Saudi Industrial Investment Group Company and its Subsidiary

(A Saudi Joint Stock Company)

Consolidated Financial Statements

For the year ended 31 December 2017
and independent auditor's report

SAUDI INDUSTRIAL INVESTMENT GROUP COMPANY AND ITS SUBSIDIARY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017

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Independent Auditor’s Report

To the shareholders of Saudi Industrial Investment Group Company
Saudi Joint Stock Company

Riyadh, Kingdom of Saudi Arabia

Opinion
We have audited the consolidated financial statements of **Saudi Industrial Investment Group Company** (a Saudi Joint Stock Company) and its subsidiary (collectively the “Group”), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”) endorsed in the Kingdom of Saudi Arabia, and other standards and versions endorsed by Saudi Organization for Certified Public Accountants (“SOCPA”).

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

Adoption of IFRS beginning 1 January 2017.	
Key audit matter	***Our procedures for auditing this were as follows:***
The Saudi Organization for Certified Public Accountants (SOCPA) has adopted the International Financial Reporting Standards (IFRS) for the implementation as of 1 January 2017 for companies listed in the stock exchange. The Group has adopted the IFRS in accordance with the SOCPA's decision. Accordingly, the application resulted in several adjustments following are the most significant procedures, performed:	We obtained an understanding of the Group's plan in the process of transition from Saudi GAAP to the application of IFRS. We also conducted audit procedures for the amendments resulting from the transition process. The following are the main procedures taken: - We obtained a gap analysis of the differences in the application of the Saudi GAAP and IFRS.

- Adjustments of certain items to comply with the requirements of the IFRS. - Reclassification of certain items in the financial statements. - Addition of certain accounting policies that comply with IFRS. - Recognition of actuarial losses or gains from re-measuring the liability for employees' end of service benefits. This was determined as a key audit matter because of the significant change of form and content of the consolidated financial statements for the presentation and treatment of accounting treatments than before.	- We reviewed the completeness of Identifying differences on the level of presentation, disclosure, consistency and measurement. - We have reviewed the accuracy of the adjustments made as a result of the adoption of IFRS, as they were recorded in the consolidated statement of financial position as at 1 January 2016 and the consolidated statement of financial position for the year ended 31 December 2016. - We have audited the disclosure of annual consolidated financial statements on the implications of applying IFRS.
See note (6) for the effects of the application of IFRS.	

Revenue recognition	
Key audit matter	***Our procedures for auditing this were as follows:***
As at 31 December 2017, the management has recognized revenue amounting to SR 7,364 million (31 December 2016: SR 6,066 million). Revenue is recognized 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 received. Revenue is measured at the fair value of the consideration received or receivable net of discounts and rebates, taking into account contractually defined terms of payment. The majority of the Group's sales revenues are sales of ethylene, propylene, 1-hexane, polypropylene and polyethylene. Revenue recognition was considered a key audit matter, as there was a risk that the timing and amount of revenue recognized in the financial period could have a material impact on financial performance.	- Evaluated the design, implementation and testing of the efficiency of controls implemented to recognize revenue in accordance with the Group's policy. - Test the manual journals posted to revenue to identify any unusual or irregular items. - Verification of sales transactions carried out near the end of the year to assess whether revenue is recognized in the correct period. - Forecasting the current year's revenue balance based on trend analysis information, and then comparing these expectations with actual revenues and, when necessary, doing further inquiries and tests.
See Note (5) to the Summary of Significant Accounting Policies.	

Loans covenant	
Key audit matter	***Our procedures for auditing this were as follows:***
At 31 December 2017, the Group's long term loans amounted to SR 7,994 million (2016: SR 9,505 million). The Group has achieved a positive cash flow of SR 1,699 million from its operations in 2017 and expects to achieve sufficient cash flows from its operations during 2018 to settle the repayment of the current portion of long term loans. We considered this to be a key audit matter because there were risks of not properly calculating loans, and the Group may not be able to fulfill loan covenants, and loans may have been incorrectly classified into the current and non-current.	- Obtained banks confirmations related to loans and match with the books of the group. - Loan agreements have been reviewed and the balances have been aappropriately disclosed. - Loan covenants ratios have been reviewed, re-calculated and verified.
See note (5) to the summary of significant accounting policies and note (17) to the related disclosure.	

Valuation of inventories	
Key audit matter	***Our procedures for auditing this were as follows:***
As at 31 December 2017, the Group's inventory balance amounted to SR 1,093 million (2016: SR 924 million). Inventories are stated at the lower of cost and net realizable value. When inventories become slow moving, their net realizable value is estimated. For significant amounts, this estimate is made on a case-by-case basis. Amounts that are not significant but are related to slow moving inventories are estimated together and an allowance is made for these amounts by inventory type and given the degree of obsolescence or slow moving on the basis of expected selling prices. The Group's management has reduced the finished goods with an amount of SR 27 million during the year ended 31 December 2017. We considered this to be a key audit matter because of the significant judgments and assumptions used by the management in determining the need to create a slow moving inventory provision and the level of inventory reduction required on the basis of an assessment of net realizable value.	- Auditing the Group's net realizable value test of inventories to verify whether the inventory is valued at the lower of cost or net realizable value. - Inquiring about any slow moving or expired stock through the actual count of inventory.
See note (5) to the summary of significant accounting policies and note (11) to the related disclosure.	

Other information

Management is responsible for the other information. The other information comprises in the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged With Governance for the financial statements

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

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

Those Charged With Governance, in particular the Audit Committee, are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, 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.
- 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 the management and Those Charged With Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

In our opinion these consolidated financial statements, taken as a whole, comply with requirements for companies and the company's by-laws with respect to the preparation and presentation of consolidated financial statements.

Riyadh, on 20 Jumada Al Akher1439(H)
Corresponding to: 8 March 2018(G)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Amounts in SR'000)

Assets	Notes	**As of 31 December 2017**	As of 31 December 2016	As of 1 January, 2016
Non-current assets				
Property, plant and equipment	7	**16,071,975**	16,898,572	17,118,486
Subordinated loan to jointly controlled ventures	8	**-**	-	75,000
Investments in jointly controlled ventures	9	**2,469,662**	2,472,484	2,818,169
Employee loans	10	**116,430**	110,454	54,190
Assets		**18,658,067**	19,481,510	20,065,845
Total non-current assets				
Current assets				
Inventories	11	**1,092,938**	923,702	1,018,811
Deferred tax reimbursable by non-controlling partner in subsidiary	21	**276,041**	221,216	156,876
Prepayments and other receivables	12	**124,839**	108,271	88,984
Due from related parties	23	**228,510**	276,669	222,775
Trade receivables	13	**1,108,947**	562,831	850,227
Murabaha term deposits	14	**715,300**	794,800	640,000
Cash and cash equivalents	15	**3,107,269**	2,833,452	2,505,821
Total current assets		**6,653,844**	5,720,941	5,483,494
Total assets		**25,311,911**	25,202,451	25,549,339
Equity and liabilities				
Shareholders' equity				
Share capital	16	**4,500,000**	4,500,000	4,500,000
Statutory reserve		**750,018**	649,612	599,701
Retained earnings		**1,313,930**	867,797	839,161
Equity attributable to shareholders' of the parent company		**6,563,948**	6,017,409	5,938,862
Non-controlling interests		**6,755,893**	5,935,089	5,479,433
Total equity		**13,319,841**	11,952,498	11,418,295
Non-current liabilities				
Long term loans	17	**6,625,869**	8,164,785	9,492,315
Subordinated loan from non-controlling partner	18	**817,988**	985,931	949,562
Sukuk	19	**1,070,000**	1,070,000	1,070,000
Deferred tax liabilities	21	**276,041**	221,216	156,876
Employees' end-of-service benefits	20	**167,032**	127,020	94,329
Total non-current liabilities		**8,956,930**	10,568,952	11,763,082
Current liabilities				
Current portion of long term loans	17	**1,368,027**	1,340,670	1,296,420
Accounts payables		**241,365**	95,058	127,148
Accruals and other payables	22	**632,342**	453,148	368,712
Zakat provision	21	**559,330**	504,027	371,888
Due to related parties	23	**234,076**	288,098	203,794
Total current liabilities		**3,035,140**	2,681,001	2,367,962
Total liabilities		**11,992,070**	13,249,953	14,131,044
Total equity and liabilities		**25,311,911**	25,202,451	25,549,339

(The attached notes from (1) to (37) form an integral part of these consolidated financial statements and to be read with.)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(Amounts in SR'000)

	Notes	For the year ended 31 December 2017م	2016م
Sales		**7,363,811**	6,066,505
Cost of sales		**(5,100,291)**	(4,457,512)
Gross profit		**2,263,520**	1,608,993
Share in earnings of jointly controlled ventures	9	**609,242**	86,478
Selling and marketing expenses	24	**(420,168)**	(377,645)
General and administrative expenses	25	**(242,479)**	(230,428)
Investment losses of jointly controlled venture	8	**(40,586)**	(159,375)
Operating profit		**2,169,529**	928,023
Finance charges	26	**(269,212)**	(253,005)
Other income	27	**177,439**	23,237
Profit from sale of investment in a jointly controlled project	9	**31,219**	-
Profit before zakat and income tax		**2,108,975**	698,255
Zakat and income tax	21	**(252,865)**	(217,270)
Profit for the period		**1,856,110**	480,985
Attributable to:			
Shareholder's of the parent		**1,004,058**	82,780
Non-controlling interests		**852,052**	398,205
		1,856,110	480,985
Other comprehensive income			
Items not to be reclassified to profit or loss subsequently			
Remeasurement losses on employees' end-of-service benefits		**(17,550)**	(11,127)
Total comprehensive income for the year		**1,838,560**	469,858
Attributable to:			
Shareholders of the parent		**996,539**	78.547
Non-controlling interests		**842,021**	391.311
		1,838,560	469,858
Earnings per share (SR)			
Basic and dilutive earning per share from net profit for the year to shareholders of the parent	28	**2.23**	0.18

(The attached notes from (1) to (37) form an integral part of these consolidated financial statements and to be read with.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Amounts in SR'000)

	Equity attributable to shareholders of the parent					
	Share capital	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
For the year ended December 31, 2017						
At 1 January 2017	**4,500,000**	**649,612**	**867,797**	**6,017,409**	**5,935,089**	**11,952,498**
Net Profit for the year	**-**	**-**	**1,004,058**	**1,004,058**	**852,052**	**1,856,110**
Other comprehensive income for the year	**-**	**-**	**(7,519)**	**(7,519)**	**(10,031)**	**(17,550)**
Total comprehensive income for the year	**-**	**-**	**996.539**	**996.539**	**842.021**	**1,838,560**
Transfer to statutory reserve	**-**	**100,406**	**(100,406)**	**-**	**-**	**-**
Dividends (note 35)	**-**	**-**	**(450,000)**	**(450,000)**	**-**	**(450,000)**
Dividends –none -controlling interest	**-**	**-**	**-**	**-**	**(120,000)**	**(120,000)**
Current and deferred income tax attributable to non- Saudi partner (note 21)	**-**	**-**	**-**	**-**	**98,783**	**98,783**
At 31 Dec 2017	**4,500,000**	**750,018**	**1,313,930**	**6,563,948**	**6,755,893**	**13,319,841**
For the year ended December 31, 2016						
At 1 January 2016	4,500,000	599,701	839,161	5,938,862	5,479,433	11,418,295
Net Profit for the year	-	-	82,780	82,780	398,205	480,985
Other comprehensive income for the year	-	-	(4,233)	(4,233)	(6,894)	(11,127)
Total comprehensive income for the year	-	-	78,547	78.547	391.311	469.858
Transfer to statutory reserve	-	49,911	(49,911)	-	-	-
Current and deferred income tax attributable to non- Saudi partner (note 21)	-	-	-	-	64,345	64,345
At 31 Dec 2016	4,500,000	649,612	867,797	6,017,409	5,935,089	11,952,498

CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in SR'000)

	For the year ended 31 December	
	2017 م	2016م
OPERATING ACTIVITIES		
Income before zakat and tax	**2,108,975**	698,255
Adjustments:		
Depreciation	**913,792**	817,994
Amortization of deferred costs	**8,414**	13,140
Loss from disposal of property and equipment	**974**	38
Finance charges	**269,212**	253,005
Share in earnings of jointly controlled ventures	**(609,242)**	(86,478)
Capital gains from the sale of an investment in a jointly controlled project	**(31,219)**	-
Provision no longer for use	**(76,144)**	-
Changes In:		
Trade receivable	**(546,116)**	287,396
Prepayments and other receivables and employee loans	**(77,369)**	(139,891)
Employees' end-of-service benefits	**25,151**	22,477
Inventories	**(169,236)**	95,109
Trade payable	**146,308**	(32,090)
Accruals and other credit balances	**25,496**	133,210
Due from / to related parties	**(5,863)**	30,410
Cash from operation	**1,983,133**	2,092,575
Zakat paid	**(22,635)**	(20,786)
Finance charges paid	**(261,535)**	(201,070)
Net cash provided by operating activities	**1,698,963**	1,870,719
INVESTING ACTIVITIES		
Murabha term deposit	**79.500**	(154,800)
Additions to property, plant and equipment	**(89,300)**	(598,740)
Proceeds from disposal of property and equipment	**1,131**	622
Dividend received from jointly controlled ventures	**609,375**	431,250
Proceeds from the sale of an investment in a jointly controlled venture	**31,219**	-
Net cash provided from (used in) investing activities	**631,925**	(321,668)
FINANCING ACTIVITIES		
Repayment of term loans	**(1,519,973)**	(1,296,420)
Repayment of subordinated loan from a non-controlling partner in a subsidiary	**(196,875)**	-
Dividends paid	**(340,223)**	-
Payments of subordinated loan to jointly controlled ventures	**-**	75,000
Net cash used in financing activities	**(2,057,071)**	(1,221,420)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**273.817**	327,631
Cash and cash equivalents at the beginning of the year	**2,833,452**	2,505,821
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**3.107.269**	2,833,452
Non – cash transactions		
Dividends to shareholders of the Company (note 22)	**229,777**	-

(The attached notes from (1) to (37) form an integral part of these consolidated financial statements and to be read with.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017
(All amounts are presented in thousands Saudi Riyals unless otherwise indicated)

FORMATION AND ACTIVITIES

Saudi Industrial Investment Group (the "Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration number 1010139946 dated 10 Sha'aban 1416H (corresponding to 1 January 1996G).The Company was formed pursuant to Ministry of Commerce and Industry`s resolution number 610 dated 10 Jumad Al-Ula 1416H (corresponding to 5 October 1995G).

The Company is engaged in enhancing the growth and development of the industrial base of the Kingdom, specifically the petrochemicals industry, opening more channels for the exportation of the products and more ways for the private sector in the Kingdom to enter into other industries by using petrochemical products after obtaining the required licenses from the relevant authorities. The company's shares are listed in the Saudi Stock Exchange.

The Company's registered office is located at P.O. Box 99833, Riyadh 11625, Saudi Arabia.

The financial year of the Group starts on January 1 and ends on December 31 of each calendar year.

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies in (note 5).

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out in (note 5). The policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in (note 4).

These consolidated financial statements have been prepared on the historical cost basis, except for employee's benefits; actuarial present value calculation is used.

Wherever the "International Financial Reporting Standards" appear in these notes, they refer to "International Financial Reporting Standards adopted in Saudi Arabia and other standards and issuances adopted by the Saudi Organization for Certified Public Accountants". The approved international standards are the international standards as issued by the International Accounting Board, in addition to the requirements and disclosures that have been added by Saudi Organization for Certified Public Accountants to some of these standards in accordance with the International Financial Reporting Standards (IFRS). Other standards and publications are the Saudi Arabian Organization of Certified Public Accountants' standards and technical opinions on topics not covered by international standards such as zakat.

As disclosed in note (6) to the financial effect of the application of IFRS , which clarifies the adjustments resulting from the application of IFRS to equity, profit or loss and other comprehensive income.

The consolidated financial statements are presented in Saudi Riyals ("SR") which is the functional currency of the country in which the Group is domiciled. The figures in these consolidated financial statements have been rounded to the nearest thousand except when otherwise indicated.

2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries for the year ended 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 Company's voting rights and potential voting rights.

The Company 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 Company obtains control over the subsidiary and ceases when the Company 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 Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of the statement of consolidated profit or loss and other comprehensive income are attributed to the equity holders of the parent 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 Company'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.

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:

- Derecognizes the assets and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(All amounts are presented in thousands Saudi Riyals unless otherwise indicated)

The subsidiary Company included in these consolidated financial statements is as follows:

	Country of Incorporation	Ownership %	Principle Activity
National Petrochemical Company "Petrochem"	Saudi Arabia	**50**	Production and sale of petrochemical materials and products

National Petrochemical Company ("Petrochem") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration number 1010246363 dated 8 Rabi Alawal 1429H (corresponding to 16 March 2008G). The Company was formed pursuant to Ministry of Commerce and Industry`s resolution number 53 dated 16 Safar 1429H (corresponding to 23 February 2008G).

Petrochem is engaged in the development, establishment, operation, management and maintenance of petrochemical, gas, petroleum and other industrial plants, wholesale and retail trading in petrochemical materials and products, and owning land, real estate and buildings for its own benefit.

The subsidiaries of Petrochem are as follows:

	Country of Incorporation	Ownership Percentage (%)	Principle Activity
Saudi Polymers Company ("SPCo")	Saudi Arabia	**65 %**	Production and sale of polymer products
Gulf Polymers Distribution Company FZCO ("GPDCo")	United Arab Emirates	**65%**	Storing and selling Polymers to Saudi Polymers Company

Saudi Polymers Company ("SPCo") is a mixed limited liability Company registered in Jubail, Kingdom of Saudi Arabia under Commercial Registration number 2055008886 dated 29 Du'alqidah 1429H (corresponding to 15 February 2011G). The activities of Gulf Polymers Distribution Company FZCO ("GPDCo") is limited to storing and selling polymers that was produced by Saudi Polymers Company.

Gulf Polymers Distribution Company FZCO ("GPDCo")
GPDCo is a Free Zone Limited Liability Company registered in the Dubai Airport Free Zone, in the United Arab Emirates, dated 12 Rabi Awal, 1432H (corresponding to 15 February, 2011G). GPDCo's activity is restricted to selling and storing SPCo's polymer products.

3. THE NEW AND AMENDED IFRS HAVE BEEN ISSUED AND ARE NOT YET EFFECTIVE

The Group has not early adopted some of the new and amended standards and interpretations that were issued but not yet applicable as explained in note (34).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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 recognized in the financial statements) includes:

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.

Impairment of inventories
Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable 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.

Useful lives of property, plant and equipment
The management determines the estimated useful lives of its equipment 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.

Deferred tax 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 recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilize recognized 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 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 Company 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.

Expenses
Selling and distribution expenses comprise expenses that specifically relate to the delivery and marketing of products.

All other expenses other than finance costs are allocated on a consistent basis to cost of sales and general and administration expenses in accordance with an allocation factor determined as appropriate by management.

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.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies to all periods presented in consolidated financial statements as at December 31, 2017 and in preparing the opening IFRS statement of financial position at 1 January 2016 and financial statements as at December 31, 2016 for the purposes of the transition to IFRS.

Following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

Current versus non-current classification

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

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

All other assets are classified as non-current

A liability is current when:

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

All other liabilities are classified as non-current.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

The Company has not disclosed the fair value for financial instruments such as short term trade and other receivables, trade and other payables, because their carrying amounts are a reasonable approximation of fair values largely because of short term maturity of these instruments. Company has disclosed the fair value of bank loans held at amortized cost.

Revenue recognition
Revenue is recognized 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 received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue represents invoice value of goods supplied by the Group during the year and recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income
For all financial instruments measured at amortized cost and interest income on such financial instruments is recorded using the Effective Interest Rate ("EIR"). The EIR is the rate that exactly discounts the estimated future cash flow 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.

Share in results of jointly controlled ventures
Share of results in jointly controlled ventures is calculated and accounted for using the equity method by recognizing the Company's share in the net income / (loss) of the joint ventures.

Investment in Joint Ventures
A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control, i.e. the strategic financial and operating policies and decisions relating to the activities require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each party has an interest are referred to as jointly controlled ventures. The Company's in the jointly controlled ventures is accounted for under the equity method whereby the Company's share in the jointly controlled ventures is carried in condensed consolidated balance sheet at cost as adjusted by post-incorporation changes in the Company's share in the net assets of the jointly controlled ventures, less impairment in the value of the investment, if any.

Expenses
All expenses are recognized on accrual basis. Operating costs are recognized on a historical basis. Production costs and direct expenses are classified as cost of sales. All other expenses, including selling and distribution expenses not deducted from sales are classified as selling, general and administrative expenses. Allocation between cost of sales and selling, general and administrative expenses, where required, is made on a consistent basis.

Foreign currencies

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in consolidated statement of profit or loss and other comprehensive income.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Zakat and Income Tax

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Income Tax (GAZT) in the Kingdom of Saudi Arabia on accruals basis. The provision is charged to condensed consolidated statement of profit or loss and other comprehensive income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization. Foreign partners in subsidiaries are subject to income tax, which is included in non-controlling interests in condensed consolidated financial statements, if applicable.

Cash dividends to equity holders
Dividend income is recognized as a liability when the dividend is authorized. As per the corporate laws in Kingdom of Saudi Arabia, distributions shall be approved upon the approval of the shareholders or the authorization of shareholders to the Board of Directors to distribute dividends to the shareholders of the Company semi-annually or quarterly, in accordance with the company's financial position and cash flows. A corresponding amount is recognized directly in equity.

Property, plant and equipment
Property, plant and equipment are initially recorded at cost and 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 Company recognize such parts as individual assets and depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized 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 recognized in the statement of comprehensive income as incurred.

Depreciation is calculated from the date the item of property, plant and equipment is available for its intended use or in respect of self constructed assets, from the date such assets are completed and ready for the intended use. Assets under construction, which are not ready for its intended use, are not depreciated. Further, the cost of platinum is not depreciated as platinum is a precious metal, and the value of these assets does not diminish with the usage. The cost of other property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Years
Office buildings	25 years
Plant and equipment	4-25 years
Furniture and office equipment	4-10 years
Computers and communications devices	4 years
Motor vehicles	4-5 years

An item of property, plant and equipment is derecognized upon disposal or when no future 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 carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Planned turnaround costs (primarily major repair and maintenance costs) are deferred and amortized over the period until the date of next planned repair and maintenance. Should unexpected repair and maintenance occur prior to the previously envisaged planned date, then the previously unamortized costs are immediately expensed and the new major
repair and maintenance costs are deferred and amortized over the period likely to benefit from such costs.

The assets' residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed ateach financial year end, and adjusted prospectively, if appropriate.

Group as a lessee
Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of profit or loss and other comprehensive income.

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 recognized as an operating expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

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.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Impairment of non-financial 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 asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group's impairment calculation is based on the detailed budgets and forecasts calculations which are prepared separately for each of the Group's CGU's to which the individual assets are allocated.

Impairment losses of continuing operations are recognized in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of comprehensive income.

Financial instruments – Recognition and measurement

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, 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.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Management considers that the fair value of financial instruments such as short-term trade receivables, other receivables and cash and bank balances approximate their carrying amount due to short maturity. The Company has disclosed the fair
value of bank Murabaha financing held at amortized cost.

Financial assets are classified to the follow:

- Loans and receivables and due from related parties and other debtors
- Available for sale financial assets (AFS)
- Financial assets at fair value through profit or loss
- Held to maturity investments

Subsequent measurement

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

Loans, receivables, due from related parties and other debtors

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 amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the consolidated statement of profit or loss and other comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the consolidated statement of profit or loss and other comprehensive income and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income

Available for sale financial assets (AFS)

AFS financial assets include equity 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 which 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 unrealized gains or losses recognized as OCI in the AFS reserve until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating profit, or the investment is determined to be impaired, at which time, the cumulative loss is reclassified to the consolidated statement of profit or loss and other comprehensive income in finance costs and removed from the AFS reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognized in profit or loss.

The Group evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

For a financial asset reclassified out of the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized 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 and other comprehensive income.

Impairment on AFS financial assets

For AFS financial assets, 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 AFS, 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 recognized in the statement of comprehensive income – is removed from other comprehensive income and recognized in the consolidated statement of profit or loss and other comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, 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 AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income.

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 recognized in the statement of comprehensive income, the impairment loss is reversed through the consolidated statement of profit or loss and other comprehensive income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance income (positive net changes in fair value) or finance costs (negative net changes in fair value) in the consolidated statement of profit or loss and other comprehensive income. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification. of a financial asset out of the fair value through profit or loss.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the consolidated statement of profit or loss and other comprehensive income in finance charges.

Impairment of financial assets

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, recognized are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of comprehensive income. Interest income (recorded as finance income in the consolidated statement of profit or loss and other comprehensive income) 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 realized 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 recognized, the previously recognized 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 and other comprehensive income.

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 debtor or a group of debtors are experiencing significant financial difficulty, default or delinquency in principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Derecognition

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

- The rights to receive cash flows from the asset have expired;
- 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company has not disclosed the fair value for financial instruments such as trade payables and due to related parties and other payables, because their carrying amounts are a reasonable approximation of fair values largely because of short term maturity of these instruments. Company has disclosed the fair value of bank loans held at amortized cost.

Financial liabilities are classified to the follow:

- Trade payables and due to related parties and other creditors balances
- Loans and borrowings
- Financial liabilities at fair value through profit or loss
- Financial liabilities held for trading

Subsequent measurement

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

Trade payables due to related parties and other credit balances
Liabilities are recognized for amounts to be paid in the future for the inventory or services received, whether billed by suppliers or not.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the Effective Interest Rate (EIR) method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

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

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 acquired for the purpose of selling in the near term. This category 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.

Derecognition

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 recognized in the consolidated statement of profit or loss and other comprehensive income.

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 recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Retained earnings include all current and prior period profits.

Upon settlement of the distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in profit or loss.

All transactions with shareholders are recorded separately within equity.

Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials, spare parts and catalysts
- Purchase cost on the weighted average basis
- Finished goods and work-in-progress
- Cost of direct materials and labor plus attributable and a proportion of overheads based on a normal level of activity, but excluding borrowing cost

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

Employees' End of Service Benefits

The Company 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 recognized 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 postemployment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized in equity through the consolidated statement of profit or loss in the period in which they arise.

Provisions

Provisions are recognized 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 the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017
(All amounts are presented in thousands Saudi Riyals unless otherwise indicated)

The expense relating to a 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, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance charges.

Contingencies liabilities

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

Statutory reserves

In accordance with the Saudi Arabian Regulations for Companies and the Company's Articles of Association, 10% of annual net income is required to be set aside to form a statutory reserve until such reserve equals 30% of paid-in capital, at which time the Company may discontinue such transfers.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either 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.

6. FIRST TIME ADOPTION OF IFRS

IFRS 1 First-time Adoption of International Financial Reporting Standards applicable in Saudi Arabia, requires the Company to prepare an opening financial position as at 1 January 2016, after making the necessary adjustments to convert from Saudi generally accepted accounting standards to *IFRSs*.

IFRS 1 requires disclosing the effect of the adjustments, including re-measurement or reclassification adjustments, made to the statements of financial position, income and other comprehensive income due to the changeover from generally accepted accounting standards in Saudi Arabia to *IFRSs*. These adjustments include reconciliations of equity as at 1 January 2016 and 31 December 2016 as well as adjustments to the comprehensive income for the three-month period and year ended 31 December 2016, as shown below:

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

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

	Notes	Saudi GAAP	Re-measurements	IFRS
Assets				
Non-current assets				
Property, plant and equipment	(E)	17,066,770	51,716	17,118,486
Subordinated loan to jointly controlled ventures		815,625	(740,625)	75,000
Investments in joint ventures	(F)	3,209,814	(391,645)	2,818,169
Employees' loans	(D)	63,512	(9,322)	54,190
Total non-current assets		21,155,721	(1,089,876)	20,065,845
Current assets				
Inventories		1,018,811	-	1,018,811
Zakat and income tax reimbursable by non-controlling partner in subsidiary		-	156,876	156,876
Prepayments and other receivables	(E)	140,700	(51,716)	88,984
Due from related parties		222,775	-	222,775
Trade receivable		850,227	-	850,227
Murabaha term deposits		640,000	-	640,000
Cash and cash equivalents		2,505,821	-	2,505,821
Total non current assets		5,378,334	105,160	5,483,494
Total Assets		26,534,055	(984,716)	25,549,339
Equity and liabilities				
Equity				
Paid up share capital		4,500,000	-	4,500,000
Statutory reserve		599,701	-	599,701
Retained earnings		1,989,080	(1,149,919)	839,161
Equity attributable to shareholders of the parent		7,088,781	(1,149,919)	5,938,862
Non-controlling interests		5,398,886	80,547	5,479,433
Total equity		12,487,667	(1,069,372)	11,418,295
Non-current liabilities				
Long term loans		9,492,315	-	9,492,315
Subordinated loan from a non-controlling partner in a subsidiary	(C)	1,066,173	(116,611)	949,562
Sukuk		1,070,000	-	1,070,000
Deferred tax liabilities	(A)	-	156,876	156,876
Employees' end-of-service benefits	(B)	49,938	44,391	94,329
Total non-current liabilities		11,678,426	84,656	11,763,082
Current liabilities				
Current portion of term loans		1,296,420	-	1,296,420
Trade payables		127,148	-	127,148
Accruals and other payables		368,712	-	368,712
Zakat		371,888	-	371,888
Due to related parties		203,794	-	203,794
Total current liabilities		2,367,962	-	2,367,962
Total liabilities		14,046,388	84,656	14,131,044
Total equity and liabilities		26,534,055	(984,716)	25,549,339

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

(6.1.1) Adjustments of the consolidated equity items as at 1 January 2016

	Note	Saudi GAAP	Re-measurements	IFRS
Paid up share capital		4,500,000	-	4,500,000
Statutory reserve		599,701	-	599,701
Retained earnings	(6.1.2)	1,989,080	(1,149,919)	839,161
Equity attributable to shareholders of the parent		7,088,781	(1,149,919)	5,938,862

(6.1.2) Retained earnings adjustments

The following is an analysis of the impact of the re-measurement of the IFRS on retained earnings:

	Notes	The effect on retained earnings as of January 1 2016
Employees’ end-of-service benefits	(B)	(14.619)
Employees' loans	(D)	(3,030)
Investments in joint ventures		(740,625)
Subordinated loan to jointly controlled ventures	(F)	(391,645)
		(1,149,919)

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

(6.2) Group's consolidated equity adjustments as at 31 December 2016

	Notes	Saudi GAAP	Re-measurements	IFRS
Assets				
Non-current assets				
Property, plant and equipment	(E)	16,898,572	-	16,898,572
Subordinated loan to jointly controlled ventures		900,000	(900,000)	-
Investments in joint ventures	(F)	3,117,263	(644,779)	2,472,484
Employees' loans	(D)	144,530	(34,076)	110,454
Total non-current assets		21,060,365	(1,578,855)	19,481,510
Current assets				
Inventories		923,702	-	923,702
Zakat and income tax reimbursable by non-controlling partner in subsidiary		-	221,216	221,216
Prepayments and other receivables	(E)	276,670	(168.399)	108,271
Due from related parties		109,646	167,023	276,669
Trade receivable		562,830	1	562,831
Murabaha term deposits		794,800	-	794,800
Cash and cash equivalents		2,833,452	-	2,833,452
Total non -current assets		5,501,100	219,841	5,720,941
Total Assets		26,561,465	(1,359,014)	25,202,451
Equity and liabilities				
Equity				
Paid up share capital		4,500,000	-	4,500,000
Statutory reserve		649,612	-	649,612
Retained earnings		2,438,282	(1,570,485)	867,797
Equity attributable to shareholders of the parent		7,587,894	(1,570,485)	6,017,409
Non-controlling interests		5,907,644	27,445	5,935,089
Total equity		13,495,538	(1,543,040)	11,952,498
Non-current liabilities				
Long term loans		8,164,785	-	8,164,785
Subordinated loan from a non-controlling partner in a subsidiary	**(C)**	1,066,172	(80,241)	985,931
Sukuk		1,070,000	-	1,070,000
Deferred tax liabilities	(A)	-	221,216	221,216
Employees' end-of-service benefits	(B)	83,971	43,049	127,020
Total non-current liabilities		10,384,928	184,024	10,568,952
Current liabilities				
Current portion of term loans		1,340,670	-	1,340,670
Trade payables		59,296	35,762	95,058
Accruals and other payables		488,885	(35,737)	453,148
Zakat		504,048	(21)	504,027
Due to related parties		288,100	(2)	288,098
Total current liabilities		2,680,999	2	2,681,001
Total liabilities		13,065,927	184,026	13,249,953
Total equity and liabilities		26,561,465	(1,359,014)	25,202,451

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

(6.2) Group's reconciliation of consolidated comprehensive income for the year ended 31 December 2016

	Notes	Saudi GAAP	Re-measurements	IFRS
Sales		6,066,505	-	6,066,505
Cost of sales		(4,469,066)	11,554	(4,457,512)
Gross profit		1,597,439	11,554	1,608,993
Share in results of jointly controlled ventures		338,699	(252,221)	86,478
Selling and marketing expenses		(381,019)	3,374	(377,645)
General and administrative expenses		(227,054)	(3,374)	(230,428)
Investment losses of jointly controlled venture		-	(159,375)	(159,375)
Operating profit		1,328,065	(400,042)	928,023
Finance charges		(187,944)	(65,061)	(253,005)
Other income		20,675	2,562	23,237
Profit before zakat and income tax		1,160,796	(462,541)	698,255
Zakat and income tax	(A)	(152,925)	(64,345)	(217,270)
Profit for the year		1,007,871	(526,886)	480,985
Attributable to:				
Shareholder's of the parent		499,113	(416,333)	82,780
Non-controlling interests		508,758	(110,553)	398,205
		1,007,871	(526,886)	480,985
Other comprehensive income:				
Items not to be reclassified to profit or loss in subsequent year:				
Re-measurement loss on employees' end-of-service benefits	(B)	-	(11,127)	(11,127)
Comprehensive income for the year		1,007,871	(538,013)	469,858
Attributable to:				
Shareholder's of the parent		499,113	(420,566)	78,547
Non-controlling interests		508,758	(117,447)	391,311
		1,007,871	(538,013)	469,858
Earnings per share (SR)				
Basic and dilutive earning per share from net profit for the year to shareholders of the parent		1.11	(0.93)	0.18

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

(6.2.1) Adjustments to the consolidated equity items as at 31 December 2016

	Note	Saudi GAAP	Re-measurements	IFRS
Paid up share capital		4,500,000	-	4,500,000
Statutory reserve		649,612	-	649,612
Retained earnings	(6.2.2)	2,438,282	(1,570,485)	867,797
Equity attributable to shareholders of the parent		7,587,894	(1,570,485)	6,017,409

(6.2.2) Adjustments of retained earnings

The following is an analysis of the impact of the re-measurement of the IFRS on retained earnings:

	Note	The effect on retained earnings as of January 1 2016	Effect on comprehensive income for the year ended December 31, 2016	The effect on retained earnings as of December 31, 2016
Deferred tax liabilities	(A)	-	(5)	(5)
Employees' end-of-service benefits	(B)	(14,619)	435	(14,184)
Zakat and income tax for the year	(A)	-	(64,340)	(64,340)
Employees' loans	(D)	(3,030)	(8,492)	(11,522)
Subordinated loan to jointly controlled ventures		(740,625)	(159,375)	(900,000)
Investments in joint ventures	(F)	(391,645)	(253,134)	(644,779)
		(1,149,919)	(484,911)	(1,634,830)
Current and deferred income tax attributable to non- Saudi partner	(A)	-	64,345	64,345
		(1,149,919)	(420,566)	(1,570,485)

(6.3) Adjustments to the statement of cash flows

There are no material differences between the presentation of the statement of cash flows in accordance with International Financial Reporting Standards and in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

(6.4) Notes to the reconciliation of equity as at 1 January 2016 and 31 December 2016, in addition to the income adjustments for the year ended 31 December 2016

(A) IAS 12 Income Taxes

Under Saudi GAAP, for an entity which is owned by Saudi nationals and other than Saudi nationals (mixed Company), Zakat and Income tax is an obligation for those partners' and accordingly, those are accounted for as a charge to the partners' equity which is subsequently reimbursed by the partners'. Accordingly, no deferred zakat or 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 comprehensive income. The Group is also required to recognize the deferred income tax including zakat on all the taxable/deductible temporary differences. Accordingly, the Group has recognized deferred tax liability, net as at 1 January 2016.

(B) Employees' end-of-service benefits

Under Saudi GAAP the Group recognized 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 recognize an amount of a liability that equals to the net amount of present value of the defined benefit obligation, re-measurement actuarial gains and losses, 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 as at the 1 January 2016. The impact of restatement which pertains to prior periods has been charged to opening retained earnings as at 1 January 2016 and the additional expense has been charged to the consolidated statement of profit or loss and other comprehensive income.

(C) Subordinated loans

Under Saudi GAAP, non-interest bearing partners' subordinated loans were recognized initially at actual loan proceeds. However under IAS (39), these loans should have been recognized initially at fair value, and subsequently shall be measured at amortized costs by using effective interest rate. Accordingly, the Company has restated partners' subordinated loans as at 1 January 2016 and recognized deferred credit which will be amortized over the loan period.

(D) Employees' loans

Under Saudi GAAP, non-interest bearing employees' loans were recognized initially at actual loan payments. However, under IAS (39), these loans should have been recognized initially at fair value, and subsequently shall be measured at amortized cost by using Effective Interest Rate ("EIR"). Accordingly, the Group has restated the employees' loans as at 1 January 2016**.**

(E) Property, plant and equipment

Under Saudi GAAP, turnaround costs were classified as a separate asset and presented under accounts receivable. However under IAS (16) Property, plant and equipment', such costs are recognized as part of the cost of assets. Accordingly the Company has reclassified such costs under property, plant and equipment.

(F) Investment in joint ventures and Group's share in results of jointly controlled ventures

Upon the adaption of IFRS by Saudi Chevron Phillips Company ("SCP"), Jubail Chevron Phillips Company ("JCP") and Petrochemical Conversion Company ("PCC") (collectively the "joint ventures") for 1 January 2016, adjustments have been made to the equity of the joint ventures. Under SOCPA, the investment in joint ventures account amounted to SR 3,209,814 thousand which was reduced by a total of SR 391,645 thousand post adaption of IFRS. The adjustments were due to the adjustments in Zakat, deferred tax liabilities, employees' end of service benefits, impairment of property, plant and equipment, subordinate loans to partners and employees' loans. As a result, the investment in joint ventures for the year 1 January 2016 amounted to SR 2,818,169 thousand. Further, an adjustment of SR 666,678 thousand has been applied to reduce the Group's share in results of jointly controlled ventures from SR 318,275 thousand under SOCPA, to a loss of SR 348,403 thousand under IFRS for 1 January 2016.

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

7. PROPERTY, PLANT AND EQUIPMENT,NET

	Office buildings (note 7-1)	Plant and Equipment (note 7-1)	Turnaround (note 7-2)	Platinum	Furniture and office equipment	Furniture and office equipment	Motor vehicle	Construction work in progress (note 7-3)	Total
Cost:									
At 1 January 2016	682,338	18,463,848	51,964	24,461	145,391	385	30,437	311,344	19,710,168
Additions	105	37,283	454,763	-	11,310	-	161	114,465	618,087
Transfer from construction work in progress	-	253,178	-	-	3,105	-	1,624	(257,907)	-
Adjustment	-	-	-	-	-	-	(300)	(19,047)	(19,347)
Disposal	-	(1,324)	-	-	-	-	(120)	-	(1,444)
At 31 December 2016	682,443	18,752,985	506,727	24,461	159,806	385	31,802	148,855	20,307,464
Additions	1,666	2,846	22,136		6,793	24	2,375	53,460	89,300
Transfer from construction work in progress	799	61,687	-	5,490	10,725	-	-	(78,701)	-
Disposal	(1,948)	(664)	-	-	(2,182)	(11)	(2,429)	-	(7,234)
At 31 December 2017	682,960	18,816,854	528,863	29,951	175,142	398	31,748	123,614	20,389,530
Accumulated depreciation:									
At 1 January 2016	89,310	2,388,754	248	-	93,709	353	19,308	-	2,591,682
Charge for the year	27,251	745,830	9,649	-	29,069	19	6,176	-	817,994
Disposal	-	(705)	-	-	-	-	(79)	-	(784)
At 31 December 2016	116,561	3,133,879	9,897	-	122,778	372	25,405	-	3,408,892
Charge for the year	27,413	752,677	103,693	-	25,010	8	4,991	-	913,792
Disposal	(1,236)	(664)		-	(2,182)	(11)	(1,036)	-	(5,129)
At 31 December 2017	142,738	3,885,892	113,590	-	145,606	369	29,360	-	4,317,555
Net carrying amounts									
At 31 December 2017	**540,222**	**14,930,962**	**415,273**	**29,951**	**29,536**	**29**	**2,388**	**123,614**	**16,071,975**
At 31 December 2016	565,882	15,619,106	496,830	24,461	37,028	13	6,397	148,855	16,898,572
At 1 January 2016	593,028	16,075,094	51,716	24,461	51,682	32	11,129	311,344	17,118,486

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

(7-1) The plant is constructed on land leased from the Royal Commission for Jubail and Yanbu. The lease is initially for a period of 30 years commencing from 29 Thul-Qi'dah 1428H (corresponding to 9 December 2007G) and is renewable for further periods thereafter. The machinery and equipment of the Saudi Polymers Company plant are pledged as part of the collateral advanced against various loan facilities (note 17).

(7-2) As per the Company's policy, the normal turnaround cycle occur at the interval of 60 months and planned turnaround costs are deferred and amortized over the next planned turnaround.

(7-3) Construction work in progress represents costs incurred in connection with the plant activities.

8. SUBORDINATED LOANS TO JOINTLY CONTROLLED VENTURES

The subordinated loans to jointly controlled ventures represent the Group's contribution of commission free loans for projects managed by the partners according to their ownership shares. Loan repayments are not subject to commission. Subordinated loans balance as at 31 December:

	2017	2016	2015
Jubail Chevron Philips Company	-	-	75,000
	-	-	75,000

Petrochem Conversion Company

In accordance with the resolution of the Board of Directors of the Company on April 18, 2017, which provides for the impairment of the subordinated loan to Petrochemical Conversion Company ("PCC") as at 1 January 2016 amount of SR 740,625 thousand, as well as the consideration of all financing payments made to the petrochemical manufacturing Company during 2016 expenses incurred on the list of profit or loss , As the Company does not expect the recovery of the subordinated loan granted to the Petrochemical Conversion Company taking into consideration its financial position and financial performance. The Company considered the financing payments to ("PCC") as an investment expense carried on the statement of profit or loss as at 31 December 2017 amounting to SR 40,586 thousand (31 December 2016: SAR 159,375 thousand).

9. INVESTMENTS IN JOINTLY CONTROLLED VENTURES

Investments in jointly controlled ventures are represented in the following companies which are incorporated as Limited Liability Companies and operating in the Kingdom of Saudi Arabia:

Joint venture	31 December 2017 Shareholding	31 December 2016 Shareholding	1 January 2016 Shareholding
Saudi Chevron Phillips Company ("SCP")	50%	50%	50%
Jubail Chevron Phillips Company ("JCP")	50%	50%	50%
Petrochemical Conversion Company ("PCC") *	-	50%	50%

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

The following summarizes the investments movement during the year ended 31 December 2017:

	Saudi Chevron Philips Company ("SCP")	Jubail Chevron Philips Company ("JCP")	Petrochemical Conversion Company ("PCC") *	Total
At the beginning of the year	880,733	1,591,751	-	2,472,484
The Company's share in the net profit of jointly controlled ventures	302,522	306,720	-	609,242
Share of other comprehensive losses on jointly controlled ventures	(1,379)	(1,310)	-	(2,689)
Dividend	(290,625)	(318,750)	-	(609,375)
As at 31 December 2017	891,251	1,578,411	-	2,469,662

* On 13 July 2017, a contract was signed for the sale of the entire share of the Saudi Industrial Investment Group in the Petrochemical Conversion Company ("PCC"), On October 18, 2017, the Saudi Industrial Investment Group announced that it had completed the sale of its 50% Shareholding in the Petrochemical Conversion Company to a non-related party with a total value of SR 31.2 million.

The following summarizes the investments movement during the year ended 31 December 2016:

	Saudi Chevron Philips Company ("SCP")	Jubail Chevron Philips Company ("JCP")	Petrochemical Conversion Company ("PCC") *	Total
At the beginning of the year	1,008,358	1,374,248	435,563	2,818,169
The Company's share in the net profit of jointly controlled ventures	219,250	302,791	(435,563)	86,478
Share of other comprehensive losses on jointly controlled ventures	-	(913)	-	(913)
Dividend	(346,875)	(84,375)	-	(431,250)
As at 31 December 2017	880,733	1,591,751	-	2,472,484

* During the year ended 31 December 2016, PCC has recorded losses for the year of SR 1,017,695 thousand. Accordingly, the Group's share of the losses exceeds the investment in PCC and hence the Group recorded losses for the year of SR 435,563 thousand up to the book value of the Company in PCC.

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

The following summarizes the investments movement during the year ended 1 January 2016:

	Saudi Chevron Philips Company ("SCP")	**Jubail Chevron Philips Company ("JCP")**	**Petrochemical Conversion Company ("PCC") ***	**Total**
At the beginning of the year	1,033,860	1,202,388	1,192,824	3,429,072
The Company's share in the net profit of jointly controlled ventures	236,998	171,860	(757,261)	(348,403)
Dividend	(262,500)	-	-	(262,500)
As at 31 December 2017	**1,008,358**	**1,374,248**	**435,563**	**2,818,169**

The following is a summary of the financial position of the jointly controlled venture as at 31 December 2017:

	Saudi Chevron Philips Company ("SCP")	**Jubail Chevron Philips Company ("JCP")**	**Petrochemical Conversion Company ("PCC") ***
Total assets	**2,809,916**	**4,058,823**	-
Total liabilities	**(1,020,805)**	**(901,998)**	-
Total equity	**1,789,111**	**3,156,825**	-

The following is a summary of the financial position of the jointly controlled venture as at 31 December 2016:

	Saudi Chevron Philips Company ("SCP")	**Jubail Chevron Philips Company ("JCP")**	**Petrochemical Conversion Company ("PCC") ***
Total assets	2,967,582	3,952,285	1,268,630
Total liabilities	(1,202,578)	(768,781)	(1,260,911)
Total equity	1,765,004	3,183,504	7,719

The following is a summary of the financial position of the jointly controlled venture as at 31 January 2016:

	Saudi Chevron Philips Company ("SCP")	**Jubail Chevron Philips Company ("JCP")**	**Petrochemical Conversion Company ("PCC") ***
Total assets	2,975,024	4,487,528	1,981,695
Total liabilities	(958,306)	(1,739,032)	(1,110,568)
Total equity	2,016,718	2,748,496	871,127

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

The following is a summary of the profit or loss statement for jointly controlled ventures for the year ended 31 December 2017**:**

	Saudi Chevron Philips Company ("SCP")	Jubail Chevron Philips Company ("JCP")	Petrochemical Conversion Company ("PCC") *
Revenues	**4,624,692**	**5,852,437**	-
Expenses	**(4,080,964)**	**(5,307,241)**	-
Profit for the year	**543,728**	**545,196**	-

The following is a summary of the profit or loss statement for jointly controlled ventures for the year ended 31 December 2016**:**

	Saudi Chevron Philips Company ("SCP")	Jubail Chevron Philips Company ("JCP")	Petrochemical Conversion Company ("PCC") *
Revenues	3,904,922	4,941,025	137,040
Expenses	(3,512,520)	(4,405,942)	(1,154,735)
Profit / (loss) for the year	392,402	535,083	(1,017,695)

The following is a summary of the cash flow statement of the jointly controlled ventures for the year ended 31 December 2017**:**

	Saudi Chevron Philips Company ("SCP")	Jubail Chevron Philips Company ("JCP")	Petrochemical Conversion Company ("PCC") *
Operating	**654,495**	**1,036,853**	**-**
Investing	**(146,509)**	**(96,219)**	**-**
Financing	**(517,436)**	**(550,239)**	**-**
Net changes in cash and cash equivalents	**(9,450)**	**390,395**	**-**

The following is a summary of the cash flow statement of the jointly controlled ventures for the year ended 31 December 2016**:**

	Saudi Chevron Philips Company ("SCP")	Jubail Chevron Philips Company ("JCP")	Petrochemical Conversion Company ("PCC") *
Operating	898,531	562,481	(332,337)
Investing	(113,884)	(27,885)	(6,896)
Financing	(672,120)	(1,084,665)	318,750
Net changes in cash and cash equivalents	112,527	(550,069)	(20,483)

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

10. EMPLOYEES' LOANS

Employees' loans represent non-interest bearing housing loans provided to Saudi employees and are secured by mortgage over property purchased under the employee home ownership program. The loans are repayable in monthly installments within a maximum period of 15 years. The installments due within one year are included in other receivables under current assets. The fair value as at 31 December 2017 amounts to SR 142.5 million (31 December 2016: SR 131.9 million and 1 January 2016: SR 61.3 million) including SR 26.1 million (31 December 2016: SR 21.5 million and 1 January 2016: SR 7.1 million) of current portion.

11. INVENTORIES

	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
Finished goods	**498,458**	372,149	549,840
Raw material	**3,731**	6,952	1,718
Spares	**436,436**	382,560	354,052
Catalyst, chemicals and additives	**154,313**	162,041	113,201
	1,092,938	923,702	1,018,811

12. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
Prepaid Expenses	**30,090**	21,169	27,792
Employee loans- current portion	**26,107**	21,476	7,084
Cash margin	**40,871**	52,016	52,016
Advanced to suppliers	**167**	157	50
Others	**27,604**	13,453	2,042
	124,839	108,271	88,984

13. TRADE RECEIVABLES

Trade receivables as at 31 December 2017 amount to SR 1,108,947 thousand (31 December 2016: SR 562,831 thousand and 1 January 2016: SR 850,227 thousand), Trade receivables are non-interest bearing and the group's credit period is 30-90 days after which trade receivables are considered to be past due. Unimpaired trade receivables are unsecured and are expected, on the basis of past experience, to be fully recoverable.

Aging of trade receivables	**As at 31 December 2017**	As at 31 December 2016
Up to two months	**1,108,302**	557,907
From two to three months	**-**	994
More than three months	**645**	3,930
	1,108,947	562,831

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

14. MURABAHA TREM DEPOSIT

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2016
Murabaha term deposits with maturity dates of more than three months and less than one year from the date of acquisition	**715,300**	794,800	640,000

Murabaha deposits are recognized for interest income on the basis of commission rates prevailing in the market.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 31 December 2017 amounted to SR 3,107,269 thousand (31 December 2016: SR 2,833,452 thousand, 1 January 2016: SR 2,505,821 thousand). Cash and cash equivalents include balances with banks of Saudi Polymers Company (subsidiary of Petrochem) as at 31 December 2017 amounted to SR 2,152 million (31 December 2016: SR 2,537 million, 1 January 2016: SR 2,325 million) are assigned as security against loan facilities from consortiums of commercial banks and Public Investment Fund (notes 17).

16. PAID SHARE CAPITAL

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2016
450,000,000 at SR 10 each	**4,500,000**	4,500,000	4,500,000

17. LONG TERM LOANS

Current	**Effective interest rate**	**Maturity**	**31 December 2017**	31 December 2016	1 January 2016
Consortium of commercial banks (note 17.1)	Libor + 1.05%	15-Dec-18	**551,027**	563,670	563,670
Consortium of commercial banks (note 17.2)	Libor + 0.06%	15-Dec-18	**177,000**	177,000	132,750
Public Investments Fund (PIF) (note 17.3)	Libor + 0.05%	31-Dec-18	**450,000**	420,000	420,000
Saudi Industrial Development Fund (SIDF) (note 17.4)	%1,014	15-Oct-18	**190,000**	180,000	180,000
			1,368,027	1,340,670	1,296,420
Non-current					
Consortium of commercial banks (note 17.1)	Libor + 1.05%	2023-2019	**4,063,821**	4,720,736	5,284,406
Consortium of commercial banks (note 17.2)	Libor + 0.06%	2023-2019	**1,291,768**	1,504,500	1,681,500
Public Investments Fund (PIF) (note 17.3)	Libor + 0.05%	2020-2019	**982,317**	1,470,000	1,890,000
Saudi Industrial Development Fund (SIDF) (note 17.4)	1.014%	2020-2019	**300,000**	490,000	670,000
			6,637,906	8,185,236	9,525,906
Less: unamortized deferred costs			**(12,037)**	(20,451)	(33,591)
			6,625,869	8,164,785	9,492,315

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

The movement in unamortized transaction costs in respect of these financing facilities is as follows:

	31 December 2017	31 December 2016	1 January 2016
Costs:			
At 1 January	**238,369**	238,369	238,369
Amortization:			
At 1 January	**(217,918)**	(204,778)	(186,901)
Charge for the year (Note 26)	**(8,414)**	(13,140)	(17,877)
At 31 December	**(226,332)**	(217,918)	(204,778)
Balance at 31 December	**12,037**	20,451	33,591

(17.1) The loan facility of SR 7,046 million obtained from a consortium of commercial banks is subject to annual commission of LIBOR plus a margin progressively increasing from 0.8% to 1.15% over the life of the loan. The repayment of this loan is scheduled based on 22 semi-annual installments which commenced on 15 June 2013 and with amounts ranging from 2 % – 20% of the utilized loan amount. The loan is secured by the assignment of residual amounts in the bank accounts of the Saudi Polymers Company plant; and a pledge and assignment over onshore bank accounts of SPCo project, the portion of , the loan payable before 1 January 2019 has been classified under current liabilities.

(17.2) The loan facility of SR 2,212 million obtained from a consortium of commercial banks is guaranteed by the Export-Import Bank of the USA, and is subject to commission at LIBOR plus 0.06% per annum. The repayment of this loan is scheduled based on 22 successive semi-annual instalments which commenced on 15 June 2013, with amounts ranging from 3% to 8% of the utilized loan amount. The loan is secured by the assignment of residual proceeds of the sale of the plant and equipment of SPCo, a charge and assignment over secured project documents of SPCo, and a charge and assignment over offshore bank accounts of project SPCo, the loan payable before 1 January 2019 has been classified under current liabilities.

(17.3) The loan facility of SR 3,000 million obtained from the PIF is subject to annual commission of LIBOR plus 0.5%, together with an upfront fee of 0.5% of the nominal amount of the loan which has been paid (deferred charges). The repayment of this loan is scheduled based on 15 semi-annual installments which commenced on 31 December 2013, whereby 1% of the utilized loan amount was repaid through the first two installments and the remaining 13 payments ranging from 7% to 9% thereafter. The loan is secured by residual proceeds of the sale of the plant and equipment of SPCo, a charge and assignment over secured project documents of SPCo, a charge and assignment over offshore and onshore bank accounts of project SPCo, the loan payable before 1 January 2019 has been classified under current liabilities.

(17.4) The two equal loans obtained from SIDF of SR 600 million each, were subject to an upfront commission at LIBOR and 7.5% of the nominal amounts of the loans. These two loans were drawn-down to finance the construction of the SPCo petrochemical plant. The repayment of these loans is scheduled based on 14 semi-annual installments which commenced on 18 December 2013 with amounts ranging from 4.17% to 8.33% of the utilized loans amount. The loans are secured by liens on SPCo's plant and equipment for the Ethylene, Metathesis, 1-hexane, and Polyethylene units, and assignment of insurance proceeds and technology rights of SPCo, the loan payable before 1 January 2019 has been classified under current liabilities.

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

(17.5) SPCo is required to comply with certain covenants mentioned in all of the loan facility agreements noted above. The maturities of the loans are as follows:

Years	Amount
2018	**1,368,027**
2019	**1,408,027**
2020	**1,374,593**
2021	**816,527**
2022	**998,535**
After 2022	**2,028,187**
	7,993,896

18. SUBORDINATED LOAN FROM A NON-CONTROLLING PARTNER IN A SUBSIDIARY

The subordinated loan from Arabian Chevron Phillips Petrochemical Company Limited ("non-controlling partner") is a commission-free (non-interest bearing) loan granted to SPCo; its repayment is subject to certain conditions being met and maintaining a minimum level of liquidity for SPCo. as stated in the terms of the commercial loans and facilities agreements (note 17). The movement in the subordinated loan balance during the year was as follows:

	31 December 2017	31 December 2016	1 January 2016
1 January	**985,931**	949,562	977,739
Notional interest charge for the year (Note 26)	**37,434**	36,369	37,448
Re-measurement gain	**(8,502)**	-	-
Payment during the year	**(196,875)**	-	(65,625)
31 December	**817,988**	985,931	949,562

19. SUKUKS

On 25 Shaban, 1435H, (corresponding to 23 June, 2014G), Petrochem issued Sukuks amounting to SR 1.2 billion at par value of SR 1,000,000 each with no discount or premium. The Sukuks' issuance bears a variable rate of return at SIBOR plus 1.7 % margin, payable semi-annually. The Sukuks are due at par value on its maturity date of 20 Shawal, 1440H (corresponding to 23 June, 2019G.

In accordance with the Sukuk Agreement dated 25 Shaban 1435H (corresponding to 23 June 2014), an amount of SR 16,455 thousand was deposited as a cash margin held by Riyad Capital Company in an open account on behalf of the Sukukholders' Agent (note 12)

The Sukuk balance in these condensed consolidated financial statements amounting to SR 1,070 million (31 December 2016: SR 1,070 million, 1 January 2016) represents the value of Sukuk issued after eliminating the value of the Company's investment in these Sukuk.

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

20. EMPLOYEES' END-OF-SERVICE BENEFITS

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

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2016
Discount rate	**%3.7**	%4.1	%4.3
Expected rate of salary increase	**%5**	%5	%5

The movement in the present value of the liability for employees' end of service benefits is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2016
At 1 January	**127,020**	94,329	77,722
Charge to profit and loss	**28,599**	23,303	21,148
Benefits paid	**(3,448)**	(826)	(3,623)
Re-measurement losses (Gain) on employees' end-of-service benefits	**14,861**	10,214	(918)
	167,032	127,020	94,329

The quantitative sensitivity analysis for significant assumptions as at the reporting date is as follows:

	Increase/ (decrease)	**As at 31 December 2017**	As at 31 December 2016	As at 31 December 2016
Discount rate	%0.25	**(5,760)**	(4,321)	(3,248)
	(%0.25)	**6,082**	4,561	3,432
Expected rate of salary increase	%0.25	**(6,049)**	(4,508)	(3,454)
	(%0.25)	**5,648**	4,294	3,184

21. ZAKAT AND TAXATION

	For the year ended 2017	2016
Zakat and income tax expense		
Income tax related to non-Saudi partner		
Current tax	**43,958**	5
Deferred tax	**54,825**	64,340
	98,783	64,345
Zakat related to SIIG	**22,616**	20,406
Zakat related to joint controlled ventures	**16,903**	16,134
Zakat related to Petrochem (subsidiary)	**114,163**	116,385
Adjustments	**400**	-
	154,082	152,925
Zakat and income tax expense for the year	**252,865**	217,270

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

The major components of income tax expense and zakat for the year ended 31 December are as follows:

21.1 Income tax

	For the year ended	
	2017	2016
Current tax	**43,958**	-
Adjustment in respect of current income tax of previous year	**-**	5
Deferred tax	**54,825**	64,340
Income tax reported in the statement of profit or loss and other comprehensive income	**98,783**	64,345

21.2 ***Current income tax expense***

The major components of income tax expense for the years ended 31 December are as follows:

	For the year ended	
	2017م	2016م
Accounting profit for SPCO before zakat and income tax	**1,366,943**	627,783
Add: Taxable expenses to the profits		
Accounting depreciation and amortization	**921,687**	830,696
Provision for employees' end-of-service benefits	**40,059**	32,550
Other adjustments	**(72,185)**	257,012
Less: Deductible claims from the profits		
Tax depreciation and amortization	**(1,415,854)**	(1,814,921)
Employees' end-of-service benefits paid	**(3,356)**	(811)
Adjusted profit (loss) subject to zakat and income tax	**837,294**	(67,691)
Income allocated to Saudi partner (65%)	**544,241**	(43,999)
Income allocated to non-Saudi partner (35%)	**293,053**	(23,692)
Less: utilization of taxable losses	**(73,264)**	-
Net taxable profit/(losses)	**219,789**	(23,692)
Income tax charge relating to non-Saudi partner at statutory income tax rate (20%)	**43,958**	-

21.3 Effective income tax rate reconciliation

	2017م	**%**	2016م	%
Accounting profit for SPO before tax attributable to non-Saudi partner	**478,430**		219,724	
Tax at the applicable rate to the income related to non-Saudi partner	**95,686**	**%20**	43,945	%20
Tax effect on the deferred income tax rate and the expense that are not deductible for tax purposes	**3,097**	**%0.6**	(43,945)	(%20)
Tax charged during the year in statement of comprehensive income	**98,783**	% **20.6**	-	%0

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

21.4 Deferred tax

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Major components of deferred tax liability and asset at the year end were:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2016
Deferred tax liability			
Property, plant and equipment	**753,244**	709,624	639,158
Total deferred tax liability	**753,244**	709,624	639,158
Deferred tax assets			
Employees' end-of-period benefits	**11,115**	7,669	6,324
Taxable loss carry forward	**466,088**	480,735	475,958
Unrealized exchange loss	**-**	4	-
Total deferred tax assets	**477,203**	488,408	482,282
Net deferred tax liability	**276,041**	221,216	156,876

21.5 Movement in the zakat and income tax payable is as follow:

	Zakat		**Current tax**	
	2017	2016	**2017**	2016
At 1 January	**504,027**	371,888	**221,216**	156,876
Charge for the year	**154,082**	152,925	**54,825**	64,340
Provision no longer for use (note 27)	**(76,144)**	-	**-**	-
Paid during the year	**(22,635)**	(20,786)	**-**	-
At 31 December	**559,330**	504,027	**276,041**	221,216

21.6 Zakat Status

The Company has filed zakat returns with the General Authority of Zakat and Income Tax (“GAZT”) for all prior years up to 2016. The Company obtained a restricted certificate for the year mentioned. GAZT has raised zakat assessments up to 2014 and the Company has agreed on GAZT`s assessments up to 2001.

The Company has filed an appeal against the assessments for the years 2002 and 2003 before the Higher Appeal Committee against certain items disallowed by GAZT which resulted in a difference of SR 24.4 million. The Higher Appeal Committee issued its ruling, reducing the claim amount to SR 12.4 million and the Company has filed an appeal against the ruling before the Board of Grievances. The Company has performed a provision for this amount until the final decision on the objection by the Board of Grievances. On January 10, 2018, the Company received a claim from GAZT to pay the amount objected on it issued by the Board of Grievances on 9 March 2017. In January 2018 by paying SR 12.4 million to the GAZT.

The Company also appealed before The Preliminary Appeal Committee against zakat assessments for the years 2004 to 2006 against disallowance of certain items which resulted in a difference of SR 17.5 million. The Committee issued its ruling, reducing the claim to SR 16.8 million. The Group has paid the amount of SR 5.7 million and appealed before the Higher Appeal Committee against the amount of SR 11.1 million. As per the management's assessment, the Group has made adequate provision against items under appeals. GAZT Appeal Committee has issued its decision on March 21, 2017 to accept the group's appeal against the decision of Elementary Objection Committee pertaining its request to deduct loans provided to the associated companies from its Zakat base, and the Company received an updated assessments from the GAZT, under which the appellate committee supported the company's view and exempted it from the full amount, and on 2 May 2017, the letter of guarantee issued by the Saudi Industrial Investment Group was refunded with an amount of SR 11.1 million. and the Zakat provision has been reduced by the mentioned amount.

The Company has filed an appeal against the assessments for the years from 2007 to 2014 which resulted in requires the company for zakat differences of SR 42 million.

As for Petrochem, the Company has filed its Zakat returns with the General Authority of Zakat and Tax (GAZT) up to 2016, The Zakat Certificate has not issued to the Company until the date of issue of these financial statements. A number of assessments have been issued by GAZT as follow:

- GAZT issued an assessment for 2014 claiming additional Zakat of SR 52.5 million. The Company appealed against the claim within the permitted legal period for filing a notice of appeal. Management believes that the provision made in the consolidated financial statements is adequate to cover any differences that may arise from this claim.

- GAZT issued an assessment for 2012 claiming additional Zakat of SR 35.5 million. The Company appealed against the claim within the permitted legal period. Since then, GAZT has issued a combined assessment for the years of 2011, 2012 and 2013 claiming additional zakat amount of SR 95.5 million. This includes the 2012 difference that was appealed against by the Company. Petrochem appealed against this claim during the permitted legal period.The GAZT 1st Instance Committee examined the objection and issued its decision on April 23, 2017, which requires payment of zakat differences of SR 5.7 million and reduction of Zakat claim amount by the claim amounting to SR 89.5 million. The company appealed the preliminary decision and subject under study by Appeals Committee.
- The GAZT 1st Instance Committee issued a resolution amending a previous assessment regarding 2010 in which it had claimed an additional Zakat amount of SR 74.42 million. This ruling reduced the claim by SR 74.1 million and therefore the modified claim is limited to additional zakat amount of SR 241,485. Both the Company and GAZT objected against the ruling before the Appeal Committee. Where the decision was issued Appeal No. 1713 April 11 2017, which supported the initial decision by the Company to pay zakat of 241.485 SR differences and reduce the amount of Zakat claim by GAZT, including the amount of SR 74.1 million.
- Based on the decisions of the primary and appeal committees on the objections of the company for the years 2010 to 2013, the Petrochem Board of Directors decided at its meeting held on October 9, 2017 (19 Muharram 1439H) to reduce the Zakat Provision to Petrochem by SR 65 million.

21.7 Status of Zakat and Income Tax Assessments for the Subsidiaries of Petrochem

SPCo has filed zakat returns with the GAZT for all years up to 2016. The zakat assessment for 2008 has been finalized; however, final assessments for the years from 2009 to 2016 have not yet been raised by the GAZT.

Gulf Polymers Distribution Company (GPDCo.) registered in the Dubai Airport Free Zone, GDPCo. is exempt from income tax.

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

22. ACCRUALS AND OTHER CREDIT BALANCES

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2016
Accrued material cost	**209,524**	376,058	274,886
Dividends	**241,471**	11,696	11,732
Accrued employee cost	**39,431**	31,892	23,921
Compensation for priority rights subscription	**3,187**	3,187	3,187
Others	**138,729**	30,315	54,986
	632,342	453,148	368,712

23. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties represent the shareholders, directors, and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Following is the list of major related parties of the Group:

Name of related party	**Nature of relationship**
Saudi Industrial Investment Group ("SIIG")	Majority shareholder (Parent Company)
Saudi Polymer Company ("SPCo")	Subsidiary company
Gulf Polymers Distribution Company FZCO ("GPDCo")	Subsidiary company
Committees, Board of Directors and Petrochem's Senior Executives	Key management personnel
Arabian Chevron Phillips Petrochemical Company	Non-controlling partner in a subsidiary
Saudi Chevron Phillips Company	Affilated company
Jubail Chevron Phillips Company	Affilated company
Chevron Phillips Chemical LLC	Affilated company
Chevron Phillips Chemical International Sales LLC	Affilated company
Chevron Phillips Chemical Global Employment Company LLC	Affilated company
Chemical Services Inc.	Affilated company

The following are the details of transactions with related parties:

Related Party	**Nature of transaction**	**As at 31 December 2017**	**31 December 2016**
Committees, Board of Directors and senior executives for SIIG	Expenses, remunerations, salaries and benefits	10,067	7,491
Saudi Chevron Phillips Company	Sales	218,985	133,616
	Purchases	(46,302)	(23,693)
	Cost of sales – support services	(254,708)	(273,090)
	General & administration expenses – support services (note 25)	(130,062)	(129,049)
Jubail Chevron Phillips Company	Sales	208,236	134,194
	Purchases	(1,028,913)	(910,009)
Chevron Phillips Chemical International Sales LLC	Marketing fees (note24)	(272,415)	(223,800)
	Royalty	(47,565)	(38,194)
Chevron Phillips Chemical Global Employment Company LLC	Cost of sales – support services	(58,571)	(71,025)
	Sales & marketing – support services (note 24)	-	(334)
	General & administration expenses – support services (note 25)	(3,360)	(165)
Chevron Phillips Chemical LLC	Cost of sales – support services	(7,185)	(12,259)
Chemical Services Inc.	Cost of sales – support services	(21,210)	(10,628)
	General & administration expenses – support services (note 25)	(60)	(23)

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

- Saudi Industrial Investment Group owns SR 130 million of the Petrochem Sukuk as at 31 December 2017 31 December 2016, 1 January 2016: SR 130 million). As set out in (note 18), a non-controlling partner has provided a loan to one of Petrochem subsidiaries, the amount outstanding as at December 31, 2017 being SR 817,988 thousand (31 December 2016: 985,931 thousand ,1 January 2016: SR 949,562 thousand).

- SPCO (subsidiary company) entered into a common facilities agreement (the "Agreement") with Saudi Chevron Phillips Company (affiliate company) pursuant to which, affiliate provides support services to the Company in operations and maintenance, management support and technical support.

The balances at the end of the year as a result of transactions with related parties are as follows:

	31 December 2017	31 December 2016	1 January 2016
(A) Due from related parties			
Saudi Chevron Phillips Company	**186,377**	236,239	180,773
Jubail Chevron Phillips Company	**42,133**	40,424	41,996
Petrochemical Conversion Company	**-**	6	6
	228,510	276,669	222,775
(B) Due to related parties			
Saudi Chevron Phillips Company	**61,956**	155,138	88,212
Jubail Chevron Phillips Company	**116,773**	106,902	71,951
Chevron Phillips Chemical International Sales Inc.	**52,849**	26,058	43,631
Chevron Phillips Chemical Global Employment Company LLC	**2,295**	-	-
Chemical Services Inc.	**203**	-	-
	234,076	288,098	203,794
(C) Subordinated loan from a non-controlling partner in a subsidiary	**817,988**	985,931	949,562

D) Terms and conditions of transactions with related parties

The transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, 31 December 2016, the Group has not recorded any impairment with respect to due from related party, due to related party and the Sukuk. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

E) Transactions with key management personnel

Key management personnel of the Group comprise of the board of directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.
The key management personnel compensation is as follows:

	31 December 2017	31 December 2016	1 January 2016
Short-term employee benefits	**23,817**	21,334	24,554
Employees' end-of-service benefits	**3,145**	832	1,270
	26,962	22,166	25,824

F) Employee loans

The Group has given employees' to purchase houses with regards to the homeownership program that offers home ownership opportunities for its Saudi employees.

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

24. SELLING AND MARKETING EXPENSES

	For the year ended 2017	2016
Marketing fees (note 23)	**272,415**	223,800
Warehousing rent and maintenance	**80,888**	92,509
Shipping and distribution	**51,311**	46,511
Employees' salaries and benefits	**8,003**	8,640
Cost of support services recharged by affiliates (note 23)	**-**	334
Other	**7,551**	5,851
	420,168	377,645

25. GENERAL AND ADMINSTRATION EXPENSES

	For the year ended 2017	2016
Cost of support services recharged by affiliates (note 23)	**133,482**	129,237
Depreciation	**21,285**	24,915
Employees' salaries and benefits	**37,670**	36,192
Expenses and fees of management committees and the board of directors and salaries and benefits of senior executives	**14,800**	7,491
Bank fees	**5,675**	7,871
Professional fees	**9,284**	3,871
Other	**20,283**	20,851
	242,479	230,428

26. FINANCE CHARGE

	For the year ended 2017	2016
Sukuk interest	**41,518**	39,537
Interest on term loans	**175,688**	134,903
Discounting the cost of the current value of a Subordinated loan from a non-controlling partner in a subsidiary (note 18)	**37,434**	36,369
Amortization of deferred charges (note 17)	**8,414**	13,140
Discounting of employees' loans granted during the year	**5,310**	28,693
Other services expenses	**848**	363
	269,212	253,005

27. OTHER REVENUES

	For the year ended 2017	2016
Zakat provisions no longer for use (note 21)	**76,144**	-
Bank interest	**40,628**	19,508
Foreign Exchange gains	**38,254**	-
Other	**22,413**	3,729
	177,439	23,237

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

28. EARNINGS PER SHARE

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

	2017	2016
Net profit for the year attributable to equity holders of the Company	**1,004,058**	82,780
Weighted average number of shares outstanding during the period	**450,000**	450,000
	2.23	0.18

29. CONTINGENT LIABILITIES

The Group's local banks have issued on behalf of the Company and during the normal course of business cycle, bank letters of guarantee of SR 391.5 million (2016: SR 857.3 million, 1 January 2016: SR 857.3 million).

During 2010, Petrochem and the non-controlling partner in their capacity as partners in Saudi Polymers Company resolved to increase the capital of SPCo by SR 3,394 million. This increase in capital is made against the extinguishment of the subordinated loan from the non-controlling partner which may lead it to incur additional costs. Management of Petrochem agreed to maintain the non-controlling partner rights by making annual payments in the future based on the future earnings of SPCo, and taking into account non-distributable cash as a result of the drop in distributable cash in SPCo following this increase in capital.

30. CAPITAL COMMITMENTS

The balance of unused capital expenditures approved by the Board of Directors in connection with the construction of additional units and facilities for the plant was SR 105 million (31 December 2016: SR 222 million, 1 January 2016: SR 563 million).

31. FINANCIAL INSTRUMENTS

The management assessed that the fair values of bank balances, trade and other receivables, term deposits trade and other payable, due to related parties and short term loans approximate their carrying values largely due to the short-term maturities of these financial instruments.

The management has assessed the fair value of employee loans , long term loans and Sukuk based on level 3 hierarchy, which is not materially different from their respective carrying values.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise, Trade payables , accruals and other payables, long term loans and due to related parties. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include cash at banks balances, trade receivables, time deposit, Prepayments and other receivables and due from related parties that derive directly from its operations. The Group's management reviews and agrees policies for managing each of these risks which are summarized below.

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

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes
in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and commodity price
risk. Financial instruments affected by market risk include loans and borrowings as well as bank balances. The sensitivity analysis in the following sections relate to the position as at 31 December in 2017 and 31 December 2016.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of
changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt and sukuk obligations with floating interest rates. The interest rate risk is partially mitigated by interest income, which Group earns at floating interest rates from its bank deposits.

The following table demonstrates the sensitivity of statement of profit or loss and other comprehensive income to reasonable possible changes in interest rates, with all other variable held constant.

	Increase/ decrease in basis points	**Effect on profit before Zakat & tax**
2017	50-	**59,616**
	50 +	**(59,616)**
2016	**50-**	63,924
	50 +	(63,924)

Foreign Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group deals mainly in US $ and Saudi Riyal (SR). As the SR is pegged to the US $, balances in US $ are not considered to represent significant currency risk.

Commodity price risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including naphtha, benzene, natural gas and electricity. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices to manage the risk. The risk is partially mitigated by fluctuations in the commodity prices of the Group finished products (i.e. Polypropylene and Polyethylene).

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances, murabha time deposit, trade receivables, due from related parties and employees' loans as follows:

Financial assets	**As at 31 December 2017**	As at 31 December 2016	As at 31 December 2016
Employees' loans	**116,430**	110,454	54,190
Due from related parties	**228,510**	276,669	222,775
Trade receivables	**1,108,947**	562,831	850,227
Murabha time deposit	**715,300**	794,800	640,000
Cash and cash equivalents	**3,107,269**	2,833,452	2,505,821
	5,276,456	4,578,206	4,273,013

The Group manages its credit risk with respect to the customers by dealing with customers having reliable credit history, securing high quality collateral when necessary and by monitoring outstanding balances and with respect to banks by only dealing with reputable banks.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet financial commitments associated with financial instruments. Liquidity risk may result from an inability to realize financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis and seeking partners' support, as and if requested. The Group's terms of contracts require amounts to be paid within 30-90 days of the date of billings. Trade payables are normally settled within 30-45 days of billing date or receipt of a correctly rendered invoice.

The table below summarizes the maturities of the Group's undiscounted financial liabilities at reporting date, based on contractual payment dates and current market interest rates.

	On demand	*Less than 3months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Long term loans	-	-	1,368,027	4,597,682	2,028,187	7,993,896
Subordinated loan from a non-controlling partner in a subsidiary	-	-	-	-	817,988	817,988
Sukuk	-	-	-	1,070,000	-	1,070,000
Trade payables	-	241,365	-	-	-	241,365
Accruals and other payables	-	632,342	-	-	-	632,342
Due to related parties	234,076	-	-	-	-	234,076
	234,076	873,707	1,368,027	5,667,682	2,846,175	10,989,667

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

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.

Capital management

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

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

	31 December 2017	31 December 2016	1 January 2016
Long term loans (note 17)	**7,993,896**	9,505,455	10,788,735
Sukuk	**1,070,000**	1,070,000	1,070,000
Trade payables	**241,365**	95,058	127,148
Accruals and other payables (note 22)	**632,342**	453,148	368,712
Less: Cash and cash equivalents	**(3,107,269)**	(2,833,452)	(2,505,821)
Net debt	**6,830,334**	8,290,209	9,848,774
Subordinated loan from a non-controlling partner in a subsidiary (note 18)	**817,988**	985,931	949,562
Total equity	**13,319,841**	11,952,498	11,418,295
Capital and Subordinated loan	**14,137,829**	12,938,429	12,367,857
Gearing ratio	**%48**	%64	%80

33. SEGMENTAL INFORMATION

National Petrochemical Company: Development, establishment, operation, management and maintenance of petrochemical, gas, petroleum and other industrial plants and wholesale and retail trading in petrochemical materials and products.

a) Saudi Chevron Philips Company ("SCP"): Producing and selling of aromatics, solvents and cyclohexane.

b) Jubail Chevron Philips Company ("JCP"): Manufacturing and selling styrene, mogas blend stock, aromatic benzene, fuel oil, ethyl benzene, ethylene, propylene, liquefied petroleum gas and aromax feed.

c) Petrochemical Conversion Company ("PCC"): Nylon 6.6 production, nylon compounding, and various plastics conversion operations.

In terms of performance evaluation and resource allocation, the company's management believes that all the activities and operations of the company constitute one business sector, the petrochemical sector. Accordingly, financial reports are issued only to the operational segments.

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

The operational assets for the Group are in the Kingdom of Saudi Arabia. The following are the Group's sales divided by the operational segments.

31 December 2017	**Petrochem**	**SCP**	**JCP**	**PCC**	**Head office**	**Adjustments**	**Total**
Sales	**7,363,811**	**-**	**-**	**-**	**-**	**-**	**7,363,811**
Gross profit	**2,263,520**	**-**	**-**	**-**	**-**	**-**	**2,263,520**
Net income (loss)	**888,302**	**302,524**	**306,720**	**-**	**(49,337)**	**(444,151)**	**1,004,058**
Total assets	**21,901,478**	**891,251**	**1,578,411**	**-**	**6,941,969**	**(6,001,198)**	**25,311,911**
Total liabilities	**11,747,335**	**-**	**-**	**-**	**378,022**	**(133,287)**	**11,992,070**

31 December 2016	**Petrochem**	**SCP**	**JCP**	**PCC**	**Head office**	**Adjustments**	**Total**
Sales	6,066,505	-	-	-	-	-	6,066,505
Gross profit	1,608,993	-	-	-	-	-	1,608,993
Net income (loss)	397,373	219,250	302,791	(435,564)	(202,385)	(198,685)	82,780
Total assets	22,259,636	880,732	1,592,664	-	6,153,129	(5,683,710)	25,202,451
Total liabilities	13,245,619	-	-	-	134,807	(130,473)	13,249,953

31 January 2016	**Petrochem**	**SCP**	**JCP**	**PCC**	**Head office**	**Adjustments**	**Total**
Sales	7,304,171	-	-	-	-	-	7,304,171
Gross profit	2,479,133	-	-	-	-	-	2,479,133
Net income (loss)	903,760	236,998	171,860	(435,564)	(521,523)	(272,752)	82,779
Total assets	22,507,820	1,008,357	1,374,248	757,261	7,205,218	(7,303,565)	25,549,339
Total liabilities	14,144,826	-	-	-	116,437	(130,219)	14,131,044

(All amounts are presented in thousands Saudi Riyal unless otherwise indicated)

34. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standard number	Title	Effective date
IFRS 15	Revenue from Contracts with Customers - New	January 1, 2018
IFRS 9	Financial Instruments-	January 1, 2018
IFRS 16	Leases	January 1, 2019
Other		

IFRS 15: Revenue from Contracts with Customers - New (effective for accounting periods beginning on or after 1 January 2018):

IFRS (15) sets out a comprehensive five-step model for companies to use in accounting for revenue from contracts with customers. On the effective date, this standard will replace the following standards and interpretations of revenue:

- IAS (18): Revenue.
- IAS (11): Construction Contracts.
- IFRIC (13): Customer Loyalty Programs.
- IFRIC (15): Agreements for the Construction of Real Estate .
- IFRIC (18): Transfers of Assets from Customers.
- SIC-31: Revenue – Barter Transactions Involving Advertising Services.

It also provides guidance on topics such as the timing of revenue recognition, accounting for variable consideration, costs of completing and obtaining contract requirements, and various related topics, The Standard also provides new revenue disclosures.

IFRS 9 Financial Instruments – Amendments (effective for accounting period beginning on or after January 1, 2018)

In July 2014, the IASB issued the final version of IFRS (9) ‘Financial Instruments’ which reflects all phases of the financial instruments project and replaces IAS (39) ‘Financial Instruments: Recognition and Measurement’ and all previous versions of IFRS (9). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

Classification and measurement

Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS (9) introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS (39), however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment

The 2014 version of IFRS (9) introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

Hedge accounting

Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

Derecognition

The requirements for derecognition of financial assets and liabilities are carried forward from IAS (39).

IFRS 9 is effective for accounting period beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS (9) (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

Management has yet to assess the impact of this revised standard on the Group’s consolidated financial statements.

IFRS 16 Leases - New (effective for accounting period beginning on or after 1 January 2019)

IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS (16)'s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Other

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the group.

The following is a list of other new and amended standards which, at the time of writing, had been issued by the IASB but which are effective in future periods. The amount of quantitative and qualitative detail to be given about each of the standards will, much like the amount of detail to be given about IFRSs 9 and 16, depend on each entity's own circumstances.

- IFRIC (22) Foreign Currency Translations and Advance Consideration (effective 1 January 2018)
- Amendments to IFRS (2) classification and Measurement of Share-based payment Transactions (effective 1 January 2018)
- Amendments to IAS (40): Transfers of Investment Property (effective 1 January 2018)
- Annual Improvements to IFRS Standards 2014-2016 cycle dealing with matters in IFRS (1) First-time Adoption and IAS 28 Investments in Associates and Joint Ventures (effective1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Positions (effective 1 January 2019)
- Amendments to IFRS (9) Prepayment Features with Negative Compensation (effective 1 January 2019)
- Amendments to IAS (28):Long-term Interests in Associates and Joint Ventures (effective 1 January 2019)

Possible impact of new international financial reporting standards issued but not yet effective

The Group is currently conducting a detailed study to arrive at a reasonable assessment of the impact of the application of these standards on the carrying amounts and disclosures in the Company's financial statements. This will be disclosed when the Group completes that detailed study.

35. DIVIDEND

The General Assembly of the shareholders of the Company approved at its meeting held on April 18 2017 on the distribution of profits amounting to SR 225 million by half riyals one per share (5% of the nominal capital), to the shareholders of the Company registered in Securities Depository Center Company at the end of the day the Assembly was held.

At its meeting held on 18 Muharram 1439H (8 October 2017), the Board of Directors of the Company resolved to distribute cash dividend of 5% of the nominal value of the share by SR 0.5 per share for the financial year 2017 for a total of SR 225 million.

36. EVENTS SUBSEQUENT

No significant events occurred subsequent to the date of the financial report that requires adjustments or disclosures in the consolidated financial statements.

37. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 20 Jumada Al Akher 1439 H (March 08, 2017G).