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

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

RABIGH REFINING AND PETROCHEMICAL COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

KPMG

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Independent auditors' report to the Shareholders of Rabigh Refining and Petrochemical Company

Opinion

We have audited the financial statements of Rabigh Refining and Petrochemical Company ("the Company"), which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Independent auditors' report to the Shareholders of Rabigh Refining and Petrochemical Company (continued)

Zakat and tax related matters

See Note 3(o) to the financial statements for the accounting policy of Zakat and income tax and note 24 and 25 for the disclosure.

The key audit matter

The Company has recognized a deferred tax credit of SR 97.79 million in the statement of profit or loss and other comprehensive income for the year ended December 31, 2018 and as at that date the net deferred tax asset balance amounted to SR 445.88 million. Refer notes 24 and 25 to the financial statements for related disclosures.

The General Authority for Zakat and Tax (GAZT) issued assessments for the years 2009 through 2016 which resulted in additional Zakat and income tax demands in the amount of SR 1,349.7 million and SR 387.8 million respectively. The Company had filed an appeal with the Higher Appellate Committee (HAC) against the assessment for the years 2009 and 2010 and submitted a bank guarantee amounting to Saudi Riyals 43.5 million. The General Secretariat of Tax Committees (GSTC) has requested certain information from the Company in respect of the appeal relating to the years 2009 – 2010 to be able to support the newly formed Higher Committee of Tax for Conflict and Dispute (HCTCD) which the Company has duly submitted. As for the assessment years 2011 to 2016, the objection has been transferred by the GAZT to the recently formed Internal Settlement Committee (ISC). ISC has requested certain information from the Company in respect of the appeal relating to the years 2011 – 2016 which the Company has duly submitted. ISC's resolution relating to assessment years 2011 – 2016 is awaited. Accordingly, no Zakat or tax provision has been made in the financial statements relating to such demands. Any additional Zakat and tax demand that arises on finalization of the assessments is recoverable, through distributable earnings, to the extent of SR 809.8 million and SR 377.7 million, respectively, from the founding shareholders of the Company. Refer note 24 for further details.

We considered these matters as a key audit matter due to the judgement involved in the assessment of whether any provision needs to be recognized with respect to additional Zakat and income tax demand raised by GAZT.

How the matter was addressed in our audit

We performed the following procedures:

- Obtained deferred tax computation performed by the management and evaluated the reasonableness of such computations.
- Assessed the estimates and judgements applied by management in determining the recoverability of the deferred tax asset balance outstanding at December 31, 2018.
- Reviewed future projections made by the management specifically in respect of Phase II.
- Analyzed the differences between the amounts reported by the Company in Zakat and income tax returns against the amounts assessed by GAZT and obtained an understanding of the nature of such differences and the possibility of any potential outflow of economic benefits.
- Held discussions with the Company's Zakat and tax consultants about the nature of the differences and their assessment of the likelihood of any additional liability.
- Involved our Zakat and Tax expert to review the Zakat and tax and deferred tax computations, status of assessments and correspondence, if any, with the GAZT.
- Assessed the adequacy and appropriateness of the disclosure included in the financial statements.

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Independent auditors' report to the Shareholders of Rabigh Refining and Petrochemical Company (continued)

Other matter

The financial statements of **Rabigh Refining and Petrochemical Company** for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion thereon vide their report dated March 7, 2018.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' 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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and 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.

Auditors' 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 auditors' 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Independent auditors' report to the Shareholders of Rabigh Refining and Petrochemical Company (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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, then we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Rabigh Refining and Petrochemical Company** ("the Company").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

KPMG Al Fozan & Partners
Certified Public Accountants

February 19, 2019
Corresponding to Jumada Al Thani 14, 1440H

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

	Notes	December 31, 2018	December 31, 2017
Sales	5,26	40,998,191	34,211,010
Cost of sales	6,26	(38,683,150)	(31,514,986)
Gross profit		2,315,041	2,696,024
Other income, net	9	88,584	50,865
Selling and marketing expenses	7	(439,574)	(73,782)
General and administrative expenses	8	(948,044)	(969,289)
Operating profit		1,016,007	1,703,818
Finance cost	10	(465,765)	(445,974)
Financial income		302,832	257,797
Profit before Zakat and income tax		853,074	1,515,641
Zakat	24	(44,141)	(29,687)
Income tax	24	(140,373)	(62,977)
Net profit after Zakat and income tax		668,560	1,422,977
Earnings per share (Saudi Riyals) - Basic and diluted	11	0.76	1.62

The accompanying notes 1 to 29 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 thousands of Saudi Riyals unless otherwise stated)

	Notes	December 31, 2018	December 31, 2017
Net profit after Zakat and income tax		668,560	1,422,977
Remeasurement loss on defined benefit plan	22	**(13,367)**	(18,040)
Income tax effect	24	**2,005**	2,706
Items that will not be reclassified to statement of profit or loss in subsequent periods		**(11,362)**	(15,334)
Total comprehensive income for the year		**657,198**	1,407,643

The accompanying notes 1 to 29 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 thousands of Saudi Riyals unless otherwise stated)

	Notes	December 31, 2018	December 31, 2017
Assets			
Non-current assets			
Property, plant and equipment	12	**44,628,314**	43,971,487
Leased assets	13	**393,774**	417,360
Intangible assets	14	**111,443**	123,513
Long-term loans	15	**3,861,749**	4,051,329
Investment	15	**16,412**	16,412
Deferred tax asset	25	**445,882**	348,092
		49,457,574	48,928,193
Current assets			
Inventories	18	**3,207,445**	3,022,322
Trade receivables	15	**6,004,714**	5,741,361
Current portion of long-term loans	15	**420,428**	404,248
Prepayments and other receivables	19	**2,084,488**	941,517
Time deposits	17	**1,655,605**	1,479,073
Cash and cash equivalents	16	**1,263,713**	1,158,263
		14,636,393	12,746,784
Total assets		**64,093,967**	61,674,977
Equity and liabilities			
Equity			
Share capital	20	**8,760,000**	8,760,000
Statutory reserve	21	**249,465**	183,745
Employee share ownership plan	22	**(6,241)**	(7,098)
Retained earnings		**1,538,796**	1,149,160
Total equity		**10,542,020**	10,085,807
Non-current liabilities			
Loans, borrowings and other long-term liability	15	**27,688,017**	36,812,511
Liabilities against finance leases	13	**463,576**	481,953
Employees' benefits	22	**510,501**	420,707
		28,662,094	37,715,171
Current liabilities			
Short-term borrowings	15	**13,007,494**	3,715,280
Current maturity of liabilities against finance leases	13	**19,540**	18,413
Trade and other payables	15	**10,163,333**	9,221,871
Accrued expenses and other liabilities	23	**1,425,990**	610,393
Zakat and income tax payable	25	**273,496**	308,042
		24,889,853	13,873,999
Total liabilities		**53,551,947**	51,589,170
Total equity and liabilities		**64,093,967**	61,674,977

The accompanying notes 1 to 29 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 thousands of Saudi Riyals unless otherwise stated)

	Notes	Share capital	Statutory reserve	Employee share ownership plan	Retained earnings (accumulated deficit)	Total
Balance as at January 1, 2018		8,760,000	183,745	(7,098)	1,149,160	10,085,807
Net profit after Zakat and income tax		-	-	-	668,560	668,560
Other comprehensive loss		-	-	-	(11,362)	(11,362)
Total comprehensive income		-	-	-	657,198	657,198
Transfer to statutory reserve	21	-	65,720	-	(65,720)	-
Vesting of shares under employee share ownership plan		-	-	857	-	857
Dividend	28	-	-	-	(438,000)	(438,000)
Income tax reimbursements		-	-	-	236,158	236,158
Balance as at December 31, 2018		8,760,000	249,465	(6,241)	1,538,796	10,542,020
Balance as at January 1, 2017		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	21	-	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
Balance as at December 31, 2017		8,760,000	183,745	(7,098)	1,149,160	10,085,807

The accompanying notes 1 to 29 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 thousands of Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31, 2018	2017
Cash flows from operating activities			
Profit before Zakat and income tax		853,074	1,515,641
Adjustments for non-cash items			
Depreciation	12,13	2,419,861	2,427,863
Finance cost		465,765	445,974
Financial Income		(302,832)	(257,797)
Amortization	14	13,234	13,156
Provision for slow moving inventories	18	22,491	10,078
Provision for doubtful receivables		73	-
Loss on disposal of property and equipment	9	21,769	1,267
		3,493,435	4,156,182
Changes in working capital			
Trade receivables		(263,426)	(2,044,674)
Inventories		(207,615)	(773,427)
Prepayments and other receivables		(905,986)	(75,659)
Trade and other payables		1,349,559	2,371,359
Accrued expenses and other liabilities		667,816	(515,476)
Employees benefits		77,284	60,513
		4,211,067	3,178,818
Zakat and income tax paid	25.1	(314,845)	(68,350)
Interest received		281,916	238,719
Interest paid		(234,664)	(256,276)
Net cash generated from operating activities		3,943,474	3,092,911
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(2,927,816)	(2,601,915)
Addition to intangible assets	14	(1,164)	(1,051)
Net movement in time deposits		(176,531)	(192,823)
Long-term loan disbursements	-	(219,613)	(49,303)
Net cash used in investing activities		(3,325,124)	(2,845,092)
Cash flows from financing activities			
Proceeds from loans and borrowings		3,287,625	10,500,000
Repayments of loans and borrowings		(3,316,332)	(10,924,425)
Repayment of finance leases		(46,921)	(46,925)
Dividend paid	28	(437,272)	(1)
Net cash used in financing activities		(512,900)	(471,351)
Net increase / (decrease) in cash and cash equivalents		105,450	(223,532)
Cash and cash equivalents at beginning of the year	16	1,158,263	1,381,795
Cash and cash equivalents at end of the year	16	1,263,713	1,158,263
Supplemental schedule of non-cash information			
Income tax reimbursable from shareholders		236,158	281,539
Addition to property, plant and equipment through accrued expenses and other liabilities		147,055	267,621
Long-term loan repayments settled against capacity payments		388,009	392,525

The accompanying notes 1 to 29 form an integral part of these financial statements.

(All amounts in thousands of Saudi Riyals 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 fulfilment of precedent conditions. The aggregate cost of the Phase II Expansion Project is currently estimated at Saudi Riyals 36 billion, the completion of which is estimated to be during first half of 2019 (also see Note 12).

2 Basis of preparation

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by Saudi Organization for Certified Public Accountants (SOCPA) in the Kingdom of Saudi Arabia as well as other standards and pronouncements issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

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 prepared these financial statements in accordance with IFRS as endorsed by SOCPA, all standards, interpretations and amendments as applicable to the Company are considered until the relevant adoption date.

(a) Standards, interpretations and amendments adopted

IFRS 15 – Revenue from Contracts with Customers

The Company has adopted IFRS 15 from January 1, 2018 using modified retrospective method (see Note on Revenue under summary of significant accounting policies). Accordingly, the comparative information has not been restated and continues to be reported under IAS 18 - Revenue. Previously, the Company was recognising revenue net of certain selling and marketing expenses which are incurred and separately invoiced by the marketers (customers). As per IFRS 15, the Company accounts 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 and marketing expenses are in respect of distinct goods or services that the Company receives from customers and the fair value of the said expenses can also be measured as these are separately invoiced to the Company supported by actual invoices. Accordingly, in 2018, these expenses have not been deducted from revenue and are classified as selling and marketing expenses. The table below summarizes the impact of adoption of IFRS 15 on the financial statements for the year ended December 31, 2018.

Year ended December 31, 2018	*As per IFRS 15*	*As per old policy*	*Impact of adoption of IFRS 15*
Sales	40,998,191	40,637,812	360,379
Selling and marketing expenses	439,574	79,195	(360,379)

(All amounts in thousands of Saudi Riyals unless otherwise stated)

2 Basis of preparation (continued)

(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 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over income tax treatment	January 1, 2019
IFRS 9	Prepayment features with negative compensation (Amendments to IFRS 9)	January 1, 2019
IAS 28	Long-term interests in associates and joint ventures (Amendments to IAS 28)	January 1, 2019
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual improvements to IFRS 2015 -2017 cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	January 1, 2019
IAS 19	Plan amendment, curtailment or settlement (Amendments to IAS 19)	January 1, 2019
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards	January 1, 2020
IFRS 17	Insurance contacts	January 1, 2021
IFRS 10 and IAS 28	Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption / effective date deferred indefinitely

IFRS 16 - Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 - Leases, IFRIC 4 - Determining whether an arrangement contains a lease, SIC-15 Operating leases - Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases – operating and finance leases.

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

The Company plans to adopt IFRS 16 on the required effective date using the modified retrospective method and therefore comparative information will not be restated and continued to be reported under IAS 17 and IFRIC 4.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment that are considered of low value.

The Company has performed a detailed impact assessment of IFRS 16. In summary, the impact of adopting IFRS 16 on the date of adoption is expected to be as follows:

Assets	
Right-to-use assets	12,357,463
Prepayments and other receivables	(12,649)
Total right-to-use assets	12,344,814
Lease liabilities	12,344,814

2 Basis of preparation (continued)

Due to the adoption of IFRS 16, the Company's operating profit will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

IFRS 16 further requires additional disclosure for which the Company has considered required changes in the related procedures necessary to collect and disclose the required information.

Except for the effects of IFRS 16 disclosed above, the standards, amendments or interpretations with effective date of January 1, 2019 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.

2 Basis of preparation (continued)

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.

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 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.

Going concern

As at December 31, 2018, the Company's current liabilities exceed the current assets by Saudi Riyals 10,253 million, primarily due to the equity bridge loan amounting to Saudi Riyals 8,887.5 million, falling due on July 1, 2019, backed by the founding shareholders' guarantees.

The Company has assessed its ability to continue as a going concern and is not aware of any material uncertainties that may cast significant doubt and is satisfied that it has the resources to continue in business for the foreseeable future. Therefore, the financial statements of the Company continue to be prepared on going concern basis.

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:

3 Summary of significant accounting policies (continued)

- 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.

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

The Company has applied IFRS 15 using modified retrospective approach with effect from January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18. Impact of changes on adoption of IFRS 15 is disclosed in Note 2.1 (a).

The Company recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15 and is given below:

Step 1 – Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met;

3 Summary of significant accounting policies (continued)

Step 2 – Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer;

Step 3 – Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties;

Step 4 – Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

Step 5 – Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The Company's performance does not create an asset with an alternate use to the Company and the Company has an enforceable right to payment for performance completed to date;
- The Company's performance creates or enhances as asset that the customer controls as the asset is created or enhanced;
- The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

Revenue in respect of sale of refined and petrochemical products and port services is recognised over the period as per the related offtake and other agreements with the customers. Transfer of refined and petrochemical products to customers is considered as series of distinct goods and the Company uses output method to measure the progress towards complete satisfaction or performance obligation. The Company has further used IFRS 15 practical expedient of right to invoice, and revenue is booked on monthly basis in respect of goods and services for which the Company has a right to invoice as per the related agreements.

Variable consideration is estimated based on expected value method. Revenue is recorded net of trade discounts, volume rebates and deductibles. Consideration payable to a customer is recognised as a reduction of the transaction price unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Company. If consideration payable to the customer is a payment for a distinct good or service from the customer, then the Company records such purchase of the good or service in the same way that it accounts for other purchases from suppliers.

In the comparative period, revenue was recognised when significant risks and rewards of ownership had been transferred to the customer upon delivery or shipment of products and in accordance with the related offtake and other arrangements with the Company's customers.

Revenue from port services is recognised when services were rendered.

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.

3 **Summary of significant accounting policies (continued)**

(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 of 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.

3 **Summary of significant accounting policies (continued)**

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	30
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.

3 Summary of significant accounting policies (continued)

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.

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.

3 **Summary of significant accounting policies (continued)**

(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.

3 Summary of significant accounting policies (continued)

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.

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 include 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.

3 **Summary of significant accounting policies (continued)**

(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.

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.

3 Summary of significant accounting policies (continued)

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.

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 Agreements with founding shareholders (continued)

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. The Company and Saudi Aramco are in the process of renewing the agreement.

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.

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 Land lease agreement

The Company has entered into an Amended and Restated Land Lease agreement with Saudi Aramco effective March 16, 2015 for the lease of approximately 20 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. Also see Note 13.2.

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 13.1 and 13.2.

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 13.1 and 13.2.

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 agreed prices specified in each agreement for the services to be provided.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

5 Segment information

5.1 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:

2018	**Refined products**	**Petrochemicals**	**Total**
Sales – external customers	31,447,298	9,550,893	40,998,191
Depreciation and amortization	754,260	1,678,835	2,433,095
Operating (loss) / profit	(904,240)	1,920,247	1,016,007

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

2018	**Refined products**	**Petrochemicals**	**Unallocated**	**Total**
Total assets	22,552,249	37,705,403	3,836,315	64,093,967
Total liabilities	13,059,778	40,218,677	273,492	53,551,947
Capital expenditure	323,631	2,752,404	-	3,076,035

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

The Company's revenue from external customers involve Saudi Riyals 39,920 million (December 31, 2017: Saudi Riyals 33,213 million) of revenue generated from 3 customers in the year ended December 31, 2018 (December 31, 2017: 3 customers).

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

2018	**Middle East**	**Asia Pacific**	**Others**	**Total**
Sales				
Refined products	31,447,298	-	-	31,447,298
Petrochemicals	2,946,866	6,284,635	319,392	9,550,893
Total	34,394,164	6,284,635	319,392	40,998,191

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

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

(All amounts in thousands of Saudi Riyals unless otherwise stated)

5 Segment information (continued)

5.2 Adjustments

Finance cost, financial income, Zakat and income tax including deferred tax, cash and cash equivalents, time deposits and certain assets and liabilities are not allocated to operating segments as they are managed on a Company basis.

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

5.3 Reconciliation of profit

	2018	2017
Operating profit	1,016,007	1,703,818
Finance cost	(465,765)	(445,974)
Financial income	302,832	257,797
Profit before Zakat and income tax	853,074	1,515,641
Zakat	(44,141)	(29,687)
Income tax	(140,373)	(62,977)
Net profit after Zakat and income tax	668,560	1,422,977

6 Cost of sales

	Notes	2018	2017
Raw materials, crude oil and spare parts consumed		34,461,554	27,802,370
Depreciation	12,13	2,321,577	2,321,622
Utilities consumed		971,652	1,070,948
Personnel costs		640,114	603,806
Repair and maintenance		310,287	331,971
Contracted services		73,311	60,859
Amortization	14	11,360	11,360
Insurance		36,900	32,802
Provision for slow moving spare parts and consumables	18	22,491	10,078
Lease rentals		16,721	19,418
Other overheads		24,797	23,179
		38,890,764	32,288,413
Changes in inventories of finished goods, raw materials and spare parts and consumables used		(207,614)	(773,427)
		38,683,150	31,514,986

7 Selling and marketing expenses

	2018	2017
Freight charges	75,532	69,342
Deductibles (see below)	360,379	-
Others	3,663	4,440
	439,574	73,782

Deductibles mainly comprise of freight and handling charges, insurance and customs and storage charges for inventories.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

8 General and administrative expenses

	Notes	2018	2017
Personnel costs		**611,260**	649,051
Depreciation	12,13	**98,284**	106,241
Repair and maintenance		**71,496**	56,990
Bad debts		**73**	46
IT, networking and data communication		**65,696**	53,218
Amortization	14	**1,874**	1,796
Travelling		**19,302**	17,722
Rent		**15,736**	11,637
Professional fees		**7,750**	15,689
Insurance		**3,962**	5,025
Stationery, telex and telephone		**5,308**	4,846
Others		**47,303**	47,028
		948,044	969,289

9 Other income, net

	2018	2017
Port services	**49,861**	46,827
Gain on sale of scrap sales	**32,501**	15,308
Miscellaneous income	**30,766**	1,043
Loss on disposal of property and equipment	**(21,769)**	(1,267)
Other expense	**(2,775)**	(11,046)
	88,584	50,865

10 Finance cost

	2018	2017
Interest on loans and borrowings	**425,870**	392,776
Interest on finance leases	**29,672**	30,662
Others	**10,223**	22,536
	465,765	445,974

11 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.

	2018	2017
Net profit for the year for basic and dilutive earnings per share	**668,560**	1,422,977
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)	**295**	336
Basic and diluted earnings per share (Saudi Riyals)	**0.76**	1.62

(All amounts in Saudi Riyals thousands unless otherwise stated)

12 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, 2017	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
Additions	-	116,633	-	-	2,958,238	3,074,871
Transfers	13,067	186,874	-	15,012	(214,953)	-
Disposals	(1,922)	(46,249)	(46,500)	(42,166)	-	(136,837)
December 31, 2018	4,754,320	32,976,032	43,367	306,942	26,926,645	65,007,306
Accumulated depreciation						
January 1, 2017	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
Charge for the year	240,780	2,129,645	4,873	20,977	-	2,396,275
Released on disposals	(1,922)	(28,495)	(46,500)	(38,151)	-	(115,068)
December 31, 2018	2,502,751	17,629,516	35,282	211,443	-	20,378,992
Carrying Value:						
At December 31, 2018	**2,251,569**	**15,346,516**	**8,085**	**95,499**	**26,926,645**	**44,628,314**
At December 31, 2017	2,479,282	17,190,408	12,958	105,479	24,183,360	43,971,487

(All amounts in Saudi Riyals thousands unless otherwise stated)

12 Property, plant and equipment (continued)

12.1 Depreciation for the year has been allocated as follows:

	Notes	2018	2017
Cost of sales	6	**2,315,340**	2,315,385
General and administrative expenses	8	**80,935**	84,656
		2,396,275	2,400,041

12.2 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.

12.3 Capital projects-in-progress

The capital projects-in-progress at December 31, 2018 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 15). The Company had also acquired administrative expenses amounting to Saudi Riyals 21,757 thousands from founding shareholders.

12.4 Capitalization of borrowing costs

During the year ended December 31, 2018, the Company has capitalized borrowing costs amounting to Saudi Riyals 927.3 million (2017: Saudi Riyals 656 million) in capital projects-in-progress relating to the construction of the Phase II Expansion Project.

12.5 Pre-commissioning income

During the year ended December 31, 2018, pre-commissioning income related to Phase II Expansion Project amounting to Saudi Riyals 961.6 million (2017: Saudi Riyals 776.9 million) is included in Capital projects-in-progress.

13 Leases

13.1 Finance leases

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

	Community facilities	Marine terminal facilities	Desalination plant	Total
Cost				
December 31, 2018, 2017 and January 1, 2017	225,715	288,820	106,015	620,550
Accumulated depreciation				
January 1, 2017	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**
Charge for the year	9,029	8,321	6,236	23,586
December 31, 2018	**38,373**	**124,475**	**63,928**	**226,776**
Carrying value				
At December 31, 2018	**187,342**	**164,345**	**42,087**	**393,774**
At December 31, 2017	196,371	172,666	48,323	417,360

(All amounts in Saudi Riyals thousands unless otherwise stated)

13 Leases (continued)

13.1.2 Finance lease obligations at December 31 are as follows:

	2018			2017
	Future minimum lease payments	Interest	Present value of minimum lease payments	Present value of minimum lease payments
Community facilities	363,268	171,475	191,793	196,145
Marine terminal facilities	377,679	140,768	236,911	243,373
Desalination plant	65,569	11,157	54,412	60,848
	806,516	323,400	483,116	500,366

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

	2018	2017
Current portion	19,540	18,413
Non-current portion	463,576	481,953
	483,116	500,366

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

	2018		2017	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	46,997	19,540	46,997	18,413
Two to five years	188,016	83,739	188,016	78,964
More than five years	571,503	379,837	618,500	402,989
Total minimum lease payments	806,516	483,116	853,513	500,366
Less: finance charges	(323,400)	-	(353,147)	-
Present value of minimum lease payments	483,116	483,116	500,366	500,366

13.1.4 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 363.3 million (2017: Saudi Riyals 381.4 million).

13.1.5 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 377.7 million (2017: Saudi Riyals 396.8 million).

13.1.6 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 65.6 million (2017: Saudi Riyals 75.3 million).

13.1.7 Depreciation for the year has been allocated as follows:

	Notes	2018	2017
Cost of sales	6	6,237	6,237
General and administrative expenses	8	17,349	21,585
		23,586	27,822

(All amounts in Saudi Riyals thousands unless otherwise stated)

13 Leases (continued)

13.2 Operating leases

13.2.1 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, 2018 amounts to Saudi Riyals 748.1 million (2017: Saudi Riyals 548.9 million).

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

	2018	2017
Within one year	**928,039**	543,988
Two to five years	**3,644,906**	2,108,106
More than five years	**13,190,922**	6,962,499
	17,763,867	9,614,593

14 Intangible assets

	Softwares	Licenses	Other	Total
Cost				
January 1, 2017	231,154	209,114	5,154	445,422
Additions	1,051	-	-	1,051
December 31, 2017	**232,205**	**209,114**	**5,154**	**446,473**
Additions	1,164	-	-	1,164
December 31, 2018	**233,369**	**209,114**	**5,154**	**447,637**
Amortization				
January 1, 2017	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
Amortization for the year	2,436	10,798	-	13,234
December 31, 2018	**230,251**	**105,943**	-	**336,194**
Carrying value:				
December 31, 2018	**3,118**	**103,171**	**5,154**	**111,443**
December 31, 2017	4,390	113,969	5,154	123,513

Amortization for the year has been allocated as follows:

	Note	2018	2017
Cost of sales	6	**11,360**	11,360
General and administrative expenses	8	**1,874**	1,796
		13,234	13,156

15 Financial assets and financial liabilities

15.1 Financial assets measured at amortized cost

Long-term loans:	Notes	2018	2017
Loan to RAWEC	15.1.1	**4,065,479**	4,254,940
Loans to employees	15.1.2	**216,698**	200,637
Long-term loans		**4,282,177**	4,455,577
Less: current portion of long-term loans		**(420,428)**	(404,248)
Non-current portion of long-term loans		**3,861,749**	4,051,329
Trade receivables	15.1.3	**6,004,714**	5,741,361

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 Financial assets and financial liabilities (continued)

15.1.1 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, 2018, loan amounting to Saudi Riyals 388.6 million (2017: Saudi Riyals 373.1 million) have been offset against monthly utility payments to RAWEC amounting to Saudi Riyals 1,198 million (2017: Saudi Riyals 1,117.3 million).

15.1.2 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.

15.1.3 Trade receivables of the Company are as follows:

	Note	2018	2017
Trade		**112,836**	259,394
Less: Loss allowance		**(28,410)**	(28,410)
		84,426	230,984
Related parties	26	**5,920,288**	5,510,377
		6,004,714	5,741,361

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: Less than 6 months	6 to 12 months	12 to 18 months	18 to 24 months	More than 24 months	More than 24 months impaired
Balance	6,033,124	5,973,936	3,081	20,245	89	207	7,156	28,410
Less: Loss allowance	(28,410)	-	-	-	-	-	-	(28,410)
December 31, 2018	**6,004,714**	**5,973,936**	**3,081**	**20,245**	**89**	**207**	**7,156**	-
December 31, 2017	5,741,361	5,733,441	(1,707)	84	(316)	963	8,896	-

Financial assets also include cash and cash equivalents (Note 16), time deposits (Note 17) and other receivables (Note 19) that are measured at amortized cost. Further, substantially all of the trade receivables are measured at amortised cost.

15.2 Financial assets measured at fair value through profit and loss

	2018	2017
Investment in Rabigh Arabian Water and Electricity Company	**16,412**	16,412

The Company holds 1% shares in the capital of Rabigh Arabian Water and Electricity Company ("RAWEC"), a Saudi limited liability company.

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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 Financial assets and financial liabilities (continued)

15.3 Financial liabilities measured at amortized cost

Loans, borrowings and other long-term liability

	Note	2018	2017
Loans from banks and financial institutions:	15.3.1		
Opening balance		**35,030,991**	35,457,232
Additions		**4,389,835**	11,275,269
Repayments		**(4,307,110)**	(11,701,510)
Closing balance		**35,113,716**	35,030,991
Less: current portion		**(13,007,494)**	(3,715,280)
Non-current portion		**22,106,222**	31,315,711
Loans from founding shareholders	15.3.2	**5,555,980**	5,473,166
Other long-term liability	15.3.3	**25,815**	23,634
Total non-current portion		**27,688,017**	36,812,511
Trade and other payables	15.3.4	**10,163,333**	9,221,871

15.3.1 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 28,267.5 million have been made by the Company as at December 31, 2018. The loans amounting to Saudi Riyals 19,380 million are repayable in semi-annual repayments commencing from June 2019 and will run up to June 2031, whereas the loan of Saudi Riyals 8,887.5 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 44,628 million and Saudi Riyals 2,919 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, 2018, the facility is unutilized (December 31, 2017: unutilized).

15.3.2 Loans from founding shareholders

	2018	2017
Loans:		
Saudi Arabian Oil Company	**2,287,500**	2,287,500
Sumitomo Chemical Company Limited	**2,287,500**	2,287,500
Accumulated interest:		
Saudi Arabian Oil Company	**490,490**	449,083
Sumitomo Chemical Company Limited	**490,490**	449,083
	5,555,980	5,473,166

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. During the year ended December 31, 2018, the Company paid interest amounting to Saudi Riyals 94.5 million to Saudi Arabian Oil Company and Sumitomo Chemical Company Limited.

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 Financial assets and financial liabilities (continued)

15.3.3 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.

15.3.4 Trade and other payables

	2018	2017
Trade payables:		
- Related parties	8,837,625	7,861,961
- Others	1,260,690	1,277,509
	10,098,315	9,139,470
Other payables – related parties	65,018	82,401
	10,163,333	9,221,871

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.

15.4 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.

Audit committee
The audit committee is appointed by the Board of Directors. The 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 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 (98.6%) (December 31, 2017: 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, 2018, there were minimal overdue debts equivalent to 1% (December 31, 2017: 0.6%) 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 Financial assets and financial liabilities (continued)

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, 2018, 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 189.9 million (2017: Saudi Riyals 190.5 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.

2018	Less than 3 months	3 to 12 months	2 to 5 years	Over 5 years
Loans and borrowings	-	14,042,649	13,410,055	18,312,495
Liabilities against finance leases	11,716	35,281	188,016	571,503
Trade and other payables	8,874,067	1,289,266	-	-
Accrued expenses and other liabilities	1,425,989	-	-	-
	10,311,772	15,367,196	13,598,071	18,883,998
2017				
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	-	-	-
	8,444,032	6,043,092	22,124,181	19,262,173

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 Financial assets and financial liabilities (continued)

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.

16 Cash and cash equivalents

	Note	2018	2017
Cash in hand		**236**	276
Cash at banks - current accounts		**625,977**	1,031,032
Short term deposits	17	**637,500**	126,955
		1,263,713	1,158,263

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

17 Time deposits

	Note	2018	2017
Time deposits		**2,293,105**	1,606,028
Less: Deposits with maturity less than three months	16	**(637,500)**	(126,955)
		1,655,605	1,479,073

18 Inventories

	2018	2017
Raw materials (at cost)	**440,860**	369,535
Work-in-progress (at net realizable value)	**847,711**	1,040,064
Finished goods (at net realizable value)	**808,750**	739,545
Goods-in-transit (at cost)	**66,512**	29,479
Spare parts and consumables (at net realizable value)	**1,043,612**	843,699
	3,207,445	3,022,322

During the year ended December 31, 2018, Saudi Riyals 130.6 million (December 31, 2017: Saudi Riyals 60.9 million) was recognized as an expense under cost of sales in order to bring the inventory at net realizable value.

Movement in provision for slow moving spare parts and consumables is as follows:

	Note	2018	2017
January 1		**77,412**	67,334
Additions	6	**22,491**	10,078
Utilised		**(19,593)**	-
December 31		**80,310**	**77,412**

19 Prepayments and other receivables

	Note	2018	2017
Prepayments		**65,592**	61,482
Advances to suppliers		**456,841**	519,367
Deposits		**662**	662
Advance income tax and value added tax		**1,135,024**	25,768
Other receivables, net		**43,945**	19,697
		1,702,064	626,976
Due from related parties	26	**382,424**	314,541
		2,084,488	941,517

(All amounts in Saudi Riyals thousands unless otherwise stated)

20 Share capital

The Company's authorised and issued share capital of Saudi Riyals 8.76 billion at December 31, 2018and 2017 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.

21 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.

22 Employees' benefits

	Note	2018	2017
End of service benefits	22.1	**413,395**	348,195
Employee share ownership plan	22.2	**6,241**	7,098
Employees' savings program	22.3	**115,564**	90,142
Total employees benefits		**535,200**	445,435
Less: Current portion of employee benefits under accrued and other liabilities		**(24,699)**	(24,728)
Non-current portion of employee benefits		**510,501**	420,707

22.1 End of service benefits

	2018	2017
Company's own employees	**388,768**	322,879
Founding shareholders' seconded employees	**24,627**	25,316
	413,395	348,195

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:	2018	2017
Current service cost	**50,834**	43,423
Interest cost on benefit obligation	**11,835**	10,022
	62,669	53,445

Net benefit expense recognised in statement of comprehensive income:	2018	2017
Actuarial loss arising from experience	**17,232**	2,234
Actuarial (gain) loss arising from changes in demographic assumptions	**(4,253)**	6,686
Actuarial loss arising from changes in financial assumptions	**388**	9,120
	13,367	18,040

Movement in present value of defined benefit obligation:	2018	2017
Defined benefit obligation at beginning of the year	**322,879**	257,946
Current service cost	**50,834**	43,423
Interest cost	**11,835**	10,022
Actuarial loss arising from experience	**17,232**	2,234
Actuarial (gain) loss arising from changes in demographic assumptions	**(4,253)**	6,686
Actuarial loss arising from changes in financial assumptions	**388**	9,120
Benefits paid	**(10,147)**	(6,552)
Defined benefit obligation at end of the year	**388,768**	322,879

(All amounts in Saudi Riyals thousands unless otherwise stated)

22 Employees' benefits (continued)

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

	2018	2017
Discount rate	**4.25%**	3.75%
Salary escalation rate	**4%**	3.5%
In service mortality	**Employers' Groups reinsurance rates**	Employers' Groups reinsurance rates
Withdrawal before normal retirement age	**Age-wise**	Age-wise

The weighted average duration of the defined benefit obligation as at December 31, 2018 is 11.5 years (December 31, 2017: 14.1 years).

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

Discount rate:

	2018	2017
1% increase in discount rate	**348,217**	282,548
1% decrease in discount rate	**437,464**	372,444

Salary escalation rate:

	2018	2017
1% increase in salary escalation rate	**438,634**	372,644
1% decrease in salary escalation rate	**346,518**	281,613

Voluntary exit rate:

	2018	2017
5% increase at each age	**372,879**	307,130
5% decrease at each age	**402,077**	334,050

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.

22.2 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 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 2018, the Company has vested 40,800 shares to eligible employees due for entitlement (December 31, 2017: 52,800 shares).

The carrying amount of the liability relating to the ESOP at December 31, 2018 was Saudi Riyals 6.2 million (2017: Saudi Riyals 7.1 million).

(All amounts in Saudi Riyals thousands unless otherwise stated)

22 Employees' benefits (continued)

22.3 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:

	2018	2017
Current portion (included in accrued expenses and other liabilities)	1,222	1,142
Non-current portion	114,341	89,000
	115,563	90,142

23 Accrued expenses and other liabilities

	Note	2018	2017
Accrued bonus		71,560	106,202
Accrued customer rebates		46,269	38,086
Customer advances		13,743	13,824
Social security payable		9,197	8,426
Withholding tax and value added tax payable		897,382	16,809
Accrued expenses		147,316	254,548
Dividend payable		1,120	393
Other		9,612	7,113
		1,196,199	445,401
Due to related parties	26	229,791	164,992
		1,425,990	610,393

24 Zakat and income tax

24.1 Charge for the year

Zakat and tax for the year is as follows:

	2018	2017
Zakat for the year	37,438	27,148
Income tax for the year	236,059	280,894
Deferred tax income for the year	(97,790)	(219,363)
Zakat in respect of preceding year	6,703	2,539
Income tax in respect of preceding year	99	(1,260)
	182,509	89,958

Income tax and deferred tax income has been recognised as follows:

	2018	2017
Statement of profit or loss:		
Income tax	236,158	279,634
Deferred tax	(95,785)	(216,657)
	140,373	62,977
Statement of comprehensive income – deferred tax income	(2,005)	(2,706)

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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

24 Zakat and income tax (continued)

Zakat for the year is attributable to the following components:

	2018	2017
Equity and reserves	11,098,201	11,372,443
Liabilities	41,524,756	40,498,654
Book value of assets	(34,331,901)	(32,405,359)
Carried forward losses	(12,300,952)	(15,121,992)
Zakat base	5,990,104	4,343,746
Zakat base attributable to general public	1,497,526	1,085,936
Zakat for the year	37,438	27,148

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

	2018	2017
Profit before tax	853,074	1,515,641
Profit subject to income tax (75%)	639,806	1,136,731
Income tax at applicable tax rate (20%)	127,961	227,346
Tax effect of non-deductible expenses:		
Withholding tax	10,670	5,457
Educational assistance	453	248
Thrift savings contributions	-	2,077
Others	1,190	1,331
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	99	(1,260)
Income tax for the year	140,373	62,977

The Company has filed its Zakat and income tax returns with General Authority for Zakat and Tax ("GAZT") up to the financial year 2017. 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 up to 2016 by raising additional Zakat, tax and delay fine demand of Saudi Riyals 1,349.7 million and Saudi Riyals 387.8 million, respectively. The Company had filed an appeal with the Higher Appeal Committee, now replaced by Higher Committee of Tax for Conflict and Disputes (HCTCD) against assessment for the years 2009 and 2010 and submitted a bank guarantee amounting to Saudi Riyals 43.5 million. The General Secretariat of Tax Committees (GSTC) has requested certain information from the Company in respect of the appeal relating to the years 2009 and 2010 in order to facilitate a hearing at the newly formed HCTCD. The Company has duly submitted the information to GSTC.

The Company's objection for the years 2011 to 2016 has been transferred by the GAZT to the recently formed Internal Settlement Committee (ISC). The ISC has requested certain information from the Company in respect of the appeal, which the Company has duly submitted. The management expects a favorable outcome of the objections against additional demands for the years 2009 to 2010 and 2011 to 2016 respectively.

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.

25 Zakat and tax asset and liability

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

	2018	2017
Balance at the beginning of the year	308,042	67,071
Provision for the current year	273,497	308,042
Adjustment for previous years	6,802	1,279
Payments	(314,845)	(68,350)
Balance at the end of the year	273,496	308,042

(All amounts in Saudi Riyals thousands unless otherwise stated)

25 Zakat and tax asset and liability (continued)

25.2 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
2018						
Balance at the beginning of the year	(1,930,262)	2,201,492	52,229	15,873	8,760	348,092
Tax income recognised in statement of profit or loss	170,905	(83,869)	7,775	435	539	95,785
Tax income recognised in statement of comprehensive income	-	-	2,005	-	-	2,005
Balance at the end of the year	(1,759,357)	2,117,623	62,009	16,308	9,299	445,882
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

26 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	2018	2017
Saudi Arabian Oil Company and its associated companies		
Purchase of goods including LPG shortfall and through-put fee	38,287,105	27,512,283
Sale of refined products and petrochemical products	39,105,085	29,833,620
Finance cost	115,071	97,761
Secondees' costs	76,962	51,472
Rentals	48,502	47,865
Services provided to shareholders	600	442
Services and other cost charges (credit), net	89,745	40,453
Dividend	164,250	-

	2018	2017
Sumitomo Chemical Company and its associated companies		
Purchase of goods	334,876	292,276
Sale of petrochemical products	6,606,598	3,692,655
Secondees' costs	152,868	161,491
Finance cost	88,672	70,724
Rentals	709	709
Services provided to shareholders	600	442
Services and other cost charges (credit), net	87,130	121,785
Dividend	156,038	-

(All amounts in Saudi Riyals thousands unless otherwise stated)

26 Related party transactions and balances (continued)

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

	Notes	2018	2017
Saudi Aramco and its associated companies			
Loans and borrowings	15	**2,777,990**	2,736,583
Trade and other payables	15	**8,849,034**	7,862,541
Trade and other receivables	15, 19	**5,273,578**	5,022,170
Accrued expenses and other liabilities	23	**167,887**	69,853
Employees benefits		**350**	312

	Notes	2018	2017
Sumitomo Chemical and its associated companies			
Loans and borrowings	15	**2,777,990**	2,736,583
Trade and other receivables	15, 19	**1,029,134**	802,748
Accrued expenses and other liabilities	23	**61,904**	95,139
Trade and other payables	15	**53,609**	81,821
Employees benefits		**800**	1,418

Transactions with key management personnel

Transactions with key management personnel on account of short-term benefits amounted to Saudi 18.7 million (2017: Saudi Riyals 14.17 million) and are included in secondees' cost above. The remuneration paid to directors amounted to Saudi Riyals 1.05 million (2017: Saudi Riyals 0.45 million).

27 Commitments

(i) As at December 31, 2018, letters of credit issued on behalf of the Company in the normal course of business amounted to Saudi Riyals 16.9 million (December 31, 2017: Saudi Riyals 24.6 million).

(ii) As at December 2018, capital commitments contracted for but not incurred amounted to Saudi Riyals 360.3 million (December 31, 2017: Saudi Riyals 1,185 million).

Also, see Note 13 for lease commitments.

28 Dividend

The Company's shareholders in their meeting held on April 24, 2018 approved the 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.

29 Approval and authorization for issue

These financial statements were approved and authorized for issue by the Board of Directors of the Company on Jumada Thani 14, 1440H (February 19, 2019).