

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Sahara Petrochemicals Company – Joint Stock Company
Al-Jubail - Kingdom of Saudi Arabia

Opinion

We have audited the consolidated financial statements of Sahara Petrochemicals Company (a Saudi Joint Stock Company) ("the Company") and its subsidiary (collectively referred to as "the Group") which comprise the consolidated statement of financial position as at December 31, 2018 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters are as follows:

Equity accounted investments

Refer to note 8 (d) for the accounting policy relating to equity accounted investee and note 11 for the related disclosures.

Key audit matter

As of December 31, 2018, investments in joint ventures and associates amounted to SR 2.5 billion (35.6% of total assets).

During the year ended December 31, 2018, triggers existed for impairment of Group's investment in one of its associates due to a prolonged fall in petrochemical prices which are expected to remain low in the foreseeable future. Given the external market conditions, the associate is expected to remain loss-making. Accordingly, the Group has carried out an exercise to reassess its recoverable amount which has been determined as SR Nil and the entire carrying value of the investment of SR 146.6 million has been fully impaired.

The Group has an another investment of 50% in one of its joint ventures. At the date of transition to IFRS as endorsed in the Kingdom of Saudi Arabia (i.e. January 1, 2016), the Group had impaired the said investment by SR 266.2 million as the carrying value exceeded the estimated recoverable amount due to sustained fall in petrochemicals prices. During the year ended December 31, 2018, following the resolution of a long-standing dispute between joint venture and its supplier of feedstock coupled with the rise in petrochemical prices resulted in a substantial increase in joint venture's profitability. Based on these facts, a revised assessment of recoverable amount of Group's investment in the said joint venture was carried out during the year 2018 based on which management concluded to reverse SR 213.5 million impairment after absorption of unabsorbed losses till March 31, 2018.

We considered these as key audit matters as the assessment of recoverable amount of investment required estimation and judgement about future production, costs and petrochemical prices as set out in the budgets. Moreover, estimations were also involved in selection of discount rate and growth rate. Further, the amount of impairment in investment in associate and reversal of impairment in investment in joint venture are material to the consolidated financial statements taken as a whole.

How the matter was addressed in our audit

Our audit procedures included the following:

- Assessing management's evaluation of factors underlying the impairment of investment in its associate and and reversal of the previously recognised impairment of investment in its joint venture including the conclusions reached;
- Evaluating the appropriateness of the value-in-use model adopted for the assessment of recoverable amount of investment in associate and joint venture;
- Checking, on sample basis, the accuracy and appropriateness of the input data used in the discounted cashflow model to supporting documentations;
- Assessing and challenging the reasonableness of key assumptions such as revenue growth rates, discount rate and future cost trends based on our knowledge of the business and industry and comparing the assumptions to the available market and industry data and historical trend analyses;
- Testing management's sensitivity analysis and stress test scenarios around key drivers of the cash flow forecasts and impairment test models;
- Testing management's discounted cashflow projections for mathematical accuracy;
- Assessing the adequacy and appropriateness of the related disclosures in Note 11 to these consolidated financial statements.

Proportionate consolidation of Al-Waha Petrochemicals Company	
<i>Refer to note B (a) for the accounting policy relating to proportionate consolidation and note 1 for the related disclosures.</i>	
Key audit matter	How the matter was addressed in our audit
<p>The Group holds 75% in Al-Waha Petrochemicals Company ("Al-Waha"). Following adoption of International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia, Al-Waha met the definition of a joint venture and, as such, was equity accounted since transition to IFRS. In October 18, 2018, Al-Waha entered into revised off-take agreements with Sahara Marketing Company (SMC - fully owned subsidiary of Sahara Petrochemicals Company) and Lyndol Bassef, (another shareholder of Alwaha) (here-in-after referred to as marketers). As per the agreement, Al-Waha could no longer sell its products directly to third parties. All of its sales are now routed through the marketers depending on the customer's geographical location. A re-assessment was carried out of this joint arrangement under "IFRS 11 – Joint Arrangement" given the changes in facts and circumstances, where it was assessed that Al-Waha no longer meets the criteria of a Joint Venture given all of the economic benefits of its assets are taken by its shareholders and it is dependent on its shareholders purchases to generate cash in order to settle its liabilities. Based on that, Al-Waha is assessed as a Joint Operation and accordingly ceased to be equity accounted from October 18, 2018. As of December 31, 2018, Al-Waha is proportionately consolidated in these consolidated financial statements.</p> <p>We considered this as a key audit matter because of its significance and the degree of judgement involved in assessing investment in Al-Waha as a joint operation. The presentation of these consolidated financial statements changed significantly after the said assessment and reclassification.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - Assessing management judgement as to existence of joint control that impacts classification of the investment in Al-Waha and the accounting method (proportionate consolidation) by: - Reviewing the revised agreement with the marketers to ensure that joint control is established to reclassify investment in Al-Waha as a joint operation; - Independently assessing the requirements of IFRS 11 to ensure all criteria required to reclassify investment in Al-Waha are met. - Assessing the adequacy and appropriateness of the related disclosures in Note 1 and 8 to these consolidated financial statements.

Adoption of "IFRS 15 – Revenue from contracts with customers"	
<i>Refer to note 8 (g) for the accounting policy relating to revenue recognition and note 5 for the related disclosures.</i>	
Key audit matter	How the matter was addressed in our audit
<p>The Group adopted IFRS 15 "Revenue from contracts with customers" with effect from January 1, 2018 which supercedes the requirements of "IAS 18 – Revenue".</p> <p>Management performed a detailed analysis of revenue contracts to identify differences between the requirement of the two standards, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with the separation of different performance obligations that there may be within a given contract. Management also assessed the additional disclosures required to be made by the new standard in these consolidated financial statements.</p> <p>We identified the recognition of revenue as per requirements of IFRS 15 as a key audit matter because revenue is one of the key performance indicators of the Group and the application of IFRS 15 may require judgments and the use of significant assumptions by the management.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - Reviewing management detailed analysis of its revenue streams and how the new accounting standards impact the group; - Gaining an understanding of management's approach to the implementation of any changes to the accounting policy; - Obtaining the understanding of the nature of the revenue contracts used by the Group, tested a sample of representative sales contracts to confirm our understanding and assess whether or not management's application of IFRS 15 requirements are in accordance with IFRS 15; - Testing the design of relevant processes established by management to ensure appropriate recognition of revenue; - Reviewing adequacy and appropriateness of the Group's disclosures on IFRS 15 included in these consolidated financial statements.

Adoption of "IFRS 9 – Financial Instruments"	
<i>Refer to note 8 (f), 8 (g) and 8 (h) for the accounting policy relating to financial instruments and note 5 for the related disclosures.</i>	
Key audit matter	How the matter was addressed in our audit
<p>The Group adopted IFRS 9 "Financial Instruments" with effect from January 01, 2018 which supercedes the requirements of IAS 39 "Financial Instruments – recognition and measurement".</p> <p>IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.</p> <p>The Group assesses at each reporting date whether the financial assets carried at amortised cost are credit-impaired. The Group's management has applied a simplified expected credit loss ("ECL") model to determine the allowance for impairment of trade receivables. The ECL model involves the use of various assumptions, macro-economic factors and study of historical trends relating to the Group's trade receivables collection experience.</p> <p>We considered this as a key audit matter due to the judgements and estimates involved in the application of the expected credit loss model.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - Reviewing management detailed analysis of impact of IFRS 9 in terms of the classification and measurement of its financial assets and liabilities and understood the approach taken towards implementation; - Assessing the ECL model developed by management by reviewing and challenging the reasonableness of the methodology in comparison to accepted best practice. - Testing key assumptions such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also considered the incorporation of forward looking factors to reflect the impact of future events on expected credit losses; - Reviewing adequacy and appropriateness of Group's disclosure on IFRS 9 included in these consolidated financial statements.

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 consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to communicate the matter to those charged with governance.

Responsibilities of management and Those Charged with Governance ("TCWG") for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia, other standards and pronouncements endorsed by SOCPA and Regulations of Companies requirements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



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material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For Dr. Mohamed Al-Amri & Co.

Gihad M. Al-Amri
Certified Public Accountant
Registration No. 362

February 27, 2019 G
Jumada "II" 22, 1440 H



SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018

Expressed in Saudi Arabian Riyals in thousands

	Note	2018 (Note 1)	2017
ASSETS			
Non-Current Assets			
Property, plant and equipment	9	2,403,728	126,567
Intangible assets	10	25,830	20,528
Investments in joint venture and associates	11	2,499,042	3,721,942
Long-term investments	12	234,099	242,384
Other non-current assets	13	401,861	425,209
Total Non-Current Assets		5,564,560	4,536,630
Current Assets			
Inventories	14	143,252	-
Trade receivables	15	130,522	-
Prepayments and other current assets	16	114,505	37,827
Murabaha deposits	17	-	775,000
Cash and cash equivalents	18	1,071,163	513,913
Total Current Assets		1,459,442	1,326,740
Total Assets		7,024,002	5,863,370
EQUITY AND LIABILITIES			
Equity			
Share capital	19	4,387,950	4,387,950
Statutory reserve		335,240	285,158
Other reserves	20	(15,006)	(7,341)
Retained earnings		266,057	692,998
Total Equity		4,974,241	5,358,765
Non-Current Liabilities			
Long-term borrowings	21	1,225,670	291,667
Deferred income	22	61,294	-
Employees' end of service benefits	23	146,299	99,757
Derivative financial instruments	24	5,290	2,853
Decommissioning liability	25	23,154	-
Total Non-Current Liabilities		1,461,707	394,277
Current Liabilities			
Current portion of long-term borrowings	21	156,729	38,889
Trade payables	26	41,982	3,400
Accrued expenses and other current liabilities	27	138,195	34,422
Dividend payable	41	219,398	-
Provision for zakat	28	31,750	33,617
Total Current Liabilities		588,054	110,328
Total Liabilities		2,049,761	504,605
Total Equity and Liabilities		7,024,002	5,863,370

The accompanying notes 1 through 45 form an integral part of these consolidated financial statements.

SAHARA PETROCHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in Saudi Arabian Riyals in thousands

	Note	2018 <i>(Note 1)</i>	2017
Sales	37	210,058	-
Cost of sales	29	(231,473)	-
Gross loss		(21,415)	-
General and administrative expenses	30	(65,286)	(33,067)
Selling and distribution expenses	31	(7,892)	-
		(94,393)	(33,067)
Financial income	32	37,976	29,642
Share of profit from joint venture and associates	11	542,118	490,117
Other income / (expenses), net	33	72,061	(181)
Operating profit		557,762	486,511
Finance cost	34	(25,780)	(7,632)
Profit before Zakat		531,982	478,879
Zakat charge	28	(31,160)	(34,353)
Net profit for the year		500,822	444,526
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value of derivative financial instruments designated as hedge	20.2	1,241	(1,216)
Share of other comprehensive income / (loss) of joint ventures and associates	20.2	7,565	(5,151)
Items that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of financial assets at fair value through other comprehensive income	20.1	(10,266)	(5,922)
Re-measurement loss on the employees' end of services benefits	20.3	(6,205)	(292)
Share of other comprehensive loss of joint ventures and associates		-	3,571
Total other comprehensive loss for the year		(7,665)	(9,010)
Total comprehensive income for the year		493,157	435,516
Earnings per share:			
Basic and diluted (Saudi Arabian Riyal)	35	1.14	1.01

The accompanying notes 1 through 45 form an integral part of these consolidated financial statements.

SAHARA PETROCHEMICALS COMPANY
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in Saudi Arabian Riyals in thousands

	Share capital	Statutory reserve	Other reserves			Retained earnings	Total
			Cash flow hedge reserve	Fair value reserve	Actuarial gain or loss reserve		
Balance as at January 1, 2017	4,387,950	240,705	(6,873)	8,542	-	622,021	5,252,345
Profit for the year	-	-	-	-	-	444,526	444,526
Other comprehensive (loss) / income for the year	-	-	(6,367)	(5,922)	3,279	-	(9,010)
Total comprehensive (loss) / income for the year	-	-	(6,367)	(5,922)	3,279	444,526	435,516
Transfer to statutory reserve	-	44,453	-	-	-	(44,453)	-
Dividend	-	-	-	-	-	(329,096)	(329,096)
Balance as at December 31, 2017	4,387,950	285,158	(13,240)	2,620	3,279	692,998	5,358,765
Profit for the year	-	-	-	-	-	500,822	500,822
Other comprehensive income / (loss) for the year	-	-	8,806	(10,266)	(6,205)	-	(7,665)
Total comprehensive income / (loss) for the year	-	-	8,806	(10,266)	(6,205)	500,822	493,157
Transfer to statutory reserve	-	50,082	-	-	-	(50,082)	-
Dividend	-	-	-	-	-	(877,681)	(877,681)
Balance as at December 31, 2018	4,387,950	335,240	(4,434)	(7,646)	(2,926)	266,057	4,974,241

The accompanying notes 1 through 45 form an integral part of these consolidated financial statements.

SAHARA PETROCHEMICALS COMPANY
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
Expressed in Saudi Arabian Riyals in thousands

	Note	2018 (Note 1)	2017
Cash flows from operating activities			
Net profit before zakat		531,982	478,879
<i>Adjustment for non-cash items:</i>			
Depreciation on property, plant and equipment	9	52,089	8,226
Amortization of intangible assets	10	2,128	2,019
Share in net income of equity accounted investees	11	(542,118)	(490,117)
Reversal of impairment of investment in joint ventures and associates	11, 33	(213,468)	-
Impairment of investments in associates and joint ventures	11, 33	146,603	-
Finance cost		25,780	7,632
Amortization of HOP assets	13	2,389	1,661
Amortization of deferred revenue	22	(1,155)	-
Interest income from advances to joint ventures and associates		(2,909)	(4,539)
Loss on disposal of property and equipment	33	4	2
Provision for employees' end of service benefits	23	13,855	11,881
Other non-operating income		(8,021)	(81)
		<u>7,159</u>	<u>15,563</u>
<i>Increase in current assets</i>			
- Inventories		31,802	
- Trade receivables		113,032	
- Prepayments and other current assets		76,230	15,084
<i>Increase in current liabilities</i>			
- Trade payables		(22,654)	(864)
- Accrued expenses and other current liabilities		(39,398)	(27,725)
Cash generated from operations		<u>166,171</u>	2,058
Zakat paid	28	(42,027)	(36,236)
Finance cost paid		(37,804)	(2,566)
Employees' end of service benefits-paid	23	(1,316)	(1,131)
Net cash generated from / (used in) operating activities		<u>85,024</u>	<u>(37,875)</u>
Cash flows from investing activities			
Murabaha deposits		775,000	(475,000)
Long term investments		(1,981)	35,576
Dividends received from joint ventures and associates	11	345,570	490,144
Additions to property, plant and equipment	9	(124,354)	(88,698)
Additions to intangible assets	10	(1)	(10)
Loans advanced to a joint venture	11	-	(27,750)
Investments in joint ventures and associates	11	(242,000)	-
Deductions from employees long term advances	13	30,028	14,154
Additions to other non-current assets	13	(43,922)	(762)
Proceeds from disposal of property, plant and equipment		631	-
Net cash generated from / (used in) investing activities		<u>738,971</u>	<u>(52,346)</u>
Cash flows from financing activities			
Repayment of long-term borrowings		(97,809)	(144,444)
Dividends paid	41	(658,283)	(329,096)
Net cash used in financing activities		<u>(756,092)</u>	<u>(473,540)</u>
Net change in cash and cash equivalents		<u>67,903</u>	<u>(563,761)</u>
Effect of proportionate consolidation of Al Waha	1	489,347	-
Cash and cash equivalents at the beginning of the year		<u>513,913</u>	1,077,674
Cash and cash equivalent at the end of the year		<u>1,071,163</u>	<u>513,913</u>

The accompanying notes 1 through 45 form an integral part of these consolidated financial statements.

SAHARA PETROCHEMICALS COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
Expressed in Saudi Arabian Riyals in thousands

1. CORPORATE INFORMATION

Sahara Petrochemicals Company ("the Company") is a Saudi Joint Stock Company and registered in the Kingdom of Saudi Arabia, operating under Commercial Registration ("CR") No. 1010199710 issued in Riyadh on Jumada'l 19, 1425 H (July 7, 2004).

The Company is principally involved in investing in industrial projects, especially in the petrochemicals and chemical fields and to own and execute projects necessary to supply raw materials and utilities.

The registered address of the Company is P.O. Box 251, Riyadh 11411, Kingdom of Saudi Arabia. Sahara Petrochemicals Company is referred to as "the Company" and together with its subsidiaries as "the Group" throughout these consolidated financial statements.

Subsidiaries

The Company holds 100% shares of Sahara Marketing Company ("SMC") ("a subsidiary"). SMC is a limited liability company and registered in the Kingdom of Saudi Arabia, operating under CR No. 2055104498 issued in Jubail on Rabi al Awal 19, 1438-H (December 18, 2016). The principle activities of SMC are wholesale of industrial chemicals and petrochemicals, export and commercial undertakings, and marketing on behalf of third parties. SMC has commenced its commercial operations during the year.

The Company holds 100% shares of Promising Business Company ("PBC") ("a subsidiary"). PBC is a single member company and registered in the Kingdom of Saudi Arabia, operating under CR No. 2055124398 issued in Jubail on Rabi al Thani 6, 1440-H (December 13, 2018). The principle activity of PBC is wholesale of chemicals and fertilizers. In December 2018, PBC purchased 30% shares in Khair Inorganic Chemicals Industries Company ("Inochem") on behalf of the Company.

Joint operations

The Company holds 75% in Al-Waha Petrochemicals Company ("Al-Waha"). Following adoption of IFRS and as per guidance of IFRS 11 – Joint Arrangements, Sahara was assessed as having joint control with the other shareholder, Lyondel Basell ("LYB"), in Al-Waha. Al-Waha met the definition of a joint venture and, as such, was equity accounted since transition to IFRS. In October 2018, Al-Waha entered into revised off-take agreements with its current marketer and signed a new off-take agreement with SMC, a fully owned subsidiary of the Company. As per the new off-take agreements, Al-Waha could no longer sell its products directly to third parties. All of its sales are routed through SMC and the other shareholder in Al-Waha, depending on the customer's geographical location. A re-assessment was carried out of this joint arrangement under IFRS 11 given the changes in facts and circumstances, where it was assessed that Al-Waha no longer meets the criteria of a Joint Venture given all of the economic benefits of its assets are taken by its shareholders and it is dependent on its shareholders purchases to generate cash in order to settle its liabilities. Based on that Al-Waha is assessed as a Joint Operation from October 2018 and accordingly proportionately consolidated and cease to be equity accounted from the date of signing the revised off-take agreements with SMC and LYB.

Equity accounted investees

The Company holds equity interests of 50% in a joint ventures, Sahara and Ma'aden Petrochemicals ("SAMAPCO"), which is primarily involved in manufacturing of petrochemical products.

The Company also holds equity interests in following associates which are primarily involved in manufacturing of petrochemical products:

	<u>Effective interest %</u>
Tasnee and Sahara Olefins Company ("TSOC")	32.55
Saudi Acrylic Acid Company ("SAAC")	43.16
Khair Inorganic Chemicals Industries Company ("Inochem")	30.00

In 2013, the Group started discussions / negotiations with Saudi International Petrochemical Company (SIPCHEM) for Proposed Merger (the Merger) between the two companies. In 2014, the Group called off its decision because implementing the Merger through a structure acceptable to both companies and available under the regulatory framework at that time was not available. However, in March 2018, the Group again started discussions with SIPCHEM in relation to the Proposed Merger in the light of the recent changes in the regulatory framework.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
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Based on the above discussion, on October 3, 2018 the Group entered in to a non-binding memorandum of understanding with SIPCHEM (the "MOU") to effect a business combination. Under the terms of the MOU and in order to implement the proposed business combination, SIPCHEM, following the execution of the binding implementation agreement, will make an offer to all shareholders of the Group to acquire all their shares in the Group. SIPCHEM will issue, and each shareholder of the Group will receive, 0.8356 new SIPCHEM shares for each share of the Group held by them. The business combination will result in SIPCHEM having an increased share capital of 733,333,332 shares, of which 366,666,666 shares, representing 50% of the increased share capital, will be held by the shareholders of the Group and 366,666,666 shares, representing 50% of the increased share capital, will be held by SIPCHEM shareholders. The Exchange Ratio and the resulting ownership split has been agreed as a result of an extensive mutual due diligence and valuation exercise. Pursuant to the MOU, the Group and SIPCHEM will continue to advance discussions in relation to the proposed business combination and work towards entering into a binding implementation agreement not later than February 28, 2019 unless the parties agree to extend such period.

Subsequently on December 5, 2018, the Group entered into a legally binding agreement with SIPCHEM to implement a business merger of equals by way of SIPCHEM making a recommended offer to acquire all of the issued shares in Group in exchange for the issue of new shares in SIPCHEM.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on historical cost basis, with exception of financial assets at fair value through other comprehensive income and derivative financial instruments that are measured at fair value and employees' end of service benefits obligation which is measured at present value using Projected Unit Credit Method (PUCM).

4. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional and presentation currency of the Group. All amounts have been rounded to the nearest thousands, unless otherwise stated.

5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

- **IFRS 15 – 'Revenue from Contracts with Customers'**
The International Accounting Standards Board (IASB) has issued a new standard for the recognition of revenue. This has replaced IAS 18 which covered contracts for goods and services and IAS 11 which covered construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption.

The Group has adopted this standard with effect from January 1, 2018. There are no material impacts of adoption of the said IFRS on the Group's consolidated financial statements. For accounting policy, refer note 8 to these financial statements.

- **IFRS 9 – 'Financial Instruments'**
In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" that replaces IAS 39 "Financial Instruments": Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

The Group has complied with the requirements of IFRS 9 in preparation of the consolidated financial statements. The impacts of adopting IFRS 9 on the Group are as follows:

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Classification and measurement

IFRS 9 establishes a principles-based approach to determining whether a financial asset should be measured at amortized cost or fair value, based on the cash flow characteristics of the asset and the business model in which the asset is held. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income ("FVOCI") and Fair Value through Profit or Loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, refer Note 8.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at January 1, 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates.

Financial assets	Original classification under IAS 39	New Classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Long-term investments	Available for sale	FVOCI (equity) election	200,384	200,384
Long-term investments	Loans and receivables	Amortized cost	42,000	42,000
Murahaba Deposits	Loans and receivables	Amortized cost	775,000	775,000
Cash and bank balances	Loans and receivables	Amortized cost	513,913	513,913
Advances to equity accounted investees	Loans and receivables	Amortized cost	118,410	118,410
Due from related parties	Loans and receivables	Amortized cost	17,311	17,311
Other receivables	Loans and receivables	Amortized cost	15,948	15,948

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

Based on the Group's assessment, the introduction of the "expected credit loss" model for the assessment of impairment of financial assets held at amortized cost is not expected to have a material impact on the Group's results as at January 1, 2018 and December 31, 2018, given the low exposure to counterparty default risk as a result of the credit risk management processes that are in place.

Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The adoption of the new standard would not change the amounts recognized in relation to existing hedging arrangements as the Group has taken the accounting policy choice, permitted under the IFRS 9 transition requirements, to continue to account for all hedges under IAS 39 Financial Instruments: Recognition and Measurement.

For accounting policy, refer note 8 to these financial statements.

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6. NEW STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

• **IFRS 16 – ‘Leases’**

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

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

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

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Mandatory application date / Date of adoption by the Group

Mandatory for financial years commencing on or after January 1, 2019.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group is currently assessing the impact on the Group’s consolidated financial statements.

• **Annual improvements to IFRSs 2015–2017 Cycle**

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not premeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party premeasured the previously held interest at fair value.

IAS 12 Income Taxes - clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.

IAS 23 Borrowing Costs - clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

IFRIC 23 Uncertainty over Income Tax Treatments - seeks to bring clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether it’s probable that the tax authority will accept the Group’s chosen tax treatment.

• **Other amendments**

The following amendments to standards are not yet effective and neither expected to have a significant impact on the Group’s financial statements:

- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)

7. USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with generally accepted accounting standards requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the consolidated financial statements are as follows:

i) Useful lives of property, plant and equipment

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 and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

ii) Joint arrangement

The Group is party to the SAMAPCO (50% shareholding), a joint arrangement. The Group has joint control over this arrangement as unanimous consent is required from all parties to the agreements to direct the activities that significantly affect the returns of the arrangement, such as annual production budgets, capital expenditures, incurrence of indebtedness, election of key management team members, approval of pricing policies and admission of new parties. The classification of this joint arrangement as a joint venture is driven by the rights and obligations of the parties arising from the arrangement rather than the legal form of the arrangement. SAMAPCO meet the definition of a joint venture as they are structured as limited liability company and provide the Group and the party to the agreement with rights to its net assets under the arrangement. The party is not substantially the only source of cash flows contributing to the continuity of the operations of the joint venture.

iii) Impairment of non-financial assets

Non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-current assets other than intangible assets and that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of profit or loss and other comprehensive income. Impairment losses recognized on intangible assets and available for sale securities are not reversible.

iv) Impairment of investments in equity-accounted investees

An impairment loss in respect of investments in equity-accounted investees is measured by comparing the recoverable amount of the investment with the carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

v) Impairment of financial assets

The Group assesses on a forward looking basis the Expected Credit Losses ("ECL") associated with its debt instruments as part of its financial assets, which are carried at amortised cost. The ECL is based on a 12-month ECL and a life time ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. For trade

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receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognised.

vi) Provision for slow moving inventory items

The management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the reporting date to the extent that such events confirm conditions existing at the end of year.

vii) Employees' end of service benefits

The cost of employees' end of service benefits is 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, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the Kingdom of Saudi Arabia.

viii) Provisions

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Management's estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination, as well as on the technology required for clean up. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's judgement in estimating the expected cash outflows for severance payments and site closures or other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

ix) Provision for zakat

The Group is subject to zakat in accordance with the General Authority of Zakat and Tax ("GAZT") regulations. Zakat computation involves relevant knowledge and judgment of the zakat rules and regulations to assess the impact of zakat liability at period end. This liability is considered an estimate until the final assessment by GAZT is carried out until which the Group retains exposure to additional zakat liability.

8. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies adopted and consistently applied, except those mentioned in note 5, to all periods presented are as follows:

a) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company, its 100% owned subsidiaries (SMC and PBC) for the year ended December 31, 2018 and proportionate consolidation of a joint operation (75% of Al-Waha) for the three months period ended December 31, 2018.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent the Group. All material intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between SMC, PBC, Al-Waha and the Company are eliminated in full or proportionate basis on consolidation.

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Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The cost of acquisition is measured as the aggregate of the consideration transferred, which is measured at fair value at the date of acquisition, and amount of any non-controlling interest in the acquiree. Transaction costs are expensed as incurred during the year and included in the general and administrative expenses.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in consolidated profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired in excess of the aggregate consideration transferred, the group re-assess whether it has correctly identified all of the assets acquired and all the liabilities assumed and review the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in a excess of the fair value of the net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss. For the purpose of impairment testing of goodwill acquired in the business combination, it is allocated to each of the group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in consolidated profit or loss immediately.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The gains or losses resulting from sale of shares in subsidiaries, when the Group continues to exercise control over the respective subsidiary, are booked in the reserve for the results of sale / purchase of shares in subsidiaries.

Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangements, have right to the assets and obligations for the liabilities relating the the arrangement. The Group has classified its interest in Al-Waha as joint operations which is proportionatly consolidated in the financial statements.

b) Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of items of property, plant and equipment. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised and included in the cost of that asset. Borrowing costs are capitalised as part of the cost for a qualifying asset during the construction period when:

- expenditures for the asset are being incurred;
- borrowing costs are being incurred; and
- activities necessary for its intended use are in progress.

The capitalisation period begins on the date of approval of the investment project and ends with the completion of the activities necessary to prepare the qualifying asset for its intended use or sale.

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Depreciation is charged to profit and loss items under the consolidated statement of profit and loss and other comprehensive income on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment. The estimated useful lives of assets for current and comparative periods are as follows:

	<u>Years</u>
Buildings and leasehold land improvements	33
Plant, machinery and equipment	2-25
Furniture, fixtures and office equipment	3-10
Vehicles	4

Capital work in progress is stated at cost less impairment, if any, and is not depreciated until the asset is brought into commercial operations.

Leasehold land improvements are amortized on a straight line basis over the shorter of its useful life or the term of the lease.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of profit and loss and other comprehensive income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to profit and loss items under the consolidated statement of profit and loss and other comprehensive income as and when incurred.

Turnaround costs - Planned turnaround costs are deferred and amortized over the period until the date of the next planned turnaround which is usually within 2 to 3 years. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such costs.

Spare parts having useful life of more than 1 year have been capitalized as part of plant, machinery and equipment and depreciated over remaining useful life of the plant.

Where an item of property, plant and equipment is comprised of major components having different useful lives, each component is recognised as a separate item of property, plant and equipment. The carrying amount of each component accounted for as a separate asset is derecognised when replaced.

The assets' residual values and useful lives are reviewed, at the end of each reporting period. If expectation differs from previous estimate, the changes shall be accounted for prospectively.

c) Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

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

The useful life of an intangible asset with a definite life is reviewed regularly to determine whether there is any indication that its current life assessment continues to be supportable. If not, the change in useful life assessment is made on a prospective basis. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually either individually or at the aggregated CGU level.

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

Software costs

Expenditure to acquire computer software and licenses are capitalized and amortized using the straight-line method over the useful life of five to twenty years.

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

d) Investment in joint ventures and associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights. Joint ventures are those entities over whose activities the Group has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method.

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition change in the group's share of the investee's net assets. Group recognise share of profits or losses of the investee in its profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

If the Group's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group discontinues recognizing its share of further losses. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised under profit and loss in the consolidated statement of profit and loss and other comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount.

Goodwill

On acquisition of the investment, any difference between the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
- Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

e) Financial assets

Classification of financial assets depends on the Group's business model for managing its financial assets and the contractual terms of the cash flows. The Group classifies its financial assets as:

- financial assets measured at amortised cost, or
- financial assets measured at fair value.

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Gains or losses of assets measured at fair value will be recognised either through profit or loss or Other Comprehensive Income ("OCI") in the consolidated statement of profit or loss and other comprehensive income.

The Group initially recognises financial assets on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Initial measurement

Financial assets are initially measured at their fair value plus transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are recognised in the consolidated statement of profit or loss and other comprehensive income.

Subsequent measurement

Debt instruments

The Group recognises three classifications to subsequently measure its financial instruments:

Amortised cost

Financial assets held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest (SPPI), are measured at amortised cost. A gain or loss on a debt instrument subsequently measured at amortised cost, and not part of a hedging relationship, is recognised in the profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Trade receivables which are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interests are measured at amortised cost.

Fair Value through Other Comprehensive Income ("FVOCI")

Financial assets held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in the profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI, is reclassified from equity to the profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/expense.

For investments in the equity instruments that are not held for trading, this will depend on the whether the group has made an irrecoverable election at the time of initial recognition to account for the equity instrument at FVOCI.

Fair Value through Profit or Loss ("FVPL")

Financial assets that do not meet the criteria for subsequent recognition at amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and which is not part of a hedging relationship is recognised and presented net in the profit or loss in the period in which it arises.

De-recognition

A financial asset or a part of a financial asset is de-recognised when:

- The rights to receive cash flows from the asset have expired, or;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - The Group has transferred substantially all the risks and rewards of the asset, or;
 - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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Impairment

The Group assesses on a forward looking basis the Expected Credit Losses ("ECL") associated with its financial assets, which are carried at amortised cost or FVOCI. The ECL is based on a 12-month ECL and a life time ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. For trade receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognised.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability. If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

f) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified under either of the below two classes:

- Financial liabilities at FVPL; and
- Other financial liabilities measured at amortised cost using the EIR method.

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

Subsequent measurement

Financial liabilities at FVPL continue to be recorded at fair value with changes being recorded in the consolidated statement of profit or loss.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR method. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

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They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

De-recognition

A financial liability is derecognised when the obligation under the liability is settled or discharged. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

g) Offsetting of financial instruments

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

h) Other receivables

Other receivables include advances to suppliers, receivables from employees, accrued profit on Murahaba deposits and other such receivables which are not 'trade' receivables. Other receivables are stated at amortized cost which generally corresponds to their face value. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the consolidated statement of profit or loss and other comprehensive income and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recovery of receivable amounts previously written off is credited to the consolidated statement of profit or loss and other comprehensive income.

i) Inventories

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

Purchase cost comprises of a) The purchase price of the inventories; and b) Landed costs components which typically include import duties and other taxes if applicable, transportation costs, handling costs and other directly attributable costs.

Conversion costs include costs directly related to the units of production, such as direct labour, sub-contracted work and expenses of direct production cost centres.

Abnormal inventory losses due to quality or other issues and overheads incurred during unplanned maintenance / shut down year are excluded from inventory cost. The allocation of overheads at year end for the purpose of inventory valuation are based on the higher of normal capacity or actual production for the year. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale (such as marketing, selling and distribution). Appropriate provisions are made for slow moving and redundant inventories.

j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts.

k) Statutory reserve

In accordance with the Articles of Association, the Group has established a statutory reserve by the appropriation of 10% of net profit until the reserve equals 50% of the share capital. However, the shareholders of the Group, in its annual general assembly held in April 2017, approved the change of percentage of statutory reserve from 50% to 30% to align with the requirements of the Regulations of Companies and the Group has already made amendments to the Articles of Association. This reserve is not available for dividend distribution.

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l) Deferred income

Advances received from SAMAPCO, an associate, relating to usage of certain facilities are included in non-current liabilities as deferred revenue and are credited to profit or loss on a straight-line basis over the period of the contract.

m) Employees end of service benefits and post-employment benefits

i) Short-term obligations

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

ii) Employees' end of service benefits

The Group provides its employees with end of service benefit scheme calculated in accordance with Saudi Arabian labour regulations. Defined benefit liability with respect to employees' end of service benefits is determined based on actuarial assumptions as the present value of the defined benefit obligation using the projected unit credit method (PUCM). Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Re-measurements are not reclassified to profit or loss in subsequent periods. The liability is calculated, as the current value of the vested benefits to which the employee is entitled, should the employee leave at the reporting date. Payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labour law of Saudi Arabia.

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability. The Group recognizes the following changes in the net defined benefit obligation in the consolidated of profit or loss:

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

iii) Employees' home ownership program

The Group has an employees' home ownership program called Sahara home ownership program (SHOP) under which eligible Saudi employees have the opportunity to buy residential units constructed by the Group through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment.

Costs relating to SHOP are recognized as a non-current prepaid employees benefit expense at time the residential units are allocated to the employees and are amortized over the period during which employees repay such residential unit costs.

iv) Vehicles to executive employees

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

n) Decommissioning liability

The Group's production of petrochemical products through construction and management of its petrochemical plant gives rise to obligation for plant closure and dismantling (collectively referred to as "decommissioning obligations"). The provision for decommissioning is discounted to its present value and capitalised as part of property, plant and equipment and then depreciated as an expense over the expected life-of-plant.

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o) Provisions

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on assets associated with that contract.

p) Zakat

The Group is subject to Zakat in accordance with the General Authority of Zakat and Tax ("GAZT") regulations. Provision for zakat for the Group is charged to profit and loss. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. The Group withholds tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividends payments to the foreign shareholder, as required under GAZT regulations.

q) Revenues

Direct sales - Marketers/Off takers

Revenue is recognized upon delivery or shipment of products, depending upon the contractually agreed terms, by which the control of the goods have been transferred to marketers/off takers and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods.

Marketers/off takers obtain control of the products when the goods are delivered or shipped to them (i.e. at the time of placing the goods on the vessels) and they have accepted the goods by signing the bill of lading. Revenue is recognized at that point in time. The portion of sales made through marketers/off takers are recorded at provisional prices agreed with such marketers/off takers at the time of shipment of goods, which are later adjusted based on actual selling prices received by the marketers/off takers from their final customers, after deducting the costs of shipping and distribution (settlement price). The Group estimates the variable consideration as the most likely amount based on available market information and recently published prices of petrochemical products. The Group includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the associated variable consideration is subsequently resolved.

Direct sales - Final customers

The Group recognises revenue when control of the products sold, transfers to the customer and considering the applicable shipping terms.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue arrangements are assessed against specific criteria to determine whether the Group is acting as a principal or agent.

Rights of return

When a contract with a customer provides a right of return of the good within a specified period, the Group accounts for the right of return when requested by the customer and contractual conditions are met.

r) Other income

Any other income is recognized when the realization of income is virtually certain and earned by the Group on its own account (acting as a principal). Furthermore, interest, and dividends are recognised on the following basis:

- Interest is recognised using effective interest method; and
- Dividends are recognised when the right to receive payment is established.

s) Expenses

i) Cost of sales

All expenses are recognized on an accrual basis. Operating costs are recognized on a historical cost basis. Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material,

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direct labor and other attributable overhead costs. Other costs such as selling costs are recorded as selling and distribution expenses while all remaining other costs are presented as general and administrative expenses.

ii) General and administrative expenses

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

iii) Selling and distribution expenses

These include any costs incurred to carry out or facilitate all selling activities at the Group. These costs typically include freight charges, logistics cost and marketing fee. These also include allocations of certain general overheads from the Parent Company.

Allocation of overheads between cost of sales, selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis.

t) Dividends

Interim dividends are recorded as liability in the period in which they are approved by the Board of Directors. Final dividends approved by the shareholders of the Group are recorded in the consolidated financial statements in the period in which are approved.

u) Leases

i) Finance leases

Leases of property and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

ii) Operating leases

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

v) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised as a profit or loss item in the consolidated statement of profit and loss and other comprehensive income. Foreign exchange gains and losses that relate to borrowings (if any) are presented in the consolidated statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income on a net basis within other income or other expenses. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

w) Segment reporting

A business segment is a group of assets, operations or entities:

- engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
- the results of its operations are continuously analysed by Chief Operating Decision Maker (the CODM) in order to make decisions related to resource allocation and performance assessment; and
- for which financial information is discretely available

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The Group's president is considered to be the CODM. Segment results that are reported to the president include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The details of Group's segments are presented in note 37 to these consolidated financial statements.

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

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

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

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9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, comprise of the following:

2018	Buildings and leasehold land improvements	Plant, machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Capital work in progress	Total
Cost:						
At January 1, 2018	123,039	-	37,107	1,950	15,928	178,024
Effect of proportionate consolidation of Al Waha (note 1)	342,908	2,736,713	2,248	189	40,073	3,122,131
Additions	-	2,490	156	-	121,708	124,354
Transfers in / (out)	-	78,148	1,348	-	(79,496)	-
Transferred to other non-current assets	-	-	-	-	(5,501)	(5,501)
Disposals	-	(2,280)	(31)	(221)	(630)	(3,162)
At December 31, 2018	465,947	2,815,071	40,828	1,918	92,082	3,415,846
Accumulated Depreciation:						
At January 1, 2018	(21,339)	-	(28,461)	(1,657)	-	(51,457)
Effect of proportionate consolidation of Al Waha (note 1)	(76,646)	(832,324)	(1,940)	(189)	-	(911,099)
Charge for the year	(6,412)	(42,231)	(3,275)	(171)	-	(52,089)
Disposals	-	2,280	26	221	-	2,527
At December 31, 2018	(104,397)	(872,275)	(33,650)	(1,796)	-	(1,012,118)
Net Book Value:						
As at December 31, 2018	361,550	1,942,796	7,178	122	92,082	2,403,728

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2017	Buildings and leasehold land improvements	Furniture, fixtures and office equipment	Vehicles	Capital work in progress	Total
Cost:					
At January 1, 2017	106,844	35,024	2,820	386,830	531,518
Additions	6	2,090	-	86,602	88,698
Transfers in / (out)	16,189	-	-	(16,189)	-
Transferred to other non-current assets	-	-	-	(441,315)	(441,315)
Disposals	-	(7)	(870)	-	(877)
At December 31, 2017	123,039	37,107	1,950	15,928	178,024
Accumulated Depreciation:					
At January 1, 2017	(17,769)	(24,365)	(1,972)	-	(44,106)
Charge for the year	(3,570)	(4,101)	(555)	-	(8,226)
Disposals	-	5	870	-	875
At December 31, 2017	(21,339)	(28,461)	(1,657)	-	(51,457)
Net Book Value:					
As at December 31, 2017	101,700	8,646	293	15,928	126,567

9.1 Allocation of depreciation

	Note	2018	2017
Cost of sales	29	44,851	-
General and administrative expenses	30	7,238	8,226
Total		52,089	8,226

- i) Administrative building and operational facilities of the Group are constructed on land leased under a renewable lease contract with the Royal Commission for Jubail and Yanbu (the "Royal Commission"). The lease term is for an initial period of 30 years commenced in 2006 and is renewable by mutual agreement of the parties.
- ii) During the year, Al Waha (Joint Operation "JO") has carried out major overhaul of the plant which has been transferred from capital work in progress to plant and machinery during the year. Turnaround cost is depreciated over a period of 2 years from the date of transfer to plant, machinery and equipment.
- iii) Capital work in progress represents the projects which are not yet completed and under progress at year end. These include various small projects which mainly includes management of change, firewater network upgrade and addition of a new bagging line.
- iv) At December 31, 2018, property, plant and equipment with net book value of SR 1,105 million (2017: SR nil) were mortgage as collateral to certain credit facilities (Refer note 21).
- v) The cost of fully depreciated assets which are currently in use amounts to SR 18.0 million (2017: SR 7.5 million).

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10. **INTANGIBLE ASSETS**

2018

Cost:

	Softwares	Goodwill *	Deferred cost	Total
At January 1, 2018	33,542	-	1,086	34,628
Effect of proportionate consolidation of Al Waha (note 1)	4,172	-	-	4,172
Additions for the year	1	300	-	301
Transfers from property, plant and equipment	5,501	-	-	5,501
At December 31, 2018	43,216	300	1,086	44,602

Accumulated Amortization:

At January 1, 2018	(13,014)	-	(1,086)	(14,100)
Effect of proportionate consolidation of Al Waha (note 1)	(2,544)	-	-	(2,544)
Charge for the year	(2,128)	-	-	(2,128)
At December 31, 2018	(17,686)	-	(1,086)	(18,772)

Net Book Value:

As at December 31, 2018	25,530	300	-	25,830
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*During 2018, the Group acquired 100% shareholding of Promising Business Company ("PBC") against a consideration of Saudi Riyal 1 million. The fair value of net assets of PBC were Saudi Riyal 0.7 million at acquisition date.

2017

Cost:

	Softwares	Goodwill	Deferred cost	Total
At January 1, 2017	33,532	-	1,086	34,618
Additions for the year	10	-	-	10
At December 31, 2017	33,542	-	1,086	34,628

Accumulated Amortization:

At January 1, 2017	(10,995)	-	(1,086)	(12,081)
Charge for the year	(2,019)	-	-	(2,019)
At December 31, 2017	(13,014)	-	(1,086)	(14,100)

Net Book Value:

As at December 31, 2017	20,528	-	-	20,528
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10.1 Allocation of amortization

	Note	2018	2017
Cost of sales	29	204	-
General and administrative expenses	30	1,924	2,019
Total		2,128	2,019

11. **INVESTMENTS IN JOINT VENTURES AND ASSOCIATES**

	Note	2018	2017
Investment in Joint ventures	11.1	349,055	1,723,999
Investment in associates	11.2	2,149,987	1,997,943
		2,499,042	3,721,942

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11.1 Investment in Joint Ventures (JVs)

	Note	2018	2017
Investment in JVs:			
Al Waha Petrochemicals Company	1 & 11.1.1	-	1,668,946
Sahara & Ma'aden Petrochemicals Company	11.1.2	291,956	-
		291,956	1,668,946
Advances to a JV:			
Sahara & Ma'aden Petrochemicals Company	11.1.3	57,099	55,053
		349,055	1,723,999

11.1.1 Al Waha Petrochemicals Company (Al Waha)

The Group has a 75% interest in Al Waha, a limited liability company and registered in the Kingdom of Saudi Arabia, is engaged in production and sale of propylene and polypropylene.

In 2018, Al-Waha investment converted from a JV to a Joint Operations ("JO") based on agreements with marketers. Refer to note 1. The Group's interest in Al Waha is accounted for using the equity method till September 30, 2018, after that Al Waha has been proportionately consolidated.

The tables below provide summarised financial information for Al Waha. The information disclosed reflects the amounts presented in the financial statements of Al Waha and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method if any, including fair value adjustments and modifications for differences in accounting policy as needed.

	2018 **	2017
Non-current assets	-	3,118,665
Current assets (excluding cash and cash equivalents)	-	720,251
Cash and cash equivalents	-	497,264
Total current assets		1,217,515
Non-current liabilities	-	(1,702,170)
Current financial liabilities (excluding trade payables and provisions)	-	(161,020)
Other current liabilities	-	(339,300)
Total current liabilities		(500,320)
Net Assets *	-	2,133,690

* The Group's share of net assets in Al Waha is not exactly equal to the percentage of shareholding to the share of net assets due to Zakat and tax adjustments.

** Figures of Al-Waha as at December 31, 2018 was not shown as the Group proportionately consolidates Al-Waha from quarter 4, 2018.

Reconciliation to carrying amount:

	Note	2018	2017
Balance as at January 1		1,668,946	1,617,492
Share of profit for the year		209,492	208,463
Dividends received	36	(114,435)	(156,505)
Share of other comprehensive income		5,633	(504)
Recognized as a joint operation **	1	(1,769,636)	-
Balance as at December 31		-	1,668,946

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Summarized statement of profit or loss of Al Waha:

	2018 ***	2017
Revenue	1,833,978	1,869,795
Cost of sales	1,353,560	1,330,952
Depreciation and amortisation	170,922	219,757
Finance cost	66,048	96,696
Interest Income	4,246	8,110
Zakat and income tax	18,221	26,806
Profit before zakat and income tax	292,697	296,619
Profit after zakat and income tax	274,476	269,813
Other comprehensive income / (loss)	7,509	(672)
Total comprehensive income	281,985	269,141

*** Figures of Al-Waha are for the period from January 1, 2018 to September 30, 2018.

The Group has no contingent liabilities or capital commitments relating to its interest in the JV as at December 31, 2018.

Al-Waha had contingent liability for bank guarantees issued in the normal course of the business amounting to Saudi Riyals 317.4 million as at December 31, 2017.

The capital expenditure contracted by Al-Waha but not yet incurred till December 31, 2017 was Saudi Riyals 36.1 million.

During the nine months period ended September 30, 2018, Al-Waha has declared and paid dividends amounting to Saudi Riyals 150.0 million (2017: Saudi Riyals 200.0 million).

11.1.2 Sahara and Ma'aden Petrochemical Company (SAMAPCO)

The Group has a 50% interest in SAMAPCO, a limited liability company and registered in the Kingdom of Saudi Arabia, is engaged in production and sale of Caustic soda, Chlorine and Ethyl Dichloride.

The Group's interest in SAMAPCO is accounted for using the equity method in these consolidated financial statements.

The tables below provide summarised financial information for SAMAPCO. The information disclosed reflects the amounts presented in the financial statements of SAMAPCO and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method if any, including fair value adjustments and modifications for differences in accounting policy as needed.

	2018	2017
Non-current assets	2,482,217	2,584,058
Current assets (excluding cash and cash equivalents)	312,480	274,973
Cash and cash equivalents	41,672	80,305
Total current assets	354,152	355,278
Non-current liabilities	(1,887,762)	(1,996,800)
Current financial liabilities (excluding trade payables and provisions)	(226,072)	(166,724)
Other current liabilities	(139,254)	(291,376)
Total current liabilities	(365,326)	(458,100)
Net Assets	583,281	484,436

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At the date of transition to IFRS (i.e. January 1, 2016), the Group impaired its investment in SAMAPCO by Saudi Riyals 266.2 million as the carrying value exceeded the estimated recoverable amount due to sustained fall in petrochemical prices.

During the year ended December 31, 2018, following resolution of a long-standing dispute with a supplier of its Ethylene feedstock, SAMAPCO's cost of production reduced substantially. This reduction in production cost was coupled with the rises in petrochemical prices which returned SAMAPCO to profitability. A revised assessment of recoverable amount of SAMAPCO was carried out which indicated that the entire Saudi Riyals 266.2 million impairment should be reversed. The future cash flows were discounted at a rate of 12% (January 1, 2016: 12%) in arriving at the recoverable amount of SAMAPCO.

The following table shows the amounts recognized in other income / (expenses) in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2018 in relation to reversal of impairment in SAMAPCO and recognition of previously unabsorbed profits and losses for periods up to March 31, 2018.

Reversal of impairment of investment	266,215
Unabsorbed losses for the year ended December 31, 2016	(32,341)
Unabsorbed losses for the year ended December 31, 2017	(22,461)
Unabsorbed other comprehensive income for the year ended December 31, 2017	272
Unabsorbed profits for the quarter ended March 31, 2018	1,783
Net impact in other income / (expenses) due to reversal of impairment	<u>213,468</u>

Reconciliation to carrying amount:

	Note	2018	2017
Balance as at January 1		-	-
Reversal of impairment	33	213,468	-
Share of profit		47,640	-
Increase due to valuation of interest free loan		30,848	-
Balance as at December 31		<u>291,956</u>	<u>-</u>

Summarized statement of profit or loss of SAMAPCO:

	2018	2017
Revenue	766,197	645,973
Cost of sale	549,570	524,932
Depreciation and amortisation	125,130	125,372
Finance cost	80,213	72,745
Financial income	1,199	402
Zakat	2,000	-
Profit / (loss) before zakat	100,845	(44,922)
Profit / (loss) after zakat	98,845	(44,922)
Other comprehensive income	-	546
Total comprehensive income / (loss)	<u>98,845</u>	<u>(44,376)</u>

The Group has provided a financial guarantee to Saudi Industrial Development Fund ("SIDF") on behalf of SAMAPCO against long-term borrowings from SIDF.

SAMAPCO has a contingent liability for bank guarantees issued in the normal course of the business amounting Saudi Riyals 20.2 million as at December 31, 2018 (2017: Saudi Riyals 20.2 million).

The capital expenditure contracted by SAMAPCO but not yet incurred till December 31, 2018 was approximately Saudi Riyals 15.9 million (2017: Saudi Riyals 4.5 million).

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11.1.3 Advances to SAMAPCO

The Group has provided an interest free long term advance to SAMAPCO which is subordinated to certain term loans obtained from SIDF. The movement is as follows:

	Note	2018	2017
Balance as at January 1		55,053	34,142
Advances given during the year		-	27,750
Fair value adjustment		-	(8,538)
Interest income for the year	36	2,046	1,699
Balance as at December 31		<u>57,099</u>	<u>55,053</u>

11.2 Investment in associates

	Note	2018	2017
Investment in associates:			
Tasnee and Sahara Olefins Company	11.2.1	1,843,766	1,734,602
Saudi Acrylic Acid Company	11.2.2	-	199,984
Khair Inorganic Chemical Industries Company	11.2.3	242,000	-
		<u>2,085,766</u>	<u>1,934,586</u>
Advances to associates:			
Saudi Acrylic Acid Company	11.2.4	64,221	63,357
		<u>2,149,987</u>	<u>1,997,943</u>

11.2.1 Tasnee and Sahara Olefins Company (TSOC)

The Group has a 32.55% interest in TSOC, a Saudi closed joint stock company, registered in the Kingdom of Saudi Arabia, engaged in production and sale of Propylene, Ethylene and Polyethylene.

The Group's interest in TSOC is accounted for using the equity method in these consolidated financial statements.

The tables below provide summarised financial information for TSOC. The information disclosed reflects the amounts presented in the financial statements of TSOC and not the Group's share of those amounts. These have been amended to reflect adjustments made by the entity when using the equity method if any, including fair value adjustments and modifications for differences in accounting policy as needed.

	2018	2017
Non-current assets	6,899,706	6,770,547
Current assets (excluding cash and cash equivalents)	318,023	167,991
Cash and cash equivalents	515,559	595,007
Total current assets	833,582	762,998
Non-current liabilities	(1,206,688)	(1,484,161)
Current financial liabilities (excluding trade payables)	(137,752)	(113,503)
Other current liabilities	(476,827)	(221,600)
Total current liabilities	(614,579)	(335,103)
Minority interests	(212,152)	(318,158)
Net Assets	<u>5,699,869</u>	<u>5,396,123</u>

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Reconciliation to carrying amount:

	Note	2018	2017
Balance as at January 1		1,734,602	1,797,836
Profit / (loss) from loan waiver directly charged to equity		43,546	(43,546)
Share of profit for the year		294,821	314,479
Dividends received	36	(231,135)	(333,639)
Share of other comprehensive income / (loss)		1,932	(528)
Balance as at December 31		<u>1,843,766</u>	<u>1,734,602</u>

Summarized statement of profit or loss of TSOC:

	2018	2017
Revenue	<u>808,419</u>	<u>821,334</u>
Cost of sales	<u>693,109</u>	<u>733,256</u>
Finance cost	<u>60,642</u>	<u>60,440</u>
Zakat and income tax	<u>14,005</u>	<u>17,918</u>
Profit before zakat	<u>1,070,686</u>	<u>966,140</u>
Profit after zakat	<u>1,056,681</u>	<u>948,222</u>
Other comprehensive income / (loss)	<u>5,942</u>	<u>(1,622)</u>
Total comprehensive income	<u>1,062,623</u>	<u>946,600</u>

The Group has no contingent liabilities or capital commitments relating to its interest in TSOC as at December 31, 2018.

TSOC has a contingent liability for bank guarantees issued in the normal course of the business amounting Saudi Riyals 251.0 million as at December 31, 2018 (2017: Saudi Riyals 251.0 million).

The capital expenditure contracted by TSOC but not yet incurred till December 31, 2017 was approximately Saudi Riyals 13.0 million (December 31, 2017: Saudi Riyals 16.4 million).

During the year ended December 31, 2018, TSOC has declared and paid dividends amounting to Saudi Riyals 1,104.0 million (2017: Saudi Riyals 1,025.0 million).

11.2.2 Saudi Acrylic Acid Company (SAAC)

The Group has a 22% direct and 21.16% indirect interest in SAAC through TSOC. SAAC is a limited liability company registered in the Kingdom of Saudi Arabia and is engaged in the production and sale of Acrylic Acid and its related products.

The Group's interest in SAAC is accounted for using the equity method in the consolidated financial statements.

During 2018, triggers existed for impairment of Group's investment in SAAC due to a prolonged fall in petrochemicals prices which are expected to remain low in the foreseeable future. Given the external market conditions, SAAC is expected to remain loss-making. As such, the recoverable amount has been determined to be SR Nil and the entire carrying value of the investment has been fully impaired. This impairment loss is recognized in other income / (expenses) in the consolidated statement of profit or loss and other comprehensive income for the year ended 2018.

The tables below provide summarised financial information for SAAC. The information disclosed reflects the amounts presented in the financial statements of SAAC and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method if any, including fair value adjustments and modifications for differences in accounting policy as needed.

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	2018	2017
Non-current assets	2,472,797	2,577,613
Current assets (excluding cash and cash equivalents)	277,886	138,829
Cash and cash equivalents	269,744	316,623
Total current assets	547,630	455,452
Non-current liabilities	(1,206,688)	(1,921,639)
Current financial liabilities (excluding trade payables)	(137,752)	(113,503)
Other current liabilities	(364,482)	(88,904)
Total current liabilities	(502,234)	(202,407)
Net Assets	1,311,505	909,019
Reconciliation to carrying amount:		
	2018	2017
Balance as at January 1	199,984	189,812
(Loss) / profit from loan waiver directly charged to equity	(43,546)	43,546
Share of loss for the year	(9,835)	(32,825)
Impairment loss for the year	(146,603)	-
Share of other comprehensive loss	-	(549)
Balance as at December 31	-	199,984
Summarized statement of profit or loss of SAAC:		
	2018	2017
Revenue	808,419	821,334
Cost of sales	693,109	733,256
Finance cost	60,642	(60,440)
Zakat and income tax	3,702	(7,922)
Loss before zakat	(308,311)	(170,679)
Loss after zakat	(312,013)	(178,600)
Other comprehensive income / (loss)	9,139	(2,495)
Total comprehensive loss	(302,874)	(181,095)

The Group has no contingent liabilities or capital commitments relating to its interest in SAAC as at December 31, 2018.

SAAC has a contingent liability for bank guarantees issued in the normal course of the business amounting Saudi Riyals 251.0 million as at December 31, 2018 (2017: Saudi Riyals 251.0 million).

The capital expenditure contracted by SAAC but not yet incurred till December 31, 2018 was approximately Saudi Riyals 13.0 million (December 31, 2017: Saudi Riyals 16.4 million).

11.2.3 Khair Inorganic Chemical Industries Company (Inochem)

The Group has a 30% interest in Inochem, a limited liability company and registered in the Kingdom of Saudi Arabia. It will engaged in production and sale of Dense Sodium Carbonate (Soda Ash), Calcium Chloride and Calcium Carbonate. The commercial operations are not yet started.

The Group's interest in Inochem is accounted for using the equity method in the consolidated financial statements.

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The tables below provide summarised financial information for Inochem. The information disclosed reflects the amounts presented in the financial statements of Inochem and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method if any, including fair value adjustments and modifications for differences in accounting policy as needed.

	<u>2018</u>	<u>2017</u>
Non-current assets	53,654	-
Current assets (excluding cash and cash equivalents)	4,910	-
Cash and cash equivalents	734,028	-
Total current assets	738,938	-
Non-current liabilities	(3,824)	-
Current financial liabilities (excluding trade payables)	-	-
Other current liabilities	(40,342)	-
Total current liabilities	(40,342)	-
Net Assets	748,426	-

Reconciliation to carrying amount:

	<u>2018</u>	<u>2017</u>
Group's share in net assets	224,528	-
Add: goodwill recognized on investment	17,472	-
Balance as at December 31	242,000	-

Summarized statement of profit or loss of Inochem:

	<u>2018</u>	<u>2017</u>
Zakat and income tax	18,426	-
Loss before zakat	13,790	-
Loss after zakat	32,216	-
Other comprehensive loss	8,973	-
Total comprehensive loss	32,225	-

The Group has no contingent liabilities or capital commitments relating to its interest in Inochem as at December 31, 2018.

Inochem has a contingent liability against pre-incorporated expenses and bank guarantees issued in the normal course of the business amounting Saudi Riyals 125.0 million and 11.0 million respectively, as at December 31, 2018.

11.2.4 Advances to SAAC

The Group has provided long-term advance to SAAC which carries commission, and is subordinated to certain term loans obtained from commercial banks.

	Note	<u>2018</u>	<u>2017</u>
Balance as at January 1		63,357	60,517
Interest income for the year	36	864	2,840
Balance as at December 31		64,221	63,357

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12. LONG-TERM INVESTMENTS

	Note	2018	2017
At fair value through other comprehensive income ("FVOCI")	12.1	167,128	200,384
At amortized cost	12.3	66,971	42,000
		<u>234,099</u>	<u>242,384</u>

12.1 Financial assets at FVOCI:

	Note	2018	2017
Listed securities			
Riyad REIT Fund		58,875	72,975
Unlisted securities			
Mutual fund units	12.2	108,253	127,409
		<u>167,128</u>	<u>200,384</u>

12.2 Reconciliation of fair value measurement of financial assets at FVOCI:

	2018	2017
As at January 1,	200,384	241,882
Purchases	12,710	39,424
Sales	(35,700)	(75,000)
Remeasurement recognised in other comprehensive income	(10,266)	(5,922)
As at December 31,	<u>167,128</u>	<u>200,384</u>

12.3 At amortized cost

This includes investments in various Sukuks which earn profit at prevailing market rates which are based on Saudi inter-bank offer rate. Break-up is as follows;

	Date of maturity	Number of certificates		Amount	
		2018	2017	2018	2017
OREIDCO Sukuk Limited Saudi Industrial Petrochemicals Company	August 2020	200,000	200,000	20,000	20,000
First Abu Dhabi Bank	June 2021	120,000	120,000	12,000	12,000
Bank Julius Baer	March 2023	14,000	-	5,253	-
Bank Al-Bilad	June 2021	14,000	-	5,177	-
Bank Al- Jazira	August 2026	50,000	50,000	5,000	5,000
Bidaya Home Finance	June 2026	50,000	50,000	5,000	5,000
Ma'aden Phosphate Company	October 2019	50,000	-	5,000	-
Tawreeq SCF Investment	February 2025	50,000	-	5,000	-
	12 April 2019	11,830	-	4,541	-
				<u>66,971</u>	<u>42,000</u>

13. OTHER NON-CURRENT ASSETS

	Note	2018	2017
Long-term prepaid employees benefits	13.1	401,860	402,382
Others		-	22,827
		<u>401,860</u>	<u>425,209</u>

13.1 These are costs related to house construction, site development and infrastructure associated with the home ownership program. The break-up is as follows:

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2018	Recoverable from employees	Deferred site cost	Total
At January 1, 2018	386,859	15,523	402,382
Effect of proportionate consolidation of Al-Waha (note 1)	1,394	12,818	14,212
Additions during the year	-	43,922	43,922
Charged to affiliates during the year (note 36)	-	(23,712)	(23,712)
Amortization during the year	-	(2,389)	(2,389)
Recoveries	(30,028)	-	(30,028)
Current portion of employees receivable	(2,527)	-	(2,527)
At December 31, 2018	<u>355,698</u>	<u>46,162</u>	<u>401,860</u>
2017	Recoverable from employees	Deferred site cost	Total
Additions during the year	9,363	764	10,127
Transferred from property, plant and equipment	397,410	43,905	441,315
Charged to affiliates during the year (note 36)	-	(27,485)	(27,485)
Amortization during the year	-	(1,661)	(1,661)
Recoveries	(14,154)	-	(14,154)
Current portion of employees receivable	(2,028)	-	(2,028)
Disposals	(3,732)	-	(3,732)
At December 31, 2017	<u>386,859</u>	<u>15,523</u>	<u>402,382</u>

13.1 Amortization is charged to general and administrative expenses during the year. See note 30.

14. INVENTORIES

	2018	2017
Raw materials	25,467	-
Finished goods	39,152	-
Spare parts – not held for sale	78,633	-
	<u>143,252</u>	<u>-</u>

15. TRADE RECEIVABLES

	Note	2018	2017
Related parties balances	36	77,478	-
Third parties balances		53,409	-
		<u>130,887</u>	<u>-</u>
Impairment	30	(365)	-
		<u>130,522</u>	<u>-</u>

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15.1 Aging analysis of trade receivables

	Total	Neither past due nor impaired	< 30 days	31 – 60 days	61 – 90 days	91 – 120 days	>120 days
December 31, 2018	130,887	115,568	9,408	588	20	712	4,591
December 31, 2017	-	-	-	-	-	-	-

16. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	2018	2017
Prepayments		5,407	3,193
Due from related parties	36	53,020	17,310
Value added tax receivable		17,141	-
Advances to suppliers		14,527	1,375
Advance income tax		5,307	-
Receivable from employees		4,823	3,029
Accrued profit on Murabaha deposits		4,613	4,065
Current portion of employees receivable for HOP	13.1	2,527	2,028
Cash margin for letter of guarantee		1,971	-
Others		5,169	6,827
		<u>114,505</u>	<u>37,827</u>

17. MURAHABA DEPOSITS

Murabaha deposits were placed with the local commercial banks having contractual maturities more than three months and yield financial income at prevailing market rates.

18. CASH AND CASH EQUIVALENTS

	Note	2018	2017
Cash in hand		14	1
Cash at banks		131,149	38,912
Murabaha deposits	18.1	940,000	475,000
	18.3	<u>1,071,163</u>	<u>513,913</u>

18.1 Murabaha deposits were held with local commercial banks and yield financial income at the prevailing market rates having original maturities of less than three months.

18.2 All cash and cash equivalents are non-conventional.

18.3 The above figures reconcile to the amount of cash shown in the consolidated statement of cash flows at the end of the financial year. The table below provides details of amounts placed in various currencies.

	2018	2017
SAR	1,056,091	513,909
USD	14,356	4
EUR	643	-
AUD	73	-
	<u>1,071,163</u>	<u>513,913</u>

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19. SHARE CAPITAL

As at December 2018, the share capital of the Company was Saudi Riyal 4,387,950,000 (2017: Saudi Riyal 4,387,950,000) divided into 438,795,000 shares (2017: 438,795,000 shares) of Saudi Riyal 10 each.

20. OTHER RESERVES

	Note	2018	2017
Financial asset at fair value through OCI reserves	20.1	(7,646)	2,620
Cash flow hedge reserve	20.2	(4,434)	(13,240)
Actuarial gain or loss reserve	20.3	(2,926)	3,279
		<u>(15,006)</u>	<u>(7,341)</u>

20.1 This represents cumulative gain / (loss) on the financial asset at fair value through OCI reserves.

	2018	2017
As at January 1,	2,620	8,542
Remeasurements gains / (losses) recognised in other comprehensive income	(10,266)	(5,922)
As at December 31,	<u>(7,646)</u>	<u>2,620</u>

20.2 During 2016, the Group entered into interest rate swap contracts with commercial banks to manage the exposure of volatility in interest rates, for a notional amount of SR 749.5 million with no upfront premium. This represented 40% of the total loan balance.

As at December 31, 2018, these interest rate swap contracts had negative fair values of Saudi Riyals 5.3 million (2017: negative fair value of Saudi Riyal 2.9 million).

The Group has also recorded its share of the gains in fair values of derivative financial instruments designated as hedge from its joint venture and associates amounting to Saudi Riyal 7.6 million (2017: fair value loss of Saudi Riyal 5.2 million).

	2018	2017
As at January 1,	(13,240)	(6,873)
Change in fair value of derivative financial instruments designated as hedge	1,241	(1,216)
Change in fair value of derivative financial instruments designated as hedge from associates and joint ventures	7,565	(5,151)
As at December 31,	<u>(4,434)</u>	<u>(13,240)</u>

20.3 This represents the cumulative actuarial gain or loss booked on re-measurement of defined benefit obligations.

	2018	2017
As at January 1,	3,279	-
Actuarial loss on re-measurement of defined benefit obligations	(6,205)	(292)
Actuarial gain on re-measurement of defined benefit obligations from associates and joint ventures	-	3,571
As at December 31,	<u>(2,926)</u>	<u>3,279</u>

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21. LONG TERM BORROWINGS

	Note	2018	2017
Islamic loan under Ijara arrangement	1, 21.1	1,104,750	-
Loan from a commercial bank	21.2	291,667	330,556
		<u>1,396,417</u>	<u>330,556</u>
Less: unamortized upfront fee	1, 21.3	(14,018)	-
Total borrowings		<u>1,382,399</u>	<u>330,556</u>

Presented in the consolidated statement of financial position as follows:

	Note	2018	2017
Current portion shown under current liabilities		156,729	38,889
Non-current portion shown under non-current liabilities		1,225,670	291,667
Total borrowings	21.4	<u>1,382,399</u>	<u>330,556</u>

21.1 Islamic loan under Ijara arrangement

During 2015, the Company signed an Ijara facility agreement with a syndication of commercial banks (the "lessor"). The proceeds from this facility were used to repay Saudi Industrial Development Fund ("SIDF") loan, Public Investment Fund ("PIF") loan and Advances against Islamic facilities obtained for the construction of the plant. This facility represents an Islamic mode of financing amounting to Saudi Riyals 1,964 million through a sale and lease back of certain plant facilities. The loan bears financial charges at Saudi Inter Bank Offered Rate ("SAIBOR") plus a specified margin and is repayable in twenty four un-equal semi-annual installments commencing from June 30, 2015.

21.2 Islamic loan from a commercial bank for HOP

During 2013, the Group signed a loan agreement of Saudi Riyals 500 million with a commercial bank to finance the employee housing scheme for the Group's employees and its joint arrangements - Al Waha and SAMAPCO. The Group has drawn the entire facility as at December 31, 2016. In 2017, the repayment schedule has been changed with the agreement of the Bank. The loan bears financial charges at Saudi Arabian Inter Bank Offered Rate ("SAIBOR") plus a specified margin and is repayable in twenty equal semi-annual instalments commencing after three years from the draw down date.

21.3 Unamortized upfront fees

	Note	2018	2017
Effect of proportionate consolidation of Al Waha	1	14,576	-
Amortization for the year		(558)	-
Balance as at December 31		<u>14,018</u>	<u>-</u>

21.4 Maturity profile of long term borrowings:

	2018	2017
2018	-	38,889
2019	156,729	38,889
2020	156,729	38,889
2021	156,729	38,889
2022	156,729	38,889
2023	156,729	38,889
2024	200,919	38,889
Thereafter	411,853	58,333
Total	<u>1,396,417</u>	<u>330,556</u>

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22. DEFERRED INCOME

Deferred income represents the income earned by Al-Waha (joint operation) from SAMAPCO for usage of shared facilities. It has been amortized according to the tenure defined in the agreement.

	Note	2018	2017
Effect of proportionate consolidation of Al Waha	1	67,074	-
Less: income recognized during the year		(1,155)	-
Balance as at December 31		65,919	-
Presented in the consolidated statement of financial position as follows:			
	Note	2018	2017
Current portion under current liabilities	27	4,625	-
Non-current portion under non-current liabilities		61,294	-
		65,919	-
Cumulative reconciliation of deferred income is as follows:			
		2018	2017
Advance income received		92,516	-
Less: cumulative income recognized to date		(26,597)	-
		65,919	-

23. EMPLOYEES' END OF SERVICE BENEFITS

The movement in the present value of defined benefit obligation is as follows:

	Note	2018	2017
Balance as at January 1		99,757	85,567
Effect of proportionate consolidation of Al Waha	1	22,382	-
Charged to consolidated statement of income:			
- Current service cost		13,856	11,881
- Interest cost		4,518	3,230
		18,374	15,111
Charged to consolidated statement of other comprehensive income:			
Re-measurements on obligation:			
Actuarial gain from changes in financial assumptions		-	(2,197)
- Experience adjustments		6,205	2,489
		6,205	292
Benefits paid during the year		(1,316)	(1,131)
Adjustment / transfers during the year		897	(82)
Balance as at December 31		146,299	99,757

The significant actuarial assumptions are as follows:

	2018	2017
Discount rate per annum used for calculation of interest cost	3.80%	3.80%
Discount rate per annum used for calculation of obligation	3.80%	3.80%
Salary increment rate per annum used for calculation of obligation	4.20%	4.20%
Mortality rates (from mortality table)	A49-52	A49-52
Withdrawal rates per annum	6.00%	6.00%
Retirement Assumption (Age in years)	60	60

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The average duration of the defined benefit obligation is 10 years.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions for year ended December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Discount rate + 100 bps	132,265	90,654
Discount rate - 100 bps	162,981	111,854
Salary increase + 100 bps	163,252	112,037
Salary increase - 100 bps	131,757	90,307

24. DERIVATIVE FINANCIAL INSTRUMENTS

The Group entered into interest swap contracts with commercial banks to manage the exposure of volatility in interest rates, for a notional amount of SR 749.5 million with no upfront premium. At December 31, 2018, these interest rate swap agreements had negative fair values of Saudi Riyal 5.3 million (2017: negative fair value of SR 2.9 million).

25. DECOMMISSIONING LIABILITY

	Note	<u>2018</u>	<u>2017</u>
Effect of proportionate consolidation of Al Waha	1	22,942	-
Interest cost: Unwinding of liability		212	-
Balance as at December 31		<u>23,154</u>	<u>-</u>

26. TRADE PAYABLES

	Note	<u>2018</u>	<u>2017</u>
Due to related parties	36	10,428	-
Third parties payables		28,644	1,385
Retention payable		1,540	1,540
Others		1,370	475
		<u>41,982</u>	<u>3,400</u>

27. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Note	<u>2018</u>	<u>2017</u>
Accrued purchases		62,369	8,312
Accrued expenses		19,578	25,760
Advances from related parties	36	28,181	-
Advances from customers		8,775	350
Current portion of deferred revenue	22	4,625	-
Accrued finance cost		779	-
Others		13,888	-
		<u>138,195</u>	<u>34,422</u>

28. ZAKAT

The Group is subject to Zakat in the Kingdom of Saudi Arabia in accordance with Saudi Arabia fiscal regulation.

a) The Group calculates and pays Zakat on individual companies' level. Summary of the items included in Zakat base for consolidated purpose, for the year ended December 31, is as follows:

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	<u>2018</u>	<u>2017</u>
Non-current assets	5,564,560	4,536,630
Inventory- spare parts	78,633	-
Non-current liabilities	1,461,707	394,277
Shareholders' equity at beginning of year	5,358,765	5,252,345
Net profit before zakat	531,982	478,879

b) Movement in zakat provision

	Note	<u>2018</u>	<u>2017</u>
At beginning of the year		33,617	35,500
Effect of proportionate consolidation of Al Waha	1	9,000	-
Charged during the year		22,763	37,000
Under / (over) provision for the prior years		8,397	(2,647)
Charge for the year – net		31,160	34,353
Paid during the year		(42,027)	(36,236)
At end of the year		31,750	33,617

c) Outstanding assessment and zakat status:

The Group has received the zakat assessments for the years through 2009-2015. The status is as follows:

- (i) For the years 2009 to 2011, GAZT calculated an additional zakat liability of Saudi Riyals 3.4 million for the Group. Although the Group paid this additional zakat amount to GAZT in full in 2017, it disputed the calculation and claimed a refund of Saudi Riyals 1.6 million from GAZT for these years. During the year, GAZT approved the claim and allowed a net-off against settlement for the assessment years 2012-15.
- (ii) For the years 2012 to 2015, GAZT calculated an additional zakat liability of Saudi Riyals 11.9 million for the Group which was later revised to SAR 10.1 million. The Group agreed and settled the dispute by paying this amount in full after deducting refund of Saudi Riyal 1.6 million for the assessment years 2009 to 2011. There is no further outstanding liability with respect to this assessment.

The Group has received Zakat certificate for the year ended 2016 and 2017, however, GAZT has not yet carried out an assessment for the said years.

29. COST OF SALES

	Note	<u>2018</u>	<u>2017</u>
Raw materials, consumables and change in finished products		142,370	-
Utilities		12,377	-
Employees cost		11,628	-
Depreciation	9.1	44,851	-
Amortization	10.1	204	-
Maintenance cost		17,659	-
Others		2,384	-
		231,473	-

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30. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2018	2017
Salaries, wages and benefits		184,460	163,513
Maintenance		29,657	28,927
Professional services	30.1	27,890	7,474
Depreciation	9.1	7,238	8,226
Amortization	10.1, 13.1	4,313	3,680
Computer-related		7,389	9,396
Rent		5,993	1,749
Board of Directors fees and expenses	36	4,594	2,534
Donations		1,050	1,090
Others		11,725	14,439
		<u>284,309</u>	<u>241,028</u>
Shared service expenses charged to Al Waha (JV)	30.2, 36	(99,193)	(121,197)
Shared service expenses charged to Al Waha (JO)	30.2, 36	(14,738)	-
Shared service expenses charged to SAMAPCO	30.2, 36	(105,092)	(86,764)
		<u>65,286</u>	<u>33,067</u>

30.1 This includes merger related expenses amounting to Saudi Riyal 8.0 million (2017: nil). Also refer to note 1.

30.2 Represents expenses related to salaries and wages of several departments which has been incurred by the Group and charged back to Al Waha & SAMAPCO on the basis of agreed percentage in the shared services agreements.

31. SELLING AND DISTRIBUTION EXPENSES

	Note	2018	2017
Freight		1,835	-
Logistics and packing cost		4,410	-
Sales commission		1,441	-
Others		6	-
		<u>7,692</u>	<u>-</u>

32. FINANCIAL INCOME

	Note	2018	2017
Financial income from Murabaha deposits		28,412	20,446
Financial income from loans to affiliates	36	2,909	4,539
Financial income from long-term investments		3,130	2,708
Dividend income		3,525	1,949
		<u>37,976</u>	<u>29,642</u>

33. OTHER INCOME / (EXPENSES), net

	Note	2018	2017
Reversal of impairment of investment in a joint venture	11.1.2	213,468	-
Impairment of investment in an associate	11.2.2	(146,603)	-
Reversal of long over-due liabilities		1,534	-
Amortization of deferred income	22	1,155	-
Income from leasing of certain shared facilities		293	-
Loss on disposal of fixed assets		(4)	(2)
Foreign exchange losses		(5,671)	(31)
Others		7,889	(148)
		<u>72,061</u>	<u>(181)</u>

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34. FINANCE COST

	Note	2018	2017
Interest on loans		18,578	3,576
Interest cost on lease of platinum		893	-
Amortization of upfront fees		558	-
Interest cost on employees' end of service benefits	23	4,518	3,230
Others		1,233	826
		<u>25,780</u>	<u>7,632</u>

35. EARNINGS PER SHARE

Earnings per share for the years ended December 31, 2018 and 2017 have been computed by dividing the net profit after zakat for each year by weighted average number of 438,795,000 shares outstanding during such years.

36. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties consist of the shareholders, their subsidiaries, affiliates and the Group's Board of Directors. Significant transaction with related parties was as follows:

- a) The Group has a service level agreement with Al Waha and SAMAPCO for the provision of accounting, treasury, maintenance, human resources, information technology (ERP/SAP), procurement and related services and other general services.
- b) The Group has a long-term marketing agreement with Lyondell Basell and its associates for the sale of propylene outside GCC.
- c) The Group has a marketing consultancy agreement with Lyondell Basell and its associates for the sale of propylene inside GCC.
- d) The Group has a long-term supply agreement with Saudi Ethylene and Polyethylene for the supply of ethylene.
- e) The Group has a service level agreement with Al Waha and SAMAPCO to manage the house ownership project for their employees.
- f) The Group has obtained a loan from a commercial bank to finance the house ownership program for the Group's employees and its joint arrangements - Al Waha and SAMAPCO. The Group allocates finance cost to Al Waha and SAMAPCO under service level agreement.
- g) The Group has provided long term advance to SAAC which carries commission, and is subordinated to certain term loans obtained from SIDF.
- h) The Group has provided interest-free long term advance to SAMAPCO which is subordinated to certain term loans obtained from SIDF.
- i) The Group charges interest to SAAC in relation to the subordinated loan mentioned in (g).

There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

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j) During the year ended December 31, the Group had the following significant transactions with its related parties:

Related party	Relationship	Nature of transaction	2018	2017
Al Waha Petrochemical Company (Al Waha)	Joint operations	Shared services cost charged to Al Waha	14,738	-
		Cost and expenses charged by Al Waha	71	-
		Transfer of HOP assets to Al Waha	5,651	-
		Allocation of HOP finance cost to Al Waha	8,326	-
		Purchase of polypropylene from Al Waha	15,662	-
Al Waha Petrochemical Company (Al Waha)	Joint venture	Shared services cost charged to Al Waha	99,193	121,197
		Cost and expenses charged by Al Waha	569	760
		Dividends received	114,435	156,505
		Transfer of HOP assets to Al Waha	-	15,068
		Allocation of HOP finance cost to Al Waha	6,216	4,612
Sahara and Ma'aden Petrochemical Company (SAMAPCO)	Joint venture	Shared service cost charged to SAMAPCO	105,092	86,764
		Loan injection	-	27,750
		Interest income	2,046	1,699
		Transfer of HOP assets to SAMAPCO	18,061	12,417
		Allocation of HOP finance cost to SAMAPCO	6,861	3,801
		Cost and expenses charged to SAMAPCO	2,693	-
Tasnee and Sahara Olefins Company	Associate	Dividends received	231,135	333,639
Saudi Acrylic Acid Company	Associate	Interest income	863	2,840
Lyondel Basell	Affiliate	Dividends paid	36,000	-
		Consultancy fee	456	-
		Sale of polypropylene	154,933	-
Saudi Ethylene and Polyethylene Company	Affiliate	Purchase of ethylene by Al Waha (Joint operation)	8,149	-
		Purchase of propylene by Al Waha (Joint operation)	1,990	-
Board of Directors	Key management Personnel	Board of Directors fees and expenses	4,594	2,534

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ii) Remuneration for the year ended 31 December of key management can be detailed as follows:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	10,552	9,368
Long-term benefits	1,795	2,230
	<u>12,347</u>	<u>11,598</u>

iii) The above transactions resulted in the following balances with related parties as at December 31:

a) Trade receivables

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Lyondell Basell and its associates	15	<u>77,478</u>	<u>-</u>

b) Prepayments and other current assets

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Sahara and Ma'aden Petrochemicals Company		51,083	9,524
Al Waha Petrochemicals Company (Joint operations)		1,937	-
Al Waha Petrochemicals Company (JV)		-	7,786
	16	<u>53,020</u>	<u>17,310</u>

c) Trade payables

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Al Waha Petrochemicals Company (Joint operations)		5,221	-
Saudi Ethylene and Polyethylene Company		4,996	-
Lyondell Basell and its associates		211	-
	26	<u>10,428</u>	<u>-</u>

d) Advances from related parties:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Sahara and Ma'aden Petrochemicals Company		21,398	-
Al Waha Petrochemicals Company (Joint operations)		6,783	-
	27	<u>28,181</u>	<u>-</u>

37. SEGMENT REPORTING

The Group has the following operating segments:

Manufacturing, which includes manufacturing of petrochemicals products (mainly polypropylene) by its joint operation.

Marketing, which includes sales of petrochemicals products (mainly polypropylene) by Sahara Marketing Company (SMC).

Corporate, which includes enabling functions and support activities.

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Prior to classification of Al Waha as a joint operation and commencement of commercial operations of SMC, CODM used to periodically assess the performance of the Group as a whole and allocate resources to the business as one unit and, as such, no separate operating segments were identified for financial reporting purposes. Consequently, segment reporting as required by IFRS 8 'Operating Segments' were not disclosed for year ended December 31, 2017. The CODM, however, periodically receives summarized financial performance of all of its equity accounted investees. Please refer to Note 11 where this summarized financial performance information has been disclosed in these consolidated financial statements.

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	Manufacturing	Marketing	Corporate	Consolidation eliminations	Total
Revenue					
External customers	188,015	22,043	-	-	210,058
Inter-segment	15,662	-	33,550	(49,212)	-
	203,677	22,043	33,550	(49,212)	210,058
Gross (loss) / profit	(40,235)	1,161	33,550	(15,891)	(21,415)
Operating (loss) / profit	(53,961)	(204)	(24,667)	(15,561)	(94,393)
Depreciation and amortization	46,603	-	10,003	-	56,606
Share of profits from associates and joint ventures	-	-	471,588	70,530	542,118
Finance income	5,789	-	32,187	-	37,976
Finance cost	18,183	-	7,597	-	25,780
(Loss) / profit before zakat	(70,530)	(204)	547,747	54,969	531,982
Total assets	2,949,039	229	7,094,478	(3,019,744)	7,024,002
Total liabilities	1,363,064	23,778	2,120,237	(1,457,318)	2,049,761
Capital expenditures	101,662	229	72,037	(5,651)	168,277

Disaggregation of revenue based on geographical information and segments

	Manufacturing	Marketing	Corporate	Consolidation eliminations	Total
Revenue					
Foreign countries	154,933	-	-	-	154,933
Saudi Arabia	48,744	22,043	33,550	(49,212)	55,125
	203,677	22,043	33,550	(49,212)	210,058

38. FINANCIAL RISK MANAGEMENT

38.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The management has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management practices are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD), Australian Dollar (AUD), Euro (EUR) and Great Britain Pound (GBP).

Currently, the Group's foreign exchange risk exposure is restricted to the amounts receivable from / payable to foreign entities. The Group's exposure to currency risk is as follows:

	2018	2017
Cash and cash equivalents – USD	3,829	-
Long-term investments – USD	2,800	-
Trade receivable – USD	17,572	-
Advances to suppliers – USD	2,052	-
Trade payables – USD	(5,664)	-
Net exposure – USD	<u>20,589</u>	<u>-</u>
Cash and cash equivalents – AUD	28	-
Trade receivable – AUD	4,291	-
Net exposure – AUD	<u>4,319</u>	<u>-</u>
Cash and cash equivalents – EUR	150	-
Advances to suppliers – EUR	677	-
Trade payables – EUR	(5)	-
Net exposure – EUR	<u>822</u>	<u>-</u>

If the functional currency, at reporting date, had weakened / strengthened by 1% against the USD, AUD & EUR with all other variables held constant, the impact on post zakat profit for the year would have been Saudi Riyals 1.2 million (2017: nil) lower / higher, mainly as a result of exchange losses / gains on translation of foreign exchange denominated financial instruments.

(ii) Commodity risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production, mainly propane, propylene, ethylene, natural gas and utilities. Propane and propylene prices are relatively co-related to sales price of the final product, Polypropylene.

The Group's associates and joint arrangements are also exposed to the impact of market fluctuations of the price of various inputs to production, mainly propane, ethylene, salt, natural gas and utilities. These have been separately disclosed in their respective financial statements.

(iii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the reporting date, the interest rate profile of the Group's significant interest bearing financial instruments was:

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	<u>2018</u>	<u>2017</u>
<u>Fixed rate instruments:</u>		
Financial assets		
Murabaha deposits (Cash and cash equivalents)	940,000	475,000
Murabaha deposits	-	775,000
Financial liabilities		
Borrowings	(552,960)	(132,222)
Net exposure	<u>387,040</u>	<u>1,117,778</u>
<u>Floating rate instruments:</u>		
Financial assets		
Long-term advances to SAAC	64,221	63,357
Long-term investments (excluding FVOCI)	66,971	42,000
	<u>131,192</u>	<u>105,357</u>
Financial liabilities		
Borrowings	(829,439)	(198,334)
Derivative financial instrument	(5,290)	(2,853)
Net exposure	<u>(703,537)</u>	<u>(95,830)</u>

The group entered into interest rate swap arrangement to mitigate the risk of fluctuation of market interest rates. Refer to note 24.

b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk of the Group arises from deposits with banks, trade receivables, long-term advances to equity accounted investees, long-term investments, due from related parties and other receivables.

Trade receivables and contract assets

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance.

The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as normal, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

At 31 December 2018, the exposure to credit risk for trade receivables by geographic region is as follows:

	<u>2018</u>	<u>2017</u>
Foreign countries	77,479	-
Saudi Arabia	53,043	-
	<u>130,522</u>	<u>-</u>

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

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(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure except for derivative financial instruments. The maximum exposure to credit risk at the reporting date was as follows:

	Note	2018	2017
Cash and cash equivalents	18	1,071,163	513,913
Murabaha deposits	17	-	775,000
Trade receivables	15	130,522	-
Long-term investments	12	234,099	242,384
Long-term advances to equity accounted investees	11	121,320	118,410
Due from related parties	16	53,020	17,311
Other receivables	16	41,550	15,948
		1,651,674	1,682,966

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Group believes that it is not exposed to major concentration of credit risk as its exposure is spread over a significant number of counter parties.

(ii) Credit quality of financial assets

The credit quality of financial assets (mainly bank balances and investments in mutual funds) that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

Institution / Rating	Short-term	Long-term	Rating agency	2018	2017
Cash and cash equivalents					
Saudi British Bank	A1	P-1	Moody's	198,322	133,046
Saudi Investment Bank	A3	P-2	Moody's	150,027	180,015
Bank Saudi Fransi	A1	P-1	Moody's	300,378	100,417
Emirates NBD	A3	P-2	Moody's	200,010	100,010
Arab National Bank	A2	A	CI ratings	120,000	-
Gulf International Bank B.S.C	P-2	Baa1	Moody's	100,000	-
Al Awwal Bank	A3	P-2	Moody's	1,073	20
National Commercial Bank	F1	A-	Fitch	957	362
Riyad Bank	F2	A-	Fitch	261	30
Al Rajhi Bank	A1	-	Moody's	116	12
Alinma Bank	-	BBB+	Fitch	5	-
Total cash and cash equivalents				1,071,149	513,912
Murahaba deposits					
Gulf International Bank B.S.C	P-2	Baa1	Moody's	-	525,000
Al Awwal Bank	A3	P-2	Moody's	-	250,000
Total Murahaba deposits				-	775,000

Due to the Group's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Group. Accordingly, the credit risk is minimal.

(iii) Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

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In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2018, the Group had Saudi Riyals 1,110.1 million available borrowing limits from commercial financial institutions and Saudi Riyals 1,071.1 million cash and bank balances.

The table below analyzes the Group'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 as the impact of discounting is not significant.

	Carrying amount	Less than one year	One to five years	More than five years
As at December 31, 2018				
Long-term borrowings	1,396,417	156,729	626,916	612,772
Trade payables	41,982	41,982	-	-
Accrued expenses and other liabilities	138,195	138,195	-	-
Dividend payable	219,398	219,398	-	-
	1,795,992	556,304	626,916	612,772
As at December 31, 2017				
Long-term borrowings	330,556	38,889	155,556	136,111
Trade payables	3,400	3,400	-	-
Accrued expenses and other liabilities	34,422	34,422	-	-
	368,378	76,711	155,556	136,111

38.2 Fair value estimation

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the 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.

The following table presents the financial assets and liabilities that are measured at fair value:

	Level 1	Level 2	Level 3	Total
Assets:				
At fair value through OCI				
December 31, 2018	58,875	108,253	-	167,128
December 31, 2017	72,975	127,409	-	200,384
Liabilities:				
Financial liabilities at fair value				
December 31, 2018	-	5,290	-	5,290
December 31, 2017	-	2,853	-	2,853

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The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value a financial instrument are observable, those financial instruments are classified under level 2. If one or more of the significant inputs is not based on observable market data, the financial instrument is classified under level 3. The Group has no such type of financial instruments as on December 31, 2018.

The carrying values of all financial assets and liabilities reflected in the consolidated financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

Financial instruments by categories

(i) Financial assets

Financial assets	At amortized cost	At fair value through the profit and loss	At fair value through other comprehensive income	Total
December 31, 2018				
Cash and cash equivalents	1,071,163	-	-	1,071,163
Trade receivables	130,522	-	-	130,522
Long-term investments	66,971	-	167,128	234,099
Advances to equity accounted investees	121,320	-	-	121,320
Due from related parties	53,020	-	-	53,020
Other receivables	41,550	-	-	41,550
	1,484,546	-	167,128	1,651,674
December 31, 2017				
Cash and cash equivalents	513,913	-	-	513,913
Murabaha deposits	775,000	-	-	775,000
Long-term investments	42,000	-	200,384	242,384
Advances to equity accounted investees	118,410	-	-	118,410
Due from related parties	17,311	-	-	17,311
Othe receivables	15,948	-	-	15,948
	1,482,582	-	200,384	1,682,966

(ii) Financial liabilities

	At amortized cost	At fair value	Total
As at December 31, 2018:			
Long-term borrowings	1,396,417	-	1,396,417
Trade Payables	41,982	-	41,982
Accrued expenses and other current liabilities	138,195	-	138,195
Dividend payable	219,398	-	219,398
Derivative financial instrument	-	5,290	5,290
	1,795,992	5,290	1,801,282
As at December 31, 2017:			
Long-term borrowings	330,556	-	330,556
Trade Payables	3,400	-	3,400
Accrued expenses and other current liabilities	34,422	-	34,422
Derivative financial instrument	-	2,853	2,853
	368,378	2,853	371,231

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38.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares and other measures commensurate to the circumstances. The Group monitors the capital structure on the basis of gearing ratio.

The gearing ratios at 31 December were as follows:

	<u>2018</u>	<u>2017</u>
Interest bearing loans and borrowings	1,396,417	330,556
Less: cash and cash equivalents	<u>(1,071,163)</u>	<u>(513,913)</u>
Net debt	<u>325,254</u>	<u>(183,357)</u>
Total equity	<u>5,193,639</u>	<u>5,358,765</u>
Net debt to equity ratio (in times)	<u>0.06</u>	<u>0.03</u>

39. CONVENTIONAL AND NON-CONVENTIONAL FINANCING AND INVESTING ACTIVITIES

Components of consolidated statement of financial position

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents - non-conventional		
Current Murabaha (including fixed term deposits)	940,000	475,000
Current accounts (excluding fixed term deposits)	<u>131,149</u>	<u>38,912</u>
	<u>1,071,149</u>	<u>513,912</u>
Murabaha deposits – non-conventional	<u>-</u>	<u>775,000</u>
Borrowings - non-conventional	<u>1,382,399</u>	<u>330,556</u>

Components of consolidated statement of profit or loss and other comprehensive income

	<u>2018</u>	<u>2017</u>
Financial income – non-conventional		
Murabaha with banks (time deposits)	28,412	20,446
Long-term investments	3,130	2,708
Dividends	<u>3,525</u>	<u>1,949</u>
	<u>35,067</u>	<u>25,103</u>
Financial income – conventional		
Advances to equity accounted investees	<u>2,909</u>	<u>4,539</u>
Finance cost – non-conventional		
Interest expenses related to loans from commercial banks	<u>15,680</u>	<u>2,127</u>
Finance cost – conventional		
Interest expenses related to interest rate swaps	<u>2,898</u>	<u>1,449</u>
Interest expense related to employees' end of service benefits	<u>4,518</u>	<u>-</u>
Interest expenses related to platinum lease rentals	<u>893</u>	<u>-</u>
Interest expenses related to amortization of upfront fee	<u>558</u>	<u>-</u>

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40. OPERATING LEASES

The Group has various operating leases for the land, pipeline facilities, computer equipments, machinery and car rentals. The leases, except land and pipeline facilities, are for initial period of one year with options to renew the leases after lease terms. Lease payments are either fixed or increasing annually to reflect market rentals. Rental expenses for the year ended December 31, 2018 amounted to SAR 7.6 million (2017: SAR 5.4 million).

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	<u>2018</u>	<u>2017</u>
Within one year	3,227	244
After one year but not more than five years	12,914	975
More than five years	41,374	2,813
	<u>57,515</u>	<u>4,032</u>

Also refer note 6.

41. DIVIDEND

The shareholders in their meeting held on April 19, 2018 approved dividends amounting to SR 438.8 million (SR 1.0 per share) for the year ended December 31, 2017, which have been fully paid in April 2018 (2017: SR 329.1 million - 0.75 per share declared and paid in April 2017).

The Board of Directors approved interim dividends amounting to SR 219.4 million (SR 0.5 per share) on August 8, 2018, which have been fully paid in September 2018.

The Board of Directors approved interim dividends amounting to SR 219.4 million (SR 0.5 per share) on December 5, 2018, which have been fully paid in January 2019.

42. COMMITMENTS AND CONTINGENCIES

The Group has a contingent liability for bank guarantees issued in the normal course of the business amounting Saudi Riyals 236.4 million as at December 31, 2018 (2017: Saudi Riyals 7.4 million).

The capital expenditure contracted by the Group but not yet incurred till December 31, 2018 was approximately Saudi Riyals 49.6 million (2017: Saudi Riyals 8.9 million).

43. SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the year ended December 31, 2018 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.

44. COMPARATIVE FIGURES

Certain reclassifications were made to the 2017 figures to conform to the current year's presentation.

45. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved by the board of directors of the Group on February __, 2019 G.