

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)

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

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(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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Independent auditor's report to the shareholders of Rabigh Refining and Petrochemical Company

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Company's financial statements comprise:

- the statement of profit or loss for the year ended December 31, 2017;
- the statement of comprehensive income for the year then ended;
- the statement of financial position as at December 31, 2017;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

Our audit approach

Overview

- | | |
|-------------------|---|
| Key Audit Matters | <ul style="list-style-type: none">• First time adoption of International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia; and• Tax and zakat related matters |
|-------------------|---|



Independent auditor's report to the shareholders of Rabigh Refining and Petrochemical Company (continued)

Our audit approach (continued)

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

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

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
<i>First time adoption of International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia</i>	
<p>For all periods up to and including the year ended December 31, 2016, the Company prepared its financial statements in accordance with generally accepted accounting principles as issued by SOCPA ("previous GAAP"). The Company prepared its first annual financial statements for the year ended December 31, 2017 in accordance with IFRS, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA. In preparing the financial statements, the Company's opening statement of financial position was prepared as of January 1, 2016, which is the Company's date of transition to IFRS.</p> <p>We considered the transition from previous GAAP to IFRS, that are endorsed in the Kingdom of Saudi Arabia, as a key audit matter due to its pervasive impact on the financial statements in terms of recognition, measurement and disclosure. Further, management assisted by its experts had to make significant assumptions and exercise judgment during the transition process.</p> <p>Refer to Note 2 for basis of preparation and adoption of IFRS, Note 3 for accounting policies adopted by the Company and Note 5 for the transition adjustments and other details in connection with the transition from previous GAAP to IFRS.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none">• Obtained an understanding of the transition differences identified by the management between the previous GAAP and IFRS, that are endorsed in the Kingdom of Saudi Arabia, and assessed its completeness and appropriateness;• Assessed the competence, objectivity and independence of the management's experts involved in the IFRS transition process;• Evaluated the key decisions made by the Company with respect to accounting policies, estimates and judgements in relation to transition to IFRS, that are endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Company's business and its operations;• Tested the adjustments made as part of the transition process based on the differences identified; and• Evaluated the adequacy and appropriateness of disclosures made in the financial statements in relation to transition to IFRS that are endorsed in the Kingdom of Saudi Arabia.



Independent auditor's report to the shareholders of Rabigh Refining and Petrochemical Company (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
<p>One of the areas of significant judgement in transition to IFRS was evaluation of classification of Company's lease arrangement with Rabigh Arabian Water and Electricity Company ("RAWEC") for providing power, steam and water through an Independent Water, Steam and Power Plant ("IWSPP"). The Company concluded that it does not retain significant risks and rewards of the asset under this arrangement. Accordingly, the lease has been classified as operating lease by the Company. Refer to Note 2.2 for critical accounting judgments and Note 14.2 for disclosure on operating leases.</p>	<ul style="list-style-type: none"> For lease arrangement, we reviewed the agreement to understand the underlying arrangement between the Company and RAWEC and evaluated the arrangement in light of whether in substance the risks and rewards of ownership of the asset have been transferred to the Company. We also evaluated the underlying arrangement in accordance with the guidelines for the assessment of classification of lease under the requirements of relevant IFRS and held discussions with management's expert.
<h3 style="color: #A52A2A;">Tax and zakat related matters</h3>	
<p>(a) <i>Change in tax status of the founding shareholder</i></p> <p>Pursuant to the Royal Order A/136 received during 2017, all the shares held by Saudi Arabian Oil Company (Saudi Aramco) (founding shareholder) in the Kingdom of Saudi Arabia's resident companies are subject to income tax instead of zakat with effect from January 1, 2017. Accordingly, income tax has been recognized for Saudi Aramco's owned interest in the Company for the first time.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> Obtained income tax calculation relating to Saudi Aramco and evaluated reasonableness of such calculations in light of the Royal Order and tax regulations. Obtained deferred tax computation performed by management and evaluated the reasonableness of such computations. We also assessed the estimates and judgment involved in recoverability of the deferred tax asset balance outstanding at December 31, 2017 of Saudi Riyals 348.1 million.
<p>(b) <i>Recognition of deferred income tax</i></p> <p>The Company has recognized a deferred tax credit of Saudi Riyals 216.6 million in the statement of profit or loss for the year ended December 31, 2017 and maintains a net deferred tax asset balance amounting to Saudi Riyals 348.1 million as of that date. Refer to Note 25 and Note 26 to the financial statements for the related disclosures.</p>	



Independent auditor's report to the shareholders of Rabigh Refining and Petrochemical Company (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
<p>(c) <i>Zakat and income tax assessments</i></p> <p>The General Authority for Zakat and Tax ("GAZT") has issued assessments for the years 2011 up to 2016 by raising additional zakat and income tax demand of Saudi Riyals 1,306.2 million and Saudi Riyals 387.8 million, respectively. The Company has filed an objection with GAZT and, accordingly, no zakat or tax provision has been made. Any additional zakat and tax demand that arises on finalization of assessments is recoverable to the extent of Saudi Riyals 783.7 million and Saudi Riyals 377.7 million, respectively from the founding shareholders of the Company. Refer to Note 25 for further details.</p>	<ul style="list-style-type: none">• Analyzed the differences between the amounts reported by the Company in its zakat and income tax returns against the amounts assessed by GAZT and obtained understanding of the nature of such differences and the possibility of any potential outflow of the economic benefits. We held discussions with the Company's zakat and tax consultants about the nature of differences and their assessment of likelihood of any additional liability. We assessed the adequacy and appropriateness of the disclosure included in the financial statements.

We considered these tax and zakat related matters as key audit matters due to (i) change in the tax status of one of the founding shareholders in 2017; (ii) the consequential impact it contributed towards recognition of deferred tax asset and deferred tax credit as of December 31, 2017 and for the year then ended; and (iii) judgment involved in assessment of whether any provision needs to be recognized with respect to additional zakat and income tax demand raised by GAZT.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Company, but does not include the financial statements and our auditor's report thereon, which 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 will not express any form of assurance conclusion thereon.

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

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



Independent auditor's report to the shareholders of Rabigh Refining and Petrochemical 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 issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



Independent auditor's report to the shareholders of Rabigh Refining and Petrochemical 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.

PricewaterhouseCoopers

Ali A. Alotaibi
License Number 379

March 7, 2018



RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Statement of profit or loss
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	December 31,	
		2017	2016
Sales	6,27	34,211,010	25,146,130
Cost of sales	7,27	(31,514,986)	(24,038,699)
Gross profit		2,696,024	1,107,431
Selling and marketing expenses	8	(73,782)	(68,775)
General and administrative expenses	9	(969,289)	(916,090)
Other income, net	10	50,865	35,261
Operating profit		1,703,818	157,827
Financial charges	11	(445,974)	(393,852)
Financial income		257,797	311,147
Profit before zakat and income tax		1,515,641	75,122
Zakat	25	(29,687)	(31,452)
Income tax	5d,25	(62,977)	(8,888)
Net profit after zakat and income tax		1,422,977	34,782
Earnings per share (Saudi Riyals) - Basic and diluted	12	1.62	0.04

The accompanying notes 1 to 30 form an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Statement of comprehensive income
(All amounts in Saudi Riyals thousands unless otherwise stated)

		December 31,	
	Note	2017	2016
Net profit after zakat and income tax		1,422,977	34,782
Remeasurement loss on defined benefit plan	23	(18,040)	(56,728)
Income tax effect	5d,25	2,706	4,255
Other comprehensive loss not to be reclassified to statement of profit or loss in subsequent periods		(15,334)	(52,473)
Total comprehensive income (loss)		1,407,643	(17,691)

The accompanying notes 1 to 30 form an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Statement of financial position
(All amounts in Saudi Riyals thousands unless otherwise stated)

		December 31,		January 1,
	Note	2017	2016	2016
Assets				
Non-current assets				
Property, plant and equipment	13	43,971,487	43,503,259	40,649,172
Leased assets	14	417,360	445,182	473,005
Intangible assets	15	123,513	135,618	153,587
Long-term loans	16	4,051,329	4,421,900	4,278,661
Investment	16	16,412	16,412	16,412
Deferred tax asset	26	348,092	128,729	97,743
		48,928,193	48,651,100	45,668,580
Current assets				
Cash and cash equivalents	17	1,158,263	1,381,795	932,396
Time deposits	18	1,479,073	1,286,250	1,370,180
Trade receivables	16	5,741,361	3,696,687	823,894
Inventories	19	3,022,322	2,258,973	2,002,494
Current portion of long-term loans	16	404,248	392,581	328,271
Prepayments and other receivables	20	941,517	578,661	275,635
		12,746,784	9,594,947	5,732,870
Total assets		61,674,977	58,246,047	51,401,450
Equity and liabilities				
Equity				
Share capital	21	8,760,000	8,760,000	8,760,000
Statutory reserve	22	183,745	87,343	87,343
Employee share ownership plan	23	(7,098)	(8,207)	(10,979)
Retained earnings (accumulated deficit)		1,149,160	(443,620)	(480,038)
Total equity		10,085,807	8,395,516	8,356,326
Non-current liabilities				
Loans, borrowings and other long-term liability	16	36,812,511	37,674,856	34,425,507
Liabilities against finance leases	14	481,953	499,278	515,615
Employees' benefits	23	420,707	343,263	231,869
		37,715,171	38,517,397	35,172,991
Current liabilities				
Short-term borrowings	16	3,715,280	3,134,005	3,270,537
Current maturity of liabilities against finance leases	14	18,413	17,352	16,380
Trade and other payables	16	9,221,871	7,256,457	3,510,534
Accrued expenses and other liabilities	24	610,393	858,249	1,057,193
Zakat and income tax payable	26	308,042	67,071	17,489
		13,873,999	11,333,134	7,872,133
Total liabilities		51,589,170	49,850,531	43,045,124
Total equity and liabilities		61,674,977	58,246,047	51,401,450
Commitments	28			

The accompanying notes 1 to 30 form an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Statement of changes in equity
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Employee share ownership plan	Retained earnings (accumulated deficit)	Total
January 1, 2017	5.2	8,760,000	87,343	(8,207)	(443,620)	8,395,516
Net profit after zakat and income tax		-	-	-	1,422,977	1,422,977
Other comprehensive loss		-	-	-	(15,334)	(15,334)
Total comprehensive income		-	-	-	1,407,643	1,407,643
Transfer to statutory reserve		-	96,402	-	(96,402)	-
Vesting of shares under employee share ownership plan		-	-	1,109	-	1,109
Zakat and income tax reimbursements		-	-	-	281,539	281,539
December 31, 2017		8,760,000	183,745	(7,098)	1,149,160	10,085,807
January 1, 2016	5.1	8,760,000	87,343	(10,979)	(480,038)	8,356,326
Net profit after zakat and income tax	5.3	-	-	-	34,782	34,782
Other comprehensive loss	5.4	-	-	-	(52,473)	(52,473)
Total comprehensive loss		-	-	-	(17,691)	(17,691)
Vesting of shares under employee share ownership plan		-	-	2,772	-	2,772
Zakat and income tax reimbursements		-	-	-	54,109	54,109
December 31, 2016	5.2	8,760,000	87,343	(8,207)	(443,620)	8,395,516

The accompanying notes 1 to 30 form an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Statement of cash flow
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2017	2016
Cash flows from operating activities			
Profit before zakat and income tax		1,515,641	75,122
<u>Adjustments for non-cash items</u>			
Depreciation	13,14	2,427,863	2,401,289
Financial charges		445,974	393,852
Financial income		(257,797)	(311,147)
Amortization	15	13,156	18,611
Provision for slow moving inventories	19	10,078	8,274
Loss on disposal of property and equipment	10	1,267	4,089
Provision for deferred employee service	23	-	254
		4,156,182	2,590,344
<u>Changes in working capital</u>			
Trade receivables		(2,044,674)	(2,872,793)
Inventories		(773,427)	(264,753)
Prepayments and other receivables		(75,659)	(248,066)
Trade and other payables		2,371,359	4,064,099
Accrued expenses and other liabilities		(515,476)	(821,947)
Employees benefits		60,513	57,184
Zakat and income tax paid		(68,350)	(17,489)
Interest received		238,719	258,723
Interest paid		(256,276)	(223,862)
Net cash generated from operating activities		3,092,911	2,521,440
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(2,601,915)	(4,608,630)
Addition to intangible assets	15	(1,051)	(642)
Long-term loan disbursements	16	(49,303)	(478,746)
Net movement in time deposits	18	(192,823)	83,930
Net cash utilized in investing activities		(2,845,092)	(5,004,088)
Cash flows from financing activities			
Proceeds from loans and borrowings	16	10,500,000	8,879,084
Repayments of loans and borrowings	16	(10,924,425)	(5,900,069)
Repayment of finance leases	14	(46,925)	(46,959)
Dividend payments		(1)	(9)
Net cash (utilized in) generated from financing activities		(471,351)	2,932,047
Net change in cash and cash equivalents		(223,532)	449,399
Cash and cash equivalents at beginning of the year	17	1,381,795	932,396
Cash and cash equivalents at end of the year	17	1,158,263	1,381,795
Supplemental schedule of non-cash information			
Zakat and income tax reimbursable from shareholders		281,539	54,109
Addition to property, plant and equipment through accrued expenses and other liabilities		267,621	623,012
Long-term loan repayments settled against capacity payments	16.1.1	392,525	266,603

The accompanying notes 1 to 30 form an integral part of these financial statements.

RABIGH REFINING AND PETROCHEMICAL COMPANY

(A Saudi Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2017

(All amounts in Saudi Riyals thousands unless otherwise stated)

1 General information

Rabigh Refining and Petrochemical Company ("the Company" or "PetroRabigh") is a company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4602002161 issued by the Ministry of Commerce, Jeddah, on Shaaban 15, 1426H (September 19, 2005) subsequently revised by the Ministry of Commerce and Investment, Riyadh on Shawal 22, 1428H (November 3, 2007).

The Company is engaged in the development, construction and operation of an integrated refining and petrochemical complex, including the manufacturing and sales of refined and petrochemical products.

The Company's registered address is P.O. Box 101, Rabigh 21911, Kingdom of Saudi Arabia.

During the three-month period ended March 31, 2015, the Company acquired the Expansion Project of its existing integrated petroleum refining and petrochemical complex ("Phase II Expansion Project") from Saudi Arabian Oil Company and Sumitomo Chemical Company (Founding shareholders of the Company), upon completion of the formalities underlying the novation of relevant contracts and fulfillment of precedent conditions. The aggregate cost of the Phase II Expansion Project is currently estimated at Saudi Riyals 34 billion, the completion of which is estimated to be during the second half of 2018. Also see Note 13.

2 Basis of preparation and adoption of International Financial Reporting Standards (IFRS)

These financial statements of the Company have been prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA) in the Kingdom of Saudi Arabia. Also see Note 5.

For all periods up to and including the year ended December 31, 2016, the Company prepared its financial statements in accordance with generally accepted accounting principles as issued by SOCPA ("previous GAAP"). These financial statements for the year ended December 31, 2017 are the first general purpose financial statements prepared by the Company in accordance with IFRS as endorsed by SOCPA in the Kingdom of Saudi Arabia and other standards and pronouncement issued by SOCPA.

These financial statements have been prepared on a historical cost basis except for investment which is measured at fair value through statement of profit or loss. These financial statements are presented in Saudi Arabian Riyals (Saudi Riyals).

2.1 New standards, interpretations and amendments adopted

Since the Company has adopted IFRS, as endorsed by SOCPA in the Kingdom of Saudi Arabia, all amendments/interpretations as applicable to the Company are considered until the date of adoption.

(a) Standards, interpretations and amendments earlier adopted

IFRS 9 – Financial Instruments

IFRS 9 is effective for annual periods commencing on or after January 1, 2018. The Company has elected to early adopt IFRS 9.

Financial assets

As per IFRS 9, the Company classifies its financial assets, initially measured at fair value and subsequently at amortized cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI) depending on the Company's business model for managing these financial assets and their contractual cash flow characteristics.

A financial asset is measured at amortized cost only if both of the following conditions are met:

- It is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

A new asset category financial asset measured at FVOCI was introduced by IFRS 9. A financial asset is classified as FVOCI if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and selling financial asset.

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

Financial liabilities

As per IFRS 9, the Company has classified its financial liabilities as those measured at amortized cost.

Impairment

The Company assesses on a forward looking basis the expected credit losses (ECL) as associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk since the initial recognition of the financial asset.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

(b) Standards, interpretations and amendments issued but not yet effective

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

Standard / Interpretation	Description	Effective from periods beginning on or after the following date
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 2	Classification and measurement of share-based payment transactions – Amendments to IFRS 2	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019
IFRS 17	Insurance contracts	January 1, 2021

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Company plans to adopt IFRS 15 on the required effective date using the modified retrospective method. The Company has performed impact assessment of IFRS 15 and has identified the following implications on the Company's financial statements.

The Company is currently recognising revenue net of certain selling & marketing expenses, which are incurred and separately invoiced, by the marketers (customers). The Company records revenue net of said expenses in its books of accounts. As per IFRS 15, an entity shall account for consideration payable to a customer as a reduction of the transaction price unless both the following conditions are met:

- the payment to the customer is in exchange for distinct goods or services that the customer transfers to the entity, and
- the fair value of said goods or services can be determined.

The Company has assessed that these selling & marketing expenses are in respect of distinct goods or services that the Company receives from customers and the fair value of said expenses can also be measured as these are separately invoiced to the Company supported by actual invoices. Accordingly, these expenses will be classified as selling & marketing expenses and not be deducted from revenue.

IFRS 15 further requires additional disclosure for which the Company has considered required changes in the financial systems and related procedures necessary to collect and disclose the required information.

Except for the effects of IFRS 15 disclosed above, the standards, amendments or interpretations with effective date of January 1, 2018 will not have any material impact on the Company's financial statements, whereas for other above mentioned standards, amendments or interpretations, the Company is currently assessing the implications on the Company's financial statements on adoption.

2.2 Critical accounting estimates and judgments

The preparation of Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Business model for managing financial assets

In making an assessment whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Company considers the following:

- Management's stated policies and objectives for the asset and the operation of those policies in practice;
- how management evaluates the performance of the asset;
- whether management's strategy focuses on earning contractual income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Generally, a business model is a matter of fact which can be evidenced by the way the business is managed and the information provided to management.

Contractual cash flows of financial assets

The Company exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest income on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment, the Company considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets that change the amount and timing of cash flows and whether the contractual terms contain leverage.

Defined benefit plan

The cost of post-employment defined benefits are the present value of the related obligation, as determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates, etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. With respect to determining the appropriate discount rate, yield and duration of high quality bonds obligation, as designated by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

Useful lives of property, plant and equipment

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

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Lease classification

Management exercises judgments in assessing whether the lease is a finance lease or an operating lease. The judgment as to which category applies to a specific lease depends on management's assessment of whether in substance the risks and rewards of ownership of the asset have been transferred to the lessee. In the instances where management's estimates that the risks and rewards have been transferred, the lease is considered as finance lease, otherwise it is accounted for as an operating lease.

The Company has entered into a lease arrangement with Rabigh Arabian Water and Electricity Company ("RAWEC") for providing power, steam and water to the Company through an Independent Water, Steam and Power Plant ("IWSPP"). The Company has determined that the significant risk and rewards of the asset under this arrangement are retained by RAWEC and not by the Company and, accordingly, the lease has been classified as operating lease by the Company.

Provision for pre-novation withholding tax

The management determines withholding tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Due to the nature and complexity of the services and transactions involved as part of the novation of the contracts related to Phase II Expansion Project, the assessment of withholding tax thereon involves estimates and judgments. Management, with the assistance of its advisors, uses estimates and judgment based on the best available facts and circumstances and interpretations and determines the amount of provision.

Impairment of non-financial assets

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, 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 asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

3 Summary of significant accounting policies**(a) 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 realised or intended to sold or consumed in the normal operating cycle;
- It is held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the 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.

(b) 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.

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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 utilise 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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.
- 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 recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

(c) Revenue recognition*Contracts with customers*

Revenue is recognised to the extent that the Company has satisfied the performance obligations under contracts for sale of products with customers. The Company has contracts with customers (that also include marketers) in which supply of the refined products and petrochemicals is the only performance obligation. The Company recognized revenue at a point in time when control of the products is transferred to the customer, generally on delivery or shipment of products and in accordance with the offtake arrangements with the Company's customers.

Revenue from port services is recognized when services are rendered.

The Company assessed its revenue arrangements against specific criteria and determined that it is acting as principal in all of its revenue arrangements.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding taxes and duty and is recorded net of trade discounts and volume rebates.

Dividends

Dividends are recognised when:

- The Company's right to receive the payment is established, which is generally when shareholders approve the dividend;
- It is probable that the economic benefits associated with the dividend will flow to the entity; and
- The amount of the dividend can be measured reliably.

Interest income

Interest income is calculated using the effective interest (profit) rate method. The effective interest rate is the interest rate that exactly discounts the estimated stream of future cash payment or receipts over the expected life of the financial instrument or when appropriate over the shorter period.

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(d) Foreign currencies

The Company's financial statements are presented in Saudi Riyals which is also the functional currency of the Company. Transactions in foreign currencies are initially translated by the Company into Saudi Riyals using the exchange rate at the date of the transaction it first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated in the functional currency using the exchange rate ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary assets measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognized in statement of comprehensive income or statement of profit or loss are also recognized in statement of comprehensive income or statement profit or loss, respectively).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment loss, if any, except for capital projects-in-progress, which are stated at cost less impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition or construction of each asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognized in the statement of profit or loss when incurred.

Spare parts that are considered essential to ensure continuous plant operation whose useful lives are more than one year are capitalized and classified as plant, machinery and operating equipment.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Expenditures incurred on testing and inspections, which are carried normally every 4 years, are capitalized as part of the respective items of property, plant and equipment and amortized over the period of four years. All other repair and maintenance costs are recognized in the statement of profit or loss as incurred.

Pre-commissioning income is recognised net of related incidental costs and is included in capital projects-in-progress.

Depreciation is calculated on a straight-line basis to write off the cost of property, plant and equipment over their estimated useful lives which are as follows:

	Number of years
Buildings and infrastructure	8-25
Plant, machinery and operating equipment	2-23
Vehicle and related equipment	3-6
Furniture and IT equipment	3-14

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

(f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease.

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Finance lease

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the inception date 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 as finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the 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. Currently, depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Number of years
Community facilities	25
Marine terminal facilities	23
Desalination plant	17

Operating lease

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

(g) Intangible assets

Intangible assets, having no physical existence however separately identifiable and providing future economic benefits, are initially recognized at purchase price and directly attributable costs. Intangible assets are stated at cost less accumulated amortization and impairment loss, if any.

Software and licenses

Software and licenses procured for various business use and having finite useful lives are presented as intangible assets. Software and licenses are amortized on a straight-line basis over their estimated useful lives of 5 years and 12-22 years, respectively.

Amortization methods and useful lives are reviewed at each financial year end and adjusted if appropriate.

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

(h) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

(i) Financial instruments

The Company applied the following classification and measurement requirements for financial instruments.

Recognition and derecognition of financial instruments

A financial asset or financial liability is recognised when the Company becomes a party to the contractual provisions of the instrument, which is generally on trade date. The Company derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

A financial liability is derecognized from the statement of financial position when the Company has discharged its obligation or the contract is cancelled or expires.

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Classification of financial instruments

The Company classified its financial assets into the following measurement categories:

- (i) Those to be measured subsequently at amortised cost; or
- (ii) Fair value through profit or loss.

The classification depends on the Company's business model for managing financial assets and the contractual terms of the financial assets cash flows.

The Company classifies its financial liabilities as those measured at amortized cost.

Measurement

Financial instruments at fair value through profit or loss are recognised initially at fair value with transaction costs recognised in the statement of profit or loss as incurred. All other financial instruments are recognised initially at fair value plus directly attributable transaction costs. The Company initially measures the trade receivable at the transaction price as the trade receivable do not contain a significant financing component.

Financial instruments measured at amortized cost

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms represent contractual cash flows that are solely payments of principal and interest.

The Company classifies its financial liabilities as those measured at amortized cost.

Financial instruments measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss comprise items specifically designated as fair value through profit or loss on initial recognition and financial assets held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms represent contractual cash flows that are not solely payments of principal and interest. Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Upon initial recognition, financial instruments may be designated as fair value through profit or loss. Restrictions are placed on the use of the designated fair value option and the classification can only be used:

- In respect of an entire contract if a host contract contains one or more embedded derivatives;
- If designating the financial instruments eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.
- If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

On initial recognition, for a financial asset the fair value option is only applied if it eliminates an accounting mismatch that would otherwise arise from measuring items on a different basis. The above fair value option criteria remains unchanged for a financial liability.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Company has a legal right to offset the amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(j) Impairment

Financial assets

At each reporting date, the Company applies a three-stage approach to measuring expected credit losses (ECL) on financial assets accounted for at amortized cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

(i) Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized.

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognized.

(iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognized and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower, default or delinquency by a borrower, restructuring of a loan or advance by the entity on terms that the entity would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Company such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial instruments found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Impairment losses for a financial instrument are recognised in the statement of profit or loss and reflected in impairment for credit losses. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of profit or loss.

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the statement of profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the statement of profit or loss.

The Company has adopted the simplified approach as allowed by IFRS 9 and measures the loss allowance at an amount equal to lifetime expected credit losses for all trade receivables.

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 asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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External valuers are involved for valuation of significant assets. The involvement of external valuers is decided by the Company after discussion with the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Company also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations.

Impairment losses are recognized in the statement of profit or loss. An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or 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. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(k) Trade receivables

Trade receivables are amounts due from customers for sale of goods in the ordinary course of business. Trade receivables are recognized initially at fair value and subsequently carried at amortized cost using effective interest rate method, less provision for impairment, if any. Subsequent recoveries of amounts previously written-off are credited to profit or loss against general and administrative expenses.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is determined using the weighted average basis and includes all cost incurred in the normal course of business in bringing each product to its present condition and location. In the case of work in progress and finished goods, cost is the purchase cost, the cost of refining and processing including an appropriate proportion of depreciation and production overheads based on normal operating capacity.

The net realisable value of inventories is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date.

(n) Time deposits

Time deposits, with original maturity of more than three months but not more than one year from the purchase date, are initially recognized in the statement of financial position at fair value and are subsequently measured at amortized cost using the effective yield method, less any impairment in value.

(o) Zakat and income tax

Zakat and income tax are provided for in accordance with the Saudi Arabian fiscal regulations. Zakat and income taxes are charged to the statement of profit or loss. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. The zakat and income tax paid by the Company are reimbursed by the respective shareholders except for general public shareholders and are accordingly adjusted in their respective equity accounts.

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Deferred tax is calculated using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax relating to items recognised outside statement of profit or loss is recognised either in statement of comprehensive income or directly in equity.

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

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

(p) Employees' benefits*End of service benefits*

The Company operates an unfunded post-employment defined benefit plan. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses are recognized in full in the period in which they occur in statement of comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings. Re-measurements are not reclassified to statement of profit or loss in subsequent periods.

Past service costs are recognized in statement of profit or loss on the earlier of:

- the date of the plan amendment or curtailment; and
- the date on which the Company recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability. The Company recognizes the following changes in the net defined benefit obligation under cost of sales and general and administrative expenses in the statement of profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Net interest expense or income.

The defined benefit liability comprises the present value of the defined benefit obligation, less past service costs.

Employee savings program

The Company operates a thrift savings program (the "program") on behalf of its employees and the Company matches the employee contribution with an equal, or lesser, contribution towards the program that is commensurate with the employee's participation seniority in the program. Participation in the program by the regular employees who have completed their probationary period is optional and employee may choose the option to invest or not to invest in the program. The contributions from the Company are recognized as employee expenses and are charged to the statement of profit or loss. The Company has arranged with the local bank, being the custodian bank, to manage the program on behalf of the Company in accordance with Islamic Shari'ah Law.

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Employee Share Ownership Plan (ESOP)

The employee service cost of share options granted to employees under the Employee Share Ownership Plan (ESOP) is measured by reference to the fair value of the Company's shares on the date on which the options are granted. This cost is recognized as an employee expense, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of shares that will ultimately vest. The charge in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Shares purchased are kept with a bank acting as trustee for the ESOP and are carried at cost as a deduction from shareholders' equity until the options vest and the underlying shares are transferred to the employee. On the vesting date of an individual option, the difference between the employee service cost and the purchase cost of the shares is taken directly to retained earnings as an equity adjustment.

(q) Segment reporting

Operating segment

An operating segment is group of assets and operations:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(r) Provisions

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 the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

4 Agreements with founding shareholders

The Founding Shareholders of the Company are Saudi Arabian Oil Company ("Saudi Aramco") and Sumitomo Chemical Company Limited ("Sumitomo Chemical"), with each having 37.5% equity interest in the share capital of the Company. The Company has entered into various agreements with Founding Shareholders including, among others:

4.1 Crude oil feedstock supply agreement

On January 28, 2006, the Company entered into a Crude Oil Feedstock Supply Agreement (COSA) with Saudi Aramco for the supply to the Company of its crude oil feedstock requirements, up to a maximum supply of 400,000 bpd, solely for use in the integrated refining and petrochemical complex. The price at which Saudi Aramco sells the crude oil feedstock to the Company is based, amongst other variable market factors, on the international crude oil prices. The COSA is valid for 30 years commencing from October 1, 2008.

4.2 Refined products lifting and marketing agreement

On March 11, 2006, the Company signed a Refined Products Lifting & Marketing Agreement (RPLMA) with Saudi Aramco as sole "Marketer" of refined products from the Rabigh Refinery. The RPLMA is valid for 10 years from October 1, 2008, and is further extendable for another 5 years. Pursuant to this agreement, Saudi Aramco will lift and market globally, as "Marketer", the refined products from the integrated refining and petrochemical complex.

4.3 Petrochemical products lifting and marketing agreement

On March 11, 2006 as amended on April 1, 2014, the Company signed Petrochemical Products Lifting & Marketing Agreement (PPLMA) with founding shareholders as "Marketers" of petrochemical products from the integrated refining and petrochemical complex. The PPLMA is valid for 10 years from accumulated production date, and is further extendable for another 5 years. Pursuant to this agreement, Marketers will lift and market globally, as "Marketer", the petrochemical products from the integrated refining and petrochemical complex. An Assignment and Assumption Agreement dated February 23, 2009 assigns Sumitomo Chemical Asia PTE Limited as the "Marketer" on behalf of Sumitomo Chemical Company Limited.

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4.4 Credit facility agreement

On March 18, 2006, the Company entered into a Credit Facility Agreement (CFA) with both of its Founding Shareholders. Under the provisions of this agreement, the Founding Shareholders agreed to grant to the Company a loan facility up to a maximum aggregate amount of Saudi Riyals 6,206 million for the development, design and construction of the integrated refining and petrochemical complex.

4.5 Rabigh refinery complex lease agreement

The Company has entered into Rabigh Refinery Complex Lease Agreement with Saudi Aramco dated November 1, 2005 for the lease of approximately 11.8 million square meters for a period of 99 years, with effect from November 1, 2005, and may be renewed thereafter for consecutive additional periods as agreed. The Company shall pay to Saudi Aramco rent in an amount equal to Saudi Riyals 1 per square meter per annum starting from October 1, 2008. Also see Note 14.2.

4.6 Terminal lease agreement

The Company entered into a Terminal Lease Agreement with Saudi Aramco on March 2, 2006 in respect of the existing Rabigh Marine Terminal. Under this agreement, the Company has been granted exclusive rights by Saudi Aramco to use and operate the Rabigh Terminal Facilities and the Rabigh Terminal Site for a term of 30 years effective from October 1, 2008. Also see Notes 14.1 and 14.2.

4.7 Rabigh community agreement

The Company has entered into Rabigh community agreement with Saudi Aramco, effective October 1, 2014 for a term of 25 years, in respect of leases of land and infrastructure facilities at yearly lease rentals of Saudi Riyals 16.5 million and Saudi Riyals 18.2 million, respectively. Also see Notes 14.1 and 14.2.

4.8 Secondment agreements

The Company has entered into Secondment Agreements with each of its Founding Shareholders; with Saudi Aramco dated June 12, 2006, and with Sumitomo Chemical dated July 1, 2006. Each of these agreements has a continuous term to apply until the date on which a Founding Shareholder ceases to be a shareholder of the Company. These agreements cover the requirement of the Company from time to time for the secondment of certain personnel to assist in the conduct of business and operations.

4.9 Services agreements

The Company has entered into services agreements with founding shareholders and their affiliates covering various operational and logistics support services. These agreements cover the provision of various support services to and by the Company such as human resources, training and recruitment, legal, utilities, information technology, General Management, Technical Support and Pre-marketing Support. These agreements also cover the ongoing technical support needed for continuous operations and ongoing enhancements such as refining and petrochemical process know-how provided by Saudi Aramco and Sumitomo Chemical respectively and marketing technical services, engineering and safety best practices and training provided by both founding shareholders. The Company shall pay for these services at mutually prices specified in each agreement for the services to be provided.

5 First time adoption of IFRS

These are the first general purpose financial statements prepared by the Company in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA in the Kingdom of Saudi Arabia. For all periods up to and including the year ended December 31, 2016, the Company prepared its financial statements in accordance with generally accepted accounting principles as issued by SOCPA ("previous GAAP").

Accordingly, as per the requirements of IFRS 1, "First time adoption of International Financial Reporting Standards", the Company has prepared its financial statements as at and for the year ended December 31, 2017, December 31, 2016 and January 1, 2016, together with the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year ended December 31, 2016 as described in the summary of significant accounting policies (see Note 3). The Company's opening statement of financial position was prepared as at January 1, 2016, which is the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its previous GAAP financial statements, including the statement of financial position as at January 1, 2016 and the financial statements for the year ended December 31, 2016.

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5.1 Reconciliation of equity as at January 1, 2016 (date of transition to IFRS)

	Note	Previous GAAP	Remeasurement/ Reclassification	January 1, 2016
Assets				
Non-current assets				
Property, plant and equipment	e	40,535,527	113,645	40,649,172
Leased assets		473,005	-	473,005
Intangible assets	e	267,232	(113,645)	153,587
Long-term loans	a,b	4,348,874	(70,213)	4,278,661
Investment		16,412	-	16,412
Deferred tax asset	d	-	97,743	97,743
		45,641,050	27,530	45,668,580
Current assets				
Cash and cash equivalents		932,396	-	932,396
Time deposits		1,370,180	-	1,370,180
Trade receivables		823,894	-	823,894
Inventories		2,002,494	-	2,002,494
Current portion of long-term loans	a,b	295,400	32,871	328,271
Prepayments and other assets		275,635	-	275,635
		5,699,999	32,871	5,732,870
Total assets		51,341,049	60,401	51,401,450
Equity and liabilities				
Equity				
Share capital		8,760,000	-	8,760,000
Statutory reserve		87,343	-	87,343
Employees share ownership plan		(10,979)	-	(10,979)
Accumulated deficit		(484,966)	4,928	(480,038)
Total equity		8,351,398	4,928	8,356,326
Non-current liabilities				
Loans, borrowings and other long-term liability		34,425,507	-	34,425,507
Liabilities against finance leases		515,615	-	515,615
Employees' benefits	c	176,396	55,473	231,869
		35,117,518	55,473	35,172,991
Current liabilities				
Short-term borrowings		3,255,130	15,407	3,270,537
Current maturity of liabilities against finance leases		16,380	-	16,380
Trade and other payables		3,510,534	-	3,510,534
Accrued expenses and other liabilities		1,072,600	(15,407)	1,057,193
Zakat and income tax payable		17,489	-	17,489
		7,872,133	-	7,872,133
Total liabilities		42,989,651	55,473	43,045,124
Total equity and liabilities		51,341,049	60,401	51,401,450

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5.2 Reconciliation of equity as at December 31, 2016

	Note	Previous GAAP	Remeasurement/ Reclassification	December 31, 2016
Assets				
Non-current assets				
Property, plant and equipment	e	43,389,614	113,645	43,503,259
Leased assets		445,182	-	445,182
Intangible assets	e	249,263	(113,645)	135,618
Long-term loans	a,b	4,433,844	(11,944)	4,421,900
Investment		16,412	-	16,412
Deferred tax asset	d	-	128,729	128,729
		48,534,315	116,785	48,651,100
Current assets				
Cash and cash equivalents		1,381,795	-	1,381,795
Time deposits		1,286,250	-	1,286,250
Trade receivables		3,696,687	-	3,696,687
Inventories		2,258,973	-	2,258,973
Current portion of long-term loans	a,b	393,372	(791)	392,581
Prepayments and other receivables		578,661	-	578,661
		9,595,738	(791)	9,594,947
Total assets		58,130,053	115,994	58,246,047
Equity and liabilities				
Equity				
Share capital		8,760,000	-	8,760,000
Statutory reserve		87,343	-	87,343
Employees share ownership plan		(8,207)	-	(8,207)
Accumulated deficit		(461,263)	17,643	(443,620)
Total equity		8,377,873	17,643	8,395,516
Non-current liabilities				
Loans, borrowings and other long-term liability		37,674,856	-	37,674,856
Liabilities against finance leases		499,278	-	499,278
Employees' benefits	c	244,912	98,351	343,263
		38,419,046	98,351	38,517,397
Current liabilities				
Short-term borrowings		3,105,675	28,330	3,134,005
Current maturity of liabilities against finance leases		17,352	-	17,352
Trade and other payables		7,256,457	-	7,256,457
Accrued expenses and other liabilities		886,579	(28,330)	858,249
Zakat and income tax payable		67,071	-	67,071
		11,333,134	-	11,333,134
Total liabilities		49,752,180	98,351	49,850,531
Total equity and liabilities		58,130,053	115,994	58,246,047

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5.3 Reconciliation of statement of profit and loss for the year ended December 31, 2016

	Note	Previous GAAP	Remeasurement/ Reclassification	December 31, 2016
Sales		25,146,130	-	25,146,130
Cost of sales		(24,038,699)	-	(24,038,699)
Gross profit		1,107,431	-	1,107,431
Selling and marketing expenses		(68,775)	-	(68,775)
General and administrative expenses	c	(929,940)	13,850	(916,090)
Other income, net		35,261	-	35,261
Operating profit		143,977	13,850	157,827
Financial charges	a	(389,259)	(4,593)	(393,852)
Financial income	b	281,947	29,200	311,147
Profit before zakat and income tax		36,665	38,457	75,122
Zakat	d	-	(31,452)	(31,452)
Income tax	d	-	(8,888)	(8,888)
Net profit after zakat and income tax		36,665	(1,883)	34,782

5.4 Reconciliation of statement of comprehensive income for the year ended December 31, 2016

	Note	Previous GAAP	Remeasurement	December 31, 2016
Net profit after zakat and income tax		36,665	(1,883)	34,782
Remeasurement loss on defined benefit plan	c	-	(56,728)	(56,728)
Income tax effect	d	-	4,255	4,255
Other comprehensive loss not to be reclassified to statement of profit or loss in subsequent period		-	(52,473)	(52,473)
Total comprehensive income (loss)		36,665	(54,356)	(17,691)

a) Employees' home ownership loans

The Company has remeasured the outstanding amount of employees' home ownership loans using effective interest rate method. The Company's eligible employees are provided with interest free loans under an employee home ownership program. The Company had recognised these loans initially at gross outstanding values. The change of Saudi Riyals 24.6 million at the date of transition due to fair value is recognised in the opening retained earnings at the date of transition as financial charges.

In the subsequent periods presented, the Company has recognised unwinding of discounted value.

b) RAWEC loan

The Company has remeasured the outstanding amount of loan to RAWEC using effective interest rate method. The change of Saudi Riyals 12.7 million at the date of transition due to remeasurement is recognised in the opening retained earnings at the date of transition as financial charges.

In the subsequent periods presented, the Company has recognised unwinding of discounted value.

c) Employees' defined benefits obligation

Under SOCPA, the Company recognized costs related to its employees' defined benefits as current value of vested benefits to which the employee is entitled whereas under IFRS, such obligation is recognized on actuarial basis. The change of Saudi Riyals 55.5 million at the date of transition between the current provision and provision based on actuarial valuation is recognized in the opening retained earnings.

In the subsequent periods presented, current services and interest costs are recognized in the statement of profit or loss whereas actuarial gains / losses are recognized in the statement of comprehensive income.

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2017****(All amounts in Saudi Riyals thousands unless otherwise stated)****d) Zakat and income tax**

Under previous GAAP, Zakat and income tax was presented in the statement of changes in equity. Accordingly, no deferred tax was being accounted as there was no charge for Company in the statement of profit or loss. Due to transition from previous GAAP to IFRS, Zakat and income tax has been presented in statement of profit or loss including recognition of deferred tax asset amounting to Saudi Riyals 97.7 million at the date of transition.

For the year ended December 31, 2016, the Company recognised Zakat and income tax including deferred tax income (Saudi Riyals 26.7 million) in the statement of profit or loss and in the statement of comprehensive income (Saudi Riyals 4.2 million).

e) Property, plant and equipment and intangible assets

Certain items classified as intangible assets under previous GAAP have now been presented as part of property, plant and equipment.

f) Statement of cash flows

The transition from previous GAAP to IFRS did not have a material impact on the presentation of statement of cash flows.

6 Segment information**6.1 Operating segment**

The Company operates an integrated refinery and petrochemical complex. The primary format for segment reporting is based on operating segments and is determined on the basis of management's internal reporting structure. The Management Committee (collectively considered to be the Chief Operating Decision Maker) monitors the operating results of its operating segments for the purpose of making decisions about resource allocation and performance assessment. The Company's segment profit measure is operating profit (loss). The Company's operating segments comprise of refined products and petrochemicals. Information as of and for the year ended December 31, is summarized below:

2017	Refined products	Petrochemicals	Total	
Sales – external customers	26,237,144	7,973,866	34,211,010	
Depreciation and amortization	756,716	1,684,303	2,441,019	
Operating profit	175,272	1,528,546	1,703,818	
2016	Refined products	Petrochemicals	Total	
Sales – external customers	19,423,911	5,722,219	25,146,130	
Depreciation and amortization	750,169	1,669,731	2,419,900	
Operating profit	(643,736)	801,563	157,827	
2017	Refined products	Petrochemicals	Unallocated	Total
Total assets	21,387,814	36,979,692	3,307,471	61,674,977
Total liabilities	12,025,780	39,255,350	308,040	51,589,170
Capital expenditure	170,132	2,700,455	-	2,870,587
2016	Refined products	Petrochemicals	Unallocated	Total
Total assets	15,184,891	40,193,464	2,867,692	58,246,047
Total liabilities	12,738,442	35,920,020	1,192,069	49,850,531
Capital expenditure	224,503	5,007,782	-	5,232,285

The Company's revenue from external customers involve Saudi Riyals 33,213 million (December 31, 2016: Saudi Riyals 24,197 million) of revenue generated from 3 customers in the year ended December 31, 2017 (December 31, 2016: 3 customers).

Geographical information for the year ended December 31, is as follows:

RABIGH REFINING AND PETROCHEMICAL COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2017**

(All amounts in Saudi Riyals thousands unless otherwise stated)

2017	Middle East	Asia Pacific	Others	Total
Sales				
Refined products	26,237,144	-	-	26,237,144
Petrochemicals	3,482,105	4,418,641	73,120	7,973,866
Total	29,719,249	4,418,641	73,120	34,211,010

2016	Middle East	Asia Pacific	Others	Total
Sales				
Refined products	19,423,911	-	-	19,423,911
Petrochemicals	2,926,666	2,773,600	21,953	5,722,219
Total	22,350,577	2,773,600	21,953	25,146,130

Middle East market above, primarily includes Kingdom of Saudi Arabia whereas Asia Pacific primarily includes Singapore and China.

6.2 Adjustments

Cash and cash equivalents, time deposits, zakat and income tax including deferred tax and certain assets and liabilities are not allocated to operating segments as they are also managed on a Company basis.

Capital expenditure consists of additions to property, plant and equipment and intangible assets.

6.3 Reconciliation of profit

	2017	2016
Operating profit	1,703,818	157,827
Financial charges	(445,974)	(393,852)
Financial income	257,797	311,147
Profit before zakat and income tax	1,515,641	75,122
Zakat	(29,687)	(31,452)
Income tax	(62,977)	(8,888)
Net profit after zakat and income tax	1,422,977	34,782

7 Cost of sales

	Note	2017	2016
Raw materials, crude oil and spare parts consumed		27,802,370	20,223,745
Depreciation	13,14	2,321,622	2,293,533
Utilities consumed		1,070,948	688,056
Personnel costs		603,806	544,718
Repair and maintenance		331,971	374,621
Contracted services		60,859	81,824
Amortization	15	11,360	17,140
Insurance		32,802	33,909
Provision for slow moving spare parts and consumables		10,078	8,274
Lease rentals		19,418	16,272
Other overheads		23,179	21,360
		32,288,413	24,303,452
Increase in inventories		(773,427)	(264,753)
		31,514,986	24,038,699

8 Selling and marketing expenses

	2017	2016
Freight charges	69,342	63,608
Other	4,440	5,167
	73,782	68,775

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9 General and administrative expenses

	Note	2017	2016
Personnel costs		649,051	600,305
Depreciation	13,14	106,241	107,756
Repair and maintenance		56,990	83,673
Bad debts		46	-
IT, networking and data communication		53,218	52,918
Amortization	15	1,796	1,471
Travelling		17,722	20,803
Rent		11,637	24,185
Professional fees		15,689	3,135
Insurance		5,025	3,619
Stationery, telex and telephone		4,846	5,203
Other		47,028	13,022
		969,289	916,090

10 Other income, net

		2017	2016
Port services		46,827	42,017
Gain on sale of scrap sales		15,308	19,029
Dividend and miscellaneous income		1,043	1,243
Loss on disposal of property and equipment		(1,267)	(4,089)
Other expense	10.1	(11,046)	(22,939)
		50,865	35,261

10.1 Other expense, net for the year ended December 31, 2016 amounting to Saudi Riyals 22.9 million includes pre-novation withholding tax related to the Phase II Expansion Project amounting to approximately Saudi Riyals 21.7 million.

11 Financial charges

	Note	2017	2016
Interest on loans and borrowings	16	392,776	357,138
Interest on finance leases	14	30,662	31,594
Other		22,536	5,120
		445,974	393,852

12 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	2017	2016
Profit for the year for basic and dilutive earnings per share	1,422,977	34,782
Weighted average number of shares outstanding during the year (thousands)	876,000	876,000
Adjustment for the effect of dilution in weighted average number of shares outstanding during the year due to ESOP (thousands)	336	389
Basic and diluted earnings per share (Saudi Riyals)	1.62	0.04

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13 Property, plant and equipment

	Buildings and infrastructure	Plant, machinery and operating equipment	Vehicles and related equipment	Furniture and IT equipment	Capital projects in progress	Total
Cost						
January 1, 2016	4,717,113	31,867,307	90,272	320,455	16,984,968	53,980,115
Additions	-	106,701	-	-	5,124,941	5,231,642
Transfers	24,589	348,309	400	3,634	(376,932)	-
Disposals	-	(5,993)	-	-	-	(5,993)
December 31, 2016	4,741,702	32,316,324	90,672	324,089	21,732,977	59,205,764
Additions	-	180,978	-	-	2,688,558	2,869,536
Transfers	1,473	226,630	65	10,007	(238,175)	-
Disposals	-	(5,158)	(870)	-	-	(6,028)
December 31, 2017	4,743,175	32,718,774	89,867	334,096	24,183,360	62,069,272
Accumulated depreciation						
January 1, 2016	1,778,471	11,297,966	67,843	186,663	-	13,330,943
Charge for the year	243,919	2,103,308	5,065	21,174	-	2,373,466
Released on disposals	-	(1,904)	-	-	-	(1,904)
December 31, 2016	2,022,390	13,399,370	72,908	207,837	-	15,702,505
Charge for the year	241,503	2,132,887	4,871	20,780	-	2,400,041
Released on disposals	-	(3,891)	(870)	-	-	(4,761)
December 31, 2017	2,263,893	15,528,366	76,909	228,617	-	18,097,785
Carrying Value:						
At December 31, 2017	2,479,282	17,190,408	12,958	105,479	24,183,360	43,971,487
At December 31, 2016	2,719,312	18,916,954	17,764	116,252	21,732,977	43,503,259
At January 1, 2016	2,938,642	20,569,341	22,429	133,792	16,984,968	40,649,172

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13.1 Depreciation for the year has been allocated as follows:

	Note	2017	2016
Cost of sales	7	2,315,385	2,287,296
General and administrative expenses	9	84,656	86,170
		2,400,041	2,373,466

13.2 The Company has leased land for the refining and petrochemical facilities from Saudi Arabian Oil Company for a period of 99 years. Also see Note 4.5.

13.3 Capital projects-in-progress

The capital projects-in-progress at December 31, 2017 mainly represents cost relating to the acquisition and ongoing construction of Phase II Expansion Project (also see Note 1). As part of Phase II Expansion Project, identifiable assets acquired and liabilities assumed by the Company as of the date of novation were as follows:

Cost of work executed	12,451,311
Intangible assets	118,798
Advances to suppliers	151,508
Retentions	(533,070)
Trade and other payables	(8,832,288)
Accrued liabilities	(3,378,016)

The Company has secured various financing facilities amounting to Saudi Riyals 30,630 million from various commercial banks and financial institutions in order to finance the Phase II Expansion Project (also see Note 16). The Company had also acquired administrative expenses amounting to Saudi Riyals 21,757 thousands from founding shareholders.

13.4 Capitalization of borrowing costs

During the year ended December 31, 2017, the Company has capitalized borrowing costs amounting to Saudi Riyals 656 million (2016: Saudi Riyals 427 million) in capital projects-in-progress relating to the construction of the Phase II Expansion Project.

13.5 Pre-commissioning income

During the year ended December 31, 2017, pre-commissioning income related to Phase II Expansion Project amounting to Saudi Riyals 776.9 million (2016: Saudi Riyals 192.6 million) is included in Capital projects-in-progress.

14 Leases

14.1 Finance leases

14.1.1 Lease assets acquired under finance lease, at December 31, are detailed as under:

	Community facilities	Marine terminal facilities	Desalination plant	Total
Cost				
December 31, 2017, 2016 and January 1, 2016	225,715	288,820	106,015	620,550
Accumulated depreciation				
January 1, 2016	11,286	91,040	45,219	147,545
Charge for the year	9,029	12,557	6,237	27,823
December 31, 2016	20,315	103,597	51,456	175,368
Charge for the year	9,029	12,557	6,236	27,822
December 31, 2017	29,344	116,154	57,692	203,190
Carrying value				
At December 31, 2017	196,371	172,666	48,323	417,360
At December 31, 2016	205,400	185,223	54,559	445,182
At January 1, 2016	214,429	197,780	60,796	473,005

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14.1.2 Finance lease obligations at December 31 are as follows:

	2017		2016		January 1, 2016
	Future minimum lease payments	Interest	Present value of minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
Community facilities	381,431	185,286	196,145	200,208	204,005
Marine terminal facilities	396,804	153,431	243,373	249,490	255,280
Desalination plant	75,278	14,430	60,848	66,932	72,710
	853,513	353,147	500,366	516,630	531,995

At December 31, the finance lease obligations are presented in the statement of financial position as follows:

	2017	2016	January 1, 2016
Current portion	18,413	17,352	16,380
Non-current portion	481,953	499,278	515,615
	500,366	516,630	531,995

14.1.3 The future minimum lease payments together with the present value of minimum lease payments as of December 31 are as follows:

	2017		2016		January 1, 2016	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	46,997	18,413	46,997	17,352	47,024	16,380
Two to five years	188,016	78,964	188,016	74,463	188,016	70,220
More than five years	618,500	402,989	665,499	424,815	712,496	445,395
Total minimum lease payments	853,513	500,366	900,512	516,630	947,536	531,995
Less: finance charges	(353,147)	-	(383,882)	-	(415,541)	-
Present value of minimum lease payments	500,366	500,366	516,630	516,630	531,995	531,995

14.1.4 Community facilities were acquired under a finance lease agreement from Saudi Aramco over a period of 25 years (Also see Note 4.7). The undiscounted minimum lease payments are Saudi Riyals 381.4 million (2016: Saudi Riyals 399.6 million; January 1, 2016: Saudi Riyals 417.8 million).

14.1.5 Marine terminal facilities were acquired under a finance lease agreement from Saudi Aramco over a period of 30 years (Also see Note 4.6). The undiscounted minimum lease payments are Saudi Riyals 396.8 million (2016: Saudi Riyals 415.9 million; January 1, 2016: Saudi Riyals 435.1 million).

14.1.6 On October 1 2008, the Company has taken over the interest and obligations of Saudi Aramco in respect of the Desalination plant for the Refinery Complex, with a remaining term of 17 years. The aggregate present value of this leased asset was estimated to be Saudi Riyals 106 million which has also been capitalized as leased assets cost. The undiscounted minimum lease payments are Saudi Riyals 75.3 million (2016: Saudi Riyals 85 million; January 1, 2016: Saudi Riyals 94.7 million).

14.1.7 Depreciation for the year has been allocated as follows:

	Note	2017	2016
Cost of sales	7	6,237	6,237
General and administrative expenses	9	21,585	21,586
		27,822	27,823

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14.2 Operating leases

14.2.1 The Company has entered into operating leases for land, water and energy conversion plant and site facilities, with options to renew the leases on expiry of relevant lease periods. Operating lease rental charged to the statement of profit or loss for the year ended December 31, 2017 amounts to Saudi Riyals 548.9 million (2016: Saudi Riyals 527.2 million).

14.2.2 Commitments for minimum lease payments in relation to non-cancellable operating leases as at December 31 are as follows:

	2017	2016	January 1, 2016
Within one year	543,988	654,294	569,061
Two to five years	2,108,106	2,132,190	2,159,659
More than five years	6,962,499	7,567,304	8,279,034
	9,614,593	10,353,788	11,007,754

15 Intangible assets

	Softwares	Licenses	Other	Total
Cost				
January 1, 2016	230,512	209,114	5,154	444,780
Additions	642	-	-	642
December 31, 2016	231,154	209,114	5,154	445,422
Additions	1,051	-	-	1,051
December 31, 2017	232,205	209,114	5,154	446,473
Amortization				
January 1, 2016	217,645	73,548	-	291,193
Amortization for the year	7,812	10,799	-	18,611
December 31, 2016	225,457	84,347	-	309,804
Amortization for the year	2,358	10,798	-	13,156
December 31, 2017	227,815	95,145	-	322,960
Carrying value:				
December 31, 2017	4,390	113,969	5,154	123,513
December 31, 2016	5,697	124,767	5,154	135,618
January 1, 2016	12,867	135,566	5,154	153,587

Amortization for the year has been allocated as follows:

	Note	2017	2016
Cost of sales	7	11,360	17,140
General and administrative expenses	9	1,796	1,471
		13,156	18,611

16 Financial assets and financial liabilities

16.1 Financial assets measured at amortized cost

Long-term loans:	Note	2017	2016	January 1, 2016
Loan to RAWEC	16.1.1	4,254,940	4,647,466	4,461,819
Loans to employees	16.1.2	200,637	167,015	145,113
Long-term loans		4,455,577	4,814,481	4,606,932
Less: current portion of long-term loans		(404,248)	(392,581)	(328,271)
Non-current portion of long-term loans		4,051,329	4,421,900	4,278,661
Trade receivables	16.1.3	5,741,361	3,696,687	823,894

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16.1.1 The Company has entered into various agreements namely WECA, Facility Agreement and RAWEC Shareholders' Agreement (the "Agreements"), dated August 7, 2005 as amended on October 31, 2011, with RAWEC and other developers, to develop a plant, on build, own and operate basis, to supply desalinated water, steam and power to the Company. Pursuant to these agreements, the Company provided a loan to RAWEC amounting to Saudi Riyals 3.9 billion carrying interest rate of 5.76% per annum. The loan is being settled in monthly repayments, which commenced from June 30, 2008 and will run upto November 30, 2023.

During the year ended December 31, 2015, pursuant to Amended and Restated Agreement, dated March 28, 2006 as amended subsequently on March 9, 2015, the Company will provide RAWEC a portion of project finance, in the total amount of Saudi Riyals 3.3 billion carrying interest rate of 5.7% per annum to expand the existing independent water, steam and power facilities to meet the requirements of Phase II Expansion Project. The loan is being settled in monthly repayments, which commenced from July 31, 2016 and will run upto June 30, 2031. These loans are secured by the assets of RAWEC.

The loan is settled by offsetting against monthly utilities payments to RAWEC. During the year ended December 31, 2017, loan amounting to Saudi Riyals 373.1 million (2016: Saudi Riyals 295.8 million, January 1, 2016: Saudi Riyals 207.5 million) have been offset against monthly utility payments to RAWEC amounting to Saudi Riyals 1,117.3 million (2016: Saudi Riyals 875.6 million, January 1, 2016: Saudi Riyals 617.4 million).

16.1.2 The Company's eligible employees are provided with loans under an employees' home ownership program. The cost of the land is advanced to employees free of interest cost provided the employee serves the Company for a minimum period of four years while the construction cost of the house is amortized and repayable free of interest to the Company to the extent of 90% over a period of seventeen years. The remaining 10% is amortized over the term of the loan (seventeen years). These loans are secured by mortgages on the related housing units. Ownership of the housing unit is transferred to the employee upon full payment of the loan.

16.1.3 Trade receivables of the Company are as follows:

	Note	2017	2016	January 1, 2016
Trade		259,394	82,136	87,537
Less: provision for doubtful debts		(28,410)	(28,410)	(28,410)
		230,984	53,726	59,127
Related parties	27	5,510,377	3,642,961	764,767
		5,741,361	3,696,687	823,894

Following is the ageing matrix used by the Company for analysis of trade receivables:

	Total	Neither past due nor impaired	Past due but not impaired					More than 24 months impaired
			Less than 6 months	6 to 12 months	12 to 18 months	18 to 24 months	More than 24 months	
Balance	5,769,771	5,733,441	(1,707)	84	(316)	963	8,896	28,410
Less: doubtful debts provision	(28,410)	-	-	-	-	-	-	(28,410)
December 31, 2017	5,741,361	5,733,441	(1,707)	84	(316)	963	8,896	-
December 31, 2016	3,696,687	3,654,481	31,649	717	6,967	978	1,895	-
January 1, 2016	823,894	795,534	26,725	1,328	-	-	307	-

Financial assets also include cash and cash equivalents (Note 17), time deposits (Note 18) and other receivables (Note 20) that are measured at amortized cost. Further, substantially all of the trade receivables are measured at amortised cost.

16.2 Financial assets measured at fair value through profit and loss

	Note	2017	2016	January 1, 2016
Investment				
Opening balance	16.2.1	16,412	16,412	8,556
Additions	16.2.2	-	-	7,856
Closing balance		16,412	16,412	16,412

The above valuation is carried at Level 3 fair valuation as the management has determined that carrying value of the investment approximates the fair value.

16.2.1 The Company holds 1% shares in the capital of RAWEC, a Saudi limited liability company.

16.2.2 During the three-month period ended March 31, 2015, pursuant to Equity Support Agreement dated March 28, 2006 as amended subsequently on March 9, 2015, the Company has made equity participation in RAWEC which shall be converted into share capital of RAWEC on completion of certain formalities currently expected by first half of 2018.

16.3 Financial liabilities measured at amortized cost

Loans, borrowings and other long-term liability				January 1, 2016
	Note	2017	2016	
Loans from banks and financial institutions:	16.3.1			
Opening balance		35,457,232	32,465,294	15,415,513
Additions		11,275,269	9,457,237	19,396,164
Repayments		(11,701,510)	(6,465,299)	(2,346,383)
Closing balance		35,030,991	35,457,232	32,465,294
Less: current portion		(3,715,280)	(3,134,005)	(3,270,537)
Non-current portion		31,315,711	32,323,227	29,194,757
Loans from founding shareholders	16.3.2	5,473,166	5,331,716	5,213,936
Other long-term liability	16.3.3	23,634	19,913	16,814
Total non-current portion		36,812,511	37,674,856	34,425,507
Trade and other payables	16.3.4	9,221,871	7,256,457	3,510,534

16.3.1 The Company has entered into Consortium Loan Agreement with commercial banks and financial institutions for development, design, and construction of integrated refining and petrochemical complex. The facilities available under this loan agreement have been utilized in full and drawdowns made which finished on July 1, 2008. The loan is payable in semi-annual repayments which commenced from June 2011 and will run up to December 2021.

During the year ended December 31, 2015, the Company has further entered into Loan Agreements with commercial banks and financial institutions for Phase II Expansion Project. The facilities available under these loan agreements amount to Saudi Riyals 30,630 million out of which drawdowns amounting to Saudi Riyals 25,730 million have been made by the Company as at December 31, 2017. The loans amounting to Saudi Riyals 19,174 million are repayable in semi-annual repayments commencing from June 2018 and will run up to June 2031, whereas the loan of Saudi Riyals 6,556 million has final maturity of July 1, 2019.

The aforementioned loans are denominated in US Dollars and Saudi Riyals and bear financial charges based on prevailing market rates. The loan agreements include financial and operational covenants under Inter-creditor Agreement and other financing documents which among other things; require certain financial ratios to be maintained. The loans are secured by property, plant and equipment, cash and cash equivalents and time deposits of the Company with a carrying value of Saudi Riyals 43,971 million and Saudi Riyals 2,637 million, respectively.

During the year ended December 31, 2015, the Company entered into a working capital facility of Saudi Riyals 1,875 million with a local commercial bank on prevailing market rates. As at December 31, 2017, the facility is unutilized (December 31, 2016: Saudi Riyals 1,125 million and January 1, 2016: Saudi Riyals 1,104 million).

16.3.2 Loans from founding shareholders

	2017	2016	January 1, 2016
Loans:			
Saudi Arabian Oil Company	2,287,500	2,287,500	2,287,500
Sumitomo Chemical Company Limited	2,287,500	2,287,500	2,287,500
Accumulated interest:			
Saudi Arabian Oil Company	449,083	378,358	319,468
Sumitomo Chemical Company Limited	449,083	378,358	319,468
	5,473,166	5,331,716	5,213,936

Loans from the founding shareholders are availed as part of the Credit Facility Agreement and bear financial charges. Repayment shall be made on demand on achieving the conditions set by the financial institutions under the Inter-creditor Agreement. The loan is secured by promissory note issued by the Company in favour of each shareholder equivalent to drawdowns.

16.3.3 Other long-term liability

Other long-term liability represents withholding tax on accumulated interest relating to Sumitomo Chemical Company in accordance with Saudi Arabian Income Tax Law.

16.3.4 Trade and other payables

	2017	2016	January 1, 2016
Trade payables:			
- Related parties	7,861,961	5,813,821	1,249,085
- Others	1,277,509	1,344,389	2,193,266
	9,139,470	7,158,210	3,442,351
Other payables – related parties	82,401	98,247	68,183
	9,221,871	7,256,457	3,510,534

Other payables principally relate to payments made by Founding Shareholders on behalf of the Company in respect of seconded employees and other charges (see Note 4.8 and 4.9).

In addition to loans, borrowings and trade payables, financial liabilities include accrued and other liabilities (Note 24) that are measured at amortized cost.

16.4 Financial instruments risk management objectives and policies

Financial risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing operations and each individual within the Company is accountable for the risk exposures relating to respective responsibilities. The Company's policy is to monitor business risks through strategic planning process.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Board Audit committee

The board audit committee is appointed by the Board of Directors. The board audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the internal audit thereof and the soundness of the internal controls of the Company.

Internal audit

All key operational, financial and risk management processes are audited by internal audit. Internal audit examines the adequacy of the relevant policies and procedures and the Company's compliance with internal policies and regulatory guidelines. Internal audit discusses the results of all assessment with management and reports its findings and recommendations to board audit committee.

The risks faced by the Company and the way these risks are mitigated are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk principally arises from cash and cash equivalents, time deposits, trade receivables, long-term loans and other receivables. Cash and cash equivalents and time deposits are placed with banks with sound credit ratings. The majority of trade receivables (96%) is from founding shareholders with historically strong credit ratings, and is stated at respective realizable values. In the event of disagreement on any invoice, the marketer is required to pay the full value of the invoice prior to resolution of the disagreement. For trade receivables from third parties, the Company has a credit insurance policy with a reputable insurance service provider. The Company does not obtain collaterals over receivables. As at December 31, 2017, there were minimal overdue debts equivalent to 0.6% (December 31, 2016: 1.9%, January 1, 2016: 10.3%) of the trade receivables of Company's allowed credit periods. The loans are receivable from utility service provider and employees and are secured by utility payments and mortgages on the related housing units, respectively. The Company is not exposed to significant credit risk on other receivables.

Market risk

Commodity price risk

The Company is exposed to the risk of fluctuations in the prevailing market prices on the refined and petrochemical products it produces. The Company's policy is to manage these risks through the use of contract-based prices with major customers, based on the agreements entered by the Company (Note 4). The Company does not enter into commodity price hedging arrangements.

Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risks arise mainly from its short-term deposits, loans from banks and financial institutions and loans from founding shareholders, which are at floating rate of interest and are subject to re-pricing on a regular basis.

Fair value of financial assets and liabilities carried at amortized cost approximate their carrying amounts.

Interest rate sensitivity

As at December 31, 2017, it is estimated that a general increase / decrease of 50 basis points in floating interest rates on time deposits, loans and borrowings, with all other variables held constant, would increase / decrease the Company's net profit for the year by approximately Saudi Riyals 190.5 million (2016: Saudi Riyals 193.6 million).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US Dollars. The Company monitors the fluctuation in currency exchange rates and believes that currency risk is not significant to the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on regular basis and the Company ensures that sufficient liquid funds are available to meet any commitments as they arise. The Company aims to maintain sufficient level of its cash and cash equivalents to meet expected cash outflows of financial liabilities.

The Company's financial liabilities consist of trade and other payables, loans and borrowings, finance lease liabilities and certain other liabilities. All financial liabilities except for loans and borrowings, finance lease liabilities, are non-commission bearing and expected to be settled within 12 months from the date of balance sheet.

The following analysis provides the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant, except for liabilities against finance leases which are stated at future minimum lease payments.

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2017	Less than 3 months	3 to 12 months	2 to 5 years	Over 5 years
Loans and borrowings	-	4,607,863	21,936,165	18,643,673
Liabilities against finance leases	11,716	35,281	188,016	618,500
Trade and other payables	7,821,923	1,399,948	-	-
Accrued expenses and other liabilities	610,393	-	-	-
2016				
Loans and borrowings	1,125,000	2,836,114	22,192,833	19,799,742
Liabilities against finance leases	11,716	35,281	188,015	665,500
Trade and other payables	5,864,710	1,391,747	-	-
Accrued expenses and other liabilities	858,249	-	-	-
January 1, 2016				
Loans and borrowings	1,184,652	2,579,645	18,524,248	18,650,828
Liabilities against finance leases	11,743	35,281	169,853	730,658
Trade and other payables	1,241,690	2,268,844	-	-
Accrued expenses and other liabilities	1,057,193	-	-	-

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value.

The Company considers share capital, retained earnings and statutory reserve as Company's capital. The Company manages its capital structure and makes adjustments to it 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.

17 Cash and cash equivalents

	Note	2017	2016	January 1, 2016
Cash in hand		276	266	304
Cash at banks - current accounts		1,031,032	1,335,811	139,455
Short term deposits	18	126,955	45,718	792,637
		1,158,263	1,381,795	932,396

Short term deposits are held by commercial banks and yield financial income at prevailing market rates.

18 Time deposits

	Note	2017	2016	January 1, 2016
Time deposits		1,606,028	1,331,968	2,162,817
Less: Deposits with maturity less than three months	17	(126,955)	(45,718)	(792,637)
		1,479,073	1,286,250	1,370,180

19 Inventories

	2017	2016	January 1, 2016
Raw materials (at cost)	369,535	359,737	311,643
Work-in-progress (at net realizable value)	1,040,064	598,169	312,861
Finished goods (at net realizable value)	739,545	672,931	757,554
Goods-in-transit (at cost)	29,479	8,875	16,720
Spare parts and consumables (at net realizable value)	843,699	619,261	603,716
	3,022,322	2,258,973	2,002,494

During the year ended December 31, 2017, Saudi Riyals 60.9 million (December 31, 2016: Saudi Riyals Nil) was recognized as an expense under cost of sales in order to bring the inventory at net realizable value.

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20 Prepayments and other receivables

	Note	2017	2016	January 1, 2016
Prepayments		61,482	111,311	75,143
Advances to suppliers		519,367	342,331	138,780
Deposits		662	662	662
Advance income tax		25,768	19,991	19,991
Other receivables, net		19,697	25,403	17,158
		626,976	499,698	251,734
Due from related parties	27	314,541	78,963	23,901
		941,517	578,661	275,635

21 Share capital

The Company's authorised and issued share capital of Saudi Riyals 8.76 billion at December 31, 2017, 2016 and January 1, 2016 consists of 876 million fully paid shares of Saudi Riyals 10 each. The founding shareholders of the Company are Saudi Arabian Oil Company (Saudi Aramco) and Sumitomo Chemical Company Limited (Sumitomo Chemical) and each of them hold 37.5% of the shares.

22 Statutory reserve

In accordance with the Regulation for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer each year at least 10% of its net income, after absorbing accumulated deficit, to a statutory reserve until such reserve equal 50% of its share capital. This reserve is not available for distribution to shareholders.

23 Employees' benefits

	Note	2017	2016	January 1, 2016
End of service benefits	23.1	348,195	279,987	182,941
Employee share ownership plan	23.2	7,098	8,207	10,979
Employees' savings program	23.3	90,142	69,393	54,682
Total employees benefits		445,435	357,587	248,602
Less: Current portion of employee benefits under accrued and other liabilities		(24,728)	(14,324)	(16,733)
Non-current portion of employee benefits		420,707	343,263	231,869

23.1 End of service benefits

	2017	2016	January 1, 2016
Company's own employees	322,879	257,946	164,235
Founding shareholders' seconded employees	25,316	22,041	18,706
	348,195	279,987	182,941

The Company has a post-employment defined benefit plan for its own employees. The benefits are required by Saudi Arabian labor and Workman Law. The benefit is based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Kingdom of Saudi Arabia.

The following table summarizes the components of the net benefit expense recognized in the statement of profit or loss and statement of comprehensive income and amounts recognized in the statement of financial position.

Net benefit expense recognised in statement of profit or loss:	2017	2016
Current service cost	43,423	31,539
Interest cost on benefit obligation	10,022	9,229
	53,445	40,768
Net benefit expense recognised in statement of comprehensive income:	2017	2016
Actuarial loss arising from experience	2,234	16,875
Actuarial loss arising from changes in demographic assumptions	6,686	10
Actuarial loss arising from changes in financial assumptions	9,120	39,843
	18,040	56,728

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Movement in present value of defined benefit obligation:

	2017	2016	January 1, 2016
Defined benefit obligation at beginning of the year	257,946	164,235	69,790
Current service cost	43,423	31,539	23,329
Interest cost	10,022	9,229	3,195
Actuarial loss arising from experience	2,234	16,875	72,712
Actuarial loss arising from changes in demographic assumptions	6,686	10	-
Actuarial loss arising from changes in financial assumptions	9,120	39,843	-
Benefits paid	(6,552)	(3,785)	(4,791)
Defined benefit obligation at end of the year	322,879	257,946	164,235

Significant assumptions used in determining the post-employment defined benefit obligation include the following:

	2017	2016	January 1, 2016
Discount rate	3.75%	4%	5.5%
Salary escalation rate	3.5%	3.5%	3.5%
In service mortality	Employers' Groups reinsurance rates	Employers' Groups reinsurance rates	LIC (1975-79) Ultimate mortality Table
Withdrawal before normal retirement age	Age-wise	Age-wise	Age-wise

The weighted average duration of the defined benefit obligation as at December 31, 2017 is 14.1 years (December 31, 2016: 12 years, January 1, 2016: 11.56 years).

A quantitative sensitivity analysis for significant assumptions on the defined benefit obligation is shown below:

Discount rate:

	2017	2016	January 1, 2016
1% increase in discount rate	282,548	230,209	146,021
1% decrease in discount rate	372,444	291,379	186,255

Salary escalation rate:

	2017	2016	January 1, 2016
1% increase in salary escalation rate	372,644	291,828	211,159
1% decrease in salary escalation rate	281,613	229,309	117,311

Voluntary exit rate:

	2017	2016	January 1, 2016
5% increase at each age	307,130	246,818	159,250
5% decrease at each age	334,050	267,507	170,919

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

23.2 Employee share ownership plan

During the year ended December 31, 2008, the Board of Directors approved the implementation and operation of an Employee share ownership plan ("ESOP"), which provides 5 year service awards to certain levels of staff.

The Company arranged with a commercial bank to subscribe for 1.5 million shares during the IPO at the offer price of Saudi Riyals 21 per share. These ESOP shares are held by the bank in trust for the staff that will become eligible for an award under the plan. Any of the ESOP shares that do not become issuable to eligible employees will be dealt with by the bank in accordance with the Company's instructions, and any disposal proceeds will be

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for the account of the Company. The Company recognized the liability through provision by amortizing the total cost of the ESOP shares on a straight line basis over a period of 5 years.

Until the ESOP shares become vested and are transferred to staff they are accounted for as a deduction from shareholders' equity.

During 2017, the Company has vested 52,800 shares to eligible employees due for entitlement (December 31, 2016: 132,000 shares, January 1, 2016: 215,200 shares).

The carrying amount of the liability relating to the ESOP at December 31, 2017 was Saudi Riyals 7.1 million (2016: Saudi Riyals 8.2 million, January 1, 2016: Saudi Riyals 10.7 million).

23.3 Employees' savings program

The Company operates a thrift savings program (the "Program") on behalf of its employees and the Company matches the employee contribution with an equal, or lesser, contribution towards the Program that is commensurate with the employee's participation seniority in the Program.

Balance in employees' savings program is presented in the statement of financial position as follows:

	2017	2016	January 1, 2016
Current portion (included in accrued expenses and other liabilities)	1,142	1,343	2,946
Non-current portion	89,000	68,050	51,736
	90,142	69,393	54,682

24 Accrued expenses and other liabilities

	Note	2017	2016	January 1, 2016
Accrued bonus		106,202	30,462	50,721
Provision for customer rebates		38,086	20,187	40,670
Customer advances		13,824	8,254	5,927
Social security payable		8,426	7,853	7,356
Withholding tax payable		16,809	66,535	14,657
Accrued expenses		254,548	623,012	691,950
Dividend payable		393	394	403
Other		7,113	7,285	12,787
		445,401	763,982	824,471
Due to related parties	27	164,992	94,267	232,722
		610,393	858,249	1,057,193

25 Zakat and income tax

25.1 Charge for the year

Zakat and tax for the year is as follows:

	2017	2016
Zakat for the year	27,148	31,452
Income tax for the year	280,894	35,619
Deferred tax for the year	(219,363)	(30,986)
Zakat in respect of preceding year	2,539	-
Income tax in respect of preceding year	(1,260)	-
	89,958	36,085

Income tax and deferred tax has been recognised as follows:

	2017	2016
Statement of profit or loss:		
Income tax	279,634	35,619
Deferred tax	(216,657)	(26,731)
	62,977	8,888
Statement of comprehensive income – deferred tax	(2,706)	(4,255)

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During the year ended December 31, 2017 pursuant to the Royal Order A/136, all the shares in Kingdom resident companies held by Saudi Arabian Oil Company (Saudi Aramco) are subject to income tax law rather than zakat effective January 1, 2017. Accordingly, income tax has been recognised for Saudi Aramco's owned interest in the Company.

Zakat for the year is attributable to the following components:

	2017	2016
Equity and reserves	11,372,443	9,491,224
Liabilities	40,498,654	39,603,891
Book value of assets	(32,405,359)	(31,017,044)
Carried forward losses	(15,121,992)	(16,045,287)
Zakat base	4,343,746	2,032,784
Zakat base attributable to general public (2016: Saudi founding shareholder and general public)	1,085,936	1,258,090
Zakat for the year	27,148	31,452

Reconciliation between income tax expense and accounting profit at applicable tax rate is as follows:

	2017	2016
Profit before tax	1,515,641	75,122
Profit subject to income tax (2017: 75%, 2016: 37.5%)	1,136,731	28,171
Income tax at applicable tax rate (20%)	227,346	5,634
<i>Tax effect of non-deductible expenses:</i>		
Withholding tax	5,457	2,162
Educational assistance	248	190
Thrift savings contributions	2,077	849
Others	1,331	53
Effect of change in tax status of founding shareholder (principally due to deferred income tax credit)	(172,222)	-
Effect of income tax in respect of preceding year	(1,260)	-
	62,977	8,888

The Company has filed its Zakat and income tax returns with General Authority for Zakat and Tax ("GAZT") up to the financial year 2016. The Company's zakat and tax assessments have been finalized by GAZT up to and inclusive of the financial year 2008.

The GAZT has issued assessments for the years 2009 upto 2016 by raising additional zakat and tax demand of Saudi Riyals 1,349.7 million and Saudi Riyals 387.8 million, respectively. The Company has filed an objection with Preliminary Objection Committee (POC) for the years 2009 and 2010 for which the Company believes its position to be robust in the areas of interpretation. For the years 2011 upto 2016, the Company has filed an objection with GAZT.

If any additional zakat and tax demand arises on finalization of assessments then it is recoverable to the extent of Saudi Riyals 809.8 million and Saudi Riyals 377.7 million, respectively from the Founding Shareholders of the Company.

26 Zakat and tax asset and liability

26.1 The movement of zakat and income tax payable is as follows:

	2017	2016	January 1, 2016
Balance at the beginning of the year	67,071	17,489	77,259
Provision for the current year	308,042	67,071	17,489
Adjustment for previous years	1,279	-	(9,200)
Payments	(68,350)	(17,489)	(68,059)
Balance at the end of the year	308,042	67,071	17,489

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26.2 The component wise movement of deferred tax asset is as follows:

	Property, plant and equipment	Tax losses carried forward	Employees' benefits	Trade receivables and inventories	Others	Total
2017						
Balance at the beginning of the year	(1,027,629)	1,126,346	20,999	7,181	1,832	128,729
Tax income recognised in statement of profit or loss	(902,633)	1,075,146	28,524	8,692	6,928	216,657
Tax income recognised in statement of comprehensive income	-	-	2,706	-	-	2,706
Balance at the end of the year	(1,930,262)	2,201,492	52,229	15,873	8,760	348,092
2016						
Balance at the beginning of the year	(1,063,462)	1,137,058	13,721	6,560	3,866	97,743
Tax income recognised in statement of profit or loss	35,833	(10,712)	3,023	621	(2,034)	26,731
Tax income recognised in statement of comprehensive income	-	-	4,255	-	-	4,255
Balance at the end of the year	(1,027,629)	1,126,346	20,999	7,181	1,832	128,729

27 Related party transactions and balances

Related parties comprise of founding shareholders of the Company being Saudi Aramco and Sumitomo Chemical, their subsidiaries and associates and other companies with common directorship with significant influence on other companies and key management personnel. Transactions with related parties arise mainly from purchases, sales of refined and petrochemical products, credit facilities, secondments and various lease arrangements and are undertaken at approved contractual terms.

Related party transactions are summarized as follows:

Nature of transactions for the year ended December 31	2017	2016
Saudi Arabian Oil Company and its associated companies		
Purchase of goods including LPG shortfall and through-put fee	27,512,283	19,708,849
Sale of refined products and petrochemical products	29,833,620	21,741,222
Financial charges	97,761	86,526
Secondees' costs	51,472	77,611
Rentals	47,865	47,267
Services provided to shareholders	442	800
Services and other cost charges (credit), net	40,453	32,852
	2017	2016
Sumitomo Chemical Company and its associated companies		
Purchase of goods	292,276	172,888
Sale of petrochemical products	3,692,655	2,449,226
Secondees' costs	161,491	160,271
Financial charges	70,724	58,891
Rentals	709	709
Services provided to shareholders	442	800
Services and other cost charges (credit), net	121,785	43,156

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Significant year-end balances arising from transactions with related parties are as follows:

	Note	2017	2016
Saudi Aramco and its associated companies			
Loans and borrowings	16	2,736,583	2,665,858
Trade and other payables	16	7,862,541	5,876,908
Trade and other receivables	16, 20	5,022,170	3,310,352
Accrued expenses and other liabilities	24	69,853	56,370
Employees benefits		312	2,351
		2017	2016
Sumitomo Chemical and its associated companies			
Loans and borrowings	16	2,736,583	2,665,858
Trade and other receivables	16, 20	802,748	411,572
Accrued expenses and other liabilities	24	95,139	37,897
Trade and other payables	16	81,821	35,160
Employees benefits		1,418	6,710

Transactions with key management personnel

Transactions with key management personnel on account of short-term benefits amounted to Saudi 14.17 million (2016: Saudi Riyals 9.9 million) and are included in secondees' cost above. The remuneration paid to directors amounted to Saudi Riyals 0.45 million (2016: Saudi Riyals 0.2 million).

28 Commitments

- (i) As at December 31, 2017, letters of credit issued on behalf of the Company in the normal course of business amounted to Saudi Riyals 24.6 million (December 31, 2016: Saudi Riyals 10.03 million, January 1, 2016: Saudi Riyals 4.9 million).
- (ii) As at December 2017, capital commitments contracted for but not incurred amounted to Saudi Riyals 1,185 million (December 31, 2016: Saudi Riyals 1,442 million, January 1, 2016: Saudi Riyals 4,678 million).

Also, see Note 14 for lease commitments.

29 Subsequent event

The Company's Board of Directors in their meeting held on March 7, 2018 recommended the following:

- (i) Distribution of Saudi Riyals 438 million, as cash dividends (Saudi Riyal 0.5 per share) for the financial year 2017 representing, 5% of the nominal share value. The payment of cash dividend will be announced at a later date.
- (ii) Payment of accumulated interest on loans from founding shareholders amounting to Saudi Riyals 97.02 million.

The above recommendations are subject to general assembly and regulatory approvals.

30 Approval and authorization for issue

These financial statements were approved and authorized for issue by the Board of Directors of the Company in their meeting held on Jumada Thani 19, 1439H (March 7, 2018).