ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

INDEX	**PAGE**
Independent auditor's report	2-7
Consolidated statement of profit or loss	8
Consolidated statement of other comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13-60

Building a better working world

Ernst & Young & Co. (Public Accountants)
4th Floor – Juffali Building
PO Box 3795
Al Khobar 31952
Saudi Arabia
Registration Number: 45

Tel: +966 13 849 9500
Fax: +966 13 882 7224

www.ey.com

Independent auditor's report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Advanced Petrochemical Company ("the Company"), a Saudi Joint Stock Company, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of 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 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("IFRSs as endorsed in KSA").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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. For the key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements section* of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Building a better working world

Independent auditor's report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
First time Adoption of International Financial Reporting Standard (IFRS) As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organisation for Certified Accountants ("IFRS as endorsed in KSA"). For all periods up to and including the year ended 31 December 2016, the Group prepared and published its audited consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA (SOCPA GAAP). The consolidated financial statements for the year ended 31 December 2017 are the Group's first consolidated financial statements in accordance with IFRS as endorsed in KSA.	We performed the following procedures in respect of the transition to IFRS as endorsed in KSA: • Assessed the appropriateness of the implementation of IFRS as endorsed in KSA in accordance with the provisions of IFRS 1. • Assessed the appropriateness of the accounting policies adopted. • Evaluated the position papers on technical matters, detailed implementation plans (DIPs) and GAAP differences identified by the Group's Management. • Tested the sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA. • Assessed the appropriateness of disclosures made in relation to transition impact from SOCPA GAAP to IFRS as endorsed in KSA. • Assessed the appropriateness of exceptions to retrospective application of other IFRSs as endorsed in KSA and optional exemptions availed by the Group from full retrospective application of certain IFRSs as endorsed in KSA, in preparing the financial statements.

Building a better working world

Independent auditor's report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
First time Adoption of International Financial Reporting Standard (IFRS) (continued) Accordingly, the Group has applied IFRS as endorsed in KSA for preparation of its consolidated financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative period data. In compliance with requirements of IFRS 1 as endorsed in KSA, the Group's opening consolidated statement of financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous SOCPA GAAP. The Group has assessed the impact and significant adjustments are made on transitioning from SOCPA GAAP to IFRS as endorsed in KSA in the Group consolidated financial statements as at 1 January 2016 and 31 December 2016. We considered this as a key audit matter since the first time adoption of IFRS as endorsed in KSA has significant impact on the consolidated financial statements from the recognition, measurement and disclosure perspective. Refer to notes 6 to the consolidated financial statements for the details of transition and reconciliation adjustments between SOCPA GAAP and IFRS as endorsed in KSA.	

Independent auditor's report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company) (continued)

Other information included in The Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditors' report.

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 identified above 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 therein, we are required to communicate the matter to audit committee.

Responsibilities of Management and Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, 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 has no realistic alternative but to do so.

Audit committee is responsible for overseeing the Group's financial reporting process.

Independent auditor's report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company) (continued)

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 that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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.

Independent auditor's report to the Shareholders of Advanced Petrochemical Company (A Saudi Joint Stock Company) (continued)

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

- 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 audit committee 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 audit committee 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 audit committee, 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 Ernst & Young

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

Marwan Al Afaliq
Certified Public Accountant
Registration No. 422

9 Jumada' II 1439H
25 February 2018

Al Khobar

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2017	2016 *(Note 6.4)*
Sales		**2,384,537**	2,139,372
Cost of sales	24	**(1,646,414)**	(1,280,914)
GROSS PROFIT		**738,123**	858,458
Selling and distribution expenses		**(10,850)**	(14,129)
General and administration expenses	25	**(107,610)**	(116,208)
OPERATING PROFIT		**619,663**	728,121
Finance costs		**(36,710)**	(33,465)
Realised gain on disposal of available-for-sale investments, net		**10,173**	14,032
Impairment losses against available-for-sale investments	11	**-**	(33,246)
Share in results of an associate	9	**47,608**	47,223
Gain on disposal of shares in an associate	9	**-**	16,044
Other income, net		**11,149**	16,147
PROFIT BEFORE ZAKAT AND INCOME TAX		**651,883**	754,856
Zakat and income tax expense	23		
Zakat		**(22,134)**	(19,942)
Current tax		**(956)**	(3,644)
Deferred tax		**2,323**	608
PROFIT FOR THE YEAR		**631,116**	731,878
Earnings per share			
- Basic and diluted	27	**3.207**	3.719

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2017	2016 *(Note 6.4)*
PROFIT FOR THE YEAR		**631,116**	731,878
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of investment in an associate	9	**54,473**	(13,534)
Unrealised fair value (losses)/ gains on available-for-sale investments	11	**(50,466)**	301,931
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**4,007**	288,397
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurements of retirement benefit obligations	21	**(7,104)**	(3,866)
Other comprehensive (loss)/ income for the year		**(3,097)**	284,531
Total comprehensive income for the year		**628,019**	1,016,409

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2017	31 December 2016	1 January 2016
ASSETS			*(Note 6.3)*	*(Note 6.1)*
NON-CURRENT ASSETS				
Property, plant and equipment	7	**1,957,367**	1,969,029	2,209,471
Intangible assets	8	**3,334**	3,463	5,128
Investment in an associate	9	**534,382**	432,301	421,239
Investment in an unconsolidated subsidiary	10	**376**	376	376
Available-for-sale investments	11	**660,772**	793,885	801,143
Other non-current assets	12	**154,954**	162,381	26,006
TOTAL NON-CURRENT ASSETS		**3,311,185**	3,361,435	3,463,363
CURRENT ASSETS				
Inventories	13	**143,004**	116,685	124,291
Trade receivables	14	**300,938**	332,566	221,798
Prepayments and other current assets	15	**46,943**	37,164	21,917
Short term investments	16	**490,000**	121,714	-
Cash and cash equivalents	17	**260,269**	452,986	84,984
TOTAL CURRENT ASSETS		**1,241,154**	1,061,115	452,990
TOTAL ASSETS		**4,552,339**	4,422,550	3,916,353
EQUITY AND LIABILITIES				
EQUITY				
Share capital	18	**1,967,940**	1,967,940	1,639,950
Statutory reserve		**489,316**	426,204	353,138
Other components of equity		**230,798**	226,791	(61,606)
Retained earnings		**425,387**	415,510	587,259
TOTAL EQUITY		**3,113,441**	3,036,445	2,518,741
NON-CURRENT LIABILITIES				
Term loan	19	**-**	10,000	50,000
Sukuk	20	**998,582**	997,875	997,624
Employees' terminal benefits and other benefits	21	**101,747**	80,041	62,468
Deferred tax liabilities, net	23	**1,494**	3,817	4,425
TOTAL NON-CURRENT LIABILITIES		**1,101,823**	1,091,733	1,114,517
CURRENT LIABILITIES				
Trade payable		**123,474**	86,169	96,792
Accruals and other current liabilities	22	**177,374**	141,549	120,882
Current portion of term loan	19	**10,000**	40,000	40,000
Zakat and income tax provision	23	**21,237**	21,825	19,578
Dividends payable	30	**4,990**	4,829	5,843
TOTAL CURRENT LIABILITIES		**337,075**	294,372	283,095
TOTAL LIABILITIES		**1,438,898**	1,386,105	1,397,612
TOTAL EQUITY AND LIABILITIES		**4,552,339**	4,422,550	3,916,353

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

			Other components of equity			
	Share capital	**Statutory reserve**	**Unrealised fair value (losses)/ gains on available-for-sale investments**	**Foreign currency translation reserve**	**Retained earnings**	**Total**
At 1 January 2016 *(Note 6.2)*	1,639,950	353,138	(61,606)	-	587,259	2,518,741
Profit for the year	-	-	-	-	731,878	731,878
Other comprehensive income/(loss) for the year	-	-	301,931	(13,534)	(3,866)	284,531
Total comprehensive income/(loss) for the year	-	-	301,931	(13,534)	728,012	1,016,409
Transfer to statutory reserve	-	73,066	-	-	(73,066)	-
Increase in share capital through issuance of bonus shares (Note 27)	327,990	-	-	-	(327,990)	-
Dividends (Note 30)	-	-	-	-	(496,905)	(496,905)
Board remuneration accrued	-	-	-	-	(1,800)	(1,800)
At 31 December 2016	1,967,940	426,204	240,325	(13,534)	415,510	3,036,445
At 1 January 2017	1,967,940	426,204	240,325	(13,534)	415,510	3,036,445
Profit for the year	-	-	-	-	631,116	631,116
Other comprehensive (loss)/ income for the year	-	-	(50,466)	54,473	(7,104)	(3,097)
Total comprehensive (loss)/ income for the year	-	-	(50,466)	54,473	624,012	628,019
Transfer to statutory reserve	-	63,112	-	-	(63,112)	-
Dividends (Note 30)	-	-	-	-	(551,023)	(551,023)
At 31 December 2017	**1,967,940**	**489,316**	**189,859**	**40,939**	**425,387**	**3,113,441**

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2017	2016
OPERATING ACTIVITIES			
Profit before zakat and income tax		**651,883**	754,856
Adjustment to reconcile profit before zakat and income tax to net cash flows:			
Depreciation		**190,697**	182,878
Amortisation		**1,323**	2,552
Realised gains on disposal of available-for-sale investments, net		**(10,173)**	(14,032)
Gain on disposal of shares in an associate		**-**	(16,044)
Loss on disposal of property, plant and equipment		**2**	-
Finance costs		**36,710**	33,465
Impairment losses against available-for-sale investments	11	**-**	33,246
Share in results of an associate	9	**(47,608)**	(47,223)
Employees' terminal benefits and other benefits	21	**18,122**	15,350
		840,956	945,048
Working capital adjustments:			
Inventories		**(26,319)**	7,606
Trade receivables		**31,628**	(110,768)
Prepayments and other current assets		**(9,779)**	(14,745)
Trade payable		**37,305**	(10,623)
Accruals and other current liabilities		**36,338**	18,237
Cash from operations		**910,129**	834,755
Employees' terminal benefits and other benefits paid		**(3,520)**	(1,643)
Finance costs paid		**(36,516)**	(33,036)
Zakat paid	23	**(21,328)**	(18,790)
Income tax paid	23	**(2,350)**	(2,549)
Net cash flows from operating activities		**846,415**	778,737
INVESTING ACTIVITIES			
Net movement in available-for-sale investments		**92,820**	289,975
Additions to short term investments, net		**(368,286)**	(121,714)
Additions to intangible assets	8	**(1,194)**	(887)
Additions to property, plant and equipment	7	**(179,037)**	(122,390)
Additions to investment in an associate		**-**	(44,463)
Proceeds on disposal of investment in an associate		**-**	83,084
Net movement in other non-current assets		**7,427**	43,579
Net cash flows (used in) from investing activities		**(448,270)**	127,184
FINANCING ACTIVITIES			
Repayment of term loan		**(40,000)**	(40,000)
Dividends paid		**(550,862)**	(497,919)
Net cash flows used in financing activities		**(590,862)**	(537,919)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(192,717)**	368,002
Cash and cash equivalents at the beginning of the year		**452,986**	84,984
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**260,269**	452,986

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

1. CORPORATE INFORMATION

Advanced Petrochemical Company (the "Company") is a Saudi joint stock company registered in Dammam, Kingdom of Saudi Arabia under commercial registration number 2050049604 dated 27 Sha'ban, 1426H (corresponding to October 1, 2005). The paid up share capital of the Company is SR 1,967,940,000 divided into 196,794,000 shares of SR 10 each.

The consolidated financial statements as at 31 December 2017 include the financial statements of the Company and the following subsidiaries (collectively referred to as the "Group"):

	Effective ownership
Advanced Renewable Energy Company ("AREC") – note (a)	100%
Advanced Global Investment Company ("AGIC") – note (b)	100%

a- Advanced Renewable Energy Company ("AREC"), is a mixed limited liability company registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 2055015327 dated 27 Rabi'I 1433H (corresponding to 19 February 2012).

5% of this investment is held under a related party's name, on behalf of the Company. The related party has assigned its share to the Company and accordingly, the Group included 100% financial statements of AREC in the consolidated financial statements.

b- Advanced Global Investment Company ("AGIC") is a mixed limited liability company registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 2055017024 dated 12 Ramadan 1433H (corresponding to 1 August 2012).

5% of this investment is held under a related party's name, on behalf of the Company. The related party has assigned its share to the Company and accordingly, the Group included 100% financial statements of AGIC in the consolidated financial statements.

During 2014, AGIC made 100% investment in Advanced Global Holding Limited ("AGHL"), a limited liability company incorporated in Luxembourg. AGHL has not been consolidated in these consolidated financial statements due to the absence of any activities during the year and has immaterial financial position.

The Group is licensed to engaged in production and selling Polypropylene, Polysilicon and Polysilicon downstream products which includes Photovoltaic cells and Photovoltaic, and establishing, operating and investing in industrial projects including petrochemical, chemical, basic and conversion industries and industries relating to renewable energy both within and outside the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

Basis of preparation

Effective 1 January 2017, all entities listed in Saudi Stock Exchange are required to prepare their financial statements in accordance with the International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA') and other standards and pronouncements that are issued by Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA"). These consolidated financial statements have been prepared in accordance with the IFRSs as endorsed in KSA" and represent the Group's first annual financial statements prepared in accordance with IFRSs as endorsed in KSA. The preparation of these consolidated financial statements resulted in changes to the significant accounting policies as compared to those presented in the consolidated financial statements of the Group for the year ended 31 December 2016, which were prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia ("Saudi GAAP"). IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") endorsed in KSA requires that an entity's accounting policies used in its opening statement of financial position and throughout all periods presented in its first IFRS financial statements comply with IFRSs as endorsed in KSA effective at the end of its first IFRS reporting period. Accordingly, the IFRSs endorsed in KSA issued and effective as at 31 December 2017 have been applied in preparing the consolidated financial statements as at and for the year ended 31 December 2017, the comparative information presented as at and for the year ended 31 December 2016, and in preparation of the opening consolidated IFRS statement of financial position as at 1 January 2016. The impacts of the transition to IFRSs as endorsed in KSA for the comparative information are presented in Note 6.

These consolidated financial statements are prepared using historical cost convention expect for the remeasurement at available-for-sale investments at fair value, using the accrual basis of accounting. For employees' terminal and other benefits, actuarial present value calculation is used. These consolidated financial statements are presented in Saudi Riyals ("SR") which is also the functional currency of the Group. All values are rounded to the nearest thousands ("SR '000"), expect when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2. BASIS OF PREPARATION (Continued)

Basis of consolidation (continued)
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit or loss. Any investment retained is recognised at fair value.

These consolidated financial statements of the Group were approved on 25 February 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group’s investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group’s share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group’s share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as ‘Share in results of an associate’ in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

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

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

All other assets are classified as non-current.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current versus non-current classification (continued)
A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement
The Group measures financial instruments and non-financial assets at fair value at each balance sheet date.

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

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

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

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 by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The 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, 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (continued)
For assets and liabilities that are recognised in the consolidated financial statements 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.

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

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 contracts and other 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 based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. 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. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligator in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

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

Sale of goods
Revenue from the sale of petrochemical products is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

For international markets, all products are sold to the marketers, while for local markets (Saudi Arabia and GCC countries) the products are sold directly by the Group. Upon delivery to the marketers, sales are recorded at provisional sales prices that are later adjusted based upon actual selling prices received by the marketers from third parties, after deducting the costs of shipping and marketing fees etc. Adjustments are made, as they become known to the Group. Sales in local markets are recognised upon delivery of products to customers.

Dividends
Dividend is recognised when the Group's right to receive the payment is established, which is generally when the shareholders approves the dividend.

Finance income
For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated statement of profit or loss.

Earnings on time deposits are recognised on an accrual basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses

Operating cost are recognised on a historical cost basis. Production costs and direct expenses are classified as cost of sales.

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the products. All other expenses other than cost of sales, financial charges and realised (gains) losses on available-for-sale investments are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of production costs. Allocations between general and administrative expenses and production costs, when required, are made on a consistent basis.

Zakat and income tax

Zakat and current tax

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("the GAZT") in the Kingdom of Saudi Arabia. Under the revised zakat standard issued by SOCPA, zakat provision is charged to the consolidated statement of profit or loss, as IAS 12 'Income Taxes' do not provide any guidance on the accounting treatment of zakat. Non-Saudi shareholder in the Group are subject to income tax in the Kingdom of Saudi Arabia.

Current income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax is recognised in the consolidated statement of profit or loss. Management periodically evaluates positions taken in the Group's tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised on all deductible temporary difference, carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which these assets can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Zakat and income tax (continued)
Deferred income tax (continued)
Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Withholding tax
The Group withholds taxes on certain transactions with non-resident parties in the KSA, including dividend payments to the foreign partner, as required under Saudi Arabian Income Tax Law.

Foreign currencies
The Group's consolidated financial statements are presented in Saudi Riyal, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to the consolidated statement of profit or loss reflects the amount that arises from using this method.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

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

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyals at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to the consolidated statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash dividend and non-cash distribution to equity holders of the Company
The Company recognises a liability to make cash or non-cash distributions to equity holders of the Company when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws in the KSA, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Property, plant and equipment
Property, plant and equipment and capital work-in-progress are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of profit or loss as incurred.

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

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

	Years
Plant, machinery and equipment	10 - 25
Buildings	33
Furniture, fixtures and office equipment	3 - 8
Catalysts	2 - 8
Laboratory and safety equipment	5
Vehicles and trucks	4 - 10
Leasehold improvements	10

Land and capital work-in-progress which are not ready for its intended use, are not depreciated.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial yearend. 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss 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 the useful life assessment is made on a prospective basis. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the aggregated cash generating unit level.

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

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-current assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

The Group's impairment calculation is based on detailed budgets and forecast calculations which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. These budgets and forecast calculations are generally covering a five-year period. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the budget period.

Impairment losses of continuing operations, including impairment on working capital, if applicable, are recognised in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets other than goodwill, an assessment is made at each financial year-end as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group's estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. This reversal is limited such that the recoverable amount doesn't exceed what the carrying amount would have been, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments – initial recognition, subsequent measurement and derecognition
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification, as described below:

Loans and receivables
This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. 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. The EIR amortisation is included in finance income in the consolidated statement of profit or loss. The losses arising from impairment are recognised in the consolidated statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables.

Available-for-sale financial investments
Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the consolidated statement of profit or loss. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to consolidated statement of profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)
Financial assets (continued)
Available-for-sale financial investments (continued)
The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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;

(a) the Group has transferred substantially all the risks and rewards of the asset, or
(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)
Financial assets (continued)
Financial assets carried at amortised cost (continued)
The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in consolidated statement of profit or loss. Interest income (recorded as finance income in the consolidated statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss.

Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss - is removed from OCI and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is ‘significant’ or ‘prolonged’ requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

Financial Liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)
Financial Liabilities (continued)
Initial recognition and measurement (continued)
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payable, accruals and other current liabilities, dividend payables, loans and borrowings including term loan, sukuk and financial guarantee contracts.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in 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. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Inventories
Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks, cash on hand, short term deposits, demand deposits and highly liquid investments with original maturity of three months or less, net of outstanding bank overdrafts which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contract
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 cost meeting its obligation under the contract.

Provision for inventory obsolescence
When inventories become old or obsolete, an estimate is made for their net realisable value. For individually significant amounts, this amount is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively, and an allowance applied according to the inventory type and degree of ageing or obsolescence based on expected selling prices. Inventories are measured at the lower of cost and net realisable value.

(All amounts in Saudi Riyals thousands unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees' terminal benefits and other benefits

Employees' end-of-service benefits

The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognised in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post-employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognised in equity through the consolidated statement of comprehensive income in the period in which they arise.

Employees' saving plan

The Group maintains an employees' saving plan for its Saudi employees. The contributions from the participants are deposited in separate bank account and liability is established for the Group's contributions. The Group's contribution under the saving plan is charged to the consolidated statement of profit or loss.

Employees' home ownership program

Unsold housing units constructed for eventual sale to eligible employees are included under land and buildings and are depreciated over 33 years. Upon signing the sale contract with the eligible employees, the relevant housing units are classified under other non-current assets.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Statutory reserve

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

New and amended standards and interpretations

The Group adopted all the International Financial Reporting Standards as endorsed, and standards and interpretations issued by SOCPA in the KSA in effect at 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been endorsed but is not yet effective.

STANDARD	DESCRIPTION
IAS 7	Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
IAS 12	Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 12	*Annual Improvements Cycle - 2014-2016* Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The adoption of the relevant new and amended standards and interpretations applicable to the Group did not have any significant impact on these consolidated financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that may affect the reported amount of assets and liabilities, revenues, expenses and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates which could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognised in the consolidated financial statements) includes:

Initial recognition of investments
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Impairment of available-for-sale investments
The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Impairment of trade receivables
An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due.

Deferred tax assets/liabilities
The management determines the estimated tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognised in the consolidated statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations and judgment about the application of existing tax laws in each jurisdiction.

Impairment of inventories
Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

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

Impairment test of non-financial assets
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Valuation of defined benefit obligations
The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation 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 and there has been no material change in the related assumptions in the current period.

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 excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

Fair values measurement of financial instruments
The fair value for financial instruments traded in active markets at the consolidated statement of financial position date is based on their quoted market price. Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

5. NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE AND NOT EARLY ADOPTED

At the date of authorization of these consolidated financial statements, the following new and amended IFRS accounting standards, which are applicable to the Group, were issued by the IASB but not yet effective. At this stage, the Group is finalising its assessment of the impact of the new standard on the consolidated financial statements. Management intends to adopt these standards when they become effective.

IFRS 9 – "Financial instruments"
This standard will replace the majority of IAS 39 – "Financial instruments: Recognition and Measurement". The new standard covers the classification, measurement and de-recognition of financial assets and financial liabilities, impairment of financial assets and provides a new hedge accounting model.

IFRS 9 will be mandatory for financial years commencing on or after 1 January 2018.

IFRS 15 – "Revenue from Contracts with Customers"
This standard will replace International Accounting Standard ("IAS") 18 – "Revenue" and IAS 11, - "Construction contracts". The new standard is based on the principle that an entity recognizes revenue related to the transfer of promised goods or services when control of goods or services passes to the customer. The amount of revenue recognized should reflect the consideration to which the entity expects to be entitled to in exchange for those goods or services.

IFRS 15 will be mandatory for financial years commencing on or after 1 January 2018.

IFRS 16 – "Leases"
This standard will replace:

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

Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for all lease contracts apart from an optional exemption for certain short-term leases.

In addition, under the new lease standard, 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.

IFRS 16 will be mandatory for financial years commencing on or after 1 January 2019.

6. FIRST TIME ADOPTION OF IFRSs AS ENDORSED IN KSA

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

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

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemption under IFRS 1.D13 which states a first-time adopter need not to comply with the requirements of IAS 21 to recognise cumulative translation differences on foreign operations (i.e., cumulative translation differences that existed at the date of transition to IFRS). If a first-time adopter uses this exemption:

a) The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS.

b) The gain or loss on a subsequent disposal of any foreign operation must exclude translation differences that arose before the date of transition to IFRS and shall include later translation differences. The exemption applies to all cumulative translation differences arising from the translation of foreign operations, including related gains or losses on related hedges. Accordingly, we believe it is entirely appropriate for this exemption to be applied to net investment hedges as well as to the underlying gains or losses.

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. FIRST TIME ADOPTION OF IFRSs AS ENDORSED IN KSA (Continued)

6.1 Group's reconciliation of consolidated statement of financial position as at 1 January 2016 (date of transition to IFRS)

	Note	**Saudi GAAP** *(Audited)*	**Re-measurements / Re-classifications**	**IFRS**
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	6.6 (a) & (b)	2,179,171	30,300	2,209,471
Intangible assets		5,128	-	5,128
Investment in an associate		421,239	-	421,239
Investment in an unconsolidated subsidiary		376	-	376
Available-for-sale investments		801,143	-	801,143
Other non-current assets		26,006	-	26,006
TOTAL NON-CURRENT ASSETS		**3,433,063**	**30,300**	**3,463,363**
CURRENT ASSETS				
Inventories		124,291	-	124,291
Trade receivables		221,798	-	221,798
Prepayment and other current assets		21,917	-	21,917
Cash and cash equivalents		84,984	-	84,984
TOTAL CURRENT ASSETS		**452,990**	**-**	**452,990**
TOTAL ASSETS		**3,886,053**	**30,300**	**3,916,353**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		1,639,950	-	1,639,950
Statutory reserves		353,138	-	353,138
Other components of equity	6.6 (f), (g) & (h)	(96,937)	35,331	(61,606)
Retained earnings	6.2 (b)	612,810	(25,551)	587,259
TOTAL EQUITY		**2,508,961**	**9,780**	**2,518,741**
NON-CURRENT LIABILITIES				
Term loan		50,000	-	50,000
Sukuk	6.6 (e)	998,267	(643)	997,624
Employees' terminal benefits and other benefits	6.6 (c)	45,730	16,738	62,468
Deferred tax liabilities	6.6 (d)	-	4,425	4,425
TOTAL NON-CURRENT LIABILITIES		**1,093,997**	**20,520**	**1,114,517**
CURRENT LIABILITIES				
Trade payable		96,792	-	96,792
Accruals and other current liabilities		120,882	-	120,882
Current portion of term loan		40,000	-	40,000
Zakat and income tax provision		19,578	-	19,578
Dividend payable		5,843	-	5,843
TOTAL CURRENT LIABILITIES		**283,095**	**-**	**283,095**
TOTAL LIABILITIES		**1,377,092**	**20,520**	**1,397,612**
TOTAL EQUITY AND LIABILITIES		**3,886,053**	**30,300**	**3,916,353**

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. FIRST TIME ADOPTION OF IFRSs AS ENDORSED IN KSA (Continued)

6.2 Group's reconciliation of equity as at 1 January 2016 (date of transition to IFRS)

(a) Reconciliation of equity

	Note	**Saudi GAAP** *(Audited)*	**Re-measurements / Re-classifications**	**IFRS**
Share capital		1,639,950	-	1,639,950
Statutory reserves		353,138	-	353,138
Other components of equity	6.6 (f), (g) & (h)	(96,937)	35,331	(61,606)
Retained earnings	6.2 (b)	612,810	(25,551)	587,259
Total equity		**2,508,961**	**9,780**	**2,518,741**

(b) Analysis of the impact of IFRS re-measurements on retained earnings as at January 1, 2016 (date of transition to IFRS):

	Note	**Cumulative impact on retained earnings as at 1 January 2016**
Retained earnings at 1 January 2016 under Saudi GAAP		**612,810**
Componentisation of property, plant and equipment	6.6 (a)	72,420
Capitalisation of general and administrative costs	6.6 (b)	(42,120)
Employees' end-of-service benefits	6.6 (c)	(16,738)
Adjustments for deferred tax liability	6.6 (d)	(4,425)
Adjustments for sukuk at effective interest method	6.6 (e)	643
Impairment loss on available-for-sale investments	6.6 (f) & (g)	(35,331)
Retained earnings at 1 January 2016 under IFRS		**587,259**

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. FIRST TIME ADOPTION OF IFRSs AS ENDORSED IN KSA (Continued)

6.3 Group's reconciliation of consolidated statement of financial position as at 31 December 2016

	Note	**Saudi GAAP** *(Audited)*	**Re-measurements / Re-classifications**	**IFRS**
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	6.6 (a) & (b)	1,925,854	43,175	1,969,029
Intangible assets		3,463	-	3,463
Investment in an associate	6.6 (h)	445,835	(13,534)	432,301
Investment in an unconsolidated subsidiary		376	-	376
Available-for-sale investments		793,208	677	793,885
Other non-current assets		162,381	-	162,381
TOTAL NON-CURRENT ASSETS		**3,331,117**	**30,318**	**3,361,435**
CURRENT ASSETS				
Inventories		116,685	-	116,685
Trade receivables		332,566	-	332,566
Prepayments and other current assets		37,164	-	37,164
Short term investments		121,714	-	121,714
Cash and cash equivalents		452,986	-	452,986
TOTAL CURRENT ASSETS		**1,061,115**	**-**	**1,061,115**
TOTAL ASSETS		**4,392,232**	**30,318**	**4,422,550**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		1,967,940	-	1,967,940
Statutory reserve		426,204	-	426,204
Other components of equity	6.6 (f), (g) & (h)	214,401	12,390	226,791
Retained earnings	6.5 (b)	420,123	(4,613)	415,510
TOTAL EQUITY		**3,028,668**	**7,777**	**3,036,445**
NON-CURRENT LIABILITIES				
Term loan		10,000	-	10,000
Sukuk	6.6 (e)	998,719	(844)	997,875
Employees' terminal benefits and other benefits	6.6 (c)	60,473	19,568	80,041
Deferred tax liabilities	6.6 (d)	-	3,817	3,817
TOTAL NON-CURRENT LIABILITIES		**1,069,192**	**22,541**	**1,091,733**
CURRENT LIABILITIES				
Trade payable		86,169	-	86,169
Accruals and other current liabilities		141,549	-	141,549
Current portion of term loan		40,000	-	40,000
Zakat and income tax provision		21,825	-	21,825
Dividend payable		4,829	-	4,829
TOTAL CURRENT LIABILITIES		**294,372**	**-**	**294,372**
TOTAL LIABILITIES		**1,363,564**	**22,541**	**1,386,105**
TOTAL EQUITY AND LIABILITIES		**4,392,232**	**30,318**	**4,422,550**

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. FIRST TIME ADOPTION OF IFRSs AS ENDORESED IN KSA (Continued)

6.4 (a) Group's reconciliation of consolidated statement of profit or loss for the year ended 31 December 2016

	Note	**Saudi GAAP** *(Audited)*	**Re-measurements / Re-classifications**	**IFRS**
Sales		2,139,372	-	2,139,372
Cost of sales	6.6 (a) & (b)	(1,381,313)	100,399	(1,280,914)
GROSS PROFIT		**758,059**	**100,399**	**858,458**
Selling and distribution expenses		(8,961)	(5,168)	(14,129)
General and administration expenses		(34,888)	(81,320)	(116,208)
OPERATING PROFIT		**714,210**	**13,911**	**728,121**
Finance costs	6.6 (e)	(33,666)	201	(33,465)
Realised gains on disposal of available-for-sale investments, net		10,929	3,103	14,032
Impairment losses against available-for-sale investments	6.6 (g)	(40,227)	6,981	(33,246)
Share in results of an associate		47,223	-	47,223
Gain on disposal of shares in an associate		16,044	-	16,044
Other income, net		16,147	-	16,147
PROFIT BEFORE ZAKAT AND INCOME TAX		**730,660**	**24,196**	**754,856**
Zakat and income tax				
Zakat	6.6 (d)	-	(19,942)	(19,942)
Current tax	6.6 (d)	-	(3,644)	(3,644)
Deferred tax	6.6 (d)	-	608	608
PROFIT FOR THE YEAR		**730,660**	**1,218**	**731,878**

6.4 (b) Group's reconciliation of consolidated statement of other comprehensive income for the year ended 31 December 2016

	Note	**Saudi GAAP** *(Audited)*	**Re-measurements / Re-classifications**	**IFRS**
PROFIT FOR THE YEAR		**730,660**	**1,218**	**731,878**
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of investment in an associate	6.6 (h)	-	(13,534)	(13,534)
Movement in fair value of available-for-sale investments	6.6 (f)	-	301,931	301,931
Other comprehensive income not to be reclassified to income in subsequent periods:				
Re-measurements of retirement benefit obligations	6.6 (c)	-	(3,866)	(3,866)
Other comprehensive income for the year		**-**	**284,531**	**284,531**
Total comprehensive income for the year		**730,660**	**285,749**	**1,016,409**

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. FIRST TIME ADOPTION OF IFRSs AS ENDORESED IN KSA (Continued)

6.5 Group's reconciliation of equity as at 31 December 2016

(a) Reconciliation of equity

	Note	**Saudi GAAP**	**Re-measurements / Re-classifications**	**IFRS**
		(Audited)		
Share capital		1,967,940	-	1,967,940
Statutory reserves		426,204	-	426,204
Other components of equity	6.6 (f), (g) & (h)	214,401	12,390	226,791
Retained earnings	6.5 (b)	420,123	(4,613)	415,510
Total equity		**3,028,668**	**7,777**	**3,036,445**

(b) Analysis of the impact of IFRS re-measurements on retained earnings as at 31 December 2016:

	Note	**Impact on retained earnings as at 1 January 2016**	**Impact on retained earnings for the year ended 31 December 2016**	**Cumulative impact on retained earnings**
Retained earnings under Saudi GAAP		**612,810**	**-**	**420,123**
Componentisation of property, plant and equipment	6.6 (a)	72,420	9,460	81,880
Capitalisation of general and administrative costs	6.6 (b)	(42,120)	3,415	(38,705)
Employees' end-of-service benefits	6.6 (c)	(16,738)	(2,830)	(19,568)
Adjustment for deferred tax liability	6.6 (d)	(4,425)	608	(3,817)
Adjustment for sukuk at effective interest method	6.6 (e)	643	201	844
Impairment losses on available-for-sale investments	6.6 (f) & (g)	(35,331)	10,084	(25,247)
Retained earnings under IFRS		**587,259**		**415,510**

6. FIRST TIME ADOPTION OF IFRSs AS ENDORESED IN KSA (Continued)

6.6 Notes to the reconciliation of equity as at 1 January 2016 and 31 December 2016 and consolidated statement of profit or loss for the year ended 31 December 2016

a) Componentisation of property, plant and equipment

Under IFRS, the property, plant and equipment should be componentised and their useful lives identified separately. The componentisation concept was not a followed practice in KSA. It was not practically possible for the Group to clearly distinguish adjustments related to the change in useful lives from those relating to applying the componentisation. As part of the transition to IFRS, the Group has applied the concept of assets components and accounted for its impact on the useful lives, which resulted in an increase in property, plant and equipment and retained earnings on the IFRS transition date. The net impact has been booked as part of the transition adjustments and impact related to year 2016 has been adjusted in the consolidated statement of profit or loss for the year ended 31 December 2016.

b) Capitalisation of general and administrative costs

As per IAS 16, the cost of an item of property, plant and equipment comprises of (i) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; (ii) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; (iii) the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located. The Group has previously capitalised administrative expenses which do not meet the definition of cost of an asset as per IFRS. Therefore, the remaining undepreciated balance is now being derecognised from property, plant and equipment and the impact that pertains to prior years has been debited in the retained earnings as at 1 January 2016 and the impact related to 2016 has been adjusted in the consolidated statement of profit or loss for the year ended 31 December 2016.

c) IAS 19 Employees' end-of-service benefits

Under Saudi GAAP, the Group was required to recognise the provision for employees' end-of-service benefits for the amounts payable at the balance sheet date in accordance with the employees' contracts of employment applicable to employees' accumulated periods of service. However, under IAS 19, the Group is required to recognise an amount of a liability that equals to the net amount of present value of the defined benefit obligation, deferred actuarial gains and losses, deferred past service costs and the fair value of any plan assets at statement of financial position. Accordingly, the Group has restated employees' end-of-service benefits obligation under IFRS and restated employees' end-of-service benefits as at 1 January 2016 and 31 December 2016. The impact of restatement that pertains to prior years has been charged to opening retained earnings at 1 January 2016 and impact related to year 2016 has been adjusted in the consolidated statement of profit or loss for the year ended 31 December 2016.

d) IAS 12 Income Taxes and Revised Zakat Standard issued by SOCPA

Under Saudi GAAP, for an entity that is owned by Saudi and GCC nationals and other than Saudi and GCC nationals (mixed Company), Zakat and Income tax is an obligation for those shareholders' and accordingly, those are accounted for as a charge to the shareholders' equity. Accordingly, no deferred income tax was accounted for in those financial statements. Under IAS 12 zakat and income tax are considered as Group's expense and accordingly charged to the consolidated statement of profit or loss. The Group is also required to recognise the deferred income tax on all the taxable/deductible temporary differences. Accordingly, the Group has recognised deferred tax liability, net, as at 1 January 2016 and 31 December 2016. Deferred income tax pertaining to prior years has been charged to opening retained earnings and impact related to year 2016 has been adjusted in the consolidated statement of profit or loss for the year ended 31 December 2016.

6. FIRST TIME ADOPTION OF IFRSs AS ENDORESED IN KSA (Continued)

6.6 Notes to the reconciliation of equity as at 1 January 2016 and 31 December 2016 and the consolidated statement of profit or loss for the year ended 31 December 2016 (continued)

e) Recording of sukuk at effective interest method

Under Saudi GAAP, sukuk are subsequently measured at amortised cost using the straight line method for the amortisation of debt acquisition costs. However, under IAS 39, these long term liabilities should have been recognised initially at fair value, and subsequently shall be measured at amortised costs by using EIR method. Accordingly, the Group has restated sukuk as at 1 January 2016 and 31 December 2016. The impact of restatement which pertains to prior periods has been charged to opening retained earnings as at 1 January 2016 and impact related to year 2016 has been adjusted in the consolidated statement of profit or loss for the year ended 31 December 2016.

f) Unrealised losses on available-for-sale investments

Under Saudi GAAP, investments classified as available-for-sale are measured at fair value and unrealised gains or losses are reported as a separate component of shareholders' equity until the investment is derecognised or determined to be impaired. Under IFRS, available-for-sale financial investments are continue to be measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the Available-For-Sale (AFS) reserve. Accordingly, the unrealised losses at 1 January 2016 and 31 December 2016 are reclassified from unrealised losses on available-for-sales investments to other comprehensive income.

g) Impairment on available-for-sale investments

Under Saudi GAAP, impairment losses on available-for-sales investments are recognised in the profit and loss account only when these investments meet the criteria for a "significant and prolonged" decline in the market values of these investments against their respective costs. However, under IAS 39, the impairment losses on available-for-sales investments should be recorded in the consolidated statement of profit or loss when the decline of the market price meets one of these criteria i.e. either "significant or prolonged" will trigger the impairment provisioning under IFRS. Accordingly, the Group has restated the available-for-sale investment as at 1 January 2016 and 31 December 2016. The impact of restatement which pertains to earlier period present has been charged to opening retained earnings for these available-for-sales investments under IFRS and impact related to year 2016 has been adjusted in the consolidated statement of profit or loss for the year ended 31 December 2016.

h) Re-translation of investments in an associate

As per IAS 21, "The Effects of Changes in Foreign Exchange Rates", foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity. As per IAS 21, the results and financial position of the foreign operation should be translated into presentation currency using the following procedures: (a) assets and liabilities for each statement of financial position presented (i.e. including comparatives) are translated at the closing rate at the reporting date; (b) income and expenses for each statement of comprehensive income or separate income statement presented (i.e. including comparatives) are translated at exchange rates at the dates of the transactions; and (c) all resulting exchange differences are recognised in other comprehensive income. However, Group has used the exemption and therefore no translation adjustment has been recorded as at the date of transition i.e., 1 January 2016. Further, the Group has recorded foreign currency translation differences at 31 December 2016 in the consolidated statement of other comprehensive income.

i) Statement of cash flows

The transition from Saudi GAAP to IFRS has not had a material impact on the consolidated statement of cash flows.

(All amounts in Saudi Riyals thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Plants	Capital spares	Buildings	Machinery and equipment	Furniture, fixtures and office equipment	Catalyst	Laboratory and safety equipment	Vehicles and trucks	Capital work-in-progress	**Total 2017**
Cost:										
At 1 January 2017	2,791,995	99,681	120,920	55,106	9,333	174,661	18,009	5,152	107,825	**3,382,682**
Additions	-	3,010	-	10,689	353	-	2,326	1,015	161,644	**179,037**
Transfers	21,641	-	286	-	-	1,030	-	-	(22,957)	**-**
Disposals	-	-	-	(91)	(16)	-	(1,209)	(658)	-	**(1,974)**
At 31 December 2017	2,813,636	102,691	121,206	65,704	9,670	175,691	19,126	5,509	246,512	**3,559,745**
Depreciation:										
At 1 January 2017	1,155,968	24,931	22,301	32,842	7,701	151,529	15,319	3,062	-	**1,413,653**
Charge for the year	152,387	5,095	6,490	7,193	412	17,434	791	895	-	**190,697**
Disposals	-	-	-	(89)	(16)	-	(1,209)	(658)	-	**(1,972)**
At 31 December 2017	1,308,355	30,026	28,791	39,946	8,097	168,963	14,901	3,299		**1,602,378**
Net Book Value:										
At 31 December 2017	**1,505,281**	**72,665**	**92,415**	**25,758**	**1,573**	**6,728**	**4,225**	**2,210**	**246,512**	**1,957,367**

Capital work-in-progress primarily represents costs incurred on construction of a housing project (Phase II) for the Group's employees which is expected to be completed in 2019, with an estimated cost of SR 169.4 million (2016: SR 169.4 million) and the remaining amount mainly represents cost of PHD catalyst amounting to SR 49.1 million (2016: nil) which will be utilised in the upcoming planned turnaround.

During the year, the Group had not capitalised any financial charges (2016: SR 1 million).

Buildings and plant facilities of the Group are constructed on a land leased under renewable operating lease agreements at nominal annual rent from the Royal Commission of Jubail and Yanbu for 30 Hijra years ending 1456H.

(All amounts in Saudi Riyals thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Plants	Capital spares	Buildings	Machinery and equipment	Furniture, fixtures and office equipment	Catalyst	Laboratory and safety equipment	Vehicles and trucks	Capital work-in-progress	Total 2016
Cost:										
At 1 January 2016	2,781,725	96,227	64,367	46,922	9,055	174,363	15,867	5,152	247,868	3,441,546
Additions	-	3,454	-	8,184	278	-	2,142	1,300	107,032	122,390
Transfers	10,270	-	236,507	-	-	298	-	-	(247,075)	-
Transfer to other non-current assets	-	-	(179,954)	-	-	-	-	-	-	(179,954)
Disposals	-	-	-	-	-	-	-	(1,300)	-	(1,300)
At 31 December 2016	2,791,995	99,681	120,920	55,106	9,333	174,661	18,009	5,152	107,825	3,382,682
Depreciation:										
At 1 January 2016	1,009,025	19,992	17,326	26,798	7,052	133,593	15,051	3,238	-	1,232,075
Charge for the year	146,943	4,939	4,975	6,044	649	17,936	268	1,124	-	182,878
Disposals	-	-	-	-	-	-	-	(1,300)	-	(1,300)
At 31 December 2016	1,155,968	24,931	22,301	32,842	7,701	151,529	15,319	3,062	-	1,413,653
Net Book Value:										
At 31 December 2016 (Note 6.3)	1,636,027	74,750	98,619	22,264	1,632	23,132	2,690	2,090	107,825	1,969,029
At 1 January 2016 (Note 6.1)	1,772,700	76,235	47,041	20,124	2,003	40,770	816	1,914	247,868	2,209,471

Allocation of depreciation charge for the year is as follows:

	2017	2016
Cost of sales (note 24)	**181,033**	174,414
General and administration expenses (note 25)	**9,622**	8,431
Selling and distribution expenses	**42**	33
	190,697	182,878

(All amounts in Saudi Riyals thousands unless otherwise stated)

8. INTANGIBLE ASSETS

	31 December 2017	31 December 2016 *(Note 6.3)*	1 January 2016 *(Note 6.1)*
At the beginning of the year	**3,463**	5,128	5,128
Additions	**1,194**	887	-
Amortisation	**(1,323)**	(2,552)	-
At the end of the year	**3,334**	3,463	5,128

Intangible assets mainly represents employees' furniture allowance.

9. INVESTMENT IN AN ASSOCIATE

The Group has an investment in Propane De-Hydrogenation Plant ("PDH Plant") with SK Gas ("the JV Co.") in which AGIC owns 30% shareholding at 31 December 2017. In 2016, AGIC has sold 5% of its equity ownership in the JV Co. to Petrochemical Industries Company (PIC) and accordingly, the new shareholding of the JV Co. is 45% by SK Gas, 30% by AGIC and 25% by PIC. As a result of this transaction, the Group has recorded a gain in the consolidated statement of profit or loss for the year ended 31 December 2016 amounting to SR 16.04 million and the sales proceeds have been received in full in 2016. The summarised financial position and operating results of the associate is given below:

	31 December 2017	31 December 2016 *(Note 6.3)*	1 January 2016 *(Note 6.1)*
Current assets	**596,617**	519,382	49,407
Non-current assets	**2,955,606**	2,741,346	2,719,469
Current liabilities	**328,188**	322,979	23,356
Non-current liabilities	**1,541,566**	1,600,985	1,644,785
Equity	**1,682,469**	1,336,764	1,100,735
The Group's carrying amount of the investment	**534,382**	432,301	421,239

	2017	2016
Sales	**2,351,002**	1,516,982
Costs of sales	**(2,043,971)**	(1,249,739)
Selling, general and administration expenses	**(64,098)**	(43,394)
Other income and expenses	**(45,134)**	(37,056)
Profit before tax	**197,799**	186,793
Income tax expense	**(34,596)**	(31,206)
Profit for the year	**163,203**	155,587
Group's share of profit for the year	**47,608**	47,223

(All amounts in Saudi Riyals thousands unless otherwise stated)

9. INVESTMENT IN AN ASSOCIATE (Continued)

The movement in investment in an associate is as follows:

	31 December 2017	31 December 2016 *(Note 6.3)*	1 January 2016 *(Note 6.1)*
At the beginning of the year	**432,301**	421,239	421,239
Additions during the year	**-**	44,463	-
Disposal during the year	**-**	(67,040)	-
Share of results for the year	**47,608**	47,223	-
Exchange differences on translation of foreign operations	**54,473**	(13,534)	-
Other adjustments	**-**	(50)	-
At the end of the year	**534,382**	432,301	421,239

10. INVESTMENT IN AN UNCONSOLIDATED SUBSIDIARY

	Effective percentage of ownership		**31 December 2017**	31 December 2016 (Note 6.3)	1 January 2016 *(Note 6.1)*
	2017	2016			
Advanced Global Holding Limited ("AGHL")	**100%**	100%	**376**	376	376

In 2014, AGIC made 100% investment in AGHL, a limited liability company incorporated in Luxembourg. The share capital contribution in AGHL was kept in its bank account and there were no other assets or liabilities, including contingent liabilities at the balance sheet date. AGHL does not have any operations for the reported year.

(All amounts in Saudi Riyals thousands unless otherwise stated)

11. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2017	31 December 2016 (Note 6.3)	1 January 2016 (*Note 6.1)*
Cost:			
At the beginning of the year	**553,560**	862,749	862,749
Additions	**176,636**	224,799	-
Disposals	**(259,283)**	(500,742)	-
Impairment losses	**-**	(33,246)	-
At the end of the year	**470,913**	553,560	862,749
Valuation adjustments:			
At the beginning of the year	**240,325**	(61,606)	(61,606)
Net movement during the year	**(50,466)**	301,931	-
At the end of the year	**189,859**	240,325	(61,606)
Net carrying value	**660,772**	793,885	801,143

At 31 December 2017, available-for-sale investments comprise strategic investments in another listed entity and is presented at fair value. All available-for-sale investments are in Saudi Riyals and inside KSA.

Management has performed a review of investments to assess whether impairment has occurred in the value of these investments. Based on specific information, management has recorded impairment loss of SR nil (2016: SR 33.25 million) in the consolidated statement of profit or loss for the year in respect of investments available-for-sale.

12. OTHER NON-CURRENT ASSETS

	31 December 2017	31 December 2016 (Note 6.3)	1 January 2016 (*Note 6.1)*
Employees' home ownership program (note a)	**149,162**	161,589	-
Employees' share ownership program	**-**	-	24,714
Others	**5,792**	792	1,292
	154,954	162,381	26,006

a) It represents balances related to employees' Home Ownership Program (HOP). The Company started building residential houses for its employees in 2013. In May 2016, completed housing units were distributed to direct hire Saudi employees under a long term repayment agreement. The employee pays 17% of his monthly basic salary in addition to his housing allowance which is being applied as loan repayment/installment until the total HOP loan is fully repaid. As at reporting date, SR 149.16 million represents non-current portion and SR 12.03 million represents current portion.

13. INVENTORIES

	31 December 2017	31 December 2016	1 January 2016
		(Note 6.3)	(Note 6.1)
Spare parts	**100,536**	87,228	77,200
Catalyst	**11,303**	6,375	16,987
Semi-finished goods	**16,767**	6,389	10,149
Finished goods	**2,131**	6,235	9,634
Others	**12,267**	10,458	10,321
	143,004	116,685	124,291

The spare parts inventory primarily relates to periodic maintenance of plants and machinery and accordingly, is expected to be utilized over a period exceeding one year.

14. TRADE RECEIVABLES

	31 December 2017	31 December 2016	1 January 2016
		(Note 6.3)	(Note 6.1)
Trade receivables	**301,017**	333,166	222,398
Less: Provisions for doubtful debts	**(79)**	(600)	(600)
	300,938	332,566	221,798

Trade receivables are non-interest bearing and are generally on 30 to 45 days terms. At 31 December 2017, trade receivables at nominal value of SR 0.08 million (2016: SR 0.6 million) were impaired and provided for. Other receivables are excluded as these are not related with the payment behavior of customers. See below for the movements in the provisions for doubtful debts:

	31 December 2017	31 December 2016	1 January 2016
At the beginning of the year	**600**	600	600
Utilised during the year	**(521)**	-	-
At the end of the year	**79**	600	600

The ageing analysis of trade receivable is as follows:

			Past due but not impaired *SAR '000*				
	Total	***Neither past due nor impaired***	***< 30 days***	***30 – 60 days***	***60 – 90 days***	***90 – 120 days***	***>120 days***
31 December 2017	**300,938**	**297,076**	**54**	**819**	**539**	**251**	**2,199**
31 December 2016	332,566	279,098	38,187	14,127	53	64	1,037
1 January 2016	221,798	208,955	11,265	584	-	894	100

See note 28 on credit risk of trade receivables, which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

15. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2017	31 December 2016	1 January 2016
		(Note 6.3)	*(Note 6.1)*
Prepayments	**15,757**	15,555	15,946
Current portion of employees' HOP receivable (note 12)	**12,026**	11,139	-
Deposits	**2,375**	2,202	2,995
Advances to suppliers	**11,293**	1,817	1,198
Accrued commission income	**5,304**	4,025	-
Others	**188**	2,426	1,778
	46,943	37,164	21,917

16. SHORT TERM INVESTMENTS

Short term investments consist of murabaha deposits with regional banks with a term of one year from original placement date and are denominated in Saudi Riyals. These deposits earn financial income at an average rate of 2.05% to 2.45% per annum (31 December 2016: 2.62% to 3.10% per annum).

17. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016	1 January 2016
		(Note 6.3)	*(Note 6.1)*
Bank balances and cash	**205,269**	52,986	84,984
Short term murabaha investments	**55,000**	400,000	-
	260,269	452,986	84,984

Short term murabaha investments are kept with local and regional commercial banks and are maintained in Saudi Riyals. All investments had original maturities of less than 3 months and earn financial income at an average rate of 1.70% per annum (31 December 2016: 2.25% to 2.95% per annum).

18. SHARE CAPITAL

	31 December 2017	31 December 2016	1 January 2016
	No. of shares	*No. of shares*	*No. of shares*
Authorised shares			
Ordinary shares of SR 10 each ('000)	**196,794**	196,794	163,995
Shares issued and fully paid			
Ordinary shares of SR 10 each ('000)	**196,794**	196,794	163,995

(All amounts in Saudi Riyals thousands unless otherwise stated)

19. TERM LOAN

	31 December 2017	31 December 2016 *(Note 6.3)*	1 January 2016 *(Note 6.1)*
Murabaha loan	**10,000**	50,000	90,000
Less: current portion	**(10,000)**	(40,000)	(40,000)
Non-current portion	**-**	10,000	50,000

In 2013, the Company obtained Murabaha loan facility of SR 200 million from a local commercial bank to finance the housing project for its employees as explained under Note 12. Balance drawn as of 31 December 2017 against this facility amounted to SR 120 million (2016: SR 120 million). The loan is being repaid in 12 equal quarterly installments commencing from 30 June 2015.

The aggregate maturities of the loans as of 31 December, are summarised as follows:

	31 December 2017	31 December 2016 *(Note 6.3)*	1 January 2016 *(Note 6.1)*
Years ending 31 December:			
2016	**-**	-	40,000
2017	**-**	40,000	40,000
2018	**10,000**	10,000	10,000
	10,000	50,000	90,000

20. SUKUK

	31 December 2017	31 December 2016 *(Note 6.3)*	1 January 2016 *(Note 6.1)*
Sukuk	**1,000,000**	1,000,000	1,000,000
Less: Present value discounting using EIR method	**(1,418)**	(2,125)	(2,376)
	998,582	997,875	997,624

On 17 November 2014, the Company issued its Sukuk amounting to SR 1 billion at a par value of SR 1 million each with no discount or premium. The Sukuk issuance bears a rate of return at SIBOR plus a specified margin, payable semi-annually in arrears. The Sukuk is having an EIR of 3.34% and due for payment in full at par value on its maturity date of 17 November 2019. As at 31 December 2017, total outstanding amount under the Sukuk has been classified as non-current liability net-off unamortised deferred cost.

(All amounts in Saudi Riyals thousands unless otherwise stated)

21. EMPLOYEES' TERMINAL BENEFITS AND OTHER BENEFITS

The following table represents the components of the defined benefit and other liabilities:

	31 December 2017	31 December 2016 *(Note 6.3)*	1 January 2016 *(Note 6.1)*
Present value of defined benefit obligation	**92,135**	72,668	57,064
Less: fair value of plan assets	**-**	-	-
Net defined liability (Note 21.1)	**92,135**	72,668	57,064
Other long term benefit (i.e. employees' saving plan)	**9,612**	7,373	5,404
Employees terminal benefits and other benefits	**101,747**	80,041	62,468

Note 21.1 The amounts recognised and the movements in the net defined benefits obligation over the year are as follows:

At 1 January 2016	57,064
Service cost	10,319
Interest cost	2,708
Benefits paid	(1,289)
Actuarial losses on re-measurement of net defined benefits obligation	3,866
At 31 December 2016	72,668
Service cost	11,894
Interest cost	3,330
Benefits paid	(2,861)
Actuarial losses on re-measurement of net defined benefits obligation	7,104
At 31 December 2017	**92,135**

Employees' terminal benefits are determined by actuarial valuations using a method based on projected end-of-career salaries ("The Projected Unit Credit Method"). Appropriate assumptions concerning mortality, employee turnover and interest rates are applied to determine the Group's projected benefit obligation for long-term employee benefits.

Actuarial gains and losses are recognised immediately through the consolidated statement of other comprehensive income, a component of shareholder's equity. Past service costs are recognised directly in the consolidated statement of profit or loss in the reporting period as incurred.

The principal actuarial assumptions used for valuing pension obligations are as follows (in percentages):

	31 December 2017	31 December 2016	1 January 2016
Discount rate	**3.6%**	4.3%	4.4%
Salary increase rate for first three years	**4.0%**	6.0%	6.0%
Long term salary increase rate	**4.5%**	4.5%	4.5%

(All amounts in Saudi Riyals thousands unless otherwise stated)

21. EMPLOYEES' TERMINAL BENEFITS AND OTHER BENEFITS (Continued)

A change in the material actuarial assumptions would have the following effects on the defined benefit obligation:

	31 December 2017	31 December 2016	1 January 2016
Discount rate:			
Increase by 0.5% points	**(7,123)**	(5,599)	(4,390)
Decrease by 0.5% points	**7,975**	6,262	4,917
Long term salary increase rate:			
Increase by 0.5% points	**5,927**	4,668	4,182
Decrease by 0.5% points	**(5,435)**	(4,280)	(3,801)

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

22. ACCRUALS AND OTHER CURRENT LIABILITIES

	31 December 2017	31 December 2016	1 January 2016
		(Note 6.3)	*(Note 6.1)*
Accrued purchases and expenses	**176,003**	133,109	116,969
Customers' rebate	**-**	7,440	3,040
Others	**1,371**	1,000	873
	177,374	141,549	120,882

The Group's exposure to currency and liquidity risk related to accounts payable, accruals and other liabilities is disclosed in note 28.

23. ZAKAT AND INCOME TAX

The major components of zakat and income tax expense are:

	2017	2016
Zakat and current income tax:		*(Note 6.4)*
Zakat charge	**22,134**	19,942
Current income tax charge	**956**	3,644
	23,090	23,586
Deferred tax:		
Relating to origination and reversal of temporary differences	**(2,323)**	(608)
	20,767	22,978

Movement in zakat and income tax for the year was as follows:

	2017	2016
		(Note 6.3)
At 1 January	**21,825**	19,578
Current year provision	**23,090**	23,586
Payments during the year	**(23,678)**	(21,339)
At 31 December	**21,237**	21,825

(All amounts in Saudi Riyals thousands unless otherwise stated)

23. ZAKAT AND INCOME TAX (Continued)

Zakat

Charge for the year

The zakat charge consists of:	**2017**	2016
		(Note 6.3)
Current year provision	**20,737**	19,931
Adjustment relating to prior years	**1,397**	11
Charge for the year	**22,134**	19,942

The principal elements of the zakat base are as follows:

	2017	2016
Non-current assets	**3,311,185**	3,361,435
Non-current liabilities	**1,101,823**	1,091,733
Opening shareholders' equity	**3,036,445**	2,518,741
Zakatable income	**645,226**	742,301
Dividends paid	**550,862**	497,919

The difference between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable results.

Income tax

Charge for the year

The income tax charge consists of:

	2017	2016
		(Note 6.3)
Current year provision	**2,108**	3,655
Adjustment relating to prior years	**(1,152)**	(11)
Charge for the year	**956**	3,644

No reconciliation of taxable profit and accounting profit relating to tax provision provided as there are no significant reconciling items that needs to be disclosed.

Status of assessments

Advanced Petrochemical Company ("The Company")

The Company has been filing its annual Zakat & Income Tax returns with the General Authority of Zakat and Tax (the "GAZT") for the years 2005 to 2016. However, there's no assessment received so far from the GAZT with respect of those years.

Advanced Renewable Energy Company ("AREC")

AREC has been filing its annual Zakat & Income Tax returns with the GAZT for the years 2013 to 2016. However, there's no assessment received so far from the GAZT with respect of those years.

Advanced Global Investment Company ("AGIC")

AGIC has been filing its annual Zakat & Income Tax returns with the GAZT for the years 2013 to 2016. However, there's no assessment received so far from the GAZT with respect of those years.

Zakat and income tax base has been computed based on the Company's understanding of the zakat and income tax regulations enforced in the Kingdom of Saudi Arabia. The zakat and income tax regulations in Saudi Arabia are subject to different interpretations. The assessments to be raised by the GAZT could be different from the declarations filed by the Company and its subsidiaries.

(All amounts in Saudi Riyals thousands unless otherwise stated)

23. ZAKAT AND INCOME TAX (Continued)

Deferred tax
The deferred tax comprises of timing differences relating to:

	31 December 2017	31 December 2016	1 January 2016
		(Note 6.3)	*(Note 6.1)*
Deferred tax asset			
Provisions allowed on cash basis	**121**	204	161
Deferred tax liability			
Accelerated depreciation differential for tax purposes	**(1,615)**	(4,021)	(4,586)
Net deferred tax liability	**1,494**	3,817	4,425

Reconciliation of deferred tax liability, net was as follows:

	31 December 2017	31 December 2016
		(Note 6.3)
At 1 January	**3,817**	4,425
Tax expense reversed in profit or loss during the year	**(2,323)**	(608)
At 31 December	**1,494**	3,817

24. COST OF SALES

	2017	2016
		(Note 6.4)
Raw materials, utilities, consumables and change in inventories	**1,331,172**	994,506
Salaries and related benefits	**83,578**	77,168
Depreciation (note 7)	**181,033**	174,414
Others	**50,631**	34,826
	1,646,414	1,280,914

25. GENERAL AND ADMINISTRATION EXPENSES

	2017	2016
		(Note 6.4)
Salaries and related benefits	**66,152**	70,905
Depreciation (note 7)	**9,622**	8,431
Contracted services	**8,038**	9,576
Legal and professional	**7,308**	7,339
Director’s remuneration, allowances and expenses	**2,224**	416
Software licenses and fees	**2,098**	2,094
Communication	**1,490**	1,192
Advertising and promotions	**1,001**	1,995
Rent	**1,302**	1,622
Others	**8,375**	12,638
	107,610	116,208

26. SEGMENT INFORMATION

A segment is a distinguishable component of the Group that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Group's management is of the view that all activities and operations of the Group comprise of a single operating segment for the purpose of decision making with respect to performance appraisal and resources allocation.

Substantial portion of the Group’s sales are made to the marketers and Group’s operations are related to one operating segment. Accordingly, segmental analysis by geographical and operating segment has not been presented.

Operating assets of the Group are located in the KSA. The sales are geographically distributed between domestic sales in the Kingdom representing less than 8% of the total sales and overseas sales represent more than 92% of the total sales.

27. EARNINGS PER SHARE

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

In 2016, the Company’s extraordinary general assembly meeting held on 28 July 2016, a 20% increase in share capital was approved by the shareholders by way of issuance of bonus shares. The proposed increase in share capital was funded from the retained earnings account through the distribution of one bonus share for every five shares held by the existing shareholders. The number of issued shares increased from One Hundred Sixty Three Million Nine Hundred and Ninety Five Thousand (163,995,000) shares to One Hundred Ninety Six Million Seven Hundred and Ninety Four Thousand (196,794,000) shares.

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

	2017	2016
		(Note 6.4)
Net profit attributable to equity holders of the Group	**631,116**	731,878
Weighted average number of ordinary shares (‘000)	**196,794**	196,794
Earnings Per Share (SR)	**3.207**	3.719

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

28. RISK MANAGEMENT

Overview
The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

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.

Risk management framework
The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board's Executive Committee is also responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems 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.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Financial instruments principally include cash and cash equivalents, short term investments, trade receivables, available-for-sale investments, trade payables, accruals and other current liabilities, dividend payable, term loan, sukuk and other non-current liabilities.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and available-for-sales investments.

Trade receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each marketing agent who act as the exclusive sales agent of the product. The trade receivable from these marketing agents is cover through standby letter of credit issued by credit-worthy financial institutions. At 31 December 2017, the Group had 3 marketing agents that owed more than SR 259 million and accounted for approximately 86% of all receivables owing.

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all direct customers who wish to trade on credit terms are subject to credit verification procedures. Credit quality of the customer is assessed based on an extensive credit rating scorecard. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

28. RISK MANAGEMENT (Continued)

Credit risk (continued)
Trade receivables *(continued)*
Credit limits are established for all customers using on internal and external rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Executive Committee; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Available-for-sales investments
The Group limits its exposure to credit risk by investing only in liquid securities with approved counterparties and within credit limit assigned to each counterparty by the Investment Committee. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

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, and may be updated throughout the year subject to approval of the Group's Investment Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2017 and 2016 is the carrying amounts as illustrated in Note 14 except for financial guarantees.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Additionally, access to sources of funding is available and debt maturing within 12 months can be rolled over with existing lenders, if required.

28. RISK MANAGEMENT (Continued)

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.

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. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2017	***On Demand SR '000***	***Less than 3 months SR '000***	***3 to 12 months SR '000***	***1 to 5 years SR '000***	***More than 5 years SR '000***	***Total SR '000***
Interest bearing loans and borrowings:						
- Term loan	-	10,000	-	-	-	**10,000**
- Sukuk	-	-	-	1,000,000	-	**1,000,000**
Trade payables and other liabilities	13,905	275,170	3,891	3,198	4,684	**300,848**
Dividends payable	4,990	-	-	-	-	**4,990**
	18,895	285,170	3,891	1,003,198	4,684	**1,315,838**

Year ended 31 December 2016	*On Demand SR '000*	*Less than 3 months SR '000*	*3 to 12 months SR '000*	*1 to 5 years SR '000*	*More than 5 years SR '000*	*Total SR '000*
Interest bearing loans and borrowings:						
- Term loan	-	10,000	30,000	10,000	-	50,000
- Sukuk	-	-	-	1,000,000	-	1,000,000
Trade payables and other liabilities	10,933	203,863	4,401	3,198	5,323	227,718
Dividends payable	4,829	-	-	-	-	4,829
	15,762	213,863	34,401	1,013,198	5,323	1,282,547

At 1 January 2016	*On Demand SR '000*	*Less than 3 months SR '000*	*3 to 12 months SR '000*	*1 to 5 years SR '000*	*More than 5 years SR '000*	*Total SR '000*
Interest bearing loans and borrowings:						
- Term loan	-	10,000	30,000	50,000	-	90,000
- Sukuk	-	-	-	1,000,000	-	1,000,000
Trade payables and other liabilities	638	214,136	2,900	-	-	217,674
Dividends payable	5,843	-	-	-	-	5,843
	6,481	224,136	32,900	1,050,000	-	1,313,517

(All amounts in Saudi Riyals thousands unless otherwise stated)

28. RISK MANAGEMENT (Continued)

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily US Dollars. The Group is not significantly subject to fluctuations in foreign exchange rates in the normal course of its business as the Group did not undertake significant transactions during the year in currencies other than Saudi Riyals and US Dollars which is pegged against Saudi Riyal.

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowing which expose the Group to cash flow interest rate risk.

The Group's receivables and fixed rate borrowings carried at amortised cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the fixed interest rate borrowings at the end of the reporting period are as follows:

Interest rate exposure

	31 December 2017	31 December 2016	1 January 2016
Variable interest rate – repricing dates 6 months or less	**1,010,000**	1,050,000	1,090,000

Interest rate sensitivity analysis
Profit or loss and equity is sensitive to higher / lower interest expense from long term borrowings as a result of changes in interest rates. The Group's profit before tax is affected as follows:

	31 December 2017	31 December 2016
Interest rate – increase by 100 basis points	**(10,455)**	(10,898)
Interest rate – decrease by 100 basis points	**10,455**	10,898

Commodity risk
The Group is exposed to the impact of market fluctuations of the price of various inputs to production including propane, propylene, natural gas and electricity. From time to time, the Group manages some elements of commodity price risk through the use of fixed price contracts.

(All amounts in Saudi Riyals thousands unless otherwise stated)

28. RISK MANAGEMENT (Continued)

Equity price risk

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to equity securities at fair value listed on the Saudi Stock Exchange was SR 660.8 million. Given that the changes in fair values of the equity investments held are strongly positively correlated with changes of the Saudi Stock Exchange market index, the Group has determined that a decrease of 20% on the Saudi Stock Exchange market index could have an impact of approximately SR 132.2 million on the other comprehensive income or equity attributable to the Group, depending on whether the decline is significant or prolonged. An increase of 20% in the value of the listed securities would only impact equity, but would not have an effect on the consolidated statement of profit or loss.

	Change in equity price	*Effect on equity/other comprehensive income*	
	%	**2017**	2016
Investments available-for-sale	+/- 20	**132,154**	146,777

Capital management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio:

The gearing ratios as at the end of year were as follows:

	31 December 2017	31 December 2016	1 January 2016
		(Note 6.3)	*(Note 6.1)*
Net debt – Long term debt	**1,008,582**	1,047,875	1,087,624
Total equity	**3,113,441**	3,036,445	2,518,741
Capital and net debt	**4,122,023**	4,084,320	3,606,365
Net debt to equity ratio	**0.324**	0.345	0.432

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

28. RISK MANAGEMENT (Continued)

Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the consolidated financial statements are prepared under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

The Group has categorised its financial assets and liabilities into a three-level fair value hierarchy, based on the nature of the inputs used in determining fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

Following is a description of each category in the fair value hierarchy and the financial assets and liabilities of the Group that are included in each category at 31 December 2017.

- Level 1: Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market.

- Level 2: Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

- Level 3: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

		Level 1	*Level2*	*Level 3*
Year ended 31 December 2017	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Assets measured at fair value				
Available-for-sales investments	660,772	660,772	-	-

		Level 1	*Level2*	*Level 3*
Year ended 31 December 2016	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Assets measured at fair value				
Available-for-sales investments	793,885	733,885	60,000	-

		Level 1	*Level2*	*Level 3*
At 1 January 2016	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Assets measured at fair value				
Available-for-sales investments	801,143	465,269	335,874	-

The Group has not disclosed the fair value of financial instruments such as cash and cash equivalent, trade receivables, trade payable, accruals and other current liabilities, because their carrying amounts are a reasonable approximation of fair value largely because of short term maturity of these instruments.

(All amounts in Saudi Riyals thousands unless otherwise stated)

28. RISK MANAGEMENT (Continued)

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried at amortised cost in the consolidated financial statements as at 31 December 2017:

	Carrying value	*Fair value*
Financial liabilities		
Term Loan	10,000	10,000
Sukuk	998,582	1,000,000

The fair value of the financial assets and liabilities is included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Floating-rate borrowings approximate their carrying amounts largely due to the fact that the floating rate approximates the market interest rate.
- The fair value of loans from banks and other financial indebtedness as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities.

29. COMMITMENTS AND CONTINGENCIES

At 31 December 2017, Capital commitments contracted but not yet incurred amounted to SR 23.2 million in respect of the employees home ownership program (2016: SR 88.4 million).

The Group has signed a five years agreement for the purchase of 80,000 MT per annum of propylene (an intermediate product) which have been used in the production of polypropylene since 1 October 2014. In 2017, this agreement is extended upto 31 July 2023 with increase in the quantity to 100,000 MT per annum.

Contingencies
The Group's banker has given payment guarantees on behalf of the Group in favor of Saudi Aramco for the propane and sales gas supply agreements and others amounting to SR 301.95 million (2016: SR 302.01 million).

Operating lease arrangements
The Group has leased land from the Royal Commission for Jubail and Yanbu, for its building and plants facilities. Rental expenses for the year ended 31 December 2017 amounted to SR 0.65 million (2016: SR 0.65 million). The lease will expire in the year 1456H, with the option for renewal.

Commitments for minimum lease payments under non-cancelable operating leases are as follows:

	2017	2016
Not later than one year	**650**	650
Year two	**650**	650
Year three	**650**	650
Year four	**650**	650
Year five	**650**	650
Later than five years	**9,108**	9,758
Net minimum lease payments	**12,358**	13,008

(All amounts in Saudi Riyals thousands unless otherwise stated)

30. DIVIDENDS

On 5 December 2017, the Board of Directors proposed to distribute final cash dividend of SR 0.70 per share (totaling SR138 million) for the fourth quarter of 2017. This will be paid during 2018 subsequent to approval by the General Assembly in their next meeting to be held in March 2018.

On 4 October 2017, The Board of Directors resolved to distribute interim cash dividend for the third quarter of 2017 of SR0.70 per share (totaling SR138 million).

On 16 May 2017, the Board of Directors resolved to distribute interim cash dividend for the second quarter of 2017 of SR. 0.70 per share (totaling SR 138 million).

On 7 March 2017, the Board of Directors resolved to distribute interim cash dividend for the first quarter of 2017 of SR. 0.70 per share (totaling SR 138 million).

In November 2016, the Board of Directors proposed to distribute final cash dividend of SR 0.70 per share (totaling to SR 138 million) for the fourth quarter of 2016. This has been approved by the General Assembly in their meeting held on 7 March 2017.

31. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, associated company, subsidiaries, key personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties.

During the year, no significant transactions with the related parties resulting in the balances other than those disclosed in note 1 to the consolidated financial statements.

Compensation of key management personnel

	2017	2016
Salaries and allowances	**9,555**	9,460
Short term and other benefits	**6,298**	6,261
	15,853	15,721

The amounts disclosed in the table are the amounts recognised as an expense during the reporting year related to key management personnel.

The non-executive directors do not receive pension entitlements from the Group. The Group has paid SR 2.22 million (2016: SR 2.22 million) as director’s remuneration, allowances and expenses during the year.

32. SUBSEQUENT EVENT

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