significant accounting polices (continued)

Impairment of non-financial assets (continued)

For assets other than above, an assessment is made at each financial year-end as to whether there is any indication that previously recognized 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 recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the statement of income and other comprehensive income.

Inventories

Inventories, including raw materials, finished goods and consumables (spares) are valued at the lower of cost i.e. historical purchase prices based on the weighted average principle plus directly attributable costs (primarily duty and transportation), or the net realizable value.

Inventories of finished goods include cost of materials, labor and an appropriate proportion of variable and fixed direct overheads.

Abnormal inventory losses due to quality or other issues and overheads incurred during unplanned maintenance / shut down period are excluded from inventory costs. The allocation of overheads at period end for the purpose of inventory valuation are based on the higher of normal capacity or actual production for the period. 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 estimated costs of completion and the estimated costs necessary to complete a sale.

Scrap inventory, co-product and by-product

Production process in the Company sometimes results in production of co-product simultaneously, or may result in some by-products or scraps (either non-usable or recyclable). When the costs of conversion of such co/by-product and/or scrap are not separately identifiable from the main product cost, they are allocated on a rational and consistent basis to such products and co/by-product and scrap. The allocation is based on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.

Where by-products and scrap are immaterial and where costs cannot be allocated to them or it is inefficient to do so, these items are measured under inventory at net realizable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product inventory is not materially different from its cost.

In the statement of income other comprehensive income, the net realizable value for the by-products and scrap reduces the cost of sales for the period. Upon subsequent sale of such by-product, the proceeds is recorded as revenue with a corresponding cost of sale being recorded based on earlier recorded net realizable value, while for scrap, the proceeds, net of cost is recorded as other income.

Consumable spare parts

Consumables are ancillary materials which are consumed in the production of semi-finished and finished products. Consumables may include engineering materials, one-time packaging materials and certain catalysts.

5 Summary of significant accounting polices (continued)

Inventories (continued)

Consumable spare parts (continued)

Spare parts are the interchangeable parts of property, plant and equipment, which are considered to be essential to support routine maintenance, repair and overhaul of plant and equipment or to be used in emergency situations for repairs. The Company maintains the following different types of spare parts:

· Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalized as part of property, plant and equipment and depreciated from purchase date over a period which is shorter of the component's useful life or the remaining useful life of the plant in which it is to be utilized. These do not form part of inventory provided capitalization criteria under property, plant and equipment is met.

· Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalized as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the related property, plant and equipment in which it is installed. These do not form part of inventory.

· General spares and other consumables items which are not of a critical nature and are of a general nature, i.e., not plant specific and can be used in multiple plants or production lines and any other items which may be required at any time for facilitating plant operations. They are generally classified as 'consumables and spare parts' under inventory, unless they exceed the capitalisation threshold and have a useful life of more than one year, under which case they are recorded under property, plant and equipment. Items recorded under inventory are subject to assessment for obsolescence provision and are charged to the statement of income and other comprehensive upon their installation or use. Where such items meet criteria for capitalization, their depreciation method is similar to repairable items as noted above.

Cash and cash equivalents

Cash and cash equivalents include bank balances and short-term deposits 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.

Employee end of service benefits and post-employment benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves, air fare, child education allowance, furniture allowance that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in statement of financial position.

5 Summary of significant accounting polices (continued)

Employee end of service benefits and post-employment benefits (continued)

Other long-term employee benefit obligations

Other long-term employee benefit obligations (including continuous service awards, long service leave and annual leave which are not expected to be settled wholly within twelve months after the end of the period in which the employees render the related service) are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method and recorded as non-current liabilities. Consideration is given to expect future wage and salary levels, experience of employee departures, historic attrition rates and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognized in the statement of income and other comprehensive income.

The obligations are presented as current liabilities in the statement of financial position if the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

Post-employment obligation

The Company operates various post-employment schemes, including both defined benefit and defined contribution plans and post-employment medical plans for eligible employees and their dependents.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions in to a separate entity and will have no legal or constructive obligation to pay amounts. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Eligible employees who participate in defined contribution plan may also invest a portion of their earnings in various program funds.

The Company operates a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Company's normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance and for purpose of presentation in the financial statements, it is offset with the related liability under the savings plan and net liability to employees is reported under the employee benefits liability.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company primarily has end of service benefits, pension plans and post-retirement medical and life insurance plans which qualify as defined benefit plans.

5 Summary of significant accounting polices (continued)

Employee end of service benefits and post-employment benefits (continued)

Defined benefit plans (continued)

(a) End of service pension awards

The net pension asset or liability recognized in the statement of financial position in respect of defined benefit post-employment plans is the fair value of plan assets, if any, less the present value of the projected defined benefit obligation (DBO) at the reporting date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of income and other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur as other comprehensive income (OCI) in the statement of income and other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in the statement of income and other comprehensive income as past service costs.

Valuations of the obligations under these plans are carried out by independent actuaries based on the projected unit credit method. The costs relating to such plans 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 are recognized immediately in the statement of income and other comprehensive income while unwinding of the liability at discount rates used are recorded as finance cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement as other comprehensive income in the statement of income and other comprehensive income.

The actuarial valuation process takes into account the provisions of the Saudi Arabian Labor and Workmen law as well as the Company policy.

(b) Medical and life insurance

The Company provides post-retirement healthcare and life insurance benefits to its eligible retirees and their dependents for 5 years. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit plans. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited as other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

The accounting for these plans requires that management makes certain assumptions relating to discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trend rates, mortality and other assumptions. These estimates are highly susceptible to change from period to period based on the performance of plan assets (if any), actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends, future estimates based on economic and market conditions at the time of valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions used.

5 Summary of significant accounting polices (continued)

Employee end of service benefits and post-employment benefits (continued)

Short-term and long-term incentive plans (profit sharing or bonus plans)

The Company recognizes a liability and an expense for bonuses and incentive plans based on a formula that takes into consideration the estimated expected payable amount given the performance of the Company. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation, and where the amount is accrued over the period based on the target expectation and a reliable estimate of the obligation can be made.

Termination benefits (early retirement program)

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

Employee Home Ownership Program (HOP)

The Company has established employee's home ownership programs (HOP) that offer eligible employees the opportunity to buy residential units constructed by the Company through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment.

Under the HOP, the amounts paid by the employee towards the house are repayable back to the employee in case the employee discontinues employment and the house is returned back to the Company. The requirements relating to financial instruments do not apply to such accumulated balance as paragraph 2(c) of IAS 39 specifically excludes employers' rights and obligations under employee benefit plans. Repayment of such amount in the event that an employee leaves before entitlement to the house has vested represents a potential employer's obligation to which IAS 19 applies. IAS 19 requires measuring such an obligation on an expected outcome basis.

Employee Home Loan Program (HLP)

The Company provides interest free home loan to its eligible employees for one time only during the period of the service for purposes related to purchase or building of a house or apartment. The loan is repaid in monthly instalment by deduction of employee's housing allowances.

HLP is recognized as a non-current financial asset at fair value and measured at amortized cost using the effective interest rate method. The difference between the fair value and the actual amount of cash given to the employee is recognized as a "non-current prepaid employee benefits" and is amortized as an expense equally over the period of service. The same amount is also amortized as interest income against the receivable from employees.

Executive vehicles

The Company grants eligible employees a Company owned vehicle up to a specific value. The benefit is provided to employees against their services for a fixed period of years. The employee also has an option to opt for a higher value vehicle and the difference in value is contributed by the employee. The vehicle shall remain the property of the Company. The Company's Human Resource policy governs the arrangement with the employee and may define conditions under which such vehicle can be transferred to employee.

5 Summary of significant accounting polices (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

Provisions

General

Provisions are recognized when the Company 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 Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of income and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate (pre-zakat) 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 recognized as a finance cost.

Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (”GAZT”) in the Kingdom of Saudi Arabia. The provision is charged to the statement of income and other comprehensive income.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loan and receivables, and trade receivable as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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 recognized on the trade date i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified as:

· Loan and receivables.
· Trade receivable.

Loans and receivables (long-term)

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized 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 amortization is included in finance income in the statement of income and other comprehensive income.

5 Summary of significant accounting polices (continued)

Financial assets (continued)

Trade receivables

Trade receivables are stated at the amortized cost, which generally correspond to face value (original invoice amount), do not bear interest, and generally have a 30 to 90 days term, less any provision for doubtful debts and impairment. An allowance for doubtful debts is made based upon Company's best estimate of expected credit losses related to those receivables. Such estimate is based on customers' financial status and historical write-off experience. Account balances are written off against such allowance after all means of collection have been exhausted and potential of recovery is remote. Bad debts written off as such are recorded in the statement of income and other comprehensive income as incurred.

Other receivables include supplier advances, employee receivables and other such receivables which are not 'trade' receivables. Other receivables are stated at amortized cost which generally corresponds to their face value. Allowance for doubtful receivables is assessed as per methodology noted above.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Company's statement of financial position) when:
· The rights to receive cash flows from the asset have expired, or
· The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified under either of the two classes at initial recognition:

· Financial liabilities at fair value through profit or loss
· Other financial liabilities measured at amortized cost using the effective interest rate method.

5 Summary of significant accounting polices (continued)

Financial liabilities (continued)

The category of financial liability at fair value through profit or loss has two subcategories:

· Designated: a financial liability that is designated by the entity as a liability at fair value through profit or loss upon initial recognition
· Held for trading: a financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

All financial liabilities are recognized initially when the Company becomes party to a contractual provisions and obligations under the financial instrument. The liabilities are recorded at fair value, and in the case of loans and borrowings and payables, the proceeds received net of directly attributable transaction costs.

Subsequent measurement

Financial liabilities at fair value through profit and loss will continue to be recorded at fair value with changes being recorded in the statement of income and other comprehensive income.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. Gain and losses are recognized in statement of income and other comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortization is included as finance costs in the statement of income and other comprehensive income.

De-recognition

A financial liability is derecognized 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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income and other comprehensive income.

Offsetting of financial instruments

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

Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded by the Company 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 recognized in the statement of income and other comprehensive income.

5 Summary of significant accounting polices (continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

· In the principal market for the asset or liability, or
· In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

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 best economic 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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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.

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

The policies and procedures for both recurring fair value measurement are evaluated periodically.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value of a shareholder's subordinated loans

The fair value of a shareholder's subordinated loans is determined based on the valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as discount rate, liquidity risk, credit risk and volatility.

5 Summary of significant accounting polices (continued)

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding any taxes or duty. Amounts disclosed as revenue are net of returns.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenues represent the invoiced value of goods shipped by the Company during the period, net of any trade and quantity discounts.

Where the Company assesses itself as the principal, it records all relevant sales and costs of sale for the goods sold.

Expenses

Cost of sales

All expenses are recognized on an accrual basis. Operating costs are recognized on a historical cost basis. Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material, direct labor and other attributable overhead costs. Other costs such as selling costs are recorded as selling and distribution expenses while all remaining other costs are presented as general and administrative expenses.

Selling and distribution expenses

These include any costs incurred to carry out or facilitate all selling activities at the Company. These costs typically include distribution and logistics expenses as well as allocations of certain general overheads.

General and administrative expenses

These pertain to operation expenses which are not directly related to the production of any goods or services. These also include allocations of general overheads which are not specifically attributed to cost of sales or selling and distribution expenses.

Allocation of overheads between cost of sales, selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis based on predetermined rates as appropriate by the Company.

Finance income

For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of income and other comprehensive income. Earnings on time deposits are recognized on an accrual basis.

5 Summary of significant accounting polices (continued)

Earnings per share

Basic earnings per share is calculated by dividing:

· the net income attributable to Equity holders 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 period, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Statutory reserve

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

6 First-time adoption of IFRS

For all the periods up to and including the year ended 31 December 2016, the Company prepared its financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia ("SOCPA GAAP"). Effective 1 January 2017, all entities listed in Saudi Stock Exchange are required to prepare their financial statements in accordance with the IFRSs as endorsed in KSA.

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") endorsed in KSA requires that an entity's accounting policies used in its opening statement of financial position and throughout all periods presented in its first IFRS financial statements comply with IFRSs as endorsed in KSA effective at the end of its first IFRS reporting period. Accordingly, the IFRSs endorsed in KSA issued and effective as at 31 December 2017 have been applied in preparing the financial statements as at and for the year ended 31 December 2017, the comparative information presented as at and for the year ended 31 December 2016, and in preparation of the opening IFRS Statement of Financial Position as at 1 January 2016.

IFRS 1 endorsed in KSA allows first-time adopters certain exemptions from retrospective application of certain requirements under IFRSs as endorsed in KSA. However, none of these exemptions have been taken by the Company.

The impacts of the transition to IFRSs as endorsed in KSA for the comparative information are outlined in the following tables and explanatory comments in note 6.

6 First-time adoption of IFRS (continued)

6.1 The following is a reconciliation of the Company's statement of financial position reported in accordance with SOCPA to its statement of financial position under IFRS at 31 December 2016:

	Note	SOCPA as at 31 December 2016	Re-classifications	Re-measurements	IFRS as at 31 December 2016
		SR '000 *(Audited)*	*SR '000*	*SR '000*	*SR '000*
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	*A*	34,007,080	(238,421)	372,244	34,140,903
Intangible assets	*B*	89,499	182,033	(33,151)	238,381
Investment in an associate and advances	*C*	252,701	-	65,629	318,330
Other non-current assets		193,329	77,211	-	270,540
TOTAL NON-CURRENT ASSETS		34,542,609	20,823	404,722	34,968,154
CURRENT ASSETS					
Inventories	*D*	1,531,275	(2,431)	(27,865)	1,500,979
Trade receivables		2,554,672	2,431	-	2,557,103
Prepayments	*F*	98,658	-	2,868	101,526
Other current assets	*F*	549,360	(20,823)	(12,762)	515,775
Cash and cash equivalents	*G*	1,390,978	(3,977)	-	1,387,001
TOTAL CURRENT ASSETS		6,124,943	(24,800)	(37,759)	6,062,384
TOTAL ASSETS		40,667,552	(3,977)	366,963	41,030,538
EQUITY AND LIABILITIES					
EQUITY					
Share capital		15,000,000	-	-	15,000,000
Statutory reserve		49,408	-	-	49,408
Other components of equity	*J*	-	-	620,874	620,874
Accumulated losses		(2,108,767)	-	(310,170)	(2,418,937)
TOTAL EQUITY		12,940,641	-	310,704	13,251,345
LIABILITIES					
NON-CURRENT LIABILITIES					
Term loans		21,073,668	21,366	89,224	21,184,258
Subordinated loans from a shareholder	*J*	2,875,000	-	(272,137)	2,602,863
Employees' benefits	*I*	304,336	(3,977)	179,484	479,843
Other non-current liabilities		19,409	-	-	19,409
TOTAL NON-CURRENT LIABILITIES		24,272,413	17,389	(3,429)	24,286,373
CURRENT LIABILITIES					
Current portion of term loans		1,782,590	(21,366)	621	1,761,845
Trade payables and accruals		1,380,370	-	66,825	1,447,195
Other current liabilities		192,782	-	(7,758)	185,024
Zakat provision		98,756	-	-	98,756
TOTAL CURRENT LIABILITIES		3,454,498	(21,366)	59,688	3,492,820
TOTAL LIABILITIES		27,726,911	(3,977)	56,259	27,779,193
TOTAL EQUITY AND LIABILITIES		40,667,552	(3,977)	366,963	41,030,538

6 First-time adoption of IFRS (continued)

6.2 The following table illustrates the reconciliation of statement of changes in equity as at 31 December 2016 from SOCPA GAAP to IFRS

	Note	Share capital	Statutory reserve	Other components of equity	Accumulated losses	Total
		SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance as per SOCPA GAAP as of 31 December 2016		15,000,000	49,408	-	(2,108,767)	12,940,641
IFRS adoption adjustments						
-Employees' benefits	*I*	-	-	-	(17,049)	(17,049)
-Actuarial valuations of employees' benefits	*I*	-	-	-	(191,189)	(191,189)
-Net realizable value of inventories		-	-	-	(10,910)	(10,910)
-Fair value differentials for evaluating the loans (shareholder's subordinated loans and an associate advances)	*J*	-	-	620,874	(295,877)	324,997
-Componentization of property, plant and equipment	*31*	-	-	-	301,767	301,767
-Adjustments for employees' benefits (SSO and SOLA)	*E*	-	-	-	(39,937)	(39,937)
-Other adjustments, net		-	-	-	(56,975)	(56,975)
Total adjustment to equity		-	-	620,874	(310,170)	310,704
Balance as per IFRS as endorsed in KSA as of 31 December 2016		15,000,000	49,408	620,874	(2,418,937)	13,251,345

6 First-time adoption of IFRS (continued)

6.3 The following is a reconciliation of the Company's statement of financial position reported in accordance with SOCPA to its statement of financial position under IFRS at the transition date 1 January 2016:

	Note	SOCPA as at 1 January 2016	Re-classifications	Re-measurements	IFRS as at 1 January 2016
		SR '000 (Audited)	*SR '000*	*SR '000*	*SR '000*
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	*A*	35,499,228	(253,900)	321,397	35,566,725
Intangible assets	*B*	127,936	177,958	(52,094)	253,800
Investment in an associate and advances	*C*	341,070	(95,446)	52,860	298,484
Other non-current assets		207,278	209,644	-	416,922
TOTAL NON-CURRENT ASSETS		36,175,512	38,256	322,163	36,535,931
CURRENT ASSETS					
Inventories	*D*	1,679,778	13,625	(48,164)	1,645,239
Trade receivables		2,061,182	-	-	2,061,182
Prepayments	*F*	86,062	14,201	-	100,263
Other current assets	*F*	478,304	(52,457)	(24,183)	401,664
Cash and cash equivalents	*G*	1,719,526	(13,050)	-	1,706,476
TOTAL CURRENT ASSETS		6,024,852	(37,681)	(72,347)	5,914,824
TOTAL ASSETS		42,200,364	575	249,816	42,450,755
EQUITY AND LIABILITIES					
EQUITY					
Share capital		15,000,000	-	-	15,000,000
Statutory reserve		49,408	-	-	49,408
Other components of equity	*J*	-	-	620,874	620,874
Accumulated losses		(2,243,493)	-	(339,998)	(2,583,491)
TOTAL EQUITY		12,805,915	-	280,876	13,086,791
LIABILITIES					
NON-CURRENT LIABILITIES					
Term loans		21,914,249	27,544	101,059	22,042,852
Subordinated loans from a shareholder	*J*	2,875,000	-	(350,928)	2,524,072
Employees' benefits	*I*	257,016	(13,050)	170,493	414,459
Other non-current liabilities		60,914	-	-	60,914
TOTAL NON-CURRENT LIABILITIES		25,107,179	14,494	(79,376)	25,042,297
CURRENT LIABILITIES					
Current portion of term loans		2,194,521	(27,544)	573	2,167,550
Trade payables and accruals		1,765,323	13,625	35,086	1,814,034
Other current liabilities		243,296	-	12,657	255,953
Zakat provision		84,130	-	-	84,130
TOTAL CURRENT LIABILITIES		4,287,270	(13,919)	48,316	4,321,667
TOTAL LIABILITIES		29,394,449	575	(31,060)	29,363,964
TOTAL EQUITY AND LIABILITIES		42,200,364	575	249,816	42,450,755

6 First-time adoption of IFRS (continued)

6.4 The following table illustrates the reconciliation of statement of changes in equity from SOCPA GAAP to IFRS for Company on adoption of IFRS:

	Note	Share capital	Statutory reserve	Other components of equity	Accumulated losses	Total
		SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Balance as per SOCPA GAAP as of 1 January 2016		15,000,000	49,408	-	(2,243,493)	12,805,915
IFRS adoption adjustments						
-Employees' benefits	*I*	-	-	-	(17,950)	(17,950)
-Actuarial valuations of employees' benefits	*I*	-	-	-	(170,493)	(170,493)
-Net realizable value of inventories		-	-	-	(20,398)	(20,398)
-Fair value differentials for evaluating the loans (shareholder's subordinated loans and an associate advances)	*J*	-	-	620,874	(244,715)	376,159
-Componentization of property, plant and equipment	*31*	-	-	-	245,959	245,959
-Adjustments for employees' benefits (SSO and SOLA)	*E*	-	-	-	(26,347)	(26,347)
-Other adjustments, net		-	-	-	(106,054)	(106,054)
Total adjustment to equity		-	-	620,874	(339,998)	280,876
Balance as per IFRS as endorsed in KSA as of 1 January 2016		15,000,000	49,408	620,874	(2,583,491)	13,086,791

6 First-time adoption of IFRS (continued)

6.5 The following is a reconciliation of the Company's statement of income and other comprehensive income for the year ended 31 December 2016 from SOCPA to IFRS:

	Note	SOCPA for year ended 31 December 2016	Re-measurements/ Reclassifications	IFRS for the year ended 31 December 2016
		SR '000	*SR '000*	*SR '000*
Sales		8,608,817	-	8,608,817
Cost of sales	*A,D,I*	(7,250,464)	407,904	(6,842,560)
GROSS PROFIT		1,358,353	407,904	1,766,257
Selling and distribution expenses		(210,334)	(6,775)	(217,109)
General and administrative expenses	*I*	(163,390)	(326,562)	(489,952)
OPERATING PROFIT		984,629	74,567	1,059,196
Share in profits of an associate		35,951	-	35,951
Financial income	*C*	16,639	27,628	44,267
Other expenses, net		(22,275)	-	(22,275)
Financial costs	*J*	(783,502)	(84,864)	(868,366)
INCOME BEFORE ZAKAT		231,442	17,331	248,773
Zakat		(96,716)	-	(96,716)
NET INCOME FOR THE YEAR		134,726	17,331	152,057
Other comprehensive income				
***Other comprehensive income not to be reclassified to income in subsequent periods*:**				
Re-measurement gains on defined benefit plans	*I*	-	12,497	12,497
Other comprehensive *income*		-	12,497	12,497
Total comprehensive income		134,726	29,828	164,554

6 First-time adoption of IFRS (continued)

6.6 The following table illustrates the reconciliation from net income under SOCPA GAAP to total comprehensive income under IFRS for the year ended 31 December 2016:

Reconciliation of statement of income and other comprehensive income

	Note	*For the year ended 31 December 2016*
		SR '000
Net income under SOCPA		134,726
IFRS adjustments related to:		
Employees' benefits	*I*	902
Employees' end-of-service-benefits	*I*	(21,488)
Net realizable value of inventory		9,487
Fair value differentials for evaluating the loans (shareholder's subordinated loans and an associate advances)	*J*	(51,162)
Componentization of property, plant and equipment	*31*	55,807
Adjustments for employees' benefits (SSO and SOLA)	*E*	(12,798)
Other adjustments, net		36,583
Income under IFRSs		152,057
Other comprehensive income		
Re-measurement gain on defined benefit plans	*I*	12,497
Total comprehensive income under IFRS		164,554

No statement of comprehensive income was produced under SOCPA GAAP. Therefore, the reconciliation in the above table starts with the net income under SOCPA GAAP.

6.7 The impact on cash flows and on earnings per share were:

	SOCPA GAAP for the year ended 31 December 2016	IFRS as endorsed in KSA for the year ended 31 December 2016	Difference
	SR '000	SR '000	SR '000
Net cash from operating activities	1,685,688	1,859,013	173,325
Net cash used in investing activities	(761,724)	(883,354)	(121,630)
Net cash used in financing activities	(1,252,512)	(1,295,134)	(42,622)
Earnings per share in (SR)	0.09	0.10	0.01

6 First-time adoption of IFRS (continued)

A Property, Plant and equipment

i) Under SOCPA, the Company capitalized the cost of capital spare parts under inventory, which used to serve for more than one accounting year. However, under IFRS, such cost is capitalized under property, plant and equipment, and therefore the depreciation has been estimated for such cost with retrospective effect and recognized through the retained earnings.

ii) Under IFRS, an arrangement that comprises a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments qualifies for recognition as a finance lease. Certain lease arrangements entered into by the Company qualify for recognition as finance leases under IFRS. This resulted in an increase in finance lease obligations, an increase in related property, plant and equipment and a decrease in retained earnings.

iii) Under IFRS, property, plant and equipment needs to be componentized and their useful lives separately identified. Accordingly, an assessment was made by the Company which resulted in adjusted accumulated depreciation and retained earnings on the IFRS transition date reflecting the change in classification and useful lives.

B Intangible assets

Under IFRS, home ownership receivables as well as the related site development costs is considered as a benefit provided to employees against their services. The site development costs have historically been recorded as intangible assets. As a result of this change, amounts have been reclassified from intangible assets to non-current assets.

C Investment in an associate and advances

Under SOCPA, the Company does not valuate the loans and advances to an associate using the fair market value for loans and advances that bears an off-market interest rate. The equity classification by the borrower allows the lender to recognise the fair value differential, as an asset as required by IAS 39. This would be reflected as part of the investment in an associate. Further, The additional amount lent (or the “fair value differential”) is the difference between the amount of the loan and its fair value.

D Inventory

Refer to 6A (i) for adjustments impacting inventory.

E Payables

Adjustments related to employee costs by using actuarial assumptions as required by IFRS were recharged by a shareholder to the Company.

F Prepayments and other assets

Current portion of furniture allowance which is amortized over five years has been separated from non-current assets.

G Cash and cash equivalents

Adjustment relates to savings (thrift) plan for which contributions have been recorded as an employee contribution payable. The cash contributed in respect of this liability is held in separate bank account not used in Company’s operations.

6 First-time adoption of IFRS (continued)

H Obligations under finance lease

Refer to 6A for adjustments impacting property, plant and equipment.

I Employee benefits and accrued and other liabilities

(i) Under IFRS, end of service benefits ("EOSB"), post-employment medical benefits and service awards are required to be calculated using actuarial assumptions. Historically, the Company has calculated these obligations based on the current provision. This change resulted in an increase in the EOSB and post-employment medical benefits and service awards liabilities balances on the transition date and as at the current period and a decrease in retained earnings and current period income.

(ii) Under IFRS, accumulating unpaid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. The obligation arising in respect of these accumulating absences is required to be recognized under IFRS irrespective of whether the absences are vesting or non-vesting. This change has resulted in an increase in accrual for vacation pay and a decrease in retained earnings and current period income.

J Interest bearing loans from a shareholder

Shareholder's subordinated loans were initially recognized at actual loan proceeds. However under IAS 39, these loans should have been recognized initially at fair value, and subsequently shall be measured at amortized costs by using effective interest rate. Accordingly, the Company has restated shareholder's subordinated loans. Fair value differential being, in substance, additional capital introduced by the shareholders in the form of the present value of future forgiven cash flows (interest payments). The fair value differential is classified as contributed surplus under other components of equity.

7 Cost of sales

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Utilities	**518,868**	516,188
Employees' costs	**574,560**	576,234
Depreciation of property, plant and equipment (note 13)	**2,288,471**	2,297,288
Provision for slow moving/dormant inventory (note 19)	**101,247**	39,061
Amortisation of intangible assets (note 15)	**15,512**	15,419
Raw materials and consumables	**10,390,158**	8,880,977
Change in finished products inventory	**(6,212,415)**	(5,876,972)
Other	**7,765**	394,365
	7,684,166	6,842,560

8 Selling and distribution expenses

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Freight and Storage	**188,383**	209,716
Other	**15,555**	7,393
	203,938	217,109

9 General and administrative expenses

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Technology and innovation cost (note 14)	**199,648**	171,960
Employees' costs	**82,917**	96,919
Shared services charges (note 14)	**56,223**	79,253
Amortisation of site development costs	**18,783**	19,494
Maintenance and manpower supply	**13,883**	16,227
Taxes	**9,770**	10,576
Leases	**9,382**	10,966
Depreciation (note 13)	**8,252**	8,252
Board members allowances	**3,406**	2,143
Other	**63,447**	74,162
	465,711	489,952

10 Other expenses, net

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Write-off of property, plant and equipment (note 13)	**(76,808)**	(29,862)
Foreign currency exchange gain (losses)	**2,437**	(5,165)
Other miscellaneous income, net	**13,286**	12,752
	(61,085)	(22,275)

11 Finance costs

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Interest on debts and borrowings	**791,047**	741,112
Interest expenses related to defined benefit plans (note 26)	**17,906**	16,423
Lease financial charges	**818**	865
Bank charges	**963**	340
Total interest expense	**810,734**	758,740
Unwinding of discount	**99,601**	109,626
Total finance costs	**910,335**	868,366

12 Employees' costs, Depreciation, amortization and costs of inventories included in the statement of income and other comprehensive income

Included in cost of sales:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Employees' costs	**574,560**	576,234
Depreciation	**2,288,471**	2,297,288
Amortisation of intangible assets	**15,512**	15,419
Costs of inventories	**4,278,990**	3,043,066

Included in general and administrative expenses:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Employees' costs	**82,917**	96,919
Amortisation of site development costs	**18,783**	19,494
Depreciation	**8,252**	8,252

13 Property, plant and equipment

	Plant and equipment *SR '000*	Buildings *SR '000*	Furniture, fixture and office equipment *SR '000*	Vehicles *SR '000*	Catalyst *SR '000*	*Construction work in progress SR '000*	***Total 2017 SR '000***
Cost:							
At the beginning of the year	41,652,555	2,537,655	300,088	11,001	359,821	663,634	**45,524,754**
Additions	27,268	3,570	11,457	-	1,851	942,536	**986,682**
Write-off	(19,671)	(21)	-	-	-	(60,897)	**(80,589)**
Transfers	30,131	13,750	4,589	-	10,640	(59,110)	**-**
At the end of the year	41,690,283	2,554,954	316,134	11,001	372,312	1,486,163	**46,430,847**
Accumulated depreciation:							
At the beginning of the year	10,455,604	382,111	266,850	7,997	271,289	-	**11,383,851**
Charge for the year	2,134,611	77,515	12,079	2,041	70,477	-	**2,296,723**
Related to write-off	(3,781)	-	-	-	-	-	**(3,781)**
At the end of the year	12,586,434	459,626	278,929	10,038	341,766	-	**13,676,793**
Net book amounts:							
At 31 December 2017	**29,103,849**	**2,095,328**	**37,205**	**963**	**30,546**	**1,486,163**	**32,754,054**

13 Property, plant and equipment (continued)

	Plant and equipment SR '000	Buildings SR '000	Furniture, fixture and office equipment SR '000	Vehicles SR '000	Catalyst SR '000	*Construction work in progress SR '000*	*Total 2016 SR '000*
Cost:							
At the beginning of the year	41,103,986	2,519,164	281,113	11,001	282,561	453,685	44,651,510
Additions	436,986	11,808	7,107	-	54,752	389,340	899,993
Write-off	(29,715)	-	-	-	-	(6,621)	(36,336)
Transfers	141,298	6,683	11,868	-	22,508	(182,357)	-
Transferred from inventories	-	-	-	-	-	9,587	9,587
At the end of the year	41,652,555	2,537,655	300,088	11,001	359,821	663,634	45,524,754
Accumulated depreciation:							
At the beginning of the year	8,341,878	304,313	219,306	5,960	213,328	-	9,084,785
Charge for the year	2,120,200	77,798	47,544	2,037	57,961	-	2,305,540
Related to write-off	(6,474)	-	-	-	-	-	(6,474)
At the end of the year	10,455,604	382,111	266,850	7,997	271,289	-	11,383,851
Net book amounts:							
At 31 December 2016	31,196,951	2,155,544	33,238	3,004	88,532	663,634	34,140,903

13 Property, plant and equipment (continued)

The constriction work in progress mainly relates to construction of Waste Water Treatment Upgrade Unit, Olefins Furnace and Ethylene Oxide Ethylene Glycol Debottlenecking and other support facilities with a total cost of SR 1.3 billion (2016: SR 473.98 million).

The Borrowing costs capitalised during the year on construction work in progress amounted to SR 12.7 million (2016: SR 8.4 million).

Property, plant and equipment are constructed on a land leased by the Company from Royal Commission for Jubail and Yanbu under a long-term renewable lease agreement with an initial term of 30 years effective from 21 Rabi'I 1428H (corresponding to 9 April 2007).

All of the Company's property, plant and equipment are secured against term loans (note 25).

14 Related party transactions and balances

Related parties represent major shareholder, associated companies, key personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. Following is the list of the major related parties of the Company:

Name of related party	Nature of relationship
SABIC	Shareholder
Saudi Butanol Company	Associate
SABIC affiliates	Affiliates

The following table provides the total amount of transactions that have been entered into with related parties and related parties balances as at 31 December 2017 , 31 December 2016 and 1 January 2016.

			Amount of transaction		*Ending balance*		
Related party	***Relationship***	***Nature of transaction***	***For the year ended 31 December 2017***	*For the year ended 31 December 2016*	***31 December 2017***	*31 December 2016*	*1 January 2016*
			SR '000	*SR '000*	***SR '000***	*SR '000*	*SR '000*
a. Trade accounts receivable due from related parties (note 20)							
SABIC	Shareholder	Sales to related parties	**9,983,632**	8,535,981	**2,550,875**	2,535,032	2,023,544
b. Advances and other receivables due from related parties (note 21)							
SABIC	Shareholder	Advances			**271,063**	324,953	174,269
SABIC affiliates	Affiliate	Advances			**6,971**	79,433	1,646
					278,034	404,386	175,915
c. Advances to an associate							
Saudi Butanol Company	Associate	Advances					
Current portion (note 21)					**62,135**	101,231	219,692
Non-current portion (note 16)					**-**	54,802	71,213
					62,135	156,033	290,905

14 Related party transactions and balances (continued)

Related party	Relationship	Nature of transaction	Amount of transaction: ***For the year ended 31 December 2017***	Amount of transaction: *For the year ended 31 December 2016*	Ending balance: ***31 December 2017***	Ending balance: *31 December 2016*	Ending balance: *1 January 2016*
			SR '000	*SR '000*	***SR '000***	*SR '000*	*SR '000*
d. Amounts due to related parties (note 27)							
SABIC	Shareholder	Purchases and other services from related parties	**953,321**	672,731	**246,376**	449,008	747,863
		SSO charges	**92,049**	106,368			
		Research and technology charges	**199,648**	171,960			
		Purchase of insurance policies through the shareholder	**23,870**	20,928			
		Finance cost charges	**347,119**	268,345			
Other	Affiliates and associate	Costs charged by an associate	**165,766**	141,512			
		Purchase of inventory, capital goods and services	**73,503**	236,631	**242,545**	5,261	4,696
					488,921	454,269	752,559
e. Subordinated loans from a shareholder – presented under non current liabilities in the statement of financial position							
SABIC	Shareholder				**2,675,837**	2,602,863	2,524,072

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year ended 31 December 2017 are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

14 Related party transactions and balances (continued)

Significant transactions with related parties are described as follows:

(i) SABIC has provided three long-term loans to the Company, which carry commission below the market rates at 2.5% + SIBOR which resulted in fair value differential. These loans are subordinated to certain term loans obtained from commercial banks where 2 loans are due on 15 December 2020 and 31 December 2020 and the third loan was initially due on 30 June 2018 and during the year was extended to 30 June 2025.

(ii) The Company has a service level agreement with SABIC (Shared Services Organization – SSO) for the provision of accounting, warehousing, human resources, information technology (ERP/SAP), transporting and arranging for delivery of materials related to the Company's spare parts, engineering, procurement and related services and other general services to the Company. The Company has also logistic service agreement with SABIC.

(iii) Advances to SABIC represent the amount paid by the Company according to shared service agreement to finance the purchase of the Company's materials and services from SABIC and its affiliates.

(iv) The Company has provided an interest free advance to its associate which resulted in fair value differential. This advance is expected to be fully paid during 2018.

(v) The Company's annual contribution to SABIC for research and technology is 2% of total sales, which is charged to general and administrative expenses in the statement of income and other comprehensive income.

(vi) SABIC also charged finance charges, guarantee fees and commitment fees to the Company in relation to the subordinated loans.

(vii) The majority of Company's products are sold to SABIC ("the Marketer") under marketing and off-take agreements. Upon delivery of the product, sales are recorded at net provisional price which are subsequently adjusted, on a monthly basis, to actual selling prices received by SABIC from its customers after deducting shipping, distribution and selling cost, and a marketing fee to cover all other marketing expenses.

Prices and terms of payments for the above transactions are approved by the Company's management.

Key management compensation

The Company provides certain remunerations and compensation to key management personnel. Remuneration for the year ended 31 December 2017 and 2016 of key management is detailed as follows:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Short-term employee benefits	**5,996**	6,817
Defined employees' benefits obligation	**16,477**	18,510
	22,473	25,327

15 Intangible assets

	Licenses	
	31 December 2017	31 December 2016
	SR '000	*SR '000*
Cost:		
At the beginning of the year	**310,234**	310,234
Additions	**-**	-
At the end of the year	**310,234**	310,234
Amortisation:		
At the beginning of the year	**71,853**	56,434
Charge for the year (note 7)	**15,512**	15,419
At the end of the year	**87,365**	71,853
Net carrying value:		
At 31 December	**222,869**	238,381

16 Investment in an associate and advances

This represents 33.33% equity interest in Saudi Butanol Company Limited ("SABuCO") a limited liability company registered in the Kingdom of Saudi Arabia, which is engaged in production of Butanol and Iso-Butanol. SABuCO is registered with a capital of SR 486 million and the Company invested SR 162 million for its equity interest. Construction of production facilities of SBuCO commenced in early 2014 and were completed during 2015. Commercial production started during 2016.

The movement in investment in SABuCO was as follows:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Balance of investment in an associate at 1 January	**197,899**	161,948
Dividend received	**(10,000)**	-
Share in net results for the year	**49,477**	35,951
Balance of investment in an associate at 31 December	**237,376**	197,899
Fair value differentials of interest free loan provided to the associate	**65,629**	65,629
Add : non-current portion of advances to the associate (note 14)	**-**	54,802
	303,005	318,330

Summarised statement of financial position of SABuCO :

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Current assets	**143,600**	453,011	282,550
Non-current assets	**1,609,400**	1,662,081	1,605,129
Current liabilities	**(122,600)**	(251,767)	(45,927)
Non-current liabilities	**(918,273)**	(1,269,629)	(1,355,907)
Equity	**712,127**	593,696	485,845
Company's share in equity – 33.33% (2016: 33.33%)	**237,376**	197,899	161,948

16 Investment in an associate and advances (continued)

Summarised statement of income of SABuCO :

	31 December 2017	31 December 2016
	SR '000	SR '000
Revenues	**485,800**	354,064
Cost of sales	**(317,300)**	(216,500)
Selling and distribution expenses	**(17,300)**	(19,700)
Other expenses	**(2,769)**	(10,012)
Net income	**148,431**	107,852
Company's share in profits for the year	**49,477**	35,951

17 Other non-current assets

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Employees' loans and advances	**182,387**	214,192	341,080
HOP site development costs	**37,565**	56,348	75,842
	219,952	270,540	416,922

18 Financial assets and liabilities

18.1 Financial assets at amortized cost

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Cash and cash equivalents	**2,513,999**	1,387,001	1,706,476
Trade receivables	**2,556,844**	2,557,103	2,061,182
Advances and other receivable from related parties	**340,169**	560,419	466,820
Other financial assets	**3,163**	5,095	196
	5,414,175	4,509,618	4,234,674

18.2 Financial liabilities at amortized cost

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Term loans	**21,412,720**	22,946,103	24,210,402
Subordinated loan from a shareholder	**2,675,837**	2,602,863	2,524,072
Trade payable	**604,208**	679,339	1,042,505
Other financial liabilities	**275,355**	177,684	230,360
	24,968,120	26,405,989	28,007,339

19 Inventories

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Spare parts	**790,398**	827,146	845,170
Less: allowance for slow moving and obsolete spare parts	**(315,592)**	(214,345)	(175,284)
	474,806	612,801	669,886
Raw materials	**112,666**	143,135	139,030
Goods in transit	**31,009**	34,073	56,991
Finished goods	**667,579**	710,970	779,332
	1,286,060	1,500,979	1,645,239

During 2017, SR 110.8 million was recognised as a reversal of provision for inventories carried at net realisable value (2016: SR 32.8 million). This is recognised in cost of sales.

The movement in allowance for slow-moving and obsolete spare parts was as follows:

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Balance at 1 January	**214,345**	175,284	-
Charge for the year (note 7)	**101,247**	39,061	175,284
Balance at 31 December	**315,592**	214,345	175,284

20 Trade receivables

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Trade accounts receivable due from third parties	**11,421**	27,523	43,371
Trade accounts receivable due from related parties (note 14)	**2,550,875**	2,535,032	2,023,544
	2,562,296	2,562,555	2,066,915
Less: Provision for doubtful debts	**(5,452)**	(5,452)	(5,733)
	2,556,844	2,557,103	2,061,182

Terms and conditions for related party transactions and balances are disclosed under note 14 of these financial statements.

20 Trade receivables (continued)

Movements in the provision for doubtful debts were as follows:

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Balance at 1 January	**5,452**	5,733	6,735
Charge for the year	**-**	-	75
Utilised during the year	**-**	(281)	(1,077)
Balance at 31 December	**5,452**	5,452	5,733

The ageing analysis of trade receivable is as follows:

	Total	**Neither past due nor impaired**	**Less than 30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**More than 121 days**
31 December 2017	**2,562,296**	**2,551,141**	**975**	**1,789**	**1,854**	**425**	**6,112**
31 December 2016	2,562,555	2,537,728	2,318	2,785	4,893	-	14,831
1 January 2016	2,066,915	2,027,670	5,290	24,836	298	2,206	6,615

At 31 December 2017, accounts receivable at nominal value SR 5.4 million (31 December 2016: SR 5.4 million and 1 January 2016: SR 5.7 million) were impaired and provided for.

Trade receivables are non-interest bearing and the Company's credit period is 30-90 days after which trade receivables are considered to be past due. Unimpaired trade receivables are unsecured and are expected, on the basis of past experience, to be fully recoverable.

21. Other current assets

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Advances and other receivable from related parties (note 14)	**278,034**	404,386	175,915
Current portion of advances to an associate (note 14)	**62,135**	101,231	219,692
Other	**7,291**	10,158	6,057
	347,460	515,775	401,664

22 Cash and cash equivalents

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Cash at banks	**1,853,999**	1,167,001	1,611,476
Short-term deposits	**660,000**	220,000	95,000
	2,513,999	1,387,001	1,706,476

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

The table below provides details of amounts placed in various currencies:

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
SAR	**547,832**	271,726	146,198
USD	**1,966,167**	1,115,275	1,560,278
	2,513,999	1,387,001	1,706,476

23 Share capital

The authorised, issued and paid up share capital is SR 15,000 million, which is divided into 1,500 million shares (31 December 2016 and 1 January 2016: 1,500 million shares) of SR 10 each.

24 Other components of equity

Other components of equity of SR 620.87 million represents contribution surplus for the fair value differential in respect of subordinated loans from a shareholder (note 14).

25 Term loans

	Effective Interest rate (%)	Maturity/final payment	**31 December 2017**	31 December 2016	1 January 2016
			SR '000	*SR '000*	*SR '000*
Public Investment Fund (PIF) (note 25.1)	LIBOR+0.50	31 December 2022	**1,893,368**	2,190,961	2,488,193
Islamic Facility Agreement (IFA) (note 25.2)	LIBOR+0.70	31 December 2022	**2,663,945**	2,957,097	3,234,342
Commercial facility from various commercial banks (note 25.3)	LIBOR+0.70	31 December 2022	**1,876,918**	2,083,454	2,278,791
Export Credit Agency (ECA) (note 25.4)	LIBOR+ various	31 December 2022	**2,750,464**	3,423,497	4,534,100
Islamic Working Capital Facility from a commercial bank (note 25.5)	LIBOR+0.70	28 May 2023	**2,409,940**	2,409,190	2,408,487
Saudi Industrial Development Fund (SIDF) (note 25.6)	Follow up cost	13 February 2025	**708,931**	765,382	1,052,093
Commercial term loans obtained against corporate guarantee of SABIC (note 25.7)	Various	Various	**9,099,275**	9,106,022	8,203,324
Obligations under finance lease (note 33)			**9,879**	10,500	11,072
Total			**21,412,720**	22,946,103	24,210,402
Total current			**1,600,087**	1,761,845	2,167,550
Total non-current			**19,812,633**	21,184,258	22,042,852

The carrying value of the above loans include unamortised upfront fees amounting to SR 116.4 million as of 31 December 2017 (31 December 2016 : SR 93.1 million and 1 January 2016 : SR 124.8 million).

The above loans are secured either by mortgage of the assets of the Company or guarantees provided by SABIC. In accordance with the support agreement with SABIC, SABIC will maintain 35% ownership in the Company during the repayment period of these borrowings.

25 Term loans (continued)

25.1 Public Investment Fund

The loan agreement with PIF provided for a loan facility of US dollars 1,067 million (SR 4,001.2 million) to partially finance the construction of the Company's production facilities. The loan bears financial charges on London Inter Bank Offer Rate ("LIBOR") and an agreed margin. The loan is payable in twenty four semi-annual installments which commenced in June 2011. The loan is denominated in US dollars.

25.2 Islamic Facility Agreement

During 2008, the Company entered into the IFA facility amounting to US dollars 1,030.1 million (SR 3,863.7 million) pursuant to which the commercial banks will participate in the procurement of portion of the Company production facilities on the basis of a co-ownership structure. As per the terms of the facility, upon completion of the construction phase and certain other formalities, such co-owned assets will be leased to the Company at agreed annual rentals. A special purpose vehicle, Saudi Kayan Assets Leasing Company Limited (the "Custodian"), has been incorporated in the Kingdom of Saudi Arabia to hold Islamic financiers' interest in the co-owned assets on their behalf. Under the Forward Lease Agreement and the other IFAs, the Company will purchase such co-owned assets from the Custodian upon repayment of IFA facility. During 2014, the Company has achieved the completion requirement as required by the terms of the facility and the arrangement to transfer the title of the co-owned assets has been initiated by the Company and currently is in progress for completion of contractual formalities. Accordingly, as of 31 December 2017, the loan liability has not yet been converted into finance lease obligation for an equivalent amount with a corresponding amount of leased assets.

The repayment of such facility will be made on semi-annual installments over a period of twelve years ending in December 2022. The loan is denominated in US dollars.

25.3 Commercial Facility

The Company has obtained loan facilities amounting to US dollar 725.9 million (SR 2,722.3 million) from various commercial banks. The aggregate maturities of these loans, based on their respective repayment schedules, are spread in 2011 through 2022. These loans bear financial charges based on LIBOR and an agreed margin. These loans are payable in twenty four un-equal semiannual installments. These loans are mainly denominated in US dollars.

25.4 Export Credit Agency

The Company entered into four ECA backed facilities amounting to US dollars 1,938.1 million (SR 7,267.7 million). The aggregate maturities of these loans, based on their respective repayment schedules, are spread in 2011 through 2022. These loans bear financial charges based on LIBOR and an agreed margin. The loans are payable in twenty four un-equal semi-annual installments. These loans are mainly denominated in US dollars.

25.5 Islamic Working Capital Facility

The Company has entered into an Islamic Working Capital Facility arrangement for funding its working capital requirements and signed a Credit Facility Agreement for a facility of US dollars 643.8 million (SR 2,414.4 million) with a local commercial bank. The tenure of the loan is fifteen years from the date of signing of the agreement. The loan shall be paid in full on 28 May 2023.

25 Term loans (continued)

25.6 Saudi Industrial Development Fund

The loan agreements with SIDF provided for loans of SR 2,479 million (2016: SR 2,000 million) to finance construction of the Company's production facilities. Up-front and annual administrative fees are charged by SIDF under the loan agreements. The loans are payable in 26 un-equal semiannual installments which commenced in December 2012.

SIDF loans are secured by mortgage of the assets of the Company. The covenants of the borrowing facility with SIDF require the Company to maintain certain level of financial conditions, limiting the dividends distribution and annual capital expenditure above certain limits.

25.7 Commercial loans against corporate guarantees of SABIC

The Company has outstanding loans amounting to SR 9,125 million at 31 December 2017 (2016: SR 9,125 million) obtained from commercial banks against corporate guarantee of SABIC. These borrowings include borrowings facility of SR 2,625 million obtained during 2014 from local financial institutions out of which SR 2,625 (2016: SR 2,625 million) were drawn.

These loans were used to finance the additional funding required for completing the Company's production facilities and start-up costs based on certain terms and conditions. The aggregate maturities of these loans, based on their respective repayment schedules, are spread from 2021 through 2029. These loans bear financial charges at prevailing market rates which are based on Saudi Inter Bank Offered rate and an agreed margin. Additionally, SABIC is required to maintain its 35% equity interest in the Company until the repayment of external loans.

The Company is required to maintain a cash reserve equivalent to the debt servicing requirement (including principal repayments) for certain borrowings under these arrangements for the next 6 month-period.

25.8 The aggregate repayment schedule of term debt is as follows:

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
2016	**-**	-	2,166,977
2017	**-**	1,761,224	1,757,541
2018	**1,600,087**	6,097,653	6,097,653
2019	**1,518,108**	1,483,034	1,483,034
2020	**1,443,364**	1,408,288	1,408,288
2021	**3,649,443**	3,614,369	3,614,369
2022	**8,075,619**	3,551,034	3,551,034
Thereafter	**5,126,099**	5,030,501	4,131,506
	21,412,720	22,946,103	24,210,402

26 Employees' benefits

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Defined employees' benefits obligation	**533,809**	454,641	405,342
Other employees' benefits	**30,563**	25,202	9,117
	564,372	479,843	414,459

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2017, 31 December 2016 and 1 January 2016 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	31 December 2017	31 December 2016
Discount rate	**3.60%**	4.00%
Expected rate of salary increase		
Executive	**5.00%**	5.00%
Non-Executive	**6.50%**	7.00%

The present values of the defined benefit obligations at 31 December were computed using the actuarial assumptions set out above.

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Present value of defined benefit obligation	**522,336**	467,138
Remeasurement loss (gain) on defined employees' benefit obligations	**11,473**	(12,497)
Balance as at 31 December	**533,809**	454,641

The break up of net benefit costs charged to statement of income and other comprehensive income is as follows:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Current service cost	**61,983**	63,572
Interest cost (note 11)	**17,906**	16,423
Net benefit expense	**79,889**	79,995

The following table represents the movement of the defined benefits obligations:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Defined benefit obligation at beginning of the year	**454,641**	405,342
Charged to statement of income and other comprehensive income	**79,889**	79,995
Remeasurement loss (gain) on defined employees' benefit obligations	**11,473**	(12,497)
Payments during the year	**(6,084)**	(7,000)
Adjustments/transfers during the year	**(6,110)**	(11,199)
Defined benefit obligation at end of the year	**533,809**	454,641

26 Employees' benefits (continued)

The following table represents the components of the defined benefits liability as at 31 December:

	For the year ended 31 December 2017			
	End of Service Benefit Plan	Continuous Service Awards	Post-retirement medical benefits	**Total**
	SR '000	*SR '000*	*SR '000*	***SR '000***
At 1 January	438,341	4,198	12,102	**454,641**
Charge recognised in income statement for the year				
-Current service cost	59,615	601	1,767	**61,983**
-Interest cost	17,265	157	484	**17,906**
Actuarial changes arising due to:				
- financial assumptions	(5,811)	122	1,958	**(3,731)**
- experience assumptions	1,419	616	13,169	**15,204**
Payments during the year	(6,750)	129	537	**(6,084)**
Adjustments/transfers during the year	(5,483)	(26)	(601)	**(6,110)**
As at 31 December	**498,596**	**5,797**	**29,416**	**533,809**

	For the year ended 31 December 2016			
	End of Service Benefit Plan	Continuous Service Awards	Post-retirement medical benefits	Total
	SR '000	*SR '000*	*SR '000*	*SR '000*
At 1 January	391,732	3,384	10,226	405,342
Charge recognised in income statement for the year:				
-Current service cost	61,080	791	1,701	63,572
-Interest cost	15,868	136	419	16,423
Actuarial changes arising due to:				
- financial assumptions	6,231	-	771	7,002
-experience assumptions	(18,950)	-	(549)	(19,499)
Payments during the year	(6,923)	(62)	(15)	(7,000)
Adjustments/transfers during the year	(10,697)	(51)	(451)	(11,199)
As at 31 December	438,341	4,198	12,102	454,641

26 Employees' benefits (continued)

Sensitivity analysis

The table below illustrates the approximate impact on the defined benefit liability if the Company were to change one key assumption, while the other actuarial assumptions remain unchanged. The sensitivity analysis is intended to illustrate the inherent uncertainty in the valuation of the defined benefit liability under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in key actuarial assumptions may have on the total defined benefit liability. The sensitivities only apply to the defined benefit liability and not to the net amounts recognised in the statement of financial position

	31 December 2017		
	End of Service Benefit Plan	**Continuous Service Awards**	**Post-retirement medical benefits**
	SR '000	*SR '000*	*SR '000*
Increase			
Discount rate (+25 bps)	476,471	4,637	27,654
Salary (+25 bps)	511,049	4,714	28,896
Inflation rate (Health care cost)	493,606	4,714	30,267
Decrease			
Discount rate (-25 bps)	511,358	4,793	30,209
Salary (-25 bps)	476,670	4,714	28,896
Inflation rate (Health care cost)	493,606	4,714	27,596
Weighted average duration (in years)			
Discount rate (+25 bps)	13.90	6.50	17.20
Discount rate (-25 bps)	14.40	6.70	18.20

	31 December 2016		
	End of Service Benefit Plan	Continuous Service Awards	Post-retirement medical benefits
	SR '000	*SR '000*	*SR '000*
Increase			
Discount rate (+25 bps)	422,645	4,130	11,527
Salary (+25 bps)	453,670	4,198	12,102
Inflation rate (Health care cost)	438,341	4,198	12,730
Decrease			
Discount rate (-25 bps)	454,164	4,269	12,711
Salary (-25 bps)	423,026	4,198	12,102
Inflation rate (Health care cost)	438,341	4,198	11,507
Weighted average duration (in years)			
Discount rate (+25 bps)	14.30	6.50	19.00
Discount rate (-25 bps)	14.40	6.80	20.10

26 Employees' benefits (continued)

Expected total benefits payments:

31 December 2017	*Less than a year*	*Between 1-2 years*	*Between 2-5 years*	*Over 5 years*	***Total***
	SR '000	SR '000	SR '000	SR '000	**SR '000**
End of service benefits	14,252	12,060	59,519	154,254	**240,085**
Continuous service award	581	902	955	2,957	**5,395**
Post-retirement medical benefits	734	701	2,097	1,757	**5,289**
TOTAL	**15,567**	**13,663**	**62,571**	**158,968**	**250,769**

31 December 2016	*Less than a year*	*Between 1-2 years*	*Between 2-5 years*	*Over 5 years*	*Total*
	SR '000	SR '000	SR '000	SR '000	SR '000
End of service benefits	11,361	13,995	52,222	146,604	224,182
Continuous service award	431	549	1,424	2,809	5,213
Post-retirement medical benefits	-	26	204	991	1,221
TOTAL	11,792	14,570	53,850	150,404	230,616

27 Trade payables and accruals

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Trade accounts payable due to third parties	**115,287**	225,070	289,946
Trade accounts payable due to related parties (note 14)	**488,921**	454,269	752,559
Accrued expenses	**784,473**	767,856	771,529
	1,388,681	1,447,195	1,814,034

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-60 day terms.
- For terms and conditions with related parties, refer to note 14.

28 Other current liabilities

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Interest payable	**68,491**	19,378	87,738
Retentions payable	**59,025**	53,161	40,499
Employees' payable	**57,571**	50,028	57,910
Royalties payable	**38,971**	57,605	65,785
Other	**11,935**	4,852	4,021
	235,993	185,024	255,953

29 Zakat provision

The zakat charge consists of the following:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Charge for the year	**120,641**	96,716
Adjustments related to prior years	**3,487**	-
	124,128	96,716

Zakat base is calculated as follows:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
Equity	**12,940,641**	12,805,915
Loans, opening provisions and other adjustments	**24,327,566**	25,731,258
Book value of long term assets	**(34,290,279)**	(30,638,886)
	2,977,928	7,898,287
Zakatable income (loss) for the year	**1,847,731**	(4,029,648)
Zakat base	**4,825,659**	3,868,639

The movement in Company's zakat provision is as follows:

	31 December 2017	31 December 2016
	SR '000	*SR '000*
At beginning of the year	**98,756**	84,130
Provided during the year	**124,128**	96,716
Paid during the year	**(97,243)**	(82,090)
At the end of the year	**125,641**	98,756

The Company has filed its zakat returns with GAZT, received the zakat certificates, settled the zakat dues and cleared its zakat assessments with GAZT up to the year ended 31 December 2011. The GAZT issued the assessments for the years 2012 to 2015 with an additional liability of SR 144 million. The Company has filed an appeal against the assessments and the Company believes that the ultimate result will be in its favor. Assessment for the year 2016 has not yet been raised by the GAZT.

30 Earnings per share

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

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

	For the year ended 31 December 2017	For the year ended 31 December 2016
Operating profit for the year (SR '000)	**1,630,111**	1,059,196
Net income attributable to equity holders (SR'000)	**668,174**	152,057
Number of shares outstanding (in thousands)	**1,500,000**	1,500,000
Basic and diluted earnings per share from operating profit attributable to equity holders of the Company	**1.09**	0.71
Basic and diluted earnings per share from net income attributable to equity holders of the Company	**0.44**	0.10

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

31 Component change for the property, plant and equipment

Under IFRS, the property, plant and equipment should be componentized and the components' useful lives identified separately. The componentization concept was not a followed practice in Saudi Arabia. It was not practically possible for the Company to clearly distinguish adjustments related to the change in useful lives from those relating to applying the componentization. As part of the transition to IFRS, the Company has applied the concept of assets components and accounted for its impact on the useful lives, which resulted in an increase in property, plant and equipment and a decrease in accumulated loss on the IFRS transition date amounting to SR 246 million. The net impact has been booked as part of the transition adjustments.

32 Fair value measurement

The Company measures financial instruments at each statement of financial position date. Fair-value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed in this note.

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 by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

32 Fair value measurement (continued)

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2017, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

- Fair values of the Company's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2017 was assessed to be insignificant.

33. Contingencies and commitments

The Company contingently liable for bank guarantees issued on behalf of the Company in the normal course of business amounting to SR 7.6 million (2016: SR 8 million).

The capital expenditure contracted by the Company but not incurred till year end was approximately SR 741 million (2016: SR 650 million).

Operating lease commitments

The Company has entered into operating leases on certain motor vehicles and items of machinery. Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	31 December 2017	31 December 2016
	SR '000	SR '000
Within one year	**12,486**	7,450
After one year but not more than five years	**25,520**	14,817
More than five years	**38,990**	48,572
	76,996	70,839

33 Contingencies and commitments (continued)

Finance leases

The Company has finance lease contracts for various items of plant and machinery amounting to SR 14.3 million.

Future minimum lease payments under finance lease contracts, together with the present value of the net minimum lease payments, are as follows:

	31 December 2017	
	Minimum Payments SR '000	**Present value of payments SR '000**
Within one year	**1,438**	**672**
After one year but not more than five years	**5,753**	**3,295**
More than five years	**7,192**	**5,912**
	14,383	**9,879**
Total minimum lease payments	**14,383**	
Less amounts representing finance charges	**4,504**	
Present value of minimum lease payments	**9,879**	**9,879**

	31 December 2016	
	Minimum Payments SR '000	Present value of payments SR '000
Within one year	1,438	621
After one year but not more than five years	5,753	3,043
More than five years	8,630	6,836
	15,821	10,500
Total minimum lease payments	15,821	
Less amounts representing finance charges	5,321	
Present value of minimum lease payments	10,500	10,500

	1 January 2016	
	Minimum Payments SR '000	Present value of payments SR '000
Within one year	1,438	572
After one year but not more than five years	5,753	2,810
More than five years	10,068	7,690
	17,259	11,072
Total minimum lease payments	17,259	
Less amounts representing finance charges	6,187	
Present value of minimum lease payments	11,072	11,072

34 Segment information

A segment is a distinguishable component of the Company 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.

Substantial portion of the Company's sales are made to one customer and all of the Company's operations are related to one operating segment which is petrochemicals. Accordingly, segmental analysis by geographical and operating segment has not been presented.

35 Conventional and non-conventional financing and investments

The tables below outlines the breakdown of the Company's financing and investments into conventional and non-conventional:

	31 December 2017	31 December 2016	1 January 2016
Cash and cash equivalents	**SR '000**	SR '000	SR '000
- Current Murabaha (including fixed term deposits)	**660,000**	220,000	95,000
- Current account	**1,853,999**	1,167,001	1,611,476
Non-conventional cash and cash equivalents	**2,513,999**	1,387,001	1,706,476
Total cash and cash equivalents	**2,513,999**	1,387,001	1,706,476
Term loans			
- Conventional loans	**6,520,750**	12,195,561	13,797,384
- Conventional loans - (related party)	**2,675,837**	2,602,863	2,524,072
-Finance leases	**9,879**	10,500	11,072
Conventional long-term debt	**9,206,466**	14,808,924	16,332,528
- Murabaha	**9,099,275**	4,608,373	3,707,024
- SIDF	**708,931**	765,382	1,052,093
- Other non-conventional facilities	**5,073,885**	5,366,287	5,642,829
Non-conventional long-term debt	**14,882,091**	10,740,042	10,401,946
Term loans	**24,088,557**	25,548,966	26,734,474

36 Financial Risk Management Objectives and Policies

The Company's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include trade and other receivables, and cash and bank balances that derive directly from its operations. The Company's management reviews and agrees policies for managing each of these risks which are summarized below.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives. The Company does not engage into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk and currency risk. Financial instruments affected by market risk include loans.

36 Financial Risk Management Objectives and Policies (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The following table demonstrates the sensitivity of statements of comprehensive income to reasonable possible changes in interest rates, with all other variable held constant.

	" Increase/ Decrease in basis points "	**Effect on income before zakat**
		SR '000
2017		
Total SAR denominated floating rate loan	**+50**	**41,270**
Total USD denominated floating rate loan	**+50**	**80,679**
		121,949
Total SAR denominated floating rate loan	**-50**	**(41,270)**
Total USD denominated floating rate loan	**-50**	**(80,679)**
		(121,949)
2016		
Total SAR denominated floating rate loan	+50	60,000
Total USD denominated floating rate loan	+50	69,492
		129,492
Total SAR denominated floating rate loan	-50	(60,000)
Total USD denominated floating rate loan	-50	(69,492)
		(129,492)

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Company entities, primarily the Euro (EUR), but also US Dollars (USD). The currencies in which these transactions are primarily denominated are EUR, USD, British Pounds and Japanese Yen.

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the fluctuations of the USD towards the EUR. Foreign currency risk mainly arises from commercial transactions. The Company's policy requires to conduct a regular review of currency exposures.

36 Financial Risk Management Objectives and Policies (continued)

Currency risk (continued)

Interest on borrowings is denominated in the currency of the borrowing.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The following table demonstrates the sensitivity of the Company to a reasonably possible change in the Saudi Riyals - EUR exchange rate, with all other variables held constant, of the Company's monetary assets and liabilities:

	Gain (loss) through statement of income and other comprehensive income for the year ended December 31
	EURO +/- 10 % **SR'000**
2017	**3,036**
2016	406
2015	5,442

Exposure to foreign currency risk at the end of the reporting year, expressed in SAR '000, was as follows:

31 December 2017

	USD	EUR	GBP	JPY	SAR	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Cash and bank	**1,816,167**	**-**	**-**	**-**	**37,832**	**1,853,999**
Short term deposits	**150,000**	**-**	**-**	**-**	**510,000**	**660,000**
Trade receivables	**2,544,561**	**-**	**-**	**-**	**12,283**	**2,556,844**
Advances and other receivable from related parties	**585**	**-**	**-**	**-**	**339,584**	**340,169**
Other financial assets	**-**	**-**	**-**	**-**	**3,163**	**3,163**
Term loan	**(16,083,954)**	**-**	**-**	**-**	**(5,328,766)**	**(21,412,720)**
Subordinated loan from a shareholder	**-**	**-**	**-**	**-**	**(2,675,837)**	**(2,675,837)**
Trade Payables	**(35,600)**	**(30,060)**	**(35)**	**(575)**	**(537,938)**	**(604,208)**
Other financial liabilities	**(98,296)**	**(304)**	**-**	**-**	**(176,755)**	**(275,355)**
Total net monetary exposure	**(11,706,537)**	**(30,364)**	**(35)**	**(575)**	**(7,816,434)**	**(19,553,945)**

36 Financial Risk Management Objectives and Policies (continued)

Currency risk (continued)

31 December 2016

	USD	EUR	GBP	JPY	SAR	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Cash and bank	1,115,275	-	-	-	51,726	1,167,001
Short term deposits	-	-	-	-	220,000	220,000
Trade receivables	2,544,901	-	-	-	12,202	2,557,103
Advances and other receivable from related parties	-	-	-	-	560,419	560,419
Other financial assets	-	-	-	-	5,095	5,095
Term loan	(13,064,199)	-	-	-	(9,881,904)	(22,946,103)
Subordinated loan from a shareholder					(2,602,863)	(2,602,863)
Trade Payables	(312,313)	(4,056)	(80)	(1,902)	(360,988)	(679,339)
Other financial liabilities	(60,741)	-	-	-	(116,943)	(177,684)
Total net monetary exposure	(9,777,077)	(4,056)	(80)	(1,902)	(12,113,256)	(21,896,371)

1 January 2016

	USD	EUR	GBP	JPY	SAR	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Cash and bank	1,560,278				51,198	1,611,476
Short term deposits	-	-	-	-	95,000	95,000
Trade receivables	2,045,867				15,315	2,061,182
Advances and other receivable from related parties	-	-	-	-	466,820	466,820
Other financial assets	-	-	-	-	196	196
Term loan	(14,943,913)	-	-	-	(9,266,489)	(24,210,402)
Subordinated loan from a shareholder	-	-	-	-	(2,524,072)	(2,524,072)
Trade Payables	(479,272)	(6,223)	(123)	(2,919)	(553,968)	(1,042,505)
Other financial liabilities	(47,348)	(48,195)	-	-	(134,817)	(230,360)
Total net monetary exposure	(11,864,388)	(54,418)	(123)	(2,919)	(11,850,817)	(23,772,665)

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company is not significantly exposed to credit risk. Cash and cash equivalents are generally placed with banks with sound credit ratings and, in general, most of the Company's sales are made to SABIC, which is a shareholder and has strong market reputation**.**

36 Financial Risk Management Objectives and Policies (continued)

Credit risk (continued)

31 December 2017

External Rating	**A**	**A-**	**BBB+**	**Other**	**Carrying value in the statement of financial position**
	SR '000	**SR '000**	**SR '000**	**SR '000**	**SR '000**
Cash at banks	**1,816,148**	**23,455**	**14,396**	**-**	**1,853,999**
Short term deposits	**-**	**150,000**	**510,000**	**-**	**660,000**
Trade receivables	**-**	**-**	**-**	**2,556,844**	**2,556,844**
Advances and other receivable from related parties	**-**	**-**	**-**	**340,169**	**340,169**
Other financial assets	**-**	**-**	**-**	**3,163**	**3,163**
Total	**1,816,148**	**173,455**	**524,396**	**2,900,176**	**5,414,175**

31 December 2016

External Rating	**A**	**A-**	**BBB+**	**Other**	**Carrying value in the statement of financial position**
	SR'000	SR'000	SR'000	SR'000	SR'000
Cash at banks	1,114,977	39,824	12,200	-	1,167,001
Short term deposits	-	-	220,000	-	220,000
Trade receivables	-	-	-	2,557,103	2,557,103
Advances and other receivable from related parties	-	-	-	560,419	560,419
Other financial assets	-	-	-	5,095	5,095
Total	1,114,977	39,824	232,200	3,122,617	4,509,618

1 January 2016

External Rating	**A**	**A-**	**BBB+**	**Other**	**Carrying value in the statement of financial position**
	SR'000	SR'000	SR'000	SR'000	SR'000
Cash at banks	1,560,278	40,998	10,200	-	1,611,476
Short term deposits	-	-	95,000	-	95,000
Trade receivables	-	-	-	2,061,182	2,061,182
Advances and other receivable from related parties	-	-	-	466,820	466,820
Other financial assets	-	-	-	196	196
Total	1,560,278	40,998	105,200	2,528,198	4,234,674

36 Financial Risk Management Objectives and Policies (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages its liquidity risk by ensuring that sufficient cash flows are available. The Company's sales invoices are usually settled within 30 to 90 days of the date of the invoices. Payables are normally settled within 30 to 60 days of the date of the invoices.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at 31 December 2017, 31 December 2016 and 1 January 2016, based on contractual payment dates and current market interest rates.

31 December 2017

	Within 1 year	1 to 5 years	> 5 years	Total
	SR '000	SR '000	SR '000	SR '000
Trade payable	**604,208**	**-**	**-**	**604,208**
Other financial liabilities	**275,355**	**-**	**-**	**275,355**
Term loans	**1,616,413**	**14,775,183**	**5,137,531**	**21,529,127**
Subordinated loans from a shareholder	**-**	**1,337,500**	**1,537,500**	**2,875,000**
	2,495,976	**16,112,683**	**6,675,031**	**25,283,690**

31 December 2016

	Within 1 year	1 to 5 years	> 5 years	Total
	SR '000	SR '000	SR '000	SR '000
Trade payable	679,339	-	-	679,339
Other financial liabilities	177,684	-	-	177,684
Term loans	1,784,026	12,652,047	8,603,150	23,039,223
Subordinated loans from a shareholder	-	2,875,000	-	2,875,000
	2,641,049	15,527,047	8,603,150	26,771,246

1 January 2016

	Within 1 year	1 to 5 years	> 5 years	Total
	SR '000	SR '000	SR '000	SR '000
Trade payable	1,042,505	-	-	1,042,505
Other financial liabilities	230,360	-	-	230,360
Term loans	2,195,943	10,813,747	11,325,476	24,335,166
Subordinated loans from a shareholder	-	2,875,000	-	2,875,000
	3,468,808	13,688,747	11,325,476	28,483,031

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 Company's performance to developments affecting a particular industry.

36 Financial Risk Management Objectives and Policies (continued)

Capital management

For the purpose of the Company's capital management, capital includes share capital and all other equity reserves attributable to the shareholders of the Company. The primary objective of the Company's capital management is to maximize the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

	31 December 2017	31 December 2016	1 January 2016
	SR '000	*SR '000*	*SR '000*
Total liabilities	**26,403,244**	27,779,193	29,363,964
Less: cash and cash equivalents	**(2,513,999)**	(1,387,001)	(1,706,476)
Net debt	**23,889,245**	26,392,192	27,657,488
Equity	**13,908,046**	13,251,345	13,086,791
Less: amount directly accumulated in equity relating to fair value adjustments	**(620,874)**	(620,874)	(620,874)
Adjusted equity	**13,287,172**	12,630,471	12,465,917
Capital and net debt	**37,176,417**	39,022,663	40,123,405
Gearing ratio	**64%**	68%	69%

37 Subsequent events

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2017 that would have a material impact on the financial position of the Company as reflected in these financial statements.