Sipchem

EXCELLENCE everywhere

Annual Report 2017

Individuation

Commitment

Bestowment

Main Office

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The Annual Report can be downloaded by visiting the company's website

www.sipchem.com

Contents

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

“Since the announcement of our wise government, under the leadership of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz and His Royal Highness Prince Mohammed bin Salman, The Crown Prince, Vice President of the Council of Ministries and Minister of Defense, the Transition Program 2020 and the vision of the Kingdom of Saudi Arabia 2030. Sipchem has been working in a fast pace to keep abreast of the Kingdom’s economic development and its direction of promoting sustainable economic resources in the interests of the nation, which will result in diversification of its investments and the excellence of its products supported by the researches conducted through its scientific research centre”

Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz

His Royal Highness
Prince Mohammed Bin Salman Bin Abdulaziz
The Crown Prince, Vice President of the Council of Ministries and Minister of Defense

Company Profile

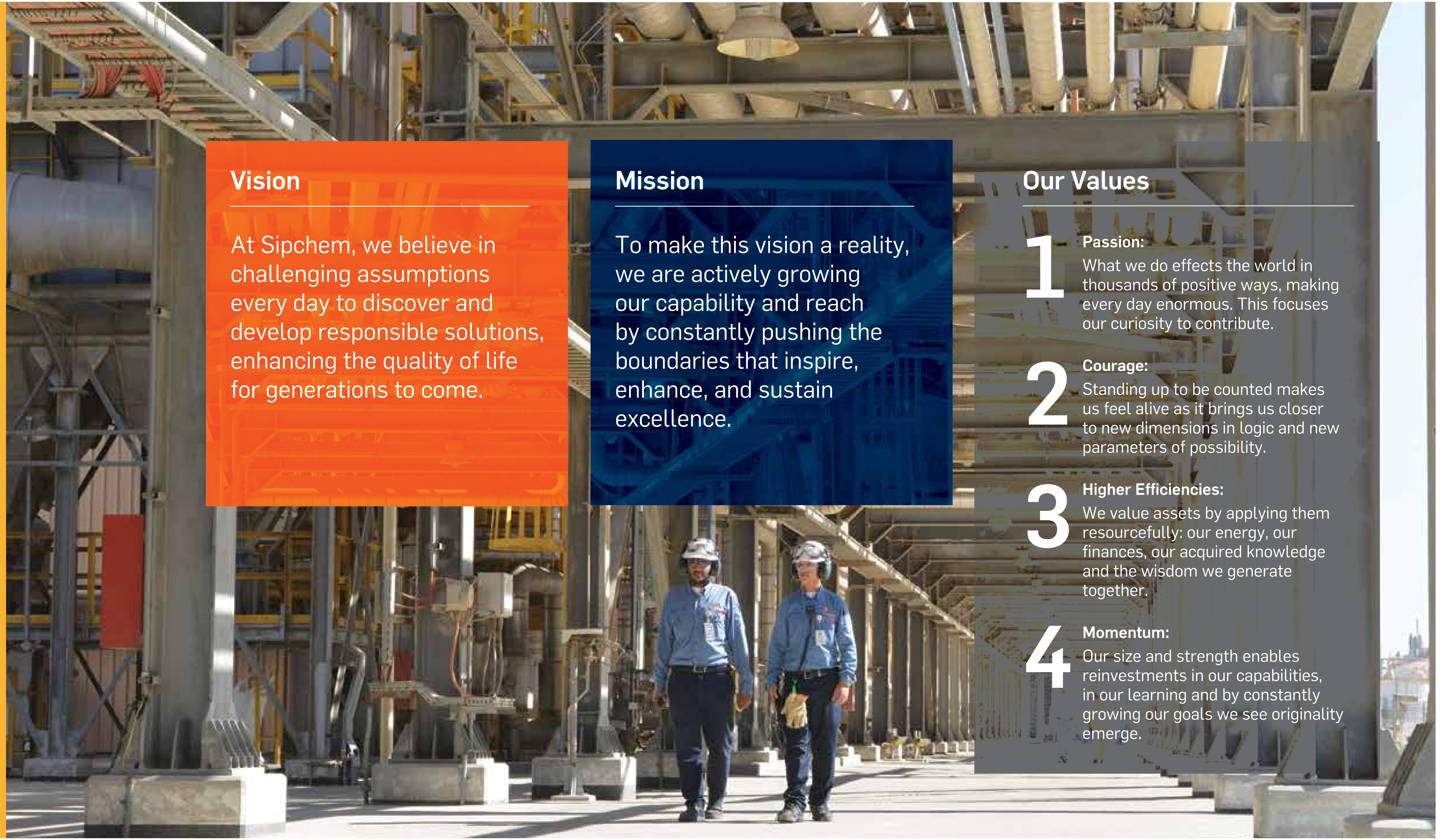
Sipchem is one of the largest companies in the petrochemical sector in the Kingdom of Saudi Arabia and is characterized by its progress and technological development with its commitment to preserve the environment in essence. Sipchem was recognized as the best business environment in the Kingdom in 2010. Since its modest roots began in 1999, Sipchem is now a globally recognized chemical company with more than 1,000 employees from around the world.

Who We Are

Sipchem's plants occupy one million square meters in the basic industries area in Jubail Industrial City. The company's strategy, planned to be implemented in gradual stages, aims at achieving integration of the current and future chemical products to create a chain of value products. Such strategy will precipitate in increasing the domestic production and support the industrial development within the frame of the comprehensive development plans implemented by the Kingdom, which at the end will help maximizing the shareholders' profitability.

Sipchem has the highest standards of safety and environmental protection in all its operations and pays great attention to social responsibility.

As Sipchem has faced previous challenges, the foreseeable future confirms that it is capable of overcoming any challenges, thanks to God and then thanks to Saudi human resources. These human resources are our future, which will contribute to the economic and social development of the country.



Vision

At Sipchem, we believe in challenging assumptions every day to discover and develop responsible solutions, enhancing the quality of life for generations to come.

Mission

To make this vision a reality, we are actively growing our capability and reach by constantly pushing the boundaries that inspire, enhance, and sustain excellence.

Our Values

1 **Passion:** What we do effects the world in thousands of positive ways, making every day enormous. This focuses our curiosity to contribute.

2 **Courage:** Standing up to be counted makes us feel alive as it brings us closer to new dimensions in logic and new parameters of possibility.

3 **Higher Efficiencies:** We value assets by applying them resourcefully: our energy, our finances, our acquired knowledge and the wisdom we generate together.

4 **Momentum:** Our size and strength enables reinvestments in our capabilities, in our learning and by constantly growing our goals we see originality emerge.

Financial Highlights

As a result of the excellent operating levels of the company's factories, especially after the regular maintenance operations at the beginning of the year, Sipchem achieved remarkable financial results. The financial results for 2017 resulted in a net profit of SR 437.4 million during the year 2017 and an increase of 916% compared to 2016 profits. Amounting to 43 million riyals.

Net profit

437,4 Million Saudi Riyal

Gross Revenue

4,459 Million Saudi Riyal

Shareholders' Equity

5,7 Billion Saudi Riyal

Earnings per share

1,19 Saudi Riyal

Outstanding Operational Highlights

With the recovery of the global economy, driven by improved economic conditions in the developed markets, and due to the excellent operating levels of the company's factories, especially after the regular maintenance operations at the beginning of the year, Sipchem succeeded in achieving excellent financial results.

- Sipchem recorded a net profit of SR 437.4 million, reflecting a positive and clear performance on earnings per share, growth rates, valuation multiples and average shareholders' equity.
- The company has signed a long-term agreement with Saudi Aramco Refinery Company (SASRF) to supply the International Methanol Company with carbon dioxide, which enhances Sipchem's commitment to the environment and its shareholders by completing its path to develop and improve the product chain.
- The company has embarked on the implementation of the transformation program towards safety excellence in cooperation with the largest specialized companies in this field.
- The company's manufacturing business saw a significant shift through the manufacture of custom Hawk jet platforms, as well as its own ground equipment, through the Saudi specialized products factory «Wahaj» in Riyadh.
- The company has adopted all regulations and requirements subject to the CMA system, to achieve maximum transparency and protect the interests of investors.
- Sipchem continued its duties in the area of social responsibility through programs covering many areas of the Kingdom and in all areas of health, culture, sports, training and development.

"Sipchem succeeded in achieving outstanding financial results in 2017"

In the coming years, the company will continue to research and evaluate growth opportunities available locally and globally as defined by the company's growth strategy by increasing the capacity of existing plants or developing production processes or mergers and acquisitions.

437,4

Net profit
(Million Saudi Riyal)

Chairman's Message

His Excellency. Eng Abd Al Aziz bin Abd Allah Al Zamil
Chairman

Distinguished Shareholders of Saudi International Company for Petrochemicals Sipchem

"AL Salam Alykom W rahmt Allah W brakatoh"

I am pleased to present to you on behalf of my colleagues, members of Board of Directors a reports on the performance of the Saudi International Company for Petrochemicals Sipchem and its subsidiaries and the business results for the year ending on Dec 31st 2017.

This year report comes across several aspects And consistent with the requirements of the Corporate Governance Regulations and corporate system regulatory controls and procedures, which we confirm from continuing the commitment of the board of directors to protect shareholders equity and stakeholders interests and accruing maximum returns.

With restoration of the world economy its vitality, driven by the improvement of economic conditions in developed markets and as a result of the outstanding operating levels of the company plants, especially after the regular maintenance at the beginning of the year, Sipchem thrived in achieving outstanding financial results. Sipchem succeeded in gaining a net profit of 437.4 million Riyals in 2017, with an increase of 916% compared to 2016 profits which was 43 million Riyals.

Given the company's financial results it was recommended by the Board of Directors to distribute cash dividends to shareholders for the year 2017 by (0.50) Riyals per share, This recommendation will be presented for approval at the General Assembly meeting which will be held, Allah Willing, during the month of April of the year 2018.

The year 2017 witnessed the launch of several initiatives aiming to continue excellence and achieve operational efficiency and good governance, where the company started to apply the Program of transition to excellence in safety in collaboration with The largest companies specialized in this field, while the company continued initiatives of rationalization and reduction Costs, as well as the implementation of Sipchem strategy Which were approved by the Board of Directors in the fourth quarter of the year

> The year 2017 witnessed the launch of several initiatives aiming to continue excellence and achieve operational efficiency and good governance, where the company started to apply the Program of transition to excellence in safety in collaboration with The largest companies specialized in this field.

2016. At the level of governance, the company adopted all Regulations and requirements subject to the Capital Market Authority (CMA) system, to achieve maximum transparency and protection of interests Investors.

The year 2017 witnessed the launch of several initiatives, which aims to continue excellence and achieve operational efficiency and good governance. The company has embarked on a transformation to excellence in safety program in cooperation with the largest companies Specialized in this field. The company will continue in the coming years, Allah willing, research and assess growth opportunities available locally and globally as defined by the company's growth strategy, by increasing the production capacity of existing plants or the development of production processes or mergers and acquisition.

In conclusion, I take this opportunity to express myself on behalf of myself and the Board of Directors, our deep thanks And our gratitude to all shareholders for their trust and support for the company activities. We would also like to thank all our employees, contractors and suppliers for their commitment to support the company efforts to grow despite all challenges, hoping of the Almighty to accomplish more of achievements with unlimited support before the Government of the Custodian of the Two Holy Mosques and his trustworthy Crown Prince - may Allah preserve them - in the coming years, Allah willing.

CEO's Message

Ahmad Abdulaziz Al-Ohali
CEO

I am pleased to place in your hands the annual Sipchem report, Which summarizes the outstanding performance of the company during the year 2017, and shows the positive financial results of its actions, despite the International economic variables and the financial fluctuations witnessed by the international markets during 2016 and the beginning of 2017.

These conditions have demonstrated the strength and robustness of Sipchem financial position and its ability to adapt to the challenges it was faced with and the flexibility enjoyed by the company to seize Opportunities, where we started the year keeping in mind our continuation to Improve the performance of plants and marketing, the promotion of investments in The field of manufacturing, and the adoption of innovation and sustainability as key areas of our business growth with a view to providing services exceeding our customers' expectations more than ever before.

By the grace of Allah, Sipchem recorded a net profit amounted to 437.4 million Riyals.This performance reflects positively and clearly on earnings per share and growth rates valuation multiples and shareholders average equity, where Sipchem announced the recommendation of the Board of Directors to distribute 5% of the nominal value of the share as cash dividends for the fiscal year of 2017, to reach a total of amount of 183.333 million Riyals to be distributed after approval by the General Assembly. All these things came driven the grace of Allah, thanks to efforts to raise the efficiency of performance rationalization initiatives and support from improved product prices of petrochemicals in general.

With a quick glance at the most prominent financial performance standards, the total revenue has witnessed an increase of 27% reaching 4,459 million Riyals at the end of 2017 compared to 3,515 million Riyals the previous year. In addition, total shareholders' equity after excluding minority interest amounted to 5.7 billion Riyals at the end of the current fiscal year of 2017, compared to 5.2 billion Riyals for the same period in 2016, representing an increase of 8%.

The year 2017 has also witnessed many achievements, where the work of improving the energy efficiency of the factory International Methanol Company has continued, in addition, the company signed a long-term agreement with Refinery Company Saudi Aramco Shell (SASRF) to supply the International Company for Methanol with carbon dioxide, thus enhancing Sipchem commitment towards the environment and towards its shareholders through the completion of its journey to develop and improve the product series.

During the same year, «Shift towards distinct safety» initiative was launched and implemented, raising the commitment of all the company staff safety and instilling safety culture in all the performance of the company and its activities. The company business In the manufacturing industry has witnessed a qualitative shift through the industrialization of many spare parts and materials for energy and military industries, through The Saudi Arabian Specialized Products Company factory in Riyadh «Wahj» .

Sipchem updated and developed its Institutional strategy to become more in line with variables in its sector, This strategy is based on a number of pillars The most important of which is the

“we started the year keeping in mind our continuation to Improve the performance of marketing plants, the promotion of investments in The field of manufacturing, and the adoption of innovation and sustainability as key areas of our business growth with a view to providing services exceeding our customers' expectations more than ever before.”

emphasis and Improving their local and global competitiveness., and increasing profitability of existing companies by improving margins and cost management, while continuing to play its leadership role in the domain of sustainability.

Sipchem also continued its Social responsibility programs through programs that covered several regions in the Kingdom I n all areas of health, culture, sports, training, and development.

And since we begin this year with a number of ambitious goals, I would like to thank my colleagues on the board and all the employees of Sipchem Company for all the efforts they have made during 2017 and the commitment they have shown towards achieving values added to the company business and everything that would maximize the Investors earnings.

We also ask Almighty God to help us achieve better results in all sectors of our business and to preserve our security under the leadership of the Custodian of the Two Holy Mosques and His trustworthy Crown Prince Secretary.

“Thanks God, Sipchem recorded a net profit of SR 437.4 million”

This performance was reflected positively and clearly on earnings per share, growth rates, valuation multiples and average shareholders' equity.

4,459
Gross Revenue
(Million Saudi Riyal)

Board of Directors

H.E. Eng. Abdulaziz A. Al-Zamil
Chairman

Eng. Ahmad A. Al-Ohali
Vice Chairman & CEO

Eng. Reyadh S. Ahmed

Mr. Ayidh M. Al-Qarni

Mr. Ibrahim H. Al Mazyad

Board of Directors

Mr. Fahad S. Al-Rajhi

Dr. Sami M. Zaidan

Dr. Abdulrahman A. Al-Zamil

Dr. Abdulrahman A. Al-Jafary

Mr. Ziad A. Al-Turki

Mr. Bander A. Masoudi

Our products are around the world

Reaching millions of customers everyday.

Sipchem has become a leader in the petrochemical industry, locally, regionally and internationally. This qualitative achievement is due to the company's managerial, professional and technical capabilities, which have made it a global company in this field.

We are proud of our reputation and operational excellence in delivering first-class products and services, which are vital to the manufacturing of thousands of consumer and industrial products serving humanity everywhere.

The total production in 2017 for the company's existing plants reached 2.6 million metric tons

2,6 Million Metric tons

EXCELLENCE

Excellence

Our constant pursuit of excellence is the cornerstone that sets our global reputation. Sipchem's active thinking encourages us to learn, to challenge difficulties, to advance and to innovate using wisdom and knowledge that allows us to contribute in serving humanity through responsible innovation.

Excellence everywhere

We work together to achieve excellence everywhere. What we do affects the world positively in many aspects of life, creating a tremendous amount of activities everyday, which reinforces our enthusiasm to contribute to more. To do so, we have developed an internal philosophy to ensure the high quality of our products and services.

970,000 Ton per year

The material is produced by the International Methanol Company (IMC), a subsidiary of Sipchem, with a capacity of 970,000 metric tons annually

Methanol

Hydrocarbon compound consists of carbon and hydrogen Methanol is a clean, colorless, flammable liquid that has a distinctive odor and is a source of clean energy and raw material for some of the materials used in our daily lives. Methanol is used in petrochemical industries as a raw material for the manufacturing of solvents, formaldehyde, methylhalide, methylamine, acetic acid, ethyl alcohol, acetic anhydride, dimethyl ether and in the manufacture of MTBE.

First: Description of the Company Activities

2,6 Metric tons

The total production of the company's existing plants reached 2.6 million metric tons in 2017.

SR3,6 billion

The Saudi International Petrochemical Company (Sipchem) has a capital of SR 3.6 billion.

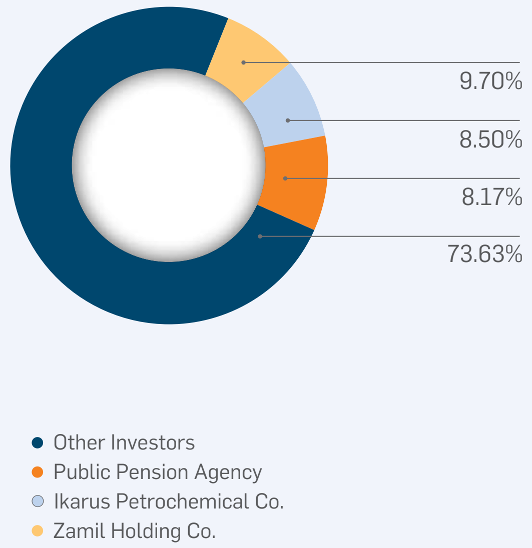
Saudi International Petrochemical Company (Sipchem) is a Saudi joint stock company listed on the Saudi Stock Exchange that actively invests in the petrochemical and chemical industries to produce the materials used in the manufacture of many products that fall into the daily life, while adhering to the highest quality standards in production and preservation of the environment, Safety of their employees and communities.

Sipchem has selected Jubail Industrial City, east of the Kingdom of Saudi Arabia, to set up its multi-million-square-meter industrial complex, as the city provides the necesSRy infrastructure elements As well as the availability of fuel and raw materials, as well as the ease of export operations through the King Fahd Industrial Port and the commercial port in the city of Jubail.

In the year 2017, the total production of the company existing plants amounted to 2.6 million metric tons, equivalent to the total production in 2016 (2.6 million metric tons). Net income amounted to SR 437 million in 2017 compared to SR 43 million in 2016. The main reason for this increase is the rise in the prices of most of Sipchem's products.

The Company's strategy of phased implementation aims to integrate existing and future chemical products, in order to establish a series of valuable end products, as well as contribute to increasing domestic output and support the industrial development in-line with The Kingdom's comprehensive development plans, which will ensure the growth of shareholders' equity and maximize their returns.

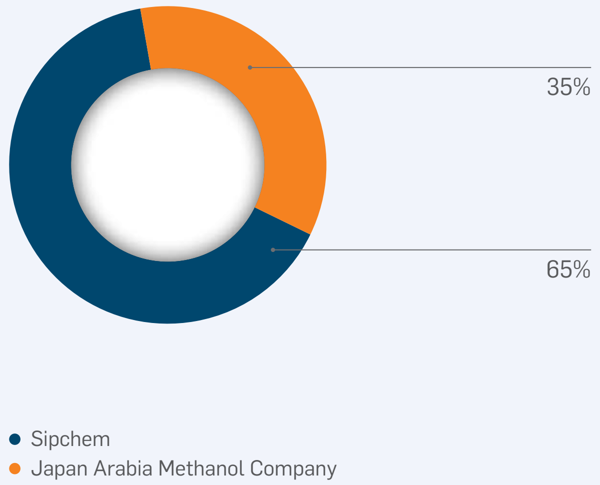
Year Founded	:	1999
Type of Company	:	Incorporated
Company Headquarters	:	Riyadh - Saudi Arabia
Capital	:	SR 3,666,666,660
Company Activity	:	Petrochemical and chemical industries, both basic and intermediate
Number of Shares	:	366,666,666



Second: Description of the Activities of the subsidiaries

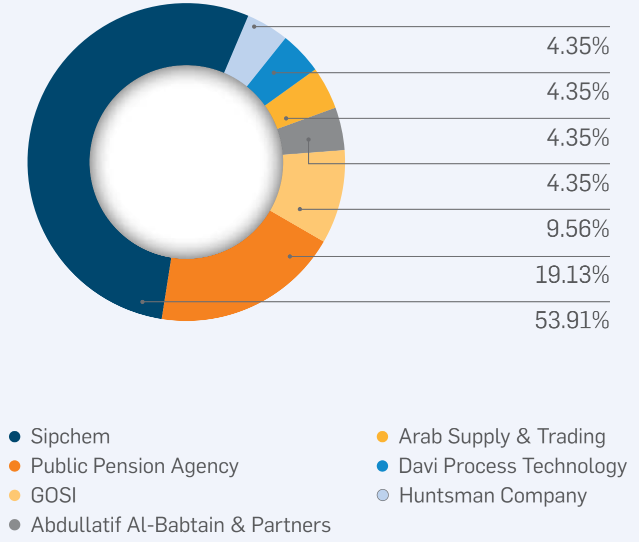
International Methanol Company

Year Founded	:	2002
Type of Company	:	Limited liability
Company Headquarters	:	Jubail Industrial City - Saudi Arabia
Capital	:	SR 360,970,000
Company Activity	:	Methanol production
Production Capacity	:	970,000 Metric tons per year



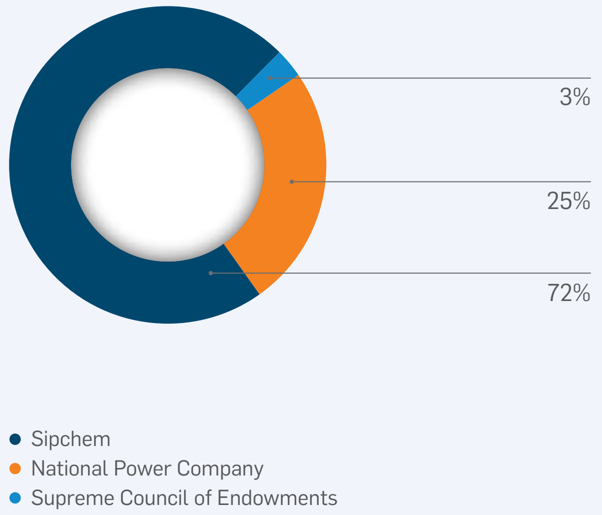
International Diol Company

Year Founded	:	2002
Type of Company	:	Limited liability
Company Headquarters	:	Jubail Industrial City - Saudi Arabia
Capital	:	SR 431,250,000
Company Activity	:	Production of biodandiol and its derivatives of malic anhydride, tetrahydrofuran and gamma butylactone
Production Capacity	:	102,000 Metric tons per year



International Gas Company

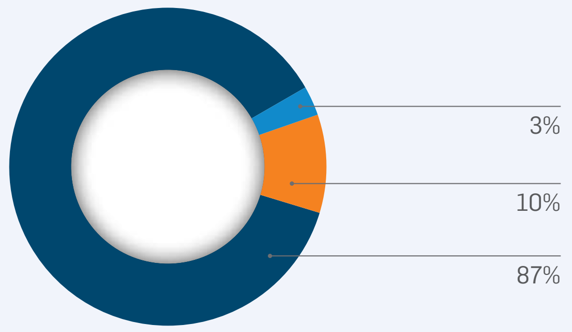
Year Founded	:	2006
Type of Company	:	Limited Liability Company
Company Headquarters	:	Jubail Industrial City- Saudi Arabia
Capital	:	SR 425,400,000
Company Activity	:	Production of carbon monoxide and hydrogen
Production Capacity	:	345,000 Metric tons of carbon monoxide 65,000 Metric tons of hydrogen



Second: Description of the Activities of the subsidiaries (Continued)

International Acetyl Company

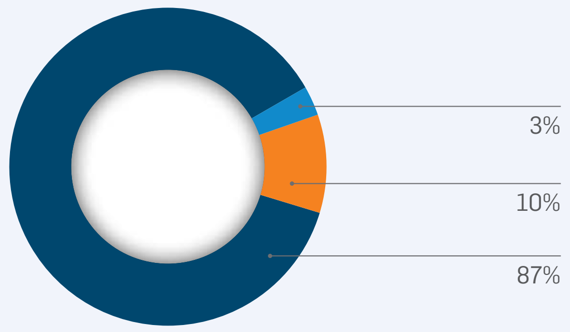
Year Founded	: 2006
Type of Company	: Limited liability
Company Headquarters	: Jubail Industrial City - Saudi Arabia
Capital	: SR 1,003,000,000
Company Activity	: Production of acetic anhydride acetic acid
Production Capacity	: 460,000 Metric tons per year



- Sipchem
- Helm of Germany
- General Authority of Awqaf

International Vinyl Acetate Company

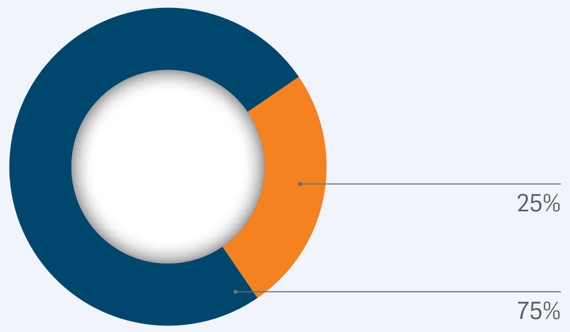
Year Founded	: 2006
Type of Company	: Limited liability
Company Headquarters	: Jubail Industrial City - Saudi Arabia
Capital	: SR 676,000,000
Company Activity	: Production of vinyl acetate monomer
Production Capacity	: 330,000 Metric tons per year



- Sipchem
- Helm of Germany
- General Authority of Awqaf

International Polymers Company

Year Founded	: 2009
Type of Company	: Limited liability
Company Headquarters	: Jubail Industrial City - Saudi Arabia
Capital	: SR 703,200,000
Company Activity	: Production of vinyl acetate, polyvinyl alcohol, poly ethylene wax, low density polyethylene and ethylene acetate vinyl acetate
Production capacity	: 200,000 Tons per year

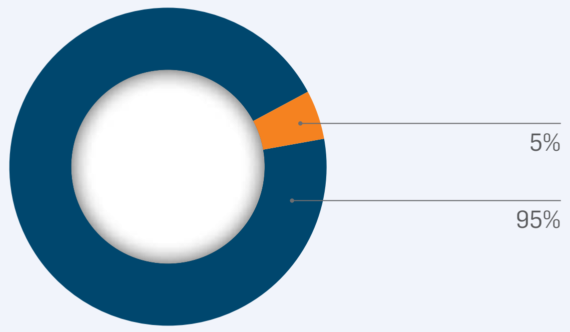


- Sipchem
- Hanwa of Korea

Second: Description of the Activities of the subsidiaries (Continued)

Sipchem Chemical Company

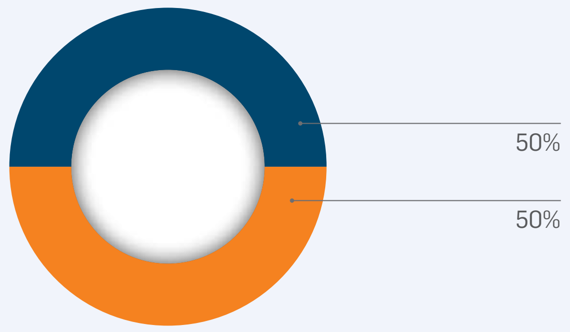
Year Founded	: 2011
Type of Company	: Limited liability
Company Headquarters	: Jubail Industrial City - Saudi Arabia
Capital	: SR 266,000,000
Company Activity	: Production of acetate acetate, butyl acetate, polybutylene teraflate and tetrahydrofuran
Production Capacity	: 217,000 Metric ton per year



- Sipchem
- Sipchem Marketing Company

Gulf Advanced Cable Insulation Company

Year Founded	: 2012
Type of Company	: Limited liability
Company Headquarters	: Jubail Industrial City - Saudi Arabia
Capital	: SR 57,240,000
Company Activity	: Polymer Products Cable Insulators
Production Capacity	: 25,000 Tons per year



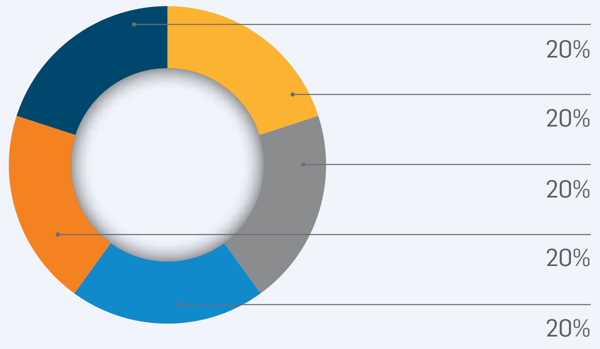
- Sipchem
- Hanwa of Korea

Second: Description of the Activities of the subsidiaries (Continued)

Second: Description of the Activities of the subsidiaries (Continued)

International Utilities Company

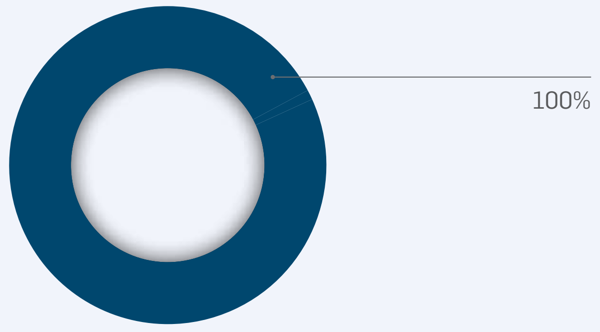
Year Founded	:	2009
Type of Company	:	Limited liability
Company Headquarters	:	Jubail Industrial City - Saudi Arabia
Capital	:	SR 2,000,000
Company Activity	:	Provide services for the management, operation and maintenance of utility and utility units for the affiliates of Sipchem



- IMC
- IAC
- IGC
- IDC
- IVC

Sipchem Marketing Company

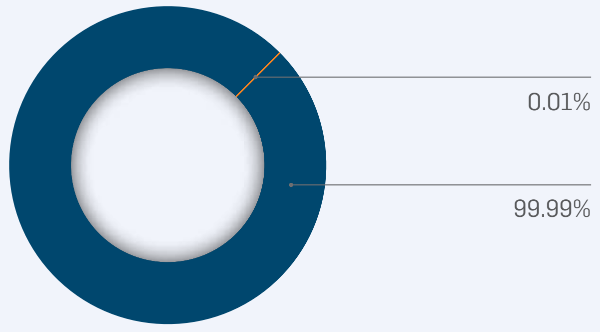
Year Founded	:	2007
Type of Company	:	Limited liability
Company Headquarters	:	Khobar City - Saudi Arabia
Capital	:	SR 2,000,000
Company Activity	:	Marketing and sales of petrochemical and plastic products



- Sipchem

Sipchem Europe cooperative UE and its subsidiaries

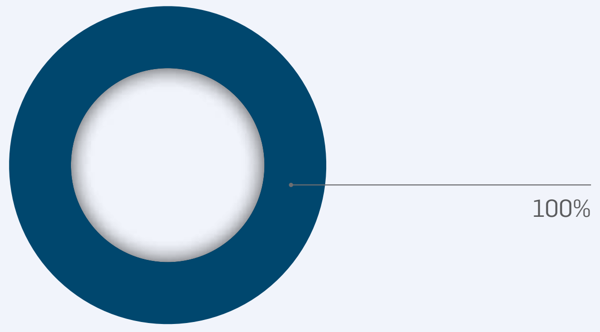
Year Founded	:	2011
Type of Company	:	Limited liability
Company Headquarters	:	Amsterdam - The Netherlands
Capital	:	S.Franc 1,000,000
Company Activity	:	Providing administrative support in the fields of marketing and logistics



- Sipchem
- Sipchem Chemicals Company

Sipchem Asia BTI

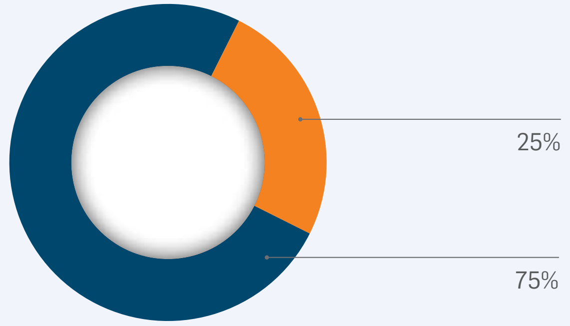
Year Founded	:	2013
Type of Company	:	Limited liability
Company Headquarters	:	Singapore
Capital	:	SR 752,970
Company Activity	:	Marketing the company products in Asia



- Sipchem

Saudi Specialized Products Company

Year Founded	:	2013
Type of Company	:	Limited liability
Company Headquarters	:	Riyadh City - Kingdom of Saudi Arabia
Capital	:	SR 56,320,000
Company Activity	:	Establishment and operation of transformational projects in Riyadh and Hail cities
Production Capacity	:	5,000 Tons per year



- Sipchem
- Hanwa of Korea

Innovation

Innovation

Sipchem's powerful way of thinking encourages us to constantly learn, to challenge, to advance and innovate using wisdom and knowledge. By innovating responsibly, we benefit mankind.

New methods of development

By continually challenging logic, we are looking at new things, new approaches and new development. We are actively investing in basic, intermediary and polymer petrochemical and chemical materials that can be utilized as a feedstock in manufacturing a lot of products that can bring prosperity to human beings worldwide.

63,000 Ton per year

Production of PBT

This material is produced by Sipchem Chemicals, a subsidiary of Sipchem, with a production capacity of 63,000 tons per year.

Polybutylene Terephthalate

PBT is a mechanically strong engineering polymer which is heat resistant up to 150 deg C. PBT is used as an insulator in the electrical and electronics industries, in the automotive industry (electrical system, mirror housings, handles, fuel system) and in a range of household goods (e.g. shower heads, irons). PBT can also be processed into fibres and is incorporated into clothing such as sportswear.

Third: Sipchem Technology and Innovation Center (Manar)

Sipchem Technology & Innovation Center (Manar) has contributed to enhancing the company technical capability through internal expertise in product development and applications. The official operation of this advanced center came in 2016. The center began contributing to the global competitiveness of the company and its subsidiaries through technical support and optimizing production processes.

The center is primarily concerned with application development activities that support Sipchem's approach and adds value to its products and customers. The center's efforts in 2017 resulted in the development of new product applications and the improvement of existing products that contributed to the support of some local manufacturers in transformation industries.

The center has enhanced its co-operation in research, technology and product applications with King Fahad University of Petroleum and Minerals and King Abdullah University of Science and Technology. The center also strengthened its expertise and potential by attracting various scientific competencies in the field of polymers.

One of the initiatives of the center during 2017 was to promote the idea of technology and creativity. The center organized the first forum for technology and innovation, where more than 30 worksheets were reviewed and 4 workshops were held in the forum to exchange experiences on various related topics. In his research, Manar focuses on the main uses of products such as films in the manufacture of solar cells and thin sheets for agricultural uses, flexible tubes and adhesives for the wood, paper and dye industry, electrical cables, fiber optic cables, and other products that will support the National Program Industrial gatherings.

Fourth: Company Strategies

In the year 2017, Sipchem completed the second phase of the strategy of the company, which is specialized in developing detailed strategies for all departments of the company from the company general strategy which was adopted in 2016.

In order to complete this stage, the strategy and business development department of the company held workshops for all departments and with the participation of managers and heads of departments to coordinate among them. These efforts culminated in the completion of the strategic objectives of each department during the year.

In 2018, the company plans to implement these strategies through initiatives that are reviewed periodically. All of these detailed strategies are aimed at achieving the Company overall objectives and are based on the following:

1. Focus on a series of valuable activities.
2. Enhance the efficiency and profitability of existing business.
3. Assess growth opportunities in new projects or Mergers and acquisitions with competitive advantage
4. Moving forward to achieve regional and global sustainability.
5. Assess potential growth opportunities in different sectors.

Fifth: Plans and prospects for the company business:

The Company continues to research and evaluate growth opportunities available locally and globally through several ways to increase the capacity of existing plants or to develop new factories and products or through mergers and acquisitions.

The company is working to increase the efficiency of operation, production and marketing. Among the initiatives that the company is currently working to raise the operating efficiency of the methanol plant, which is expected to be completed in 2018, and Sipchem Marketing plans to increase sales in 2018.

1. Risk Management

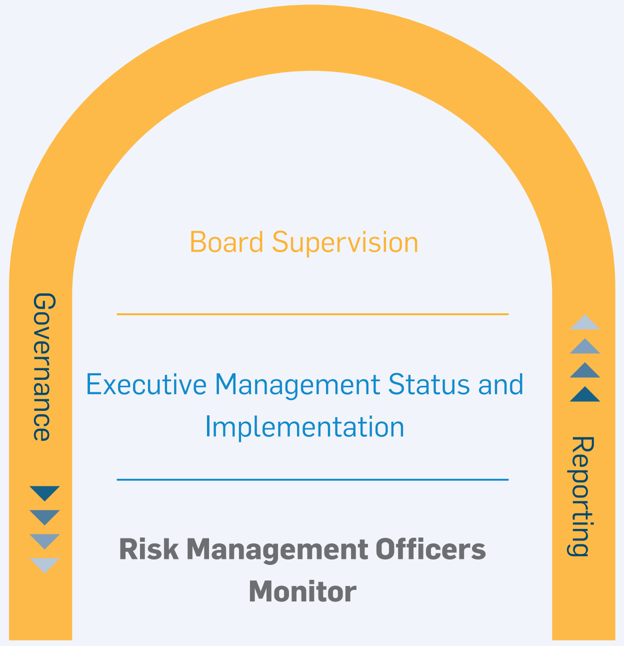
Risk management is an integral part of Sipchem's strategy and long-term goals. The purpose of risk management is to ensure Sipchem's ability to implement its strategies and achieve its objectives.

As part of its role in providing strategic and managerial oversight to the Company, the Board is responsible for maintaining effective risk management and internal control culture, while the Executive Group is responsible for monitoring and managing risks within its jurisdiction.

Sipchem's risk management system is designed to provide a consistent and clear framework for risk management and reporting to the Board at the full operational level. This system is based on avoiding accidents and maximizing commercial results, paving the way for:

- Understand the risk environment; assess the specific risks and the likelihood that the company will be exposed to such risks.
- Identify the best ways to deal with such risks.
- Proper risk management.
- Emphasize the effective management of these risks, and intervene quickly to improve that effectiveness when necesSRy.
- Inform management and the Board of Directors periodically of the seriousness with which risks are managed, monitored and improved.

The following is the structure of risk management system governance (Sipchem) based on leading practices and Capital Market Authority (CMA) requirements.

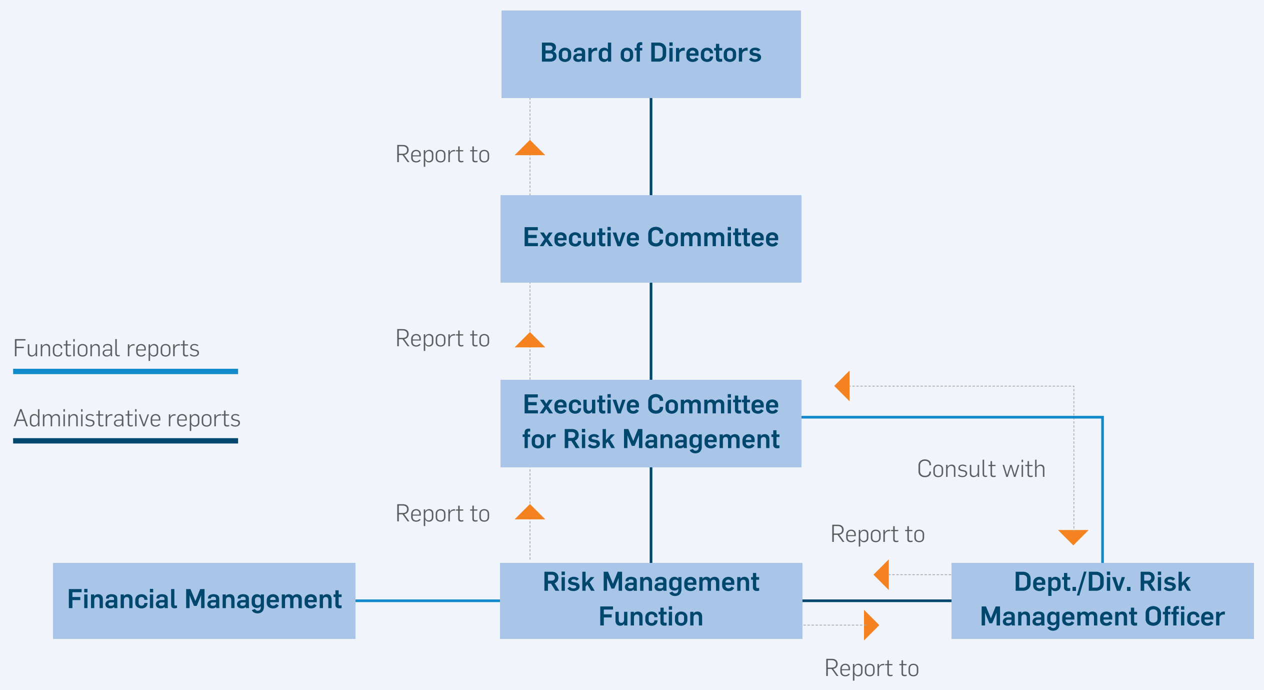


2. Development and implementation of risk management system:

Sipchem's Board of Directors has delegated the responsibilities of the Company risk management systems and processes to the Executive Committee of the Board. The Sipchem Risk Management Executive Committee is responsible for developing and implementing risk management systems and processes as the organization's framework. The Internal Risk Management Committee is chaired by the Chief Executive Officer and the senior management roles are assigned to the members of the Committee. The Company Risk Management reports functionally to the Executive Committee on Risk Management and functions responsibly for:

- Risk reporting process.
- Conduct periodic risk assessments with commercial entities and their institutions
- Coordinate all risk management activities within the company
- Review the size of risks faced by subsidiaries.
- Coordinate with subsidiaries on the implementation of risk management practices
- Maintaining the company risk management policy and describing the risk reporting method.

The following is the structure of risk management reporting process for Saudi International Petrochemical Company (Sipchem)



Sixth: Risks related to the work of the company and its subsidiaries (Continued)

3. Company Risk Management Policies and Practice:

Saudi International Petrochemical Company (Sipchem) has a fully approved corporate risk management policy, which sets out guidelines and practices for risk management, reporting procedures and informing, and formalizes them.

Subsidiaries are responsible for risks as much as they are responsible for the gains, and therefore the risk management responsibility lies with the management teams of the subsidiaries as well as with the managers. The risk management process controls exposures through the use of risk surveys, assessment, treatment, reporting and control, including reporting of residual risks. The Sipchem risk management framework was developed and implemented on the basis of ongoing practices and improvements through the various initiatives under way.

Below is a chart showing the risk management system that is applied continuously:

Seventh: Sustainability

Sustainability has become part of the company business through the development of a long-term strategy. The strategy focused on 12 areas covering all the company activities in order to spread the positive impact in the environmental, social and economic aspects. These twelve areas represent the areas of utmost importance to the Company and stakeholders.

The company has identified all the resources needed for the success of the strategy. In this context, the company has established a governance system under the leadership of the CEO of the management and implementation of the strategy and performance review periodically. In addition, the company has linked the twelve approved areas with key indicators to measure the efficiency of the application and know the defects to carry out the correction without delay.

To promote transparency and stakeholder participation in all important environmental, social and economic information, the company publishes the sustainability report on a biennial basis. The report is a tool to measure the company performance in sustainability and a platform for stakeholder participation with all the information they care about.

The positive effect that the company wishes to create is not only to boil the production and marketing of petrochemical products, but also to the localization of advanced technology and to provide the best training opportunities for national labor and create value added to the national economy by enabling national companies to work to provide the necesSRy materials and services for the work of the company.

Sipchem has adopted a sustainability project that focuses not only on the path of growth but also has a greater responsibility to reduce the damage to society and the environment and to maximize the positive aspects of the company performance.

The company is aware that compliance with environmental standards and conservation of natural resources is vital to ensure continuity of work. In this regard, the company has succeeded in reducing energy consumption by 7%, reducing consumption of fresh water for industrial use by 39% and reducing the density of waste water by 48% compared to consumption rates In 2015. In addition, the Research Center coordinates with relevant departments to conduct the necesSRy studies to find the best ways to optimize the use of natural resources.

In addition, human resources are the cornerstone of success in all aspects of the work. Therefore, the company attaches great importance to the development of human resources through training and professional development. The company is keen to communicate effectively and regularly with all stakeholders to view their proposals and address their concerns in order to maximize the positive impact of the company business.

Finally, Sipchem believes that regional and global sustainability leadership requires optimal guidance for the company resources by placing sustainability as a key objective of the company corporate strategy.

the company has succeeded in reducing energy consumption by 7%, reducing consumption of fresh water for industrial use by 39% and reducing the density of waste water by 48%

Responsibility

Responsibility

As part of its continuous pursuit of continuous development to meet the expectations of its customers and shareholders while providing safety and comfort to its employees, Sipchem and its subsidiaries are committed to providing high quality products with the most effective methods.

High quality standards

Sipchem is committed to supporting all its customers worldwide by committing itself to registering all its products exported to Europe and complying with the requirements of the European regulatory regulations so that they can purchase and import Sipchem products with ease.

200,000 tons per year

This material is produced by the International Polymers Company with a production capacity of ethylene vinyl acetate and low density polyethylene products of 200 thousand tons per year.

Low density polyethylene

LDPE is a solid thermoplastic produced from ethylene. Key important properties include chemical resistance, moisture resistance and general barrier properties. LDPE is readily processed by all thermoplastic methods. It is widely used in the manufacture of various containers, dispensing bottles, tubing, plastic bags, plastic film (food packaging, industrial liners), coated containers (e.g. juice cartons).

During the year 2017, the company achieved a net profit of SR 437 million compared to SR 43 million in 2016. The increase in profits is mainly due to improved selling prices for all the company products, mainly for methanol and polymers.

The following are the financial indicators for 2017 compared to the previous year 2016:

-Gross profit reached SR 1,426 million during the year 2017 compared to SR 861 million for the previous year 2016, an increase of 69%.

- Profit from operations amounted to SR 935 million during the year 2017 compared to SR 437 million for the previous year 2016, an increase of 114% .
- Net profit reached SR 437 million during the year 2017 compared to SR 43 million for the previous year 2016, an increase of 916%.
- Earnings per share reached SR 1.19 during the year 2017 compared to SR 0.12 for the previous year.

Comparison of business results for the last five years

Year	2017	2016	2015	2014	2013
Revenue	**4,459**	3,515	3,515	4,125	4,072
Revenue costs	**(3,033)**	(2,653)	(2,682)	(2,728)	(2,707)
Gross profit	**1,426**	861	833	1,397	1,365
Net profit	**587**	91	288	606	620

A summary of the Company assets, liabilities and operating results for the last five financial years

Statement of financial position (Millions of Riyals)

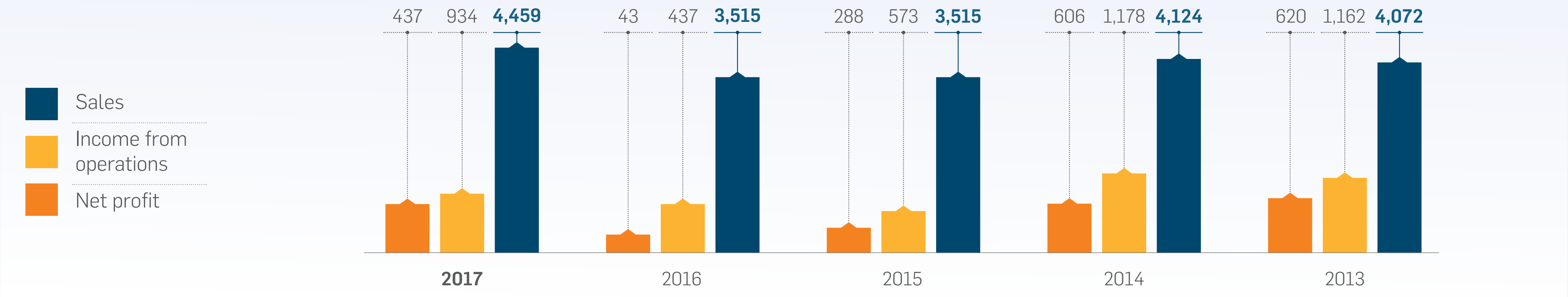
Year	2017	2016	2015	2014	2013
Current Assets	**3,637**	3,309	3,575	4,060	4,475
Non-current Assets	**12,332**	12,494	13,484	13,116	12,214
Total assets	**15,970**	15,803	17,059	17,176	16,689
Current liabilities	**1,860**	2,095	1,790	1,562	1,288
Non-current liabilities	**6,899**	7,023	7,564	7,660	7,979
Equity and non-controlling interests	**1,508**	1,421	7,705	7,954	7,421
Total liabilities, equity and non-controlling interests	**15,970**	15,803	17,059	17,176	16,689

Income Statement (Millions of Riyals except earnings per share)

Description	2017	2016	2015	2014	2013
Sales	**4,459**	3,15	3,515	4,125	4,072
Sales Cost	**(3,033)**	(2,654)	(2,682)	(2,726)	(2,707)
Gross Profit	**1,426**	861	833	1,397	1,365
General and administrative expenses	**(491)**	(424)	(260)	(219)	(203)
Income from operations	**934**	437	573	1,178	1,162
(Investment income)	**22**	38	10	9	17
Financial expenses	**(298)**	(288)	(174)	(156)	(172)
Net income from pre-operating operations	**-**	-	-	-	-
(Expenses) of other income, net	**13,4**	9	(40)	(93)	(22)
Write-off of property, plant and equipment	**(1)**	(31)	-	-	-
Income before non-controlling interest, Zakat and income tax	**671**	165	369	938	985
Non-controlling interests	**(149)**	(66)	(51)	(245)	(310)
Zakat and income tax	**(83)**	(56)	(30)	(87)	(55)
Net income	**437**	43	288	606	620
Earnings per share from net income (SR)	**1,19**	0,12	0,79	1,65	1,69

Evolution of sales, operating income and net income for the last five years:

(Millions of Riyals)



Significant differences in operating results from previous year results:

(Millions of Riyals)

Description	2017	2016	Change + / -	Change %
Sales / Revenue	**4,459**	3,515	944	26%
Cost of sales / revenue	**(3,033)**	(2,653)	(380)	14%
Gross profit	**1,426**	861	565	65%
Other operating income	**-**	-	-	-
Other operating expenses	**(490)**	(423)	(67)	16%
Operating profit (loss)	**934**	437	497	113%

The main reason for the decline in net profit in 2016 is the sharp decline in the prices of all the company products, especially methanol, butanol and acetyl. The main reason for the slight decrease in the cost of production is the decrease in the rate of specific consumption and lower fixed costs.

Eighth: Financial Results (Continued)

1. A statement describing the impact of each activity on the size of the company work and its contribution to the results:

Sectoral Analysis:

The Company operations are in the following sectors:

A. Petrochemical operations: include product manufacturing activities.

B. Marketing Processes: Includes marketing activities and business activities of products under agreed sales contracts, transactions and exchanges of product swap values and hedging products.

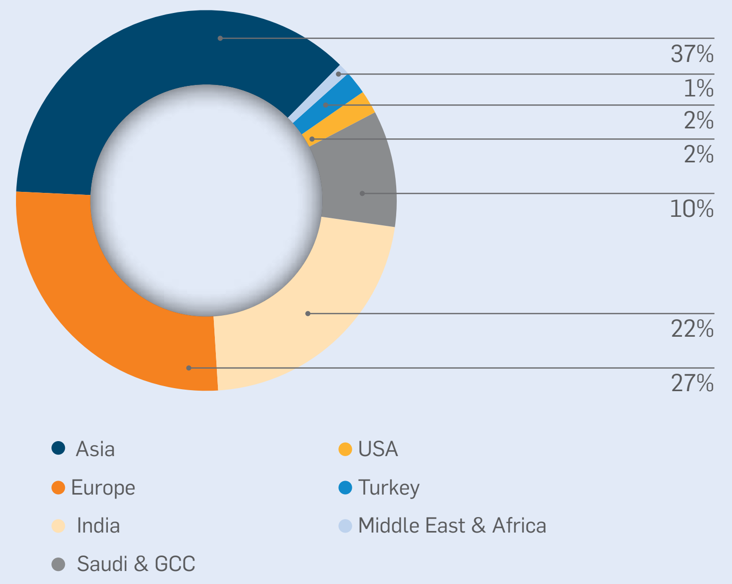
(Millions of Saudi Riyals)

Description	Petrochemicals Sector	Marketing Sector	Other	Total
	31 December 2017			
Sales	**4,036**	**407**	**17**	**4,459**
Gross profit	**1,305**	**107**	**15**	**1,426**
Net Assets	**14,861**	**816**	**294**	**15,971**
	31 December 2016			
Sales	3,263	250	3	4,515
Gross profit	781	76	4	861
Net Assets	14,418	683	702	15,803

2. Geographical Analysis of the Company Sales:

The company products are marketed and sold in all local markets, Middle East markets and international markets. The following chart shows the geographical distribution of the company sales during 2017:

Geographical Analysis of the Company Sales



Commitment

Commitment

«Since inception, Sipchem realises the importance of social responsibility in order to achieve sustainable development. Acknowledging that it is one of the channels that support the society, Sipchem was keen to invest in its community and to be present in all events and activities that are related to the concept of social responsibility, also and on the other hand participate in Marketing events and exhibitions ».

Highest quality standards

We are committed to applying the highest quality standards in all our activities: from products to the safety of the surrounding environment and employees, which is one of our goals that we are working towards. We will reach this goal by working with various stakeholders, as well as applying our vision, mission and strategy.

200,000 tons per year

This material is produced by International Polymers Company with a production capacity of ethylene vinyl acetate and low density polyethylene (ethylene vinyl acetate) products of 200 thousand tons per year.

Vinyl acetate acetate

Vinyl ethylene acetate is a flexible polymer, a solid joint polymer made of ethylene and vinyl acetate and characterized by its smoothness and flexibility. Vinyl acetate resins are used in the manufacture of a wide range of consumer and industrial products such as membranes for direct food applications and are widely used as sports lining and in a wide range of comfortable shoes as a shock absorber (i.e. sports shoes).

Eighth: Financial Results (Continued)

3. Disclosure of details of Treasury shares held by the Company and details of the uses of these shares:

(Saudi Riyal)

Number of treasury shares held by the Company	Value	Date of retention	Use details
783,199	10	-	Employee Incentive Program

4. Total indebtedness of the Company and its subsidiaries

The following table shows loans and debts of the Company and its subsidiaries in 2017.

Saudi International Petrochemical Company

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Islamic instruments	1,000	5	-	1,000	1,000
long term loans	2,325	5-7	57	1,682	1,682
Short-term loans	200	1	(200)	-	-

International Methanol Company:

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Islamic facilities	325	10	(26)	247	247

International Diol Company:

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Islamic facilities	1,008	12	(13)	740	740

International Acctyl Company:

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Commercial banks	618	10	(18,5)	557	557
Saudi Industrial Development Fund	400	10	-	140	140
Public Investment Fund	769	11	(76,9)	192	192

International Vinyl Acetate Company:

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Commercial banks	356	12	(11)	318	318
Saudi Industrial Development Fund	400	10	-	140	140
Public Investment Fund	439	11	(44)	110	110

International Gas Company:

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Commercial banks	61	8	(1)	56	56
Saudi Industrial Development Fund	400	10	-	120	120
Public Investment Fund	142	11	(14)	36	36

Sipchem Marketing Company:

(Millions of Saudi Riyals)

The donor of the loan	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Advances from partners	106	undefined	(66)	40	40

International Polymers Company:

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Commercial banks	704	15	(46)	553	553
Saudi Industrial Development Fund	600	10	(80)	440	440
Public Investment Fund	704	14	(54)	514	514
Advances from partners (short-term)	133	1	0	133	133

Sipchem Chemical Company:

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Saudi Industrial Development Fund	396	9-8	(43)	327.5	327.5
Advances from partners (short-term)	263	1	0	263	263

Gulf Advanced Cable Insulators Company:

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Saudi Industrial Development Fund	99	6	(12)	71	71
Advances from partners (short-term)	103	1	0	103	103

Saudi Specialized Products Company

(Millions of Saudi Riyals)

Money lender	Amount of loan principal	Loan Term	Payments made during the year	The remaining amount of the loan	End of year balance
Saudi Industrial Development Fund	65	10	(3)	58	58
Advances from partners (short-term)	10	1	0	10	10
Advances from partners (Long-term)	146	unidentified	0	145	145

Eighth: Financial Results (Continued)

5. Description of debt instruments activities

There are no debt instruments convertible into shares or any subscription notes or similar rights issued or granted by the Company during 2017. There are also no rights of transfer or subscription under debt instruments convertible into shares, option rights, warrants or similar rights issued or granted by the Company during the year 2017. There is also no purchase or cancellation by the Company for any redeemable debt instruments.

6. Regular due payments:

(Millions of Saudi Riyals)

Description	2017		Brief Description	Reasons
	Paid	Due to the end of fiscal year not paid		
Zakat	17,8	102,7	Company Zakat	Compulsory
Tax	17,7	46,8	Company Tax	Compulsory
General Organization for Social Insurance	34,9	2,4	Payment of subscriptions	Compulsory
Costs of visas, passports and labor office fees	1,3	-	Repayment of fees	Compulsory

7. Recent developments in the application of international accounting standards :

In line with the requirements of the Saudi Organization for Certified Public Accountants (IASC) for the transition to International Accounting Standards (IFRS) in the preparation of the Company financial statements approved by the Capital Market Authority (CMA) as of 1 January 2017. The Company announced the transition plan for International Accounting Standards (IFRS) in "Tadawul" on the following :

1- Confirmation of the Company readiness to prepare the first financial statements in accordance with the International Accounting Standards for the first quarter of 2017.

2- The shift in the application of International Accounting Standards to the opening balance sheet as of 1 January 2016 is expected to result in a decrease in retained earnings of SR 486 million. This decrease is mainly due to the following reasons:

- A) The adoption of IAS 36 on property, buildings, equipment and real estate, which resulted in a decrease in Sipchem's retained earnings of 408 million Saudi Riyals.
- B) The difference between the Saudi Arabian Organization for Certified Public Accountants (IASC) and IAS 16 (Revised) for the cost of property, premises and equipment resulted in a decrease in retained earnings of 33 million Saudi Riyals.
- C) The difference between the SARS standard and IAS 38 on the cost of intangible assets resulted in a decrease in retained earnings of SR 12 million.
- D) Establishment of a provision to restore the sites as it was, resulting in a decrease of retained earnings of 23 million Saudi Riyals.
- E) The application of the effective interest rate on long-term loans, in accordance with IAS 39, has had an impact on the increase in retained earnings by 14 million Saudi Riyals.
- F) The adoption of IAS 19 in respect of employees' end of service benefits resulted in a decrease in retained earnings of 24 million Saudi Riyals.

2-2-scrip The above adjustments are an estimate made by the Company on the basis of the International Accounting Standards Implementation Team, taking into account the observations of the external consultant (Ernst & Young). KPMG is finalizing the review of the above adjustments and including them in the opening budget as part of the audit of the financial statements for the first quarter of fiscal year 2017.

On the Tadawul website, the company disclosed that after reviewing the financial statements by the auditors, the decrease in the retained earnings of the Company as a result of the change in the application of international accounting standards to the opening balance sheet as of 1 January 2016 witnessed an additional decrease of 103 million Riyals -and that which has already been announced- to 589 million. The increase in the decrease in retained earnings is due to the application of IAS 36 to the item of property, buildings, equipment and real estate, as well as a slight (positive) decrease in the assessment of employees' end of service benefits.

Ninth: Description of any transaction between Sipchem and related parties

The related parties represent the shareholders of the Company, the Group's subsidiaries, the Board of Directors and the entities controlled or jointly controlled by them or which exercise influence during the year. The following are the following related parties during 2017:

Name	Nature of the transaction	Relationship
Japan Methanol Company Limited	Sales	Minority stockholder
Helm - Arabic GMH & Cookie G (Helm Arabia)	Sales	Minority stockholder
Hanwa Chemical Malaysia SDNBH	Sales	Minority stockholder
Johnson Mathie Devi Technologies Limited	Fixed Assets Sale	A sister company of a partner in a subsidiary company

- The foreign partners of the company marketed part of the company products. The total sales through these foreign partners amounted to SR 1,546 million during 2017 compared to SR 1,442 million during 2016.
- A subsidiary purchased some fixed assets from a foreign partner. Total purchases of fixed assets from foreign partners during 2017 amounted to SR 39.5 million compared to SR 20 million in 2016.
- The Company and its minority shareholders have provided advances to subsidiaries to support their operations and comply with the terms of the debt. Some long-term advances carry no financing costs and have no specific maturity dates, while other long-term and short-term advances carry financial costs at normal commercial rates.
- The prices and terms of the above transactions have been approved by the boards of directors of the subsidiaries.
- The above transactions resulted in the following balances as at 31 December 2017:

A. Due from related parties

(SR million)

Name	2017	2016
Japan Methanol Company Limited	**52**	36
Helm - Arabic GMH & Cookie G (Helm Arabia)	**133**	172
Hanwa Chemical Malaysia SDNHB	**115**	84
Total	**300**	292

B. Due to related parties

(SR million)

Name	2017	2016
Johnson Mathie Devi Technologies Limited	**-**	1

Tenth: Description of the activities of the subsidiaries and their impact on the size of the company business and its contribution to the results for 2017 as follows:

No.	Activity	Activity Revenues (Millions of Riyals)	Ratio %
1.	International Methanol Company	1,096	24.6%
2.	International Diol Company	359	8.1%
3.	International Acetyl Company	207	4.7%
4.	International Vinyl Acetate Company	958	21.5%
5.	International Gas Company	45	1.0%
6.	Sipchem Marketing Company	127	2.9%
7.	International Utility Company	-	-
8.	International Polymers Company	973	21.8%
9.	Sipchem Chemical Company	314	7.0%
10.	Sipchem Europe Cooperate UA and its subsidiaries	279	6.3%
11.	Gulf Advanced Cable Insulation Company	85	1.9%
12	Saudi Specialized Products Company	16	0.3%
13	Sipchem Asia Company	-	0%
Total		**4,459**	**100%**

Eleventh: Annual Results of Internal Audit

The Internal Audit department verifies the effectiveness of the internal control system to address the Company main risks, including financial, operational, legal, business risks and all controls and activities approved for risk management related to the Company activities and business.

The Audit Committee continuously supervises the internal audit department's work. The committee reviews its reports periodically and follows up the procedures taken by the company management towards the audit notes of the closing of the observations and processing them in such a way as to ensure that they are not repeated. This enhances the audit committee's conviction of the effective internal control procedures, (If any) to take action on them. The scope of internal audit management includes:

- Preparing the annual strategic plan for internal audit work
- Periodic review of all the administrative and operational management of the company with the notification of the results of the review and discuss the results with them before the end of the audit process.
- Evaluate procedures and solutions provided by administrations to ensure the adequacy and efficiency of these procedures.
- To submit reports on the results and recommendations of the review, in addition to follow-up these recommendations later until the implementation of these recommendations by the concerned departments.
- Contribute to the development of the internal control system and to inform all employees of the importance of their role through lectures on the importance of internal control and the role of departments in developing and improving them.

In addition, the Company External Auditor also reviews the Company annual financial statements and makes recommendations to the management to improve the Company internal control system.

The internal audit carried out by the Audit Committee during the year 2017 led to several periodic reviews that would ensure the accuracy and effectiveness of the performance. Therefore, the Board of Directors and based on the reports and recommendations of the Audit Committee confirms that:

It did not draw attention to any matters which he believed would have a material impact that should be disclosed in respect of the integrity of the financial and accounting systems and its relevance to the preparation of the financial reports.

The regulatory systems operate effectively and helps in creating a general perception of the risks that Sipchem may face. There has been no substantial breach during the year that requires disclosure.

All the observations and recommendations made by the Audit Committee have been taken with regard to corrective action or correction.

Twelfth: Corporate Governance:

Executive Management

The executive management is responsible for monitoring, implementing and reviewing the administrative and financial policies, powers and powers of the company and providing the board of directors with any updates if any.

Ahmad A. Al-Ohali
CEO

Abdulrahman A. Al-Saif
Operations President

Paul J. Fransiscos
Vice President Financing

Abdullah S. Al-Saadoon
Shared Services President

1. Composition of the Board of Directors

Sipchem has a board of directors with a high level of expertise and competence in the field of petrochemicals. The Board of Directors consists of eleven (11) members elected by the Ordinary General Assembly on 7 December 2016 to the Board of Directors of the Company for the new session for a period of three years.

The members of the Board of Directors perform their duties faithfully and with full care in order to achieve the interests of the Company and all its shareholders. The core functions of the Governing Council are as follows:

A. Develop the plans, policies, strategies and main objectives of the company and supervise the implementation and review periodically, and ensure the availability of human and financial resources to achieve them, including:
  - Develop comprehensive corporate strategy, master plans, risk management policies and procedures, review and guide them.
  - Determining the optimal capital structure of the company, its strategies and financial objectives, and approving the estimated budgets of all types.
  - Oversee the main capital expenditures of the company, and own and dispose of the assets.
  - Setting performance objectives and monitoring implementation and overall performance in the company.
  - Periodic review of organizational and functional structures in the company and its adoption
  - Check the availability of human and financial resources necesSRy to achieve the company objectives and main plans.

B. Develop internal supervision systems and controls, including:
  - Written policy to address actual and potential conflicts of interest of the members of the Board of Directors, the Executive Management and the shareholders, including misuse of the Company assets and facilities, and misconduct resulting from transactions with related parties.
  - Ensure the integrity of financial and accounting systems, including relevant financial reporting systems.
  - Ensure that appropriate risk management and risk management systems are in place by providing a general overview of the risks that the company may face and establishing a risk management environment at the company level and transparently communicating with stakeholders and stakeholders.
  - Annual review of the effectiveness of internal control procedures in the company.

C. Establish clear and specific policies, criteria and procedures for membership in the Board of Directors - not to contradict the mandatory provisions of these Regulations - and to put them into effect after the approval of the General Assembly.

D. Develop a written policy governing the relationship with stakeholders according to the provisions of these regulations.

E. Develop policies and procedures to ensure that the Company complies with the rules and regulations and its obligation to disclose the material information of shareholders and stakeholders and to verify compliance by the executive management.

F. Supervising the management of the company finances, cash flows, and financial and credit relations with others.

G. The proposal of the Extraordinary General Assembly regarding what it considers to be:
  - Increase or decrease the company capital
  - Dissolution of the Company before the term specified in the Company Articles of Association or its or deciding its continuity.

H. The proposal of the Ordinary General Assembly as to the following
  - The use of the company contractual reserve in case it is formed by the extraordinary general -assembly and not allocated for a specific purpose.
  - Formation of additional reserves or financial allocations to the Company.
  - Method of distributing the net profits of the company

I. Preparing and approving the annual and annual financial statements of the company prior to its publication.

J. Prepare and approve the report of the Board of Directors prior to its publication

K. Ensure the accuracy and integrity of data and information to be disclosed in accordance with applicable disclosure and transparency policies and procedures.

L. Establish effective channels of communication that will allow shareholders and investors to have continuous and periodic access to the various aspects of the company activities and any significant development.

M. The composition of specialized committees emanating from him shall be determined by decisions specifying the duration, powers and responsibilities of the committee and how the board shall supervise them. The formation decision shall include naming the members and determining their duties, rights and duties, and evaluating the performance and work of these committees and their members.

N. To determine the types of bonuses granted to the employees of the company, such as fixed bonuses, performance-related bonuses and bonuses in the form of shares, so as not to interfere with the regulatory controls and procedures issued to implement the system of companies of listed companies.

O. Setting the values and standards governing the work in the company

2. Training of Board Members:

During 2017, the Board of Directors received a training program as follows:

- In the area of governance, the new corporate system and the responsibilities and duties of the board members
- Detailed presentation of the VAT system and its impact on companies

3. Classification of Directors:

Members are classified according to the definitions in Article 2 of the Corporate Governance Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia. The Board also adopted on December 19, 2017 the decision to appoint Eng. Ahmad Al-Ohali as Vice Chairman.

NO	Name	Commission	Membership status
1	H.E. Eng. Abdulaziz A. Al-Zamil (Representative of Zamil Group Holding Company)	Chairman of Board of Directors	Non-Exuctive
2	Eng. Ahmad A. Al-Ohali	Managing Director, Chief Executive Officer and Vice Chairman	Exuctive
3	Eng. Reyadh S. Ahmed (Representative of Ikarus Petrochemical Holding Company)	Member	Non-Exuctive
4	Mr. Fahad S. Al-Rajhi	Member	Non-Exuctive
5	Dr. Sami M. Zaidan	Member	Non-Exuctive
6	Dr. Abdulrahman A. Al-Zamil	Member	Non-Exuctive
7	Mr. Ayidh M. Al-Qarni (Representative of the Public Pension Agency)	Member	Non-Exuctive
8	Mr. Ibrahim H. Al Mazyad (Representative of Arab Investment Company)	Member	Independent
9	Dr. Abdulrahman A. Al-Jafary	Member	Independent
10	Mr. Ziad A. Al-Turki	Member	Independent
11	Mr. Bander A. Masoudi (Representative of the General Organization for Social Insurance)	Member	Independent

Thirteenth: Board of Directors (Continued)

4. A description of any interest accruing to directors and their spouses and minor children in shares or debt instruments Source:

	Name	Stock on 1 January 2017		Stock on 31 December 2017		Net Change	% of change	Ownership and Change of Relatives of First Class
		Number of Shares	Percentage of ownership	Number of Shares	Percentage of ownership			
1	H.E. Eng. Abdulaziz A. Al-Zamil	186,600	00,05%	186,600%	00,05%	-	-	-
2	Eng. Ahmad A. Al-Ohali	140,525	00,038%	85,525	00,02%	- 55,000	- 39%	-
3	Dr. Abdulrahman A. Al-Zamil	883,892	0024%	883,892	0024%	-	-	-
4	Mr. Fahad S. Al-Rajhi	6,200,000	1,69%	6,200,000	1,69%	-	-	-
5	Mr. Ibrahim H. Al Mazyad	48	00,00%	48	00,00%	-	-	-
6	Eng. Reyadh S. Ahmed	-	-	-	-	-	-	-
7	Dr. Sami M. Zaidan	1,164	00,00%	1,164	00,00%	-	-	-
8	Dr. Abdulrahman A. Al-Jafary	2,000	00,00%	2,000	00,00%	-	-	-
9	Mr. Ziad A. Al-Turki	1,000	00,00%	1,000	00,00%	-	-	-
10	Mr. Ayidh M. Al-Qarni	-	-	-	-	-	-	-
11	Mr. Bander A. Masoudi	-	-	-	-	-	-	-

5. Description of any interest accruing to senior executives, their spouses and minor children in shares or debt instruments Source:

	Name	Stock on 1 January 2017		Stock on 31 December 2017		Net Change	% of change	Ownership and Change of Relatives of First Class
		Number of Shares	Percentage of ownership	Number of Shares	Percentage of ownership			
1	Eng. Abdulrahman A. Al-Saif	-	-	-	-	-	-	-
2	Eng. Abdullah S. Al-Saadoon	-	-	-	-	-	-	-
3	* Mr. Kevin John Hayes	-	-	-	-	-	-	-
4	Mr. Abd Allah Garmallah Hariri	-	-	-	-	-	-	-
5	* Mr. Paul J. Franciscus	-	-	-	-	-	-	-

*Mr. Paul Johannes Franciscus was appointed Vice President of Finance instead of Mr. Kevin John Hayes on 17 October 2017.

6. Description of any interest in the equity class of the principal owners

List of names and number of shares and ownership percentage of the main shareholders who own 5% or more of the company's shares during 2017:

	Name	Shares on 1 January 2017		Shares on 31 December 2017		Net Change	% of change
		Number of Shares	Percentage of ownership	Number of Shares	Percentage of ownership		
1	Al-Zamil Group Holding Company	35,549,375	9,70 %	35,549,375	9,70 %	-	-
2	Public Pension Agency	30,585,363	8,34 %	31,181,431	8,50 %	596,068	00,02 %
3	Ikarus Petrochemicals Holding Company	29,962,478	8,17 %	29,962,478	8,17 %	-	-

7. A description of any interest in the class of shares belonging to persons who have notified the company of these rights:

No person has notified the Company of any interest in the category of voting shares belonging to persons (other than directors and senior executives and their spouses and minor children) during 2017.

8. Remuneration and compensation to members of the Board of Directors and senior executives and committees:

The Ordinary General Assembly approved the remuneration policy for the Board of Directors and the Committees of the Board and the Executive Management on December 19, 2017, which set out clear criteria, controls and procedures for determining the remuneration of the Board of Directors and its committees and senior executives to comply with the Companies Regulations and the requirements of the Corporate Governance Regulations as follows:

Controls of Membership Rewards in the Council and the Committees

The Nomination and Remuneration Committee shall recommend to the Board of Directors the remuneration of the members of the Council and the members of the committees, as follows:

A. The company takes into consideration the harmony of the rewards with the company strategy and objectives

B. Taking into account the practices of other companies and what is prevalent in the labor market in determining the rewards, while avoiding the resulting unjustified rise of rewards and compensations and within the limits stipulated by the Companies Law and its Implementing Regulations

C. The remuneration shall be reasonably sufficient to attract the members of the Board of Directors with the appropriate competence and experience.

D. The remuneration should be fair and commensurate with the terms of reference of the member and the duties and responsibilities of the members of the Board of Directors or committees, in addition to the objectives set by the Board of Directors to be achieved during the fiscal year.

E. Remuneration of directors may vary in size to reflect the proportion of responsibilities assigned to the member and other considerations.

F. Members of the Board of Directors may not vote on the remuneration of directors at the General Assembly meeting of shareholders.

G. The Company shall disclose the remuneration of Board members, committees and senior executives in the annual report of the Board of Directors in accordance with the relevant regulations. The report of the Board of Directors shall include in the General Assembly a comprehensive statement of all remuneration, allowances and other benefits received by the members of the Board during the fiscal year. As well as to indicate what members of the Board have been held as employees, administrators or whatever they have received for technical, administrative or consulting work. It shall also include a statement of the number of meetings of the Council and the number of meetings attended by each member from the date of the last meeting of the General Assembly.

Mechanism of remuneration of members of the Board of Directors and members of committees

The Articles of Association of the Board of Directors shall determine the remuneration of the members of the annual board of directors. The regulations of the committees shall determine the remuneration and allowances of their members to suit the nature of the company business.

A. The bonus must be on the recommendation of the Nomination and Remuneration Committee of the Company.

B. Board members and committees are rewarded based on their participation in the meetings and the number of meetings they attend.

C. The attendance allowance and other benefits related to the meetings of the Council and the relevant committees shall be paid immediately after each meeting. The annual remuneration of the Council shall be paid in full after its approval by the General Assembly.

Details of the remuneration of members of the Board of Directors and members of the subsidiary committees

A. Directors Remuneration

- The Board of Directors shall determine, based on the recommendation of the Nomination and Remuneration Committee, the remuneration of the annual Board of Directors and its committees.
- The members of the Board of Directors shall be entitled to a certain amount or attendance allowance for meetings, benefits in kind or a certain percentage of net profits. Financial or in kind amount of 500 thousand Saudi Riyals in accordance with the provisions of the Companies Law and its regulations and in accordance with the regulations set by the competent authorities. If the remuneration of directors is a percentage of profits, this percentage shall not exceed 10%.
- Board members who reside outside the Company headquarters, whether inside or outside the Kingdom, are entitled to compensation for travel costs to attend board meetings. These costs include a round trip ticket from the place of residence to the venue of the meeting as well as the costs associated with accommodation, transportation and attendance allowance.
- Upon the recommendation of the Nomination and Remuneration Committee and after the approval of the Board of Directors, the Board of Directors shall be entitled to an annual remuneration of not more than SR300 thousand in return for its membership in the Board in accordance with the eligibility mechanism set forth in Article 4 of this Policy.
- Upon the recommendation of the Nomination and Remuneration Committee and after the approval of the Board of Directors, the member of the Board of Directors participating in the committees emanating from the Board shall be entitled to an annual remuneration not exceeding SR 100,000 in return for his membership in the committees of the Board whether the member is a participant in one or more committees, In the Audit Committee "in accordance with the eligibility mechanism set forth in Article IV of this Policy.
- On the recommendation of the Nomination and Remuneration Committee, the Chairman of the Board shall determine the remuneration of membership in the committees in which the member is appointed from outside the Board of Directors, not exceeding SR 100,000.

The Board may, at the recommendation of the Nomination and Remuneration Committee, review the annual remuneration of the member of the Board of Directors referred to above from time to time in the light of the variables related to the performance, provided that the remuneration of the board member shall not exceed the amount of SR 500,000 In accordance with the provisions of the Companies Law and its regulations and in accordance with the regulations set by the competent authorities

Article 6: Remuneration of Senior Executives (Executive Management)

- The Board of Directors shall determine the types of bonuses awarded to senior executives of the Company on the recommendation of the Nominations and Remuneration Committee, such as fixed bonuses, performance-related bonuses and incentive bonuses, consistent with the regulatory regulations and regulations issued by the joint stock companies.

  The Nomination and Remuneration Committee reviews the incentive plans for senior executives on a continuous basis and submits the recommendation to the Board for approval.
- Rewards aim to provide the competitive edge required to attract and retain competent and qualified employees and maintain the high level of skills needed by the company.

Fourteenth:

The Actions taken by the Board of Directors to inform its members, especially non-executives, of the shareholders' proposals and their remarks about the company and its performance

Except for the queries in the extraordinary General Assembly No. 11 and the Extraordinary General Assembly No. 20, no further inquiries or observations regarding the Company and its performance have been received by the Company.

The Investor Relations Department meets with shareholders and investors throughout the year to review the latest developments of the company. The CEO and Chairman of the Board of Directors shall inform the Board of Directors of the proposals, observations and opinions of shareholders and investors through periodic Board meetings without the presence of any Executive Member if necesSRy. Article 37 of the Articles of Association of the Company provides procedures to ensure that all shareholders have the right to discuss matters, request information and ask questions to the members of the Board of Directors and Auditors. The Chairman and members of the Board of Directors shall respond to all inquiries concerning the Company business.

Fifteenth: Board of Directors Committees

1. Audit Committee

The Committee is composed of three members, one of whom is an independent member of the Board of Directors. The other two members are nominated from outside the Board of Directors with the expertise that qualifies them to participate actively in the work of the Audit Committee.

A. Terms of reference, powers and responsibilities of the Committee:

The Audit Committee shall be responsible for monitoring the Company business and verifying the integrity and integrity of its financial statements and internal control systems. The Committee shall have the right to access the Company records and documents and request any clarification or statement from the members of the Board of Directors or the Executive Management. The functions of the Commission include, in particular:

First: Financial Reports:

A. Review the financial statements and statements of the company and its declarations regarding their financial performance before submitting them to the Board of Directors, to ensure their fairness, and transparency, and to express their opinion.
B. Provide the technical opinion, at the request of the Board of Directors, whether the Board's report and the financial statements of the Company are fair, balanced and understandable and include information that allows shareholders and investors to evaluate the position or financial position of the company and its performance, model and strategy.
C. Examine any important or unusual issues including the financial reports and accounts, and look closely at any matters raised by the Company's CFO, or who perform his duties or the Compliance Officer of the Company or the Auditor.
D. Check accounting estimates on material issues in the financial reports.
E. Study the accounting policies adopted by the company and provide an opinion and recommendation to the Board of Directors in this regard.

Second: Internal Audit:

A. To study and review the internal control, financial and risk management systems of the Company and to prepare a written report containing its recommendations and opinion on the adequacy of these systems and the work performed within their competence. The Board shall submit sufficient copies of this report at the company headquarters prior to the date of the General Assembly. At least 10 days; to provide a copy for those who wish to review it of the shareholders. The report is read out during the Assembly.
B. Study the internal audit reports and follow up the implementation of the corrective actions of the observations contained therein.
C. Supervise and monitor the performance and activities of the internal auditor and the internal audit department of the company, if any, to verify the availability of the necessary resources and their effectiveness in the performance of the tasks and tasks entrusted to them. If the company does not have an internal auditor, the committee should make a recommendation to the Board on the need for its appointment, and if it does not, it should explain the reasons in the annual report.

Third: Auditor:

A. Recommending to the Board of Directors to appoint auditors, isolate them, determine their fees and evaluate their performance, after ascertaining their independence, reviewing the scope of their work and the terms of their contract.
B. Verification of the auditor's independence and position, and the effectiveness of audit work, taking into account relevant rules and standards.
C. Review the audit plan of the company and its business, and verify that it does not submit technical or administrative works that are outside the scope of the audit work, and make their views thereon.
D. Answer the inquiries of the company auditors.
E. Studying the auditor's reports and observations on the financial statements and following up on what has been taken.

Fourth: Ensuring Commitment:

A. Review the results of the reports of the regulatory bodies and verify that the company takes the necessary procedures.
B. Check the company compliance with relevant instructions or remove, regulations and policies.
C. Review the contracts and transactions proposed by the company with the related parties and submit what they see to the Board of Directors.
D. To submit to the Board of Directors the issues it deems necessary to take actions and to make recommendations on the steps that are required to be taken.

A-Members of the Audit Committee:

No	Name	Status
1	Mr. Ibrahim Hammoud Al-Mazyad	Committee Chairman
2	Mr. Abbdulsalam Nasser Abaoud	Committee Member
3	Mr. Mohammad Farhan AL-Nader	Committee Member

B-Attendance of Audit Committee Meetings:

No	Name	19/2/2017	3/5/2017	23/7/2017	19/10/2017	Total attendance
1	Mr. Ibrahim H. Al Mazyad	✓	✓	✓	✓	4
2	Mr. Abbdulsalam N. Abaoud	✓	✓	✓	✓	4
3	Mr. Mohammad F. AL-Nadr	✓	✓	✓	✓	4

Fifteenth: Board of Directors Committees (Continued)

1. Audit Committee

C. Functions of Audit Committee Members in Current and Previous Companies:

No	Name	Current Position	Previous Position	Qualifications	Professional experience
1	Mr. Ibrahim H. Al Mazyad	CEO of Arab Investment Company	Executive Vice President for Finance and Management of Arab Investment Company	- Master of Business Administration - Bachelor of Economics	Investment sector and banks
2	Mr. Abbdulsalam N. Abaoud	Assistant Director of Actuarial Affairs Allianz	Chairman of the Permanent Privatization Committee, Public Pension Corporation	Bachelor of Science in Mathematics Master of Science in Actuarial	Financial sector and financial institutions
3	Mr. Mohammad F. Al-Nadr	Executive Partner of United Accountants Company Member of RSM International Group	Chief Financial Officer - Sulaiman Al Rajhi Holding Company	Bachelor of Accounting	Executive Partner of United Accountants Company Member of RSM International Group

- There were no recommendations of the Audit Committee that conflicted with the decisions of the Board of Directors regarding the appointment of the Company auditor, his dismissal, the determination of his fees, the evaluation of his performance or the appointment of the internal auditor

2. Nominations and Remuneration Committee:

During 2017, the new Nominations and Remuneration Committee was approved by the Ordinary General Assembly on 19 December 2017, which is in line with the Corporate Governance Regulations and Corporate Regulations.

The Nomination and Remuneration Committee shall consist of five members of the Board of Directors of the Company.

A. The terms of reference, powers and responsibilities of the Committee

With regard to rewards:

1. Preparation of a clear policy for the remuneration of members of the Board of Directors and the committees emanating from the Board and the executive management to enhance the management of the administrative staff and maintain the distinguished key-staff and submit them to the Board of Directors for consideration in preparation for adoption by the General Assembly, taking into account the policy to follow the criteria related to performance, of its implementation.
2. Clarify the relationship between the bonuses awarded and the applicable remuneration policy and indicate any material deviation from this policy.
3. Periodic review of remuneration policy, and evaluation of its effectiveness in achieving its objectives.
4. Recommending to the Board of Directors the remuneration of the members of the Board of Directors, its committees and senior executives in accordance with the approved policy.

With regard to nominations:

1. Propose clear policies and criteria for membership in the Board of Directors and Executive Management.
2. Recommending to the Board of Directors the nomination and re-nomination of members in accordance with the approved policies and standards, taking into account the non-nomination of any person who has already been convicted of breach of trust.
3. Prepare a description of the capabilities and qualifications required for membership of the Board of Directors and occupy the functions of executive management.
4. Determining the time a member should allocate to the work of the Board of Directors.
5. Annual review of the required skills or experience requirements for Board membership and executive management functions.
6. Review the structure of the Board of Directors, the Executive Committees and the Executive Directorate and make recommendations on possible changes.
7. To verify annually the independence of independent members and to verify that there is no conflict of interest if the member is on the board of another company.
8. Develop a functional description of executive members, non-executive members, independent members and senior executives.
9. The establishment of special procedures in the event of a vacancy in the membership of the Board of Directors or senior executives.
10. Identify weaknesses and strengths in the board of directors, and propose solutions to address them in line with the company interests.
11. The committee shall study the subjects that are assigned to it or referred to it by the Board of Directors and submit its recommendations to the Board for decision.

B. Nomination and Remuneration Committee Members:

No	Name	Status
1	Dr. Abdulrahman A. Al-Jafary*	Committee Chairman
2	Mr. Fahad S. Al-Rajhi	Committee Member
3	Dr. Sami M. Zaidan	Committee Member
4	Mr. Ziad A. Al-Turki	Committee Member
5	Mr. Bander A. Masoudi **	Committee Member

* Dr. Abdulrahman A. Al-Jafary was appointed by a decision of the Board of Directors on 19/04/2017

** Mr. Bander A. Masoudi was appointed by a decision of the Board of Directors on 19/04/2017

Fifteenth: Committees of the Board of Directors (Continued)

3. Executive Committee:

A. Terms of reference, functions and responsibilities of the Committee:

1. To follow up the implementation of the company financial, administrative and supervisory policies and regulations, and for each of the subsidiary companies, and to propose appropriate amendments thereto to the Board of Directors.
2. Follow-up the Company long, medium and short-term strategic plans, updating and reviewing them from time to time.
3. Follow up the implementation of plans and budgets of the company and follow up the actual performance and analysis of the causes of deviations - if any - and ask the competent managers to answer them, and make recommendations thereon.
4. Recommending entry into new investment projects and partnerships or acquisition of companies related to the company work or the development and development of current activities.
5. Conduct necessary studies for the company new investments and make the necessary decisions thereon.
6. Continue to review all important issues relating to cases brought before the courts, emergency cases and claims requiring disclosure in accounting statements.
7. Nomination of senior corporate executives and general managers of subsidiaries.
8. Selection and assignment of consultants and experts, and the work of studies and development of systems and procedures to achieve the modernization of processes automatically and methods and methods of work.
9. Ensure that all reports issued by the various organizational levels in the company and its subsidiaries are transparent, fair and objective.
10. Any other functions assigned to the Committee by the Governing Council.

B-Members of the Executive Committee:

No	Name	Status
1	H.E. Eng. Abdulaziz A. Al-Zamil	Committee Chairman
2	Eng. Ahmad A. Al-Ohali	Committee Member
3	Mr. Fahad S. Al-Rajhi	Committee Member
4	Eng. Reyadh S. Ahmed	Committee Member
5	Mr. Ayidh M. Al-Qarni	Committee Member

The Executive Committee was reduced to five members by a decision of the Board of Directors on 19/04/2017

The functions of the members of the Executive Committee in current and previous companies were mentioned from page 54 to 63

Sixteenth: Board of Directors Declarations

The Governing Council hereby approves:

1. That the accounting records had been prepared correctly.
2. That the internal control system has been properly prepared and implemented effectively.
3. That there is little doubt in the company ability to continue its activity.
4. The consolidated financial statements have been prepared in accordance with the accounting standards and regulations issued by the Saudi Organization for Certified Public Accountants and in accordance with the relevant requirements of the Companies Regulations and the Company Articles of Association regarding the preparation and publication of financial statements.
5. There is no contract to which the Company is a party and where there is or is in the fundamental interest of a member of the Board of Directors, CEO or CFO or any person related to any of them.
6. There is no arrangement or agreement whereby a board member or a senior executive waives any salary or compensation.
7. There is no arrangement or agreement whereby a shareholder of the Company waives any rights in profits.

Seventeenth: Sanctions and Penalties

There are no penalties or reserve restrictions imposed on the Company by the Capital Market Authority or any other supervisory, regulatory or judicial body.

Eighteenth: Shareholders Registry Required During 2017

No	Date of application	Reason for application
1	31 January 2017	Corporate Actions
2	February 28, 2017	Corporate Actions
3	March 29, 2017	Corporate Actions
4	March 30, 2017	Corporate Actions
5	19 April 2017	General Assembly
6	April 30, 2017	Corporate Actions
7	01 May 2017	Corporate Actions
8	May 31, 2017	Corporate Actions
9	June 30, 2017	Corporate Actions
10	31 July 2017	Corporate Actions
11	August 27, 2017	Corporate Actions
12	August 28, 2017	Corporate Actions
13	August 29, 2017	Corporate Actions
14	06 September 2017	Corporate Actions
15	September 28, 2017	Corporate Actions
16	September 28, 2017	Corporate Actions
17	October 31, 2017	Corporate Actions
18	November 30, 2017	Corporate Actions
19	31 December 2017	Corporate Actions

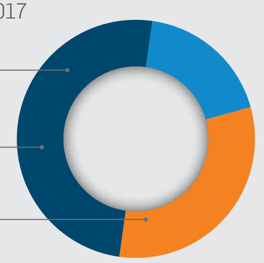
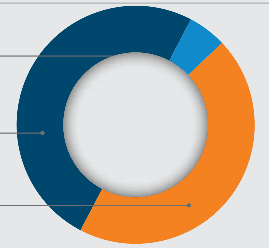
The Company uses the records to prepare detailed monthly reports to the Executive Directorate to follow up its shareholders and to communicate with them through meetings or meetings, to present the latest developments of the company business and to respond to their suggestions and inquiries.

Nineteenth: Shareholders' General Assembley

Sipchem held an Extraordinary General Assembly on 19 April 2017 and a General Assembly on 19 December 2017. The company announced the dates, location and agenda of both Assemblies at least ten days prior to the date of the Saudi Stock Exchange (Tadawul) The company website and local newspapers.

The company also provided the opportunity for the shareholders to participate and vote on the topics included in the agendas of these associations and to inform them about the rules governing the meeting of the Assembly and the voting procedures by calling the Assembly, as well as by distributing a file containing sufficient information to enable the shareholders to take their decisions. The shareholders were able to access the meeting minutes of these meetings at the company headquarters and also through the company website.

Sipchem has made it possible to develop the means of communication with its shareholders and to facilitate all procedures for them. Sipchem provided remote voting services to its shareholders who were unable to attend the meeting of both societies by voting on the agenda of the Association's articles through the website of Tadawul. The following are the descriptions of these associations and the most important decisions taken:

No	Date of the Assembly	Decisions taken
1	Extraordinary General Assembly 19/04/2017 Authenticity and Acting 21.9% Remote voting 37.4% Total attendance 59.3% 	1. Approval of the Board of Directors' report for the financial year 2016. 2. Approval of the financial statements and profit and loss account of the company as at 31/12/2016. 3. Approval of the auditors' report for the financial year ending on 31/12/2016. 4. Approval of the discharge of the members of the Board of Directors for the past year 2016. 5. Approve the selection of KPMG as the Company auditors for the fiscal year 2017 and the quarterly financial statements and determine its fees. 6. Approving the amendment of the Articles of Association of the Company in accordance with the new corporate system.
2	Ordinary General Assembly 19/12/2017 Authenticity and Acting 5.3% Remote voting 45.3% Total attendance 50.6% 	1. Approval of the updated Nominations and Remuneration Committee. 2. Approving the compensation and compensation policy of the members of the Board of Directors, committees and executive management. 3. Approval of the policy, criteria and procedures for membership in the Board of Directors.

The Company Chartered Accountant

No recommendation was made by the Board of Directors to change the KPMG from the date of approval of the Extraordinary General Assembly held on 19 April 2017.

Twenty: Sipchem Disclosure in Tadawal website

No	Date	Description
1	31 January 2017	The stages of implementing its plan for the transition to International Accounting Standards (IFRS) - Phase III
2	14 March 2017	The annual financial results ended 31/12/2016
3	22 March 2017	Invite its shareholders to attend the Extraordinary General Meeting
4	23 March 2017	The decline in production in one of its subsidiary companies International Diol Company
5	30 March 2017	Stages of Implementation of the Transition Plan for International Accounting Standards (IFRS) - Phase III (Appendices)
6	02 April 2017	Allow electronic voting on items on the agenda of the Extraordinary General Meeting
7	12 April 2017	Production back to normal levels at the International Diodiesel Factory (Appendices)
8	17 April 2017	Invite its shareholders to attend the Extraordinary General Meeting (Reminder)
9	20 April 2017	Results of the Eleventh Ordinary General Assembly Meeting
10	08 May 2017	Stages of Implementation of the Transition Plan for International Accounting Standards (IFRS) - Phase III (Appendices Declaration)
11	09 May 2017	Initial financial results for the period ended 31-03-2017 (three months)
12	23 May 2017	Carry out periodic scheduled maintenance of the carbon monoxide plant and the acetic acid plant
13	31 May 2017	Carry out regular scheduled maintenance of the Vinyl Acetate Factory
14	02 July 2017	Sipchem announced the resumption of work for the carbon monoxide plant and the acetic acid plant
15	02 July 2017	Sipchem announced the resumption of work for the Vinyl Acetate Factory
16	19 July 2017	Signing a supply agreement for carbon dioxide with Sasref
17	26 July 2017	Preliminary financial results for the period ending 30/06-2017 (six months)
18	03 August 2017	Organized a telephone call to discuss the results of the second quarter ended June 30, 2017 with financial analysts and investors
19	25 October 2017	Preliminary financial results for the period ended 30-09-2017 (nine months)
20	01 November 2017	Organized a telephone call to discuss the results of the third quarter ended September 30, 2017 with financial analysts and investors
21	05 December 2017	nvite shareholders to attend AGM (1st meeting)
22	17 December 2017	Invite its shareholders to attend the AGM - First Meeting (Reminder)
23	20 December 2017	Results of the AGM (1st Meeting)
24	20 December 2017	Sipchem announced the recommendation of its Board of Directors to distribute cash dividends to the shareholders of the Company for the year 2017

Twenty First: Dividend Policy

The annual net profits of the Company shall be distributed in accordance with Article 48 of the Articles of Association of the Company after deduction of all general expenses and other costs as follows:

1. 10% of the net profits to form a statutory reserve of the Company. The Ordinary General Assembly may suspend such reserve when the said reserve reaches 30% of the paid up share capital.
2. The Ordinary General Assembly may, on the proposal of the Board of Directors, avoid a certain percentage of net profits for the formation of a statutory reserve and its allocation for purposes that benefit the Company.
3. The Ordinary General Assembly may decide to make other reserves, to the extent that it serves the interest of the Company or ensures the distribution of fixed profits as much as possible to the shareholders. The said association may also deduct from the net profits amounts for the establishment of social institutions for the company employees or the assistance of existing institution
4. The remainder shall be distributed to shareholders at least 5% of the paid up share capital.
5. Subject to the provisions of Article 22 of this Law and Article 76 of the Companies Law, which, after the foregoing, shall allocate no more than 10% of the balance to the remuneration of the Board of Directors. The entitlement to such remuneration shall be appropriate with the number of meetings attended by the member.

The Company may also make a distribution of profits to its shareholders on a quarterly or semi-annual basis if its financial means allow it to comply with the conditions, regulations and instructions issued thereon by the competent authorities.

The profits to be distributed under Article 49 of the Articles of Association shall be paid to the shareholders in the place and the dates determined by the Board of Directors in accordance with the instructions issued by the Ministry of Commerce and Investment and the Capital Market Authority.

The Board of Directors of Saudi International Petrochemical Company (Sipchem) approved in its meeting held on Tuesday 19 December 2017 the recommendation to the General Assembly of the company to approve the distribution of cash dividends to the shareholders of the company for the fiscal year 2017 as follows:

Dividend for 2017	
Total amount distributed	SR 183,333,333
Share per share	SR 0.5
Distribution ratio of nominal value per share	5%
Distribution ratio of nominal value per share	5%
Number of shares due for profit	366,666,666 share

The entitlement to the shareholders holding the shares on the maturity date registered in the Company register at the depository center shall be at the end of the second trading day following the date of the general meeting of the Company after obtaining the regulatory approvals from the relevant governmental authorities. The distribution date will be announced later.

Twenty Second: Human Resources

Sipchem's success is reflected primarily in its ability to attract and attract talent. Sipchem has the ability to create a professional working environment characterized by transparency, excellence in performance, effective participation at all levels and levels of administrative organization in all Sipchem subsidiaries. Sipchem provides its employees with job satisfaction Sipchem is interested in the development and job training, which includes technical and administrative training to raise levels of efficiency and loyalty and create a fair competitive environment within the company.

The number of employees at Sipchem and its subsidiaries at the end of 2017 compared to 2016 is as follows:

	2016		2017	
Employees	Number	Percentage	Number	Percentage
Saudis	749	72%	763	75%
Non-Saudis	298	28%	248	25%
Total	1,047		1,011	

The following are some of the achievements of the Human Resources Department during 2017:

- The Human Resources team has improved and added services on the portal to provide better service and time for staff.
- The Human Resources team, in cooperation with Bupa Medical Insurance Company, provided a day dedicated to conducting medical examinations for all employees within the company.
- Sipchem implemented 178 training programs during 2017, including 38 programs in cooperation with external training organizations characterized by quality and professionalism and selected according to quality standards. Sipchem's trainers held 140 internal programs. All this aims to raise the efficiency of employees, administrators and technicians and enhance their functional capabilities.
- Sipchem has implemented an online training system that includes more than 500 training courses in management, leadership, business skills, security and safety, and software courses attended by approximately 200 employees. It is worth mentioning that the content of these training materials was prepared by universities and international educational institutions.
- Sipchem is interested in training new employees at the head of the job from factory operators to benefit from on-the-job learning. Where 157,459 training hours were provided.
- Sipchem graduated in 2017 (10) ten Saudi employees within the development program to determine the career path of university graduates. The program lasted for two years, where the participants were trained on the job, in addition to receiving training courses in team work, time management, creative thinking and emotional intelligence, which amounted to 46 training courses.
- Sipchem set up a computer lab to be used in training its employees on technical skills that require practical application on computers.
- Sipchem has contracted with the Sahabia English Language School as one of the best English language schools in the world. Where the number of students there to more than (70) seventy beneficiaries.

Employee Incentive Programs:

1. Saudi Housing Ownership Program:

During 2017, the company distributed 339 housing units to eligible employees in three installments through the formation of a housing committee, where the committee carried out its tasks and worked on the distribution of housing according to the announced standards through the holding of nine meetings over a period of three months to receive applicants to join the program and identify Their choice of housing units they want and explain how to calculate the rate of deduction in addition to determine the payments to those who have it and update it through the portal. In order to overcome all difficulties and obstacles to end the allocation of housing units.

The objective of the program is to provide the opportunity for Saudi employees who are subject to the requirements of the system to own residential units within the framework of the adopted policy to ensure stability and comfort for their employees and motivate them to continue and work in the service of the company.

Twenty Second: Human Resources (Continued)

Employee Incentive Program (Continued):

2. Employee share owining incentive program:

Sipchem is implementing the incentive employees program in order to provide an incentive for the employees of the company and its subsidiaries to maintain their performance at the best levels and to enhance their efforts to serve the company and achieve its objectives. This program will also attract highly efficient elements in the field of petrochemicals.

Al Bilad Investment Company manages the program through a special portfolio opened in 2010. No shares were transferred to employees during 2017. The total shares of the programat 31 December 2017 is 759,900 shares.

3. Savings Program:

The company has initiated a Sharia-compliant saving and saving system to motivate employees and enhance their loyalty and loyalty to the company. This will contribute to raising the level of performance, attracting qualified Saudi cadres and motivating them to continue their service and helping the Saudi employee collect his savings and benefit from them upon retirement or separation. The company shall deduct part of the salary of the joint employee in the program. It shall also invest the savings of the participant if he so desires. As well as access to investment activities in the savings of the participants wishing to invest in cooperation with companies and banks specialized in accordance with the principles and standards of Islamic investment for the benefit of the participants and provided that the investment in vessels and portfolios of Islamic low risk.

The savings program was implemented in 2011, and Bank Al Jazira manages the savings program, which was reviewed and fully approved by the Bank's Shariah Board.

Provisions for the Benefit of Company Employees:

The following table shows the benefits and compensation for the employees of the company for the year 2017 compared to 2016.

Description	2016	2017
End of Service Remuneration	134	161
Savings Program	14	19

Twenty Third: Investor Relations

During the year 2017, the company held several telephone meetings with financial analysts and investors to discuss the quarterly results. It also participated in some meetings and conferences at local and regional levels and organized some visits to the company head office and its affiliated factories.

In order to achieve the Kingdom's Vision 2030, which aims at diversifying the economy, opening up the financial market to foreign investors, and listing Saudi Arabia's financial markets in the financial markets indices, Sipchem has helped establish and launch the Middle East Investor Relations Association Kingdom of Saudi Arabia, with the support of Tadawul and Tadawul, this aims to develop investor relations practices across the Kingdom. This branch will serve as a knowledge center that enables investors to communicate and obtain relevant information from international leaders in this field. And promote local practice in investor relations by facilitating effective communication between listed companies and capital markets, which will encourage more international investors to participate effectively.

Through its investor relations strategy, Sipchem is committed to ensuring that excellence, commitment and best practice is a constant slogan, contributing to raising awareness of the importance of investor relations in the Kingdom and realizing the principle of fairness for all to provide all relevant information through the company website.

Twenty Fourth: Corporate Governance Regulations and Implementations

In accordance with the Corporate Governance Regulations issued by the Capital Market Authority of Saudi Arabia, the Saudi International Petrochemical Company (Sipchem) in 2017 adopted all regulations, policies and procedures that fall within the scope of the Association's responsibilities as follows:

Regulation / Policy
1. Modifying the Company Articles of Association in accordance with the Companies Regulations
2. Audit Committee by laws
3. Nominations and Remuneration Committee by laws
4. Policies and Regulations for Membership Procedures of the Board of Directors
5. Policy of the remuneration of Board members and committees emanating from the Board and Executive Management

In line with the company commitment to the highest standards of corporate governance, the Company has complied with all policies, rules and procedures that fall under the Board of Directors' jurisdiction, As per the table below:

Regulation / Policy
1. Company plans, policies, strategies and objectives
2. Corporate governance bylaws
3. Dividend distribution policy
4. Risk management policy
5. Policy for dealing with cases of conflict of actual and potential interests of each of the members of the Board of Directors, Executive Management and shareholders
6. Policy to regulate the relationship with stakeholders
7. The company administrative and financial policies and delegated authority to the executive management
8. Investment and financing policies and mechanisms
9. Workers insensitive Policy
10. Working procedures policies in the Board of Directors
11. Code of conduct policy and ethical values
12. Policies and procedures to ensure that the Company complies with the rules and regulations and disclosure to shareholders and stakeholders

Twenty Fourth: Corporate Governance Regulations and implementations (Continued)

The Company applies all the provisions of the Corporate Governance Regulations issued by the Capital Market Authority, except for the following provisions:

Article No	Article text	Explanations
87	Social Responsibility (Guiding)	The company carries out programs aimed at sustaining social responsibility and focusing on areas of interest to society. The company is working on a social responsibility policy.
41	Evaluation of board members, committees and executive management (guidance material)	The Nominations and Remuneration Committee is currently working on several mechanisms to evaluate the performance of the Board of Directors and its committees and executive management and to implement them in the coming years.
70	Composition of the Risk Management Committee (guidance material)	In 2017, the Board of Directors appointed the Executive Committee to form an internal committee to identify the risks facing the Company and to study all matters related to the management of the Company risks and make appropriate decisions thereon. The Executive Committee is currently working on the formation of the Committee and the policies and procedures required. Risk Management is an integral part of Sipchem's strategy. The Company management continuously reviews the Company risk management policies to ensure that the policies and programs adopted are implemented to minimize the risks that the Company may face and ensure that its risk management processes and systems work efficiently at all levels of the Company.
71	Terms of reference of the Risk Management Committee (guidance material)	
72	Risk Committee meetings (guidance material)	
95	Formation of the Corporate Governance Committee (Guideline)	The Investor Relations Department is currently developing corporate governance rules, monitoring their application, verifying their effectiveness and adjusting them as needed

Twenty Fifth: Board of Directors Recommendations

The Board of Directors of Saudi International Petrochemical Company (Sipchem), the Ordinary General Assembly to be held in April 2018, recommends the following:

1. Vote on the report of the Board of Directors for the fiscal year 2017.
2. Vote on the financial statements and the profit and loss account of the company as at 31/12/2017.
3. Vote on the audit report for the financial year ended as of 31/12/2017.
4. Vote on the discharge of the members of the Board of Directors for the past year 2017.
5. Vote on the Board of Directors' resolution to distribute cash dividends to the shareholders of the Company for the year 2017 at (0.50) Saudi Riyals per share representing 5% of the nominal value per share for a total amount of SR 183,333,333. The preference will be given to the shareholders owning shares on the day of the assembly and registered in the company's shareholders' register at the depository center at the end of the second trading day following the maturity date. The profits shall be distributed and paid on 15/4/2018.
6. Vote on the disbursement of the amount of (3,851,000) three million eight hundred and fifty one thousand Riyals remuneration to the members of the Board of Directors for the financial year 2017.
7. Vote on the selection of auditors from among the candidates by the Audit Committee, to audit the company accounts for the fiscal year 2018 and the quarterly financial statements and determine the fees.

Conclusion

This report and its achievements and figures are thanks to the sincere management that worked hard and diligently, while at the same time it reflects the efforts of Saudi human resources within the company. All of them have made a remarkable effort, reflected by Sipchem's mature ideas, initiatives and visions, all of which yielded positive and fruitful results.

Corporate Social Responsibility

Sipchem seeks to develop a sustainable relationship between the company and the society by creating a culture of social responsibility and enhancement throughout the company's activities. We believe that community service is both individual and collective responsibility to be promoted by all the departments and employees of the company. In addition, we are keen on spreading our business throughout the Saudi Kingdom taking into account the diversity of the programs.

Although 2017 was a difficult and challenging year for the global economy in general and for the petrochemical sector in particular, Sipchem has fulfilled its commitment towards the community and allocated SR 5 million for community service activities.

Sipchem has adopted and implemented the concept of establishing a specialized clinic for the detection of eye diseases annually benefiting more than 5 thousand people in the region of Jazan. Sipchem also focused on encouraging entrepreneurship by supporting small and micro enterprises, and to do so, Sipchem has established a loan portfolio to help young women start their own businesses with various skills and professions. More than 80 beneficiaries of widows, orphans and others in need have benefited from this program.

Due to our strong belief that our employees are a key component of the society and to encourage them to participate in community service and to spread this culture, Sipchem established a fund where contributions are deducted directly from the employees' salaries to use them in charitable participations.

Sipchem's Volunteer Team

Sipchem's volunteer team is composed of 130 employees and is considered to be one of the secrets of success and sustainability of social activities. Sipchem's Volunteer team executed more than 193 volunteering program within six years (from 2010 to 2017) which took about 7020 working hours and executed by more than 130 employee and few members of their families. It is the first volunteering team established among the major industrial companies in the Kingdom.

Volunteer Team Statistics

Sipchem Most Important Volunteer Work 2017

- Number of Volunteers Reached 130
- 17 Volunteer Programs Implemented
- Volunteer Hours Reached 1150

First Quarter
- 94 Volunteers
- 3 Programs Implemented
- 382 Volunteer Hours

Second Quarter
- 97 Volunteers
- 7 Programs Implemented
- 363 Volunteer Hours

Third Quarter
- 97 Volunteers
- 4 Programs Implemented
- 130 Volunteer Hours

Fourth Quarter
- 96 Volunteers
- 3 Programs Implemented
- 275 Volunteer Hours

Implemented Programs

- Organizing «A day with my father» program
- Distribution of Ramadan Basket
- Participation in the organization of 7,000 «Fasting Breakfast» During Ramadan
- Organizing the Ramadan meeting Program for Employees
- Participation at the fifth «Nar'ak» forum at «Scitech» center
- Organizing the employees honoring ceremony for years of continuous service
- Program of winter clothing at villages in the northern region
- Organizing the ceremony honoring employees for years of continuous service
- Participation in the organization and implementation of the innovation forum at «Manar» Center for Technology and Innovation
- Delivery of Housing Units to Employees Batch number 2
- Delivery of Housing Units to Employees Batch number 1
- Celebrating Holidays «Eid» With Employees
- Organizing & Implementing Safety Programs At Home

Social Responsibility Events and Activities

Social Responsibility
Since its inception, Sipchem has recognized the Concept of social responsibility and its importance in Achieving sustainable development, and believing It's one of the channels that that support the society. Sipchem has been keen on investing in its community. As well as being present in all events and activities. That flow in the concept of social responsibility on. One hand and also to be present in exhibitions and And events on the other.

Commitment to the Homeland and society
After having achieved significant achievements during a short period of time of its existence. Sipchem seeks Strongly to repay the community, so it has allocated 1% of annual net profit for charity and community service. Sipchem also has been successful since its establishment in participation in many Social activities around The kingdom.

Total Spent

More than **5,000,000** Saudi Riyals

Number of programs

More than **45** Programs

Number of Beneficiaries

More than **1,000,000** Programs

Distinctive Leadership Role
In recognition of its efforts in the area of responsibility Sipchem has received a number of awards and shields from several sources in recognition of its contribution, and has received a shield of excellence in the field of social responsibility in the Arab world. From the Arab Organization for Community Responsibility for its efforts to develop community responsibility programs in society and its pioneering role in introducing innovative programs and new concepts to support community development.

Programs implemented in the field of social responsibility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1. Prince of the Eastern region honors Sipchem for sponsoring the Fifth East coast festival
2. Sipchem offer the residents of Jazan the first mobile eye clinic.
3. Sipchem exclusively sponsors and participates in its fifth forum of "Nar'ak"
4. Sipchem Sponsors the first Saudi Conference for "Supply Chain"
5. Sipchem sponsors breast cancer awareness campaign at King Fahad Specialist Hospital in Dammam.
6. Sipchem offers The University of Imam Abd Al Rahman bin Faisal in Dammam an Interactive integrated environmental exhibition.
7. Sipchem hosts Entrepreneurship Diwaniya in Manar.


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8. Prince of the Eastern Region honors Sipchem for sponsoring the annual meeting of charities
9. Sipchem sends a number of Saudi university students to attend the Gulf Petrochemicals forum GPCA.
10. Sipchem employees provide 300 health insurance policies for orphans and widows.
11. Commander of the security forces of the installations honors Sipchem for sponsoring Ramadan activities.
12. Sipchem's staff provide for 20 orphans and widows
13. Sipchem sponsors a group breakfast at community call centers in Jubail and AlKhobar

Programs implemented in the field of social responsibility (Continued)


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1. Sipchem Offers 20 Braille Reading Devices for Blind Society.
2. For the fifth time in a row Sipchem shall ensure education and rehabilitation and the training of 10 children with Down syndrome in collaboration with DSCA Association.
3. Sipchem sponsors the «Ball is our Culture» festival in the Eastern Region.
4. Sipchem sponsors the first cricket championship for Indian community c hildren in Jubail.
5. Sipchem adopts the establishment of an integrated entertainment center for girls in the Social nursery center for Girls in Dammam.
6. Sipchem will continue for the 13th consecutive year with the sponsorship of more than 75 orphans And a widow in Jubail, Dammam, Khobar and Ha'il.
7. Sipchem distributes 400 food baskets to the needy and the poor during the blessed month of Ramadan .
8. Sipchem sponsors the activities of the fifth Gulf Border Guard and Coast Guard Week for 2017.


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9. Sipchem implements the winter cladding project in Teraif Governorate with half a million Riyals endorsement.
10. Support the Holy Quran Society in Jubail to provide computers for the Womenbranch.
11. In cooperation with the Charitable Society for Motherhood and Childhood Sipchem sponsors the education and rehabilitation of a number of children of poor families in the Eastern Region.
12. Sipchem shares with the orphans of Ha'il city their joy in coinciding with the Day of the Arabian Orphan.
13. In cooperation with the Kinetic Society for the Disabled, Sipchem sponsors the marriage costs of 10 individuals with special needs.
14. In cooperation with the Association of medicines in the Western region, Sipchem sponsors providing rare treatments for a number of liver and kidney patients.
15. Sipchem sponsors the Ha'il Rally through its support for the promotion campaign through social media.

Events and Occasions


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1. Sipchem receives its newly elected Board members in its facilities in Jubail and Al-Khobar.
2. Sipchem and SRSEF sign second Carbon monoxide gas supply agreement.
3. Sipchem organizes the first forum for technology and innovation.
4. Sipchem is a founding member of the Investor Relations Association in the Middle East in the Kingdom.
5. Sipchem participates in the largest industrial gathering in the Kingdom.
6. Sponsor and participate in the Middle East Process Engineering Conference in 2017.

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7. Sipchem sponsors the annual GIPCA conference for research and innovation.
8. Sipchem sponsors the first information security conference in Jubail.
9. The security chief of installations in Jubail Industrial City visits Sipchem.
10. Prince of the Eastern Region honors Sipchem for sponsoring the fifth east coast festival.
11. Sipchem leaders meet to fulfill promise and achieve excellence.

Events and Occasions (Continued)

1. Boarder Guard visit to the city of Jubail, Colonel Hassan Al Harbi.
2. Jubail Commercial port visit.
3. The security forces of the establishments visited the colonel Youssef Al-Harbi.
4. Governor of Jubail receives Sipchem delegation and acquaint with its achievements.
5. Jubail Customs Bureau visit.
6. King Fahad Industrial Port visit.
7. Meeting with Mr. Abd Al Hamid Shahwan.
8. Sipchem continues to communicate with Governmental organs.

9. Sipchem participates in the Saudi-Russian Forum in Moscow.
10. Sipchem sponsors the 12th Annual GPCA Forum.
11. Sipchem holds its annual Ramadan meeting.
12. Sipchem holds seminar on communication in crisis.
13. Sipchem organizes the course "Office 365".

Events and Occasions (Continued)

1. Sipchem honors continuous service personnel in 2016.
2. 2. (Wahj) finishes manufacturing 18 «Hawk Jet» aircraft platforms for the first time in the Kingdom.
3. The Air Force visits Sipchem Center for Technology and Innovation.
4. Sipchem participates in the Middle East Refining Technology Conference in the Kingdom of Bahrain.
5. The CEO launches the second phase of Initiative «Transition towards distinctive safety».

6. Sipchem participates in the eastern region Economic Forum.
7. Sipchem sponsors the "Ball is our Culture" festival in the Eastern Region.
8. Sipchem Celebrations of the National Day.
9. Sipchem organizes the "My Father's Work" activity for the sons of its employees in Jubail and Al-Khobar.
10. Sipchem celebrates Eid Al-Fitr and Eid Al-Adha with employees.

Consolidated Financial Statements With Independent Auditors' Report

Contents

Independent Auditors' Report

To the Shareholders of
Saudi International Petrochemical Company (Sipchem)

Opinion

We have audited the consolidated financial statements of Saudi International Petrochemical Company ("the Company") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December, 2017, the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

First Time adoption of International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia

Refer to Note 2 for the basis of preparation of the consolidated financial statements relating to adoption of IFRS and note 3 for the related disclosure of effects of first time adoption of IFRS.

The key audit matter	How the matter was addressed in our audit
For all periods up to and including the year ended 31 December 2016, the Group prepared and presented its statutory consolidated Financial Statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA. For the financial periods commencing January 1, 2017, the applicable regulations require the Group to prepare and present its consolidated Financial Statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA (IFRS as endorsed in the Kingdom of Saudi Arabia). Accordingly, the Group has prepared its Consolidated Financial Statements, for the year ended 31 December 2017 under IFRS as endorsed in the Kingdom of Saudi Arabia using IFRS 1 -"First time Adoption of International Financial Reporting Standards". As part of this transition to IFRS as endorsed in the Kingdom of Saudi Arabia, the Group's management performed a detailed gap analysis to identify differences between the previous reporting framework and IFRS as endorsed in the Kingdom of Saudi Arabia, determined the transition adjustments in light of this gap analysis and relevant requirements of IFRS 1, and assessed the additional disclosures required in the financial statements. We considered this as a key audit matter since first time adoption of IFRS has significant impact on the consolidated financial statements from a recognition, measurement and disclosure prospective that require additional attention during our audit.	We performed the following procedures in relation to change in financial reporting framework: - Considered the Group's governance process around the adoption of IFRS as endorsed in the Kingdom of Saudi Arabia, especially, in relation to matters requiring management to exercise its judgment; - Evaluated the results of management's analysis and key decisions taken in respect of the transition using our knowledge of the relevant requirements of the IFRS as endorsed in the Kingdom of Saudi Arabia and our understanding of the Group's business and its operations; - Tested the transition adjustments by considering management's gap analysis, the underlying financial information and the computation of these adjustments; and - Evaluated the disclosures made in relation to the transition to IFRS as endorsed in the Kingdom of Saudi Arabia by considering the relevant requirements of IFRS 1.

Revenue recognition and recoverability of receivables

Refer to Note 4 of consolidated financial statements relating to revenue and note 18 relating to trade receivables.

The key audit matter	How the matter was addressed in our audit
Revenue recognition and valuation of receivables are key areas of judgement, particularly in relation to the Group by selling petrochemical products at provisional prices. As at 31 December 2017, the Group had trade receivables of SR 877 million which includes a provision for doubtful debt of SR 108 million. Although there was an increase in petrochemical prices during the year, the stability in prices cannot be guaranteed. This may result in uncertainty over the collectability of trade receivables from specific customers / marketers. Moreover, the prices for petrochemical products particularly those having a cyclical business trend need to be estimated by management as at the date of sale. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall. We considered this as a key audit matter because it requires a high level of management judgement and due to the materiality of the amounts involved. Moreover, there is a presumption of fraud risk on revenue due to which this is reported as a key audit matter.	We performed the following procedures to address the key audit matter: - Assessed whether appropriate revenue recognition policies are applied through comparison with relevant accounting standards and industry practice, including the policy of not recognising revenue where it is not probable that cash will be received; - Tested the group's controls over revenue recognition and provision for customer debts, including reconciliations between sales and cash receipts systems and the general ledger; - Evaluated the appropriateness of provisional price adjustments for the unsold inventory with marketers as at the end of the year; - Assessed the appropriateness of the overall provision for impairment and considered the consistency of management's application of the policy for recognising provisions, with the prior year, along with performing a full retrospective review; and - Evaluated the adequacy of the financial statement disclosures.

Ongoing assessments from the General Authority of Zakat and Tax (GAZT)

Refer to Note 10 of consolidated financial statements relating to assessments raised by GAZT

The key audit matter	How the matter was addressed in our audit
As disclosed in the consolidated financial statements, the Group has received assessments for past years requiring the Group to pay an additional zakat and tax liability. Ongoing assessments from GAZT related to zakat and tax amounts to SR 158 million, these are under appeal and have been disclosed in the financial statements. Moreover, the Group has maintained provision for zakat and income tax in its books amounting to SR 150 million. This covers the current charge of SR 84 million and any future liability that the Group might pay as a result of settlement of open assessments. We have considered zakat and tax assessments as a key audit matter due to the complexities in GAZT's legislation. Moreover, the Group faces an increased risk of assessments by GAZT which could result in a significant Zakat / Tax exposure and penalties.	We performed the following procedures to address the key audit matter: - Involved our own zakat and tax specialist to assist in evaluating the appropriateness of the current charge of zakat and tax computed by management's consultant; - Obtained from management of the Group, the status of open assessments during the year and evaluated the responses received from management's zakat & tax consultant, stating the likelihood of each assessment being settled in favour of or against the Group; - Evaluated the sufficiency of the provision created by management; - Evaluated the adequacy of the financial statement disclosures, including appropriate and full description of cases under appeal and cases decided in favour of or against the Group.

Impairment testing of Non-current assets

Refer to note 12 of the consolidated financial statements relating to Property, plant and equipment.

The key audit matter	How the matter was addressed in our audit
As at the date of transition to IFRS, the Group determined that the recoverable amounts of two of its CGUs namely International Diol Company ("IDC") and Polybutylene terephthalate ("PBT") based on the CGU's value in use calculated by discounting the future cash flows using a pre-tax discount rate of 10%, were less than their carrying amount. This resulted in an impairment loss of SR 400 million in IDC and SR 300 million in PBT as at 1 January 2016. The recoverable amount of the Cash Generating Units (CGUs), which is based on higher of the value in use or fair value less cost to sell, has been derived from discounted forecast cash flow models. These models use several key assumptions, including estimates of future sales volumes and prices, operating costs, terminal value growth rates and the weighted average cost of capital. The management of the Company has used external consultants and experts to estimate the forecasted prices of its products. Impairment testing of non-current assets is a key audit matter due to the complexity of the accounting requirements and the significant judgements required in determining the assumptions to be used to estimate the recoverable amount.	We performed the following procedures to address the key audit matter: - Involved our own valuation specialist to assist in evaluating the appropriateness of the discount rates applied, which included comparing the weighted average cost of capital with sector averages for the relevant markets in which the CGUs operate; - Evaluated the appropriateness of the assumptions applied to key inputs such as sales volumes and prices, operating costs, inflation and long-term growth rates, which included comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the client and the industry; - Validated and corroborated the assumptions used by management, by conducting independent one to one discussions with members of the production and marketing teams; - Performed our own sensitivity analysis, which included assessing the effect of reasonably possible reductions in growth rates and forecast cash flows to evaluate the impact on the cash flow forecasts for the IDC and PBT CGUs; and - Evaluated the adequacy of the disclosures in the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivities.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

When we read the Group's 2017 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's by-laws and Companies regulations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the 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, then we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditors' Report (continued)
To the Shareholders of
Saudi International Petrochemical Company (Sipchem)

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

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

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

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

For KPMG Al Fozan & Partners

Certified Public Accountants

Ebrahim Oboud Baeshen

License No: 382

Al Khobar, March 12, 2018G

Corresponding to: Jumada Al-Akhir 24, 1439H

Consolidated Statement of Financial Position

As At 31 December 2017
(Expressed in Saudi Riyal)

	Note	31 December 2017	31 December 2016	1 January 2016
Assets				
Non-current assets				
Property, plant and equipment	12	**11,207,724,480**	12,346,613,953	12,600,466,195
Intangible assets	13	**386,244,686**	117,835,557	141,066,397
Employees' home ownership program	14	**709,123,201**	-	-
Goodwill	15	**29,543,923**	29,543,923	29,543,923
Total non-current assets		**12,332,636,290**	12,493,993,433	12,771,076,515
Current assets				
Inventories	17	**668,354,907**	754,402,734	669,121,972
Trade receivables	18	**876,778,008**	623,567,540	556,595,014
Prepayments and other assets	19	**116,530,260**	85,130,024	195,890,783
Short term investments	16	**253,532,643**	23,672,928	31,095,389
Cash and cash equivalents	20	**1,722,754,310**	1,822,689,059	2,127,156,554
Total current assets		**3,637,950,128**	3,309,462,285	3,579,859,712
Total assets		**15,970,586,418**	15,803,455,718	16,350,936,227
Liabilities				
Non-current liabilities				
Long term bank loans and borrowings	16	**5,439,699,614**	5,612,930,363	5,466,441,373
Sukuk	16	**998,136,277**	997,402,964	1,788,310,198
Long term advances from partners	16	**87,920,236**	68,888,323	59,953,703
Deferred revenue	27	**35,421,750**	50,602,500	50,602,500
Employees' benefits	24	**242,411,799**	208,341,778	195,086,565
Decommissioning liability		**86,995,363**	82,852,728	76,696,923
Other non-current liabilities		**8,556,088**	1,638,576	-
Total non-current liabilities		**6,899,141,127**	7,022,657,232	7,637,091,262

Consolidated Statement of Financial Position (continued)

As At 31 December 2017
(Expressed in Saudi Riyal)

	Note	31 December 2017	31 December 2016	1 January 2016
Current liabilities				
Short term bank loans	16	**-**	200,000,000	300,000,000
Current portion of long term bank loans and borrowings	16	**833,714,534**	1,053,110,874	711,319,128
Trade and other payables	25	**196,924,708**	135,088,911	78,713,741
Accrued expenses and other liabilities	26	**647,088,939**	539,058,665	503,279,728
Zakat and income tax payable	10	**149,546,758**	101,224,646	104,555,524
Short term advances from partners	16	**33,205,788**	67,120,396	82,476,894
Total current liabilities		**1,860,480,727**	2,095,603,492	1,780,345,015
Total liabilities		**8,759,621,854**	9,118,260,724	9,417,436,277
Equity				
Equity attributable to the shareholders of the Company:				
Share capital	21	**3,666,666,660**	3,666,666,660	3,666,666,660
Share premium	22	**35,222,266**	34,656,309	34,948,097
Treasury shares	22	**(7,831,990)**	(7,590,000)	(6,626,760)
Statutory reserve	21	**1,205,397,395**	1,205,397,395	1,198,394,633
Reserve for results of sale / purchase of shares in subsidiaries	21	**12,949,042**	12,949,042	48,893,677
Foreign currency translation reserve		**(7,761,813)**	(7,914,949)	(7,194,646)
Share based payment transactions reserve	22	**2,259,635**	1,468,159	1,539,004
Retained earnings		**795,805,766**	358,405,725	316,615,482
Total Shareholders' equity		**5,702,706,961**	5,264,038,341	5,253,236,147
Non-controlling interests	5	**1,508,257,603**	1,421,156,653	1,680,263,803
Total equity		**7,210,964,564**	6,685,194,994	6,933,499,950
Total liabilities and equity		**15,970,586,418**	15,803,455,718	16,350,936,227

The consolidated financial statements appearing on pages 96 to 152 were approved by the management on behalf of Board of Directors of the Company on 12 March 2018, and have been signed on their behalf by:

Ahmad Al-Ohali
Chief Executive Officer and Member of Board

Paul Jacobs
Vice President Corporate Finance

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

Consolidated Income Statement

For The Year Ended 31 December 2017
(Expressed in Saudi Riyal)

	Note	31 December 2017	31 December 2016
Revenue	4	**4,459,491,037**	3,515,043,527
Cost of sales		**(3,033,436,886)**	(2,653,591,420)
Gross profit		**1,426,054,151**	861,452,107
Selling and distribution expenses	7	**(200,408,418)**	(204,756,907)
General and administrative expenses	8	**(290,948,584)**	(219,358,963)
Operating profit		**934,697,149**	437,336,237
Finance income		**22,559,721**	38,223,714
Finance cost	9	**(298,162,233)**	(288,597,594)
Other (expenses) / income, net	6	**13,453,200**	8,853,342
Write-off of property, plant and equipment	12	**(1,361,233)**	(31,321,938)
Profit before zakat and income tax		**671,186,604**	164,493,761
Zakat and income tax expense	10	**(83,836,261)**	(72,950,875)
Profit for the year		**587,350,343**	91,542,886
Profit attributable to:			
Equity holders of the Company		**437,393,221**	43,083,753
Non-controlling interests		**149,957,122**	48,459,133
Total profit for the year		**587,350,343**	91,542,886
Earnings per share:			
Basic earnings per share attributable to the equity holders of Company	11	**1.19**	0.12

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2017
(Expressed in Saudi Riyal)

	Note	31 December 2017	31 December 2016
Profit for the year		**587,350,343**	91,542,886
Other comprehensive income items that will be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		**153,136**	(720,303)
Net total other comprehensive income items that will be reclassified to profit or loss in subsequent periods:		**153,136**	(720,303)
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement gains on defined benefit plan	24	**342,813**	7,698,366
Net total other comprehensive income items that will not be reclassified to profit or loss in subsequent periods:		**342,813**	7,698,366
Total other comprehensive income for the year		**495,949**	6,978,063
Total comprehensive income for the year		**587,846,292**	98,520,949
Total comprehensive income attributable to:			
Equity holders of the Company		**437,553,177**	48,072,702
Non-controlling interests		**150,293,115**	50,448,247
Total comprehensive income for the year		**587,846,292**	98,520,949

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2017
(Expressed in Saudi Riyal)

	Note	31 December 2017	31 December 2016
Cash flow from operating activities			
Profit before zakat and income tax for the year		**671,186,604**	164,493,761
Non-cash adjustments to reconcile profit before zakat and income tax to net cash flow:			
Depreciation of property, plant and equipment		**666,418,603**	716,132,379
Amortization of intangible assets and deferred costs		**53,390,257**	28,515,269
Provision for employees' benefits		**32,260,094**	42,749,716
Provision for employees' home ownership receivables		**4,749,311**	-
Loss on write of property, plant and equipment		**1,361,233**	31,321,938
Equity settled share based payments		**791,476**	(70,845)
Net foreign exchange difference		**(915,963)**	(3,416,536)
Finance income		**(22,559,721)**	(38,223,703)
Finance cost		**298,162,233**	288,597,584
		1,704,844,127	1,230,099,563
Changes in:			
Trade receivables		**(253,210,468)**	(66,972,526)
Inventories		**86,047,827**	(85,280,762)
Prepayments and other assets		**7,172,649**	110,714,994
Accrued expenses, trade and other payables		**150,686,877**	8,456,425
Employee benefits paid		**(5,285,780)**	(21,796,137)
Interest paid		**(282,111,177)**	(165,504,766)
Proceeds from Employees' home ownership programs, net		**38,893,837**	-
Zakat and income tax paid		**(35,514,149)**	(76,281,753)
Net cash generated from operating activities		**1,411,523,743**	933,435,038
Cash flow from investing activities			
Additions to property, plant and equipment and employee's home ownership program		**(634,692,062)**	(498,252,894)
Additions to Intangibles		**(2,236,549)**	(633,610)
(Addition) / disposal of short term investments, net		**(229,859,715)**	7,422,461
Purchase of additional shares in subsidiaries		**-**	(375,332,604)
Finance income received		**17,459,347**	38,269,468
Net cash used in investing activities		**(849,328,979)**	(828,527,179)
Cash flow from financing activities			
Proceeds from long term loans and borrowings		**649,995,545**	4,159,129,572
Repayment of long term loans and borrowings		**(1,035,443,265)**	(3,699,778,704)
Proceeds from short term loans		**-**	924,997,980
Repayments of short term loans		**(200,000,000)**	(1,024,997,980)
Proceeds from Sukuk		**-**	1,000,000,000
Repayments of Sukuk		**-**	(1,800,000,000)
Net change in advances from partners		**9,117,305**	-
Net change in share premium account		**565,957**	(291,788)
Repurchase of treasury shares		**(241,990)**	(963,240)
Additional contribution non-controlling interest		**-**	29,832,572
Dividends paid to non-controlling interest		**(87,192,165)**	-
Net cash generated from financing activities		**(663,198,613)**	(412,071,588)
Net change in cash and cash equivalents		**(101,003,849)**	(307,163,729)
Cash and cash equivalents at 1 January		**1,822,689,059**	2,127,156,554
Effect of exchange rate fluctuations		**1,069,100**	2,696,234
Cash and cash equivalents at 31 December	20	**1,722,754,310**	1,822,689,059

Non-cash transactions are disclosed in note 30 of these consolidated financial statements.

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2017
(Expressed in Saudi Riyal)

	Attributable to the equity holders of Company										
	Share capital	Share premium	Treasury shares	Statutory reserve	Reserve for results of sale / purchase of shares in subsidiaries	Retained earnings	Foreign currency translation reserve	Shares based payment transaction reserve	Total	Non-controlling interest	Total
As at 1 January 2016	**3,666,666,660**	**34,948,097**	**(6,626,760)**	**1,198,394,633**	**48,893,677**	**316,615,482**	**(7,194,646)**	**1,539,004**	**5,253,236,147**	**1,680,263,803**	**6,933,499,950**
Profit for the year	-	-	-	-	-	43,083,753	-	-	43,083,753	48,459,133	91,542,886
Other comprehensive income	-	-	-	-	-	5,709,252	(720,303)	-	4,988,949	1,989,114	6,978,063
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**48,793,005**	**(720,303)**	**-**	**48,072,702**	**50,448,247**	**98,520,949**
Additional capital contributed	-	-	-	-	-	-	-	-	-	29,832,572	29,832,572
Purchase of additional shares in subsidiaries (note 1.1)	-	-	-	-	-	-	-	-	-	(339,387,969)	(339,387,969)
Change in reserves for the results of sale / purchases of shares in subsidiaries (note 1.1)	-	-	-	-	(35,944,635)	-	-	-	(35,944,635)	-	(35,944,635)
Net change in share premium account	-	(291,788)	-	-	-	-	-	(70,845)	(362,633)	-	(362,633)
Repurchase of treasury shares	-	-	(963,240)	-	-	-	-	-	(963,240)	-	(963,240)
Transfer to statutory reserve	-	-	-	7,002,762	-	(7,002,762)	-	-	-	-	-
As at 31 December 2016	**3,666,666,660**	**34,656,309**	**(7,590,000)**	**1,205,397,395**	**12,949,042**	**358,405,725**	**(7,914,949)**	**1,468,159**	**5,264,038,341**	**1,421,156,653**	**6,685,194,994**
As at 1 January 2017	**3,666,666,660**	**34,656,309**	**(7,590,000)**	**1,205,397,395**	**12,949,042**	**358,405,725**	**(7,914,949)**	**1,468,159**	**5,264,038,341**	**1,421,156,653**	**6,685,194,994**
Profit for the year	-	-	-	-	-	437,393,221	-	-	437,393,221	149,957,122	587,350,343
Other comprehensive income	-	-	-	-	-	6,820	153,136	-	159,956	335,993	495,949
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**437,400,041**	**153,136**	**-**	**437,553,177**	**150,293,115**	**587,846,292**
Additional capital contributed	-	-	-	-	-	-	-	-	-	24,000,000	24,000,000
Net change in share premium account	-	565,957	-	-	-	-	-	791,476	1,357,433	-	1,357,433
Repurchase of treasury shares	-	-	(241,990)	-	-	-	-	-	(241,990)	-	(241,990)
Dividends	-	-	-	-	-	-	-	-	-	(87,192,165)	(87,192,165)
As at 31 December 2017	**3,666,666,660**	**35,222,266**	**(7,831,990)**	**1,205,397,395**	**12,949,042**	**795,805,766**	**(7,761,813)**	**2,259,635**	**5,702,706,961**	**1,508,257,603**	**7,210,964,564**

The accompanying notes 1 through 31 form an integral part of these consolidated financial statements.

(Expressed in Saudi Riyal)

1. CORPORATE INFORMATION

Saudi International Petrochemical Company "Sipchem" or "the Company" is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010156910 dated 14 Ramadan, 1420, corresponding to 22 December 1999. The Company's head office is in the city of Riyadh with one branch in Al-Khobar, where the headquarters for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal, 1420, corresponding to 6 February 2000, and a branch in Jubail Industrial City which is registered under commercial registration number 2055007570 dated 4 Jumada I, 1427, corresponding to 1 June 2006.

The principal activities of the Company are to own, establish, operate and manage industrial projects specially those related to chemical and petrochemical industries. The Company incurs costs on projects under development and subsequently establishes a separate Company for each project that has its own commercial registration. Costs incurred by the Company are transferred to the separate companies when they are established.

As of 31 December, the Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as "the Group"):

Subsidiaries	Ownership percentage at 31 December	
	2017	2016
International Methanol Company ("IMC")	**65%**	65%
International Diol Company ("IDC")	**53.91%**	53.91%
International Acetyl Company ("IAC") (1.1)	**87%**	87%
International Vinyl Acetate Company ("IVC") (1.1)	**87%**	87%
International Gases Company (" IGC")	**72%**	72%
Sipchem Marketing Company ("SMC')	**100%**	100%
International Utility Company ("IUC")	**68.58%**	68.58%
International Polymers Company ("IPC")	**75%**	75%
Sipchem Chemical Company ("SCC")	**100%**	100%
Sipchem Europe Cooperative U.A and its subsidiaries	**100%**	100%
Gulf Advance Cable Insulation Company (GACI) (1.2)	**50%**	50%
Saudi Specialized products Company (SSPC)	**75%**	75%
Sipchem Asia PTE Ltd. (1.3)	**100%**	100%

The principal activity of IMC is the manufacturing and sale of methanol. IMC commenced its commercial operations in 2004.

The principal activity of IDC is the manufacturing and sale of maleic anhydride, butanediol and tetra hydro furan. IDC commenced its commercial operations in 2006.

The principal activities of IAC and IVC are the manufacturing and sale of acetic acid and vinyl acetate monomer respectively. IAC and IVC commenced their commercial activities in 2010.

The principal activity of IGC is the manufacturing and sale of carbon monoxide. IGC commenced its commercial operations in 2010.

The principal activities of SMC and its subsidiary Sipchem Europe Cooperative U.A are to provide marketing services for the products manufactured by the group companies and other petrochemical products. Other services provided by Sipchem, SMC and SMC's affiliates include purchasing and trading of petrochemical products with Sipchem affiliates and third party entities.

The principal activity of IUC is to provide industrial utilities to the group companies.

The principal activity of IPC is to manufacture and sell low-density polyethylene (LDPE), polyvinyl acetate (PVAC) and polyvinyl alcohol (PVA). IPC commenced its commercial operations from 1 April 2015 after successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activity of SCC is the manufacture and sale of ethyl acetate, butyl acetate and polybutylene terephthalate. The ethyl acetate plant commenced its commercial operations in 2013 while polybutylene terephthalate plant is under trial production and is expected to commence its commercial production in 2018.

The principal activity of GACI is the manufacture and sale of cross linked polyethylene and electrical connecting wire products. GACI commenced its commercial operations from 1 June 2015 after the successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activities of SSPC which was established in 2014, is the manufacture and sale of moulds and dies and related services as well as production of EVA films. The Tool Manufacturing Factory ("TMF") plant has started commercial operation from 1 November 2016. The EVA film plant still is under development stage and expects to commence its commercial production in 2018.

1. CORPORATE INFORMATION (continued)

1.1 During February 2016, the Group acquired an additional 11% shares from a minority shareholder (Ikarus Petroleum Industries Company) in each of IAC and IVC, increasing its ownership from 76% to 87% for a consideration of SR 375.3 million. The Group recognized a reduction in non-controlling interests of SR 339.4 million and a reduction of SR 35.9 million in the equity attributable to the shareholders. Moreover, on 22 June 2009, one of the shareholders agreed to contribute less than required contribution towards shareholders advances and Sipchem has agreed to contribute more than its required level to support the project. As a result, the Group's effective percentage of interest in both the companies became 89.52%.

1.2. The Group has only a 50% share in GACI. However, pursuant to the shareholders agreement, the control over the relevant activities and the operations of Gulf Advanced Cable Insulation Company are with the Group. Accordingly, the investee company is treated as a subsidiary of the Group.

1.3. The investee company was incorporated in 2013 in Singapore. Its Article of Association is dated 13 Jumada I, 1434H, corresponding to 25 March 2013G.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA ("IFRSs"). These are the Group's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 'First-time Adoption of International Financial Reporting Standards' has been applied.

For all periods up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by Saudi Organization of Certified Public Accountants ("SOCPA"). Refer to note 3 for information on how the Group's consolidated financial statements are impacted by the adoption of IFRSs. Details of the Group's significant accounting policies are included in note 2.3.

In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2016 i.e., the Group's date of transition to IFRS. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 3 to the consolidated financial statements.

2.2 Basis of consolidation

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

Specifically, the Group controls an investee if, and only if, the Group has:

Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

Exposure, or rights, to variable returns from its involvement with the investee

The ability to use its power over the investee to affect its returns

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

The contractual arrangement(s) with the other vote holders of the investee

Rights arising from other contractual arrangements

The Group 's voting rights and potential voting rights

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions among 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:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the group's share of components previously recognised 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.

Non-Controlling Interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2.3 Summary of significant accounting policies

a) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the income statement.

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

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

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

b) Current and non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

c) Fair value measurement

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

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

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

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

d) 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.

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

Sale of goods

Revenue is recognized upon delivery or shipment of products, depending upon the contractually agreed terms, by which the significant risks and rewards of ownership of the goods have been transferred to the buyer and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods. The Group markets their products through marketers. Sales are made directly to final customers and also to the marketers' distribution platforms. Sipchem, SMC and SMC affiliates provide trading activities of petrochemical products for Sipchem affiliates and third party entities. The portion of sales made through the Group distribution platforms are recorded at provisional prices agreed with such marketers at the time of shipments, which are later adjusted based on actual selling prices received by the marketers from their final customers, after deducting the costs of shipping and distribution (settlement price). The Group estimates the final settlement price at the reporting date based on the available market data and records any likely adjustment. Whereas the Group makes adjustments to provisional pricing to support the reporting period, the final settlement pricing outstanding can only be determined upon final settlement of the sales in subsequent reporting periods.

Rendering of services

Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably by reference to the stage of completion of the transaction at the consolidated statement of financial position date and the amount of revenue can be measure reliably. It is normally when the services are rendered.

Interest income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through 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 income statement.

Dividends

Dividends are recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividends.

e) Foreign currency transactions

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

Transactions and balances

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss.

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

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

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyals at the rate of exchange prevailing at the reporting date and their income statement are translated at average exchange rates. The exchange differences arising on the translation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in the income statement. Components of shareholders equity are translated at the exchange rates in effect at the dates the related items originated.

f) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, net of accumulated depreciation and accumulated impairment losses. Construction work in progress are not depreciated. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Repair and maintenance is charged to profit and loss. Plant and machinery include planned turnaround costs which are depreciated over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the net book value of planned turnaround costs are immediately expensed and the new turnaround costs are depreciated over the period likely to benefit from such costs. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Class of assets	No of Years
- Buildings and land improvements	10 – 33.33
- Plant and machinery	10 – 25
- Computers	4
- Furniture and fixtures	2 – 10
- Office and research and development equipment	2 – 20
- Vehicles	4
- Catalysts and tools	2 – 10
- Capital spares	2 – 20

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

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

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

g) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the income statement when it is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Licenses

Intangibles mainly represent ERP license costs.

Right to use

Right to use represent the cost incurred as per the tolling agreement on one of the supplier's plant that entitles the Group for portion of the output produced by the plant. The Group has recognized the right to use the output of the plant as intangible asset.

A summary of the policies applied to the Group's intangible assets is as follows:

	Software license cost	Development costs	Right to use
Useful lives	5 – 10 years	10 – 15 years	16 years
Amortisation method used	Amortised on a straight-line over the useful life	Amortised on a straight-line basis over the period of expected future benefits from the related project	Amortised on a straight-line basis over the period of expected future benefits from the related project
Internally generated or acquired	Acquired	Internally generated	Acquired

h) 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 fulfillment 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.

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 income statement.

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 income statement on a straight-line basis over the lease term.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

I) Borrowing costs

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

j) Financial instruments — initial recognition and subsequent 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.

1) Financial asset

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables or held-to-maturity investments 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.

Subsequent measurement

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

Loans and receivables

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 amortization is included in finance income in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

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 income statement. The losses arising from impairment are recognized in the consolidated income statement in finance costs.

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

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.

Notes to the Consolidated Financial Statements
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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

j) Financial instruments — initial recognition and subsequent measurement (continued)

2) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter 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.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of 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 amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated income statement. Interest income (recorded as finance income in the consolidated income statement) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was 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 income statement.

3) Financial liabilities

Initial recognition and measurement

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

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 Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

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

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 income statement.

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

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 income statement.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

4) 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.

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

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

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognized in the consolidated income statement in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

For assets, excluding goodwill an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following specific criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at each year-end. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses related to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

l) Inventories

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

m) Cash and cash equivalent

Cash and cash equivalents in the statement of financial position comprise cash at banks, cash on hand and short-term deposits with a maturity of three months or less, net of outstanding bank overdrafts which are subject to an insignificant risk of changes in value.

n) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

o) Cash dividends to owners of equity

The Group recognizes a liability to make cash or non-cash distributions to owners of equity when the distribution is authorized and the distribution is no longer at the discretion of the Company. A distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity.

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 recognized in profit or loss.

p) Provisions

General

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. The expense relating to a provision is presented in the consolidated income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a discount 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 cost.

Decommissioning liability

Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the relevant asset. The cash flows are discounted at a rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed in the consolidated income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied, are added to or deducted from the cost of the asset.

p) Zakat and income tax

The Group is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat and income taxes are provided on an accrual basis. The zakat charge is computed on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. The zakat and income tax charge in the consolidated income statement represents:

1) the zakat for the Company and the Company's share of zakat in subsidiaries and the foreign income tax on foreign shareholders' income.

2) the zakat and income tax assessable on the non-controlling shareholders.

Foreign income tax is provided for in accordance with foreign fiscal regulations in which the Group's foreign subsidiaries operate.

r) Employees' end of service benefits

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

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

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

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability. The Group recognizes the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in the consolidated income statement (by function):

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

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

s) Employees' house ownership program

The Group has an employees' home ownership programs called SIPCHEM Home Ownership Program (SHOP) under which eligible Saudi employees have the opportunity to buy residential units constructed by SIPCHEM through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment. Under the SHOP, the amounts paid by the employee towards the house are repayable back to the employee subject to certain deductions in case the employee discontinues employment and the house is returned back to the Group.

Long term employee receivable under SHOP is recognized initially as non-current financial asset at fair value and subsequently measured at amortised cost using the EIR method. The difference between the fair value and the actual amount of receivable from employee is recognised as a "non-current prepaid employee benefit" and is amortised as an expense equally over the period of service. The same amount is also amortised as finance income against the receivable from employees.

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

t) Employees' savings plan (thrift plan)

The Group maintains an employee's savings plan for Saudi employees. The contribution from the participants are deposited in separate bank account. The Company's contribution under the savings plan is charged to the consolidated income statement.

u) Share based payments transactions

Employees of the group receives some remuneration in the form of share based payment, whereby employees render services as consideration for equity instruments (equity settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is recognised in employee benefits expense, together with a corresponding increase in equity over the period in which the services and the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. There are no market and non-vesting market conditions. No expense is recognised for awards that do not ultimately vest because service conditions have not been met.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a binomial model.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

v) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant.

w) Segment reporting

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

i. engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Company's other components;
ii. the results of its operations are continuously analysed by chief operating decision maker (CODM) in order to make decisions related to resource allocation and performance assessment; and
iii. for which financial information is discretely available

The Group's president is considered to be the chief operating decision maker. Segment results that are reported to the president include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The details of Group's segments are presented in note 4 to these consolidated financial statements.

x) Earnings per share

Earnings per share are computed by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Weighted average number of ordinary shares as of 31 December 2017 and 2016 were 366,666,666 shares.

y) Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the Annual General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

z) Statutory reserves

In accordance with Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

aa) Short term investments

Short term investments in the statements position are deposits with having maturity of more than three months but less than a year from date of placement.

2.4 Significant accounting estimates and assumptions

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

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

i. Employees' end of service benefits

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

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, yield and duration of Saudi government bonds obligation with at least an 'A' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Significant accounting estimates and assumptions (continued)

Age-wise "light" withdrawal rates are used in carrying out the valuation. These age-wise withdrawal rates are generally used in the MENA region to carry out the actuarial valuation of end of service benefit Schemes of companies in Oil & Gas and Energy sectors.

The rates assumed are based on the WHO 15 Ultimate mortality tables, rated down one year. In the absence of any standard mortality tables in the region, these rates are generally used in Kingdom of Saudi Arabia in carrying out the actuarial valuation of EOSB Schemes. If any other mortality table is used it will not make any significant difference in the results.

ii. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU 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 and marketing terms forecast for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most 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.

iii. Useful lives of property and equipment

Management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

iv. Provisional price

The Group markets and sells its petrochemical products primarily through distribution platform of various marketers. The portion of sales made through the distribution platforms are initially recorded at provisional estimated prices agreed with marketers at the time of shipment, which requires estimation. These prices are subsequently adjusted based on actual selling prices received by the marketers from their customers after deducting shipping and distribution costs.

v. Decommissioning liability

The Group reviews decommissioning liability provisions along with the interest rate used in discounting the cash flows at each balance sheet date and adjusts them to reflect the current best estimate. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Changes in the estimated future costs or in the discount rate applied, are added to or deducted from the cost of the asset.

vi. Zakat

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

2.5 New standards, amendments and interpretations

The following revised IFRSs have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements:

- Disclosure initiative, Statement of Cash flows (Amendments to IAS 7);
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12);
- Annual improvements to IFRSs 2014 – 2016 Cycle – various standards (Amendments to IFRS 12).

2.6 Accounting standards not yet effective

The Group's management decided not to choose the early adoption of the following new and amended standards and interpretations issued which will become effective for the period commencing after 1 January 2018:

- Amendments to IFRS – 4 "Insurance Contracts", effective for annual period on or after 1 January 2018.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) effective for annual period on or after 1 January 2018.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Accounting standards not yet effective (continued)

IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final version of IFRS – 9, concluding the multiyear project to replace IAS 39 – Financial Instruments "Recognition and Measurement". IFRS – 9 contains new requirements for the classification and measurement of financial instruments, fundamental changes regarding the accounting treatment of financial assets impairments, and a reformed approach to hedge accounting. The new standard will be effective for reporting periods beginning on or after 1 January 2018.

IFRS – 9 retains "amortized cost" and "fair value" as the criteria for measuring financial instruments. Whether financial assets are measured at amortized cost or fair value will depend on two factors: the entity's business model for managing the portfolio to which the financial asset belongs and the contractual cash flow characteristic of the financial asset.

In the future, the recognition of financial assets impairments is based on expected losses according to IFRS – 9. The general approach adopts a three stage model to assess the provisions for risks. The model requires different degrees of impairment based on the credit default risk of the counter parties. For certain financial instruments, such as trade receivable, operational simplications for recognizing impairment losses apply.

The Group will adopt the new standard on the effective date. The Group is currently assessing the impacts of the measurement and classification of financial assets.

The financial assets held by the Group include:

- investments in funds currently measured at Fair Value through Income Statement ("FVIS") which would likely continue to be measured on the same basis under IFRS 9; and
- debt instruments currently classified as held-to-maturity and measured at cost which appears not to meet the conditions for classification at amortized cost under IFRS 9. The management is currently assessing the impact of recognizing debt instruments at amortized cost and expects that the impact will not be material.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVIS and the (Group) does not have such liabilities. The derecognition rules have been transferred from "IAS 39 Financial Instruments: Recognition and Measurement" ("IAS 39") and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses, as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under "IFRS 15 – Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. The Group is in the process of performing a detailed assessment of how its impairment provisions would be affected by the new model. The new standard also introduces enhanced disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption of the new standard.

IFRS 15 – 'Revenue from Contracts with Customers'

The IASB published the new standard on revenue recognition, IFRS – 15, on 28 May 2014. The revised standard particularly aims to standardize existing regulations and thus improve transparency and the comparability of financial information.. The rules and definitions of IFRS – 15 supersede the content of IAS – 11, IAS – 18, IFRIC – 13. The new standard will be effective for reporting periods beginning on or after 1 Janaury 2018. Group does not plan to adopt the standard early.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer by introducing a structured five step model.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. At this stage, the Group is finalising its assessment of the impact of the new standard on the Group's financial statements.

IFRS 16 – 'Leases'

The IASB published the new standard on leasing, IFRS – 16, on 13 January 2016. The rules and definitions of IFRS -16 will replace:

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Accounting standards not yet effective (continued)

IFRS 16 – 'Leases' (continued)

The standard require an accounting model for a lessee that recognized all assets and liabilities from leasing agreements in the balance sheet, unless the term is twelve months or lessor the underlying asset is of low value. As for the lessor, the new standard substantially carries forward the lessor accounting requirement of IAS -17 Leases.

The new standard will be effective for annual periods beginning on or after 1 January 2019, early application is permitted and must be disclosed. The Group will adopt the new standard on the effective date. The Group is currently assessing the impact on the Group's consolidated financial statements.

3. FIRST TIME ADOPTION OF IFRS

As stated in note 2, these are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2.3 have been applied in preparing the consolidated financial statements for the year ended 31 December 2017, the comparative information presented in these consolidated financial statements for the year ended 31 December 2016 and in the preparation of an opening IFRS statement of financial position at 1 January 2016 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in consolidated financial statements prepared in accordance with SOCPA (previous GAAP). An explanation of how the transition from previous GAAP to IFRS has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables. There is no material impact on the consolidated statement of cash flows following adoption of IFRS as endorsed in the Kingdom of Saudi Arabia.

3.1 Exemptions

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

- The group has opted not to apply the requirements of IFRS 2- Share Based Payment to equity instruments that were granted after 7 November 2002 and vested before date of transition to IFRS.
- The Group has applied the transitional provision in IFRIC 4 Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition to IFRS, January 1, 2016.
- The Group has applied the transitional provisions in IAS 23 Borrowing Costs and has not restated for borrowing costs capitalized under SOCPA prior to 1 January 2016.
- IFRS 3 Business Combinations has not been applied to acquisition of 100% voting shares of Aectra SA by Sipchem marketing Company which is a business combination that occurred before 1 January 2016 as the company opted to use the exemption from retrospective application of IFRS 3 as per IFRS 1. Use of this exemption means that the SOCPA carrying amounts of assets and liabilities were considered as their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with applicable IFRSs. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS Statement of financial position. However, the Group did not recognize or exclude any previously recognized amounts as a result of IFRS recognition requirement.
- IFRS 1 exemption related to retrospective application of IFRS 3, also requires that the SOCPA carrying amount of goodwill must be used in the opening IFRS statement of financial position, apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets. (In accordance with above said requirement of IFRS 1, goodwill in respect of acquisition of Aectra is required to be tested for impairment at the date of transition to IFRS).
- The Group opted to apply the exemption under IFRS 1 related to decommissioning. As per the said exemption the Group measured the decommissioning liability in respect of its plants and machinery at the date of transition in accordance with IAS 37, then estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate of 5 %. The Group calculated the accumulated depreciation on that amount on the basis of current estimate of useful life of the plants.

(Expressed in Saudi Riyal)

3. FIRST TIME ADOPTION OF IFRS (continued)

3.2 Group reconciliation of financial position as at 1 January 2016 (date of transition to IFRS)

	Notes	SOCPA as at 31 December 2015 SR	Reclassifications SR	Remeasurement due to conversion SR	IFRS as at 1 January 2016 SR
Assets					
Non-current assets					
Property, plant and equipment	A,B,C,E,G,J,K	13,293,725,235	10,521,133	(703,780,173)	12,600,466,195
Projects development cost	J	29,464,693	(29,464,693)	-	-
Intangible assets	C,I,K	131,134,567	21,634,798	(11,702,968)	141,066,397
Goodwill		29,543,923	-	-	29,543,923
Total non-current assets		13,483,868,418	2,691,238	(715,483,141)	12,771,076,515
Current assets					
Inventories	G	698,344,835	(29,222,863)	-	669,121,972
Trade receivables		556,595,014	-	-	556,595,014
Prepayments and other assets		195,890,783	-	-	195,890,783
Short term investments	F	-	-	31,095,389	31,095,389
Cash and cash equivalents	F	2,124,558,823	-	2,597,731	2,127,156,554
Total current assets		3,575,389,455	(29,222,863)	33,693,120	3,579,859,712
Total assets		17,059,257,873	(26,531,625)	(681,790,021)	16,350,936,227
Equity and liabilities					
Equity					
Share capital		3,666,666,660	-	-	3,666,666,660
Share premium	F	-	-	34,948,097	34,948,097
Treasury shares	F	-	-	(6,626,760)	(6,626,760)
Statutory reserve		1,198,394,633	-	-	1,198,394,633
Reserve for results of sale / purchase of shares in subsidiaries		48,893,677	-	-	48,893,677
Foreign currency translation reserve		(7,194,646)	-	-	(7,194,646)

3. FIRST TIME ADOPTION OF IFRS (continued)

3.2 Group reconciliation of financial position as at 1 January 2016 (date of transition to IFRS) (continued)

	Notes	SOCPA as at 31 December 2015 SR	Reclassifications SR	Remeasurement due to conversion SR	IFRS as at 1 January 2016 SR
Share based payment transactions reserve	F	-	-	1,539,004	1,539,004
Retained earnings	A –G,K	905,614,951	(6,128,959)	(582,870,510)	316,615,482
Non-controlling interests	A-E,G,K	1,892,418,826	(3,379,811)	(208,775,212)	1,680,263,803
Total equity		7,704,794,101	(9,508,770)	(761,785,381)	6,933,499,950
Non-current liabilities					
Long term bank loans and borrowings	E	5,488,283,977	96,429	(21,939,033)	5,466,441,373
Sukuk	E,I	1,800,000,000	(2,287,639)	(9,402,163)	1,788,310,198
Long term advances from partners		59,953,703	-	-	59,953,703
Deferred revenue	H	-	50,602,500	-	50,602,500
Employees' benefits	D	165,818,715	-	29,267,850	195,086,565
Decommissioning liability	B,H	50,602,500	(50,602,500)	76,696,923	76,696,923
Total non-current liabilities		7,564,658,895	(2,191,210)	74,623,577	7,637,091,262
Current liabilities					
Short term bank loans		300,000,000	-	-	300,000,000
Current portion of long term bank loans		711,319,128	-	-	711,319,128
Trade and other payables		78,713,741	-	-	78,713,741
Accrued expenses and other liabilities	F,J	512,739,590	(14,831,645)	5,371,783	503,279,728
Zakat and income tax payable		104,555,524	-	-	104,555,524
Short term advances from partners		82,476,894	-	-	82,476,894
Total Current liabilities		1,789,804,877	(14,831,645)	5,371,783	1,780,345,015
Total liabilities		9,354,463,772	(17,022,855)	79,995,360	9,417,436,277
Total equity and liabilities		17,059,257,873	(26,531,625)	(681,790,021)	16,350,936,227

(Expressed in Saudi Riyal)

3. FIRST TIME ADOPTION OF IFRS (continued)

3.3 Group reconciliation of financial position as at 31 December 2016

	Notes	SOCPA as at 31 December 2016 SR	Reclassifications SR	Remeasurement due to conversion SR	IFRS as at 31 December 2016 SR
Assets					
Non-current assets					
Property, plant and equipment	A,B,C,G,J,K	13,030,616,123	(9,017,612)	(674,984,558)	12,346,613,953
Intangible assets	C,I,K	103,733,502	22,919,267	(8,817,212)	117,835,557
Goodwill		29,543,923	-	-	29,543,923
Total non-current assets		**13,163,893,548**	**13,901,655**	**(683,801,770)**	**12,493,993,433**
Current assets					
Inventories	G	782,232,795	(27,830,061)	-	754,402,734
Trade receivables		623,567,540	-	-	623,567,540
Prepayments and other assets		85,130,024	-	-	85,130,024
Short term investments	F	-	-	23,672,928	23,672,928
Cash and cash equivalents	F	1,815,653,353	-	7,035,706	1,822,689,059
Total current assets		**3,306,583,712**	**(27,830,061)**	**30,708,634**	**3,309,462,285**
Total assets		**16,470,477,260**	**(13,928,406)**	**(653,093,136)**	**15,803,455,718**
Equity and liabilities					
Equity					
Share capital		3,666,666,660	-	-	3,666,666,660
Share premium	F	-	-	34,656,309	34,656,309
Treasury shares	F	-	-	(7,590,000)	(7,590,000)
Statutory reserve		1,205,397,395	-	-	1,205,397,395
Reserve for results of sale of shares in subsidiaries		12,949,042	-	-	12,949,042
Foreign currency translation reserve		(7,914,949)	-	-	(7,914,949)
Share based payment transactions reserve	F	-	-	1,468,159	1,468,159
Retained earnings	A –G,K	966,439,802	(9,027,085)	(599,006,992)	358,405,725
Non-controlling interests	A-E,G,K	1,626,586,785	(4,901,321)	(200,528,811)	1,421,156,653

3. FIRST TIME ADOPTION OF IFRS (continued)

3.3 Group reconciliation of financial position as at 31 December 2016 (continued)

	Notes	SOCPA as at 31 December 2016 SR	Reclassifications SR	Remeasurement due to conversion SR	IFRS as at 31 December 2016 SR
Total equity		**7,470,124,735**	**(13,928,406)**	**(771,001,335)**	**6,685,194,994**
Non-current liabilities					
Long term bank loans and borrowings	E	5,609,122,755	-	3,807,608	5,612,930,363
Sukuk	E,I	997,590,797	-	(187,833)	997,402,964
Long term advances from partners		68,888,323	-	-	68,888,323
Deferred revenue	H	-	50,602,500	-	50,602,500
Employees' benefits	D	182,003,261	-	26,338,517	208,341,778
Decommissioning liability	B,H	52,241,076	(50,602,500)	82,852,728	84,491,304
Total non-current liabilities		**6,909,846,212**	**-**	**112,811,020**	**7,022,657,232**
Current liabilities					
Short term bank loans		200,000,000	-	-	200,000,000
Current portion of long term bank loans		1,053,110,874	-	-	1,053,110,874
Trade and other payables		135,088,911	-	-	135,088,911
Accrued expenses and other liabilities	F,J	533,961,486	-	5,097,179	539,058,665
Zakat and income tax payable		101,224,646	-	-	101,224,646
Short term advances from partners		67,120,396	-	-	67,120,396
Total Current liabilities		**2,090,506,313**	**-**	**5,097,179**	**2,095,603,492**
Total liabilities		**9,000,352,525**	**-**	**117,908,199**	**9,118,260,724**
Total equity and liabilities		**16,470,477,260**	**(13,928,406)**	**(653,093,136)**	**15,803,455,718**

(Expressed in Saudi Riyal)

3. FIRST TIME ADOPTION OF IFRS (continued)

3.4 Group reconciliation of Consolidated income statement for the year ended 31 December 2016

	Notes	SOCPA for the year ended 31 December 2016 SR	Reclassifications SR	Remeasurement due to conversion SR	IFRS for the year ended 31 December 2016 SR
Revenue	L	3,367,475,412	147,568,115	-	3,515,043,527
Cost of sales	A-D,G,K	(2,677,137,887)	(1,757,613)	25,304,080	(2,653,591,420)
Gross profit		**690,337,525**	**145,810,502**	**25,304,080**	**861,452,107**
Selling and distribution expenses	L	(57,188,792)	(147,568,115)	-	(204,756,907)
General and administrative expenses	C,D,F	(216,545,718)	1,757,613	(4,570,858)	(219,358,963)
Operating profit		**416,603,015**	**-**	**20,733,222**	**437,336,237**
Operating profit					
Finance income		38,223,714	-	-	38,223,714
Finance cost	B,D,E	(245,657,026)	-	(42,940,568)	(288,597,594)
Other income / (expenses), net		8,853,342	-	-	8,853,342
Write-off of property, plant and equipment		(31,321,938)	-	-	(31,321,938)
Profit before Zakat and tax		**186,701,107**	**-**	**(22,207,346)**	**164,493,761**
Zakat and income tax expense		(72,950,875)	-	-	(72,950,875)
Profit for the year		**113,750,232**	**-**	**(22,207,346)**	**91,542,886**
Profit attributable to:					
Equity holders of the Company		70,027,616	-	(26,943,863)	43,083,753
Non-controlling interests		43,722,616	-	4,736,517	48,459,133
		113,750,232	-	(22,207,346)	91,542,886

3. FIRST TIME ADOPTION OF IFRS (continued)

3.5 Group reconciliation of profit or loss and other comprehensive income for the year ended 31 December 2016

	SOCPA for the year ended 31 December 2016 SR	Reclassifications SR	Remeasurement due to conversion SR	IFRS for the year ended 31 December 2016 SR
Profit for the year	**113,750,232**	-	(22,207,346)	91,542,886
Other comprehensive income items that will be reclassified to profit or loss in subsequent periods:				
Exchange difference on translation of foreign operations	-	-	(720,303)	(720,303)
Net total other comprehensive income to be reclassified to profit or loss in subsequent periods:	-	-	**(720,303)**	**(720,303)**
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods:				
Re-measurement gains on defined benefit plans	-	-	7,698,366	7,698,366
Net total other comprehensive income not to be reclassified to profit or loss in subsequent periods:	-	-	**7,698,366**	**7,698,366**
Total other comprehensive income for the year	-	-	**6,978,063**	**6,978,063**
Total comprehensive income for the year	**113,750,232**	-	**(15,229,283)**	**98,520,949**
Total comprehensive income attributable to:				
Equity holders of the Company	70,027,616	-	(21,954,914)	48,072,702
Non-controlling interests	43,722,616	-	6,725,631	50,448,247
	113,750,232	**-**	**(15,229,283)**	**98,520,949**

(Expressed in Saudi Riyal)

3. FIRST TIME ADOPTION OF IFRS (continued)

Notes to the reconciliation of equity as at 1 January 2016 and 31 December 2016 and total comprehensive income for the year ended 31 December 2016.

A) Impairment of property, plant and equipment

Under SOCPA, non-current assets were reviewed for impairment when events or changes in circumstances indicated that their carrying value may exceed the sum of the undiscounted future cash flows expected from use and eventual disposal. For the purposes of assessing impairment, assets were grouped at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets. If the estimated undiscounted cash flows for the asset group were less than the asset group's carrying amount, the impairment loss was measured as the excess of the carrying value over fair value.

Under IFRS, as explained in note 2.3 (k), impairment of assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, is assessed at the cash generating unit ("CGU") level based on the CGU's recoverable amount using discounted cash flows. At the date of transition to IFRS, as a result of the changes in methodology, the Group determined that the recoverable amounts of two of its CGUs namely International Diol Company ("IDC") and Polybutylene terephthalate ("PBT") were less than its carrying amount based on the CGU's value in use which discounts cash flows using a pre-tax discount rate of 10%. This resulted in an impairment loss of SR 400 million in IDC and SR 300 million in PBT as at 1 January 2016. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of total comprehensive income		
Reduction in cost of sales	-	(25,890,128)
Total adjustment on total comprehensive income	-	(25,890,128)
Consolidated statement of financial position		
Property, plant and equipment	(700,000,000)	(674,109,872)
Retained earnings	515,640,000	501,686,632
Non-controlling interests	184,360,000	172,423,240

B) Decommissioning liability

Management has calculated the liability for decommissioning the Group's existing plant and machinery in accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at the date of transition to IFRS.

While the ultimate decommissioning costs or assets retirement obligation are uncertain to the Company, and cost estimates can vary in response to several factors, the Management has concluded in arriving at the above IFRS re-measurement adjustments based on certain assumptions and estimates in relation to discount rate, the expected cost of dismantling and the removal of the plant and equipment from the site, and the expected timing of those costs.

The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of total comprehensive income		
Increase in cost of sales	-	2,292,247
Finance charges	-	6,155,805
Total adjustment on total comprehensive income	-	8,448,052
Consolidated statement of financial position		
Property, plant and equipment	44,196,925	41,904,677
Other non-current liabilities	(76,696,923)	(82,852,728)
Retained earnings	22,269,614	29,825,403
Non-controlling interests	10,230,384	11,122,648

C) Costs not eligible for capitalization

At the date of transition, certain pre-operating costs were derecognized from PPE against retained earnings as they did not meet the criteria for capitalization under either IAS 38 or IAS 16.

Further, certain costs relating to branding and creation of succession plans, etc. were derecognized from intangibles as they did not meet the criteria for capitalization as intangibles as per IAS 38.

3. FIRST TIME ADOPTION OF IFRS (continued)

C) Costs not eligible for capitalization (continued)

The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of total comprehensive income		
Reduction in cost of sales – Depreciation	-	(512,205)
Reduction in cost of sales – Amortization	-	(2,891,556)
Increase in administrative expenses – additional derecognition	-	1,043,873
Total adjustment on total comprehensive income	-	(2,359,888)
Consolidated statement of financial position		
Property, plant and equipment	(38,493,166)	(39,024,834)
Intangible assets	(11,702,967)	(8,811,412)
Retained earnings	45,038,933	42,801,378
Non-controlling interests	5,157,200	5,034,868

D) Defined benefits obligations

Under SOCPA, the Company was not required to measure the defined benefit liability in accordance with the projected unit credit method. However, under IFRS, end of service benefits liability ("EOSB") is recognized on an actuarial basis. Therefore, as at the date of transition to IFRS, the Company re-measured the defined benefit liability in accordance with the projected unit credit method (as required by IAS 19) through an actuarial valuation of the EOSB. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of total comprehensive income		
Increase / (decrease) in EOSB expense – cost of sales	-	(2,759,503)
Increase / (decrease) in EOSB expense – administrative expense	-	(104,486)
Increase in EOSB expense – finance costs	-	7,633,024
Re-measurement gains and (losses) on defined benefit plans	-	(7,698,366)
Total adjustment on total comprehensive income	-	(2,929,331)
Consolidated statement of financial position		
Employees' benefits payable	(29,267,850)	(26,338,517)
Retained earnings	21,561,750	19,416,922
Non-controlling interests	7,706,100	6,921,595

3. FIRST TIME ADOPTION OF IFRS (continued)

E) Amortized costs – long term loans and borrowings and SUKUK

At the date of transition to IFRS, the existing interest bearing loans and borrowings were re-measured by the Company at amortized cost using the effective interest rate method ("EIR"). Amortized cost was calculated by taking into account any discount or premium on acquisition and fees or costs that represent an integral part of the EIR.

Under SOCPA, fees paid on the establishment of loan facilities were recognized as transaction costs of the loan and were being amortized over the period of the loan on a straight-line basis.

The EIR amortization impact representing the difference between the up-front fees amortization on straight-line basis versus EIR method for the periods prior to the date of the opening IFRS statement of financial position, was reflected in either accumulated losses or was capitalized as part of PPE. The latter assumes such costs were directly attributable to the acquisition, construction or production of qualifying assets until such time the assets were ready for their intended use.

The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of total comprehensive income		
Finance charges	-	29,152,478
Total adjustment on total comprehensive income	-	**29,152,478**
Consolidated statement of financial position		
Long term bank loans and borrowings	21,842,604	(3,819,144)
Sukuk	9,402,163	187,833
Retained earnings	(23,166,905)	3,510,445
Non-controlling interests	1,406,070	3,881,197
Property, plant and equipment – Under construction plants	(9,483,932)	(3,760,331)

F) Sipchem Employees Incentive Program

The Group offers a share-based payment award plan to its employees that meet a certain criteria called Sipchem Employees Incentive Program ("SEIP"). The shares are purchased using a fund bank account.

At inception of the fund bank account, the Group offered a loan to this fund bank account to purchase certain shares before the IPO from the Group at a nominal premium. After the IPO, a portion of those shares was sold and the money was used to pay off the Group's loan to the fund bank account. Following this transaction, the Group treated the fund bank account for SEIP as independent of the Group. This fund was managed by a treasurer bank and any cash held, amounts received from employees who are part of SEIP, finance income or dividends on the marked shares for employees were kept in this fund bank account and were not recognized in Group's financial statements.

Assessment under IFRS shows that there are no legal restrictions in place on Group to treat this fund as independent of the Group. As such, at the date of transition, the share-based payment plan has been accounted as an equity-settled share award plan under IFRS 2. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of total comprehensive income		
Increase in administrative expenses – Share based payment transactions	-	1,384,011
Total adjustment on total comprehensive income	**-**	**1,384,011**
Consolidated statement of financial position		
Short term investments	31,095,389	23,672,928
Cash and cash equivalent	2,597,731	7,035,706
Share premium	(34,948,097)	(34,656,309)
Treasury shares	6,626,760	7,590,000
Share based payment transactions reserve	(1,539,004)	(1,468,159)
Accrued expenses and other liabilities	(5,371,783)	(5,097,179)
Retained earnings	1,539,004	2,923,013

Notes to the Consolidated Financial Statements
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3. FIRST TIME ADOPTION OF IFRS (continued)

G) Inventories

At the date of transition to IFRS, spare parts of capital nature were reclassified from Inventories to property, plant and equipment as they meet the recognition criteria of PPE.

Further, the related depreciation charge was recognized to account for the retrospective depreciation of spare parts until the date of transition to IFRS. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of total comprehensive income		
Increase in cost of sales – Depreciation	-	2,035,971
Total adjustment on total comprehensive income	**-**	**2,035,971**
Consolidated statement of financial position		
Inventories	(29,222,863)	(27,830,059)
Property, plant and equipment	21,400,396	17,971,621
Retained earnings	5,146,649	6,568,358
Non-controlling interests	2,675,818	3,290,080

H) Deferred Revenue

Under SOCPA, the Group classified an advance of SR 50.6 million (received by IGC for entering into Carbon Monoxide (CO) supply agreement with a customer to process natural gas and supply of CO) as other non-current liability. Given the advance is to be adjusted against billings to the customer during the first sixty months form the commencement date of CO supply, at the date of transition this has been reclassified as deferred revenue. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of financial position		
Deferred revenue	(50,602,500)	(50,602,500)
Other non-current liabilities	50,602,500	50,602,500

I) Upfront Fee of Sukuk loan

Upfront fee paid on SUKUK loan was previously capitalized as an intangible. At the date of transition, the net carrying value of upfront fee has been reclassified and recorded as part of SUKUK liabilities. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of financial position		
SUKUK	(2,287,639)	-
Intangible assets	(2,287,639)	-

J) Project Development Costs

At the date of transition, amounts of SR 14.6 million were reclassified to PPE from Project development costs as they meet the recognition criteria of PPE. Further, SR 14.8 million of project development costs relating to projects no longer viable were written off by utilizing a provision created for such projects and held under accrued expenses and other liabilities. The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of financial position		
Property, plant and equipment	14,644,587	-
Projects development cost	(29,464,693)	-
Accrued expenses and other liabilities	14,820,106	-

3. FIRST TIME ADOPTION OF IFRS (continued)

K) Reclassification of certain software costs from PPE to Intangibles

Under SOCPA, the Group had capitalized certain software costs as property, plant and equipment. As these software costs were not integral part of any property, plant or equipment and met the definition of an intangible, such costs were reclassified to intangible assets. Further, the software costs are now amortized over five years, whereas previously under SOCPA the useful economic life varied depending on the class of assets they were part of. The impact of additional amortization has been adjusted in retained earnings.

The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of total comprehensive income		
Increase in cost of sales – Depreciation	-	2,468,553
Total adjustment on total comprehensive income	-	2,468,553
Consolidated statement of financial position		
Property, plant and equipment	(25,523,850)	(26,983,432)
Intangible assets	23,922,436	22,913,463
Retained earnings	982,310	2,458,727
Non-controlling interests	619,104	1,611,242

L) Change in presentation of direct distribution costs

The Group sells their products directly to customers and also through marketers' distribution platforms. These marketers act in the capacity of a principal and revenue is recorded net of the margins of these marketers and any other freight and distribution charges that the marketers bear directly and deduct in arriving at the settlement price. Under SOCPA, certain distribution charges paid by the Group directly to third parties where sales were made through marketers, were also deducted from revenue. Such costs have now been presented separately as selling and distribution expenses instead of being deducted from revenue, to align with the presentation requirements of IAS 18.

The impact from the reclassification of these costs is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of comprehensive income		
Increase in revenue	-	(147,568,115)
Increase in selling and marketing expense	-	147,568,115

4. SEGMENT INFORMATION

The Group has the following operating segments:

- **Basic Chemicals**, which includes Methanol, Butane products and Carbon monoxide.
- **Intermediate chemicals,** which includes Acetic acid, Vinyl acetate monomer, Ethyl acetate, Butyl acetate, and utilities.
- **Polymers**, which includes Low-density polyethylene, polyvinyl acetate, polyvinyl alcohol, Polybutylene terephthalate, and electrical connecting wire products.
- **Marketing**, which include Sipchem Marketing Company and its foreign subsidiaries as defined in note 1.
- **Corporate and others**, which includes Sipchem, EVA films and Tool manufacturing plant.
- Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Notes to the Consolidated Financial Statements
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4. SEGMENT INFORMATION (continued)

Period ended 31 December 2017	Basic Chemicals	Intermediate Chemicals	Polymers	Marketing	Corporate and Others	Total
Revenue						
External customers	1,503,312,157	1,480,209,612	1,052,285,745	406,632,538	15,588,511	4,458,028,563
Inter-segment	358,529,689	822,475,728	40,887,565	2,483,054,925	109,508,204	3,814,456,111
Total revenue	**1,861,841,846**	**2,302,685,340**	**1,093,173,310**	**2,889,687,463**	**125,096,715**	**8,272,484,674**
Gross Profit	794,495,304	177,232,319	333,116,022	106,709,506	(4,432,125)	**1,407,121,026**
Operating Profit	573,789,124	70,545,822	225,621,861	65,372,208	(38,708,965)	**896,620,050**
Segment profit	536,499,161	(11,717,102)	167,600,467	65,446,969	(101,946,813)	**655,882,682**
Total assets	4,776,388,135	6,014,431,152	4,079,734,763	815,559,963	9,299,351,939	**24,985,465,952**
Total liabilities	2,194,889,939	2,807,710,220	2,381,207,316	512,255,799	3,403,619,784	**11,299,683,058**
Other disclosures						
Capital expenditure	416,061,905	109,922,642	80,649,112	881,306	27,177,097	**634,692,062**

4.1 Reconciliation

	Total revenue	Gross Profit	Operating Profit	Segment profit (before zakat & tax)	Total assets	Total liabilities
As reported by segment	8,272,484,674	1,407,121,026	896,620,050	655,882,682	24,985,465,952	11,299,683,058
Reconciliation / Eliminations						
Elimination of Inter Segment revenue	(3,814,456,111)	-	-	-	-	-
Consolidation adjustments	1,462,474	18,933,125	38,077,099	15,303,922	(9,005,462,751)	(2,530,644,421)
As per financial statements	4,459,491,037	1,426,054,151	934,697,149	671,186,604	15,980,003,201	8,769,038,637

(Expressed in Saudi Riyal)

4. SEGMENT INFORMATION (continued)

Period ended 31 December 2016	Basic Chemicals	Intermediate Chemicals	Polymers	Marketing	Corporate and Others	Total
Revenue						
External customers	973,425,291	1,310,862,306	978,214,769	249,710,590	1,550,857	3,513,763,813
Inter-segment	353,566,200	660,324,814	95,663,801	1,640,034,017	-	2,749,588,832
Total revenue	**1,326,991,491**	**1,971,187,120**	**1,073,878,570**	**1,889,744,607**	**1,550,857**	**6,263,352,645**
Gross Profit	404,997,180	(782,154)	376,942,181	76,005,135	(2,730,640)	**854,431,702**
Operating Profit	188,522,234	(98,442,088)	288,497,677	43,538,180	(25,484,534)	**396,631,469**
Segment profit	123,154,325	(184,339,373)	220,010,718	43,794,664	(52,810,240)	**149,810,094**
Total assets	4,319,091,228	5,929,919,308	4,168,978,186	683,102,404	8,835,922,726	**23,937,013,852**
Total liabilities	1,893,482,186	3,309,470,247	2,852,734,072	443,039,674	3,338,451,023	**11,837,177,202**
Other disclosures						
Capital expenditure	168,728,654	125,575,777	24,267,064	1,493,430	178,187,967	**498,252,892**

4.2 Reconciliation

	Total revenue	Gross Profit	Operating Profit	Segment profit (before zakat & tax)	Total assets	Total liabilities
As reported by segment	6,263,352,645	854,431,702	396,631,469	149,810,094	23,937,013,852	11,837,177,202
Reconciliation / Eliminations						
Elimination of Inter Segment revenue	(2,749,588,832)	-	-	-	-	-
Consolidation adjustments	1,279,714	7,020,405	40,704,768	14,683,667	(8,133,558,134)	(2,718,916,478)
As per financial statements	**3,515,043,527**	**861,452,107**	**437,336,237**	**164,493,761**	**15,803,455,718**	**9,118,260,724**

Geographical information

	Saudi Arabia	Foreign countries	Total
Revenue from external customers			
31 December 2017	125,685,668	4,333,805,369	4,459,491,037
31 December 2016	329,028,843	3,186,014,684	3,515,043,527

5. GROUP INFORMATION

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non- controlling interests:

Subsidiaries	Country of Incorporation	2017	2016
International Methanol Company ("IMC")	KSA	35.00%	35.00%
International Diol Company ("IDC")	KSA	46.09%	46.09%
International Acetyl Company ("IAC")	KSA	13.00%	13.00%
International Vinyl Acetate Company ("IVC")	KSA	13.00%	13.00%
International Gases Company (" IGC")	KSA	28.00%	28.00%
International Polymers Company ("IPC")	KSA	25.00%	25.00%
Gulf Advance Cable Insulation Company (GACI)	KSA	50.00%	50.00%
Saudi Specialized products Company (SSPC)	KSA	25.00%	25.00%

The summarized information of these subsidiaries is provided below:

Summarized statements of financial positions as at 31 December 2017

	IMC	IDC	IAC	IVC	IGC	IPC	GACI	SSPC	Total
Current assets	898,590,980	167,735,614	316,437,425	431,517,871	174,315,058	512,507,877	63,696,035	19,506,869	2,584,307,729
Non-current assets	1,368,205,146	947,673,282	2,683,115,071	1,837,039,853	1,219,868,055	2,754,041,280	201,051,798	339,231,281	11,350,225,766
Current liabilities	(378,414,997)	(534,572,384)	(544,404,786)	(413,605,185)	(258,860,328)	(462,047,103)	(35,835,454)	(19,878,921)	(2,647,619,158)
Non-current liabilities	(249,569,468)	(614,335,718)	(868,392,730)	(504,848,154)	(159,137,044)	(1,346,071,882)	(161,031,539)	(207,489,060)	(4,110,875,595)
Equity	**1,638,811,661**	**(33,499,206)**	**1,586,754,980**	**1,350,104,385**	**976,185,741**	**1,458,430,172**	**67,880,840**	**131,370,169**	**7,176,038,742**
Attributable to:									
Equity holder of parent	**1,117,250,773**	**(14,271,091)**	**1,417,523,165**	**1,212,066,384**	**702,772,660**	**1,101,087,118**	**33,329,721**	**98,022,409**	**5,667,781,139**
Non-controlling interests	**521,560,888**	**(19,228,115)**	**169,231,815**	**138,038,001**	**273,413,081**	**357,343,054**	**34,551,119**	**33,347,760**	**1,508,257,603**

(Expressed in Saudi Riyal)

5. GROUP INFORMATION (continued)

Summarized statements of financial positions as at 31 December 2016

	IMC	IDC	IAC	IVC	IGC	IPC	GACI	SSPC	Total
Current assets	636,111,400	159,052,007	236,327,006	321,024,635	149,797,730	523,237,017	94,916,927	25,439,355	2,145,906,077
Non-current assets	1,175,338,530	965,105,178	2,782,555,436	1,919,548,088	1,233,686,382	2,819,269,026	221,158,641	323,598,512	11,440,259,793
Current liabilities	(124,890,635)	(357,180,469)	(483,794,072)	(403,089,352)	(236,206,268)	(543,208,985)	(123,990,041)	(5,183,748)	(2,277,543,570)
Non-current liabilities	(275,604,465)	(699,957,592)	(936,238,098)	(481,483,360)	(199,642,757)	(1,535,200,549)	(152,976,333)	(185,264,104)	(4,466,367,258)
Equity	1,410,954,830	67,019,124	1,598,850,272	1,356,000,011	947,635,087	1,264,096,509	39,109,194	158,590,015	6,842,255,042
Attributable to :									
Equity holder of parent	**958,395,658**	**40,433,438**	**1,428,068,856**	**1,217,206,981**	**682,216,190**	**956,799,024**	**19,319,040**	**118,659,202**	**5,421,098,389**
Non-controlling interests	**452,559,172**	**26,585,686**	**170,781,416**	**138,793,030**	**265,418,897**	**307,297,485**	**19,790,154**	**39,930,813**	**1,421,156,653**

5. GROUP INFORMATION (continued)

Summarized statements of comprehensive income for the year ended 31 December 2017

	IMC	IDC	IAC	IVC	IGC	IPC	GACI	SSPC	Total
Revenue	1,237,395,105	359,235,733	731,401,863	1,069,204,668	265,211,008	1,008,617,810	84,555,500	15,588,511	4,771,210,198
Cost of sales	(457,391,263)	(375,844,230)	(656,426,128)	(1,007,045,243)	(204,676,394)	(677,212,781)	(82,844,508)	(30,585,561)	(3,492,026,108)
Selling and distribution expenses	(118,903,349)	(13,649,006)	(9,321,744)	(11,369,642)	-	(16,245,415)	(2,963,689)	(2,497,174)	(174,950,019)
General and administrative expenses	(39,294,249)	(24,985,391)	(30,559,123)	(26,521,981)	(23,874,186)	(63,713,965)	(11,949,502)	(7,064,902)	(227,963,299)
Investment income	6,026,680	52,302	59,522	285,839	168,808	2,646,610	127,045	-	9,366,806
Finance cost	(7,748,756)	(30,306,233)	(47,521,797)	(30,283,216)	(9,330,856)	(60,255,617)	(4,393,201)	(786,858)	(190,626,534)
Other income (expense), net	(8,936,292)	(18,760,539)	2,369,585	(213,280)	2,110,270	7,888,197	(759,214)	(986,224)	(17,287,497)
Profit before zakat and tax	**611,147,876**	**(104,257,364)**	**(9,997,822)**	**(5,942,855)**	**29,608,650**	**201,724,839**	**(18,227,569)**	**(26,332,208)**	**677,723,547**
Zakat and tax	(68,674,950)	1,951,102	(3,063,695)	(48,898)	(428,339)	(7,522,654)	(461,285)	(1,710,365)	(79,959,084)
Profit for the year	**542,472,926**	**(102,306,262)**	**(13,061,517)**	**(5,991,753)**	**29,180,311**	**194,202,185**	**(18,688,854)**	**(28,042,573)**	**597,764,463**
Comprehensive income	(1,753,734)	1,787,933	966,226	96,127	(629,657)	131,478	(539,499)	1,710,365	1,769,239
Total comprehensive income	**540,719,192**	**(100,518,329)**	**(12,095,291)**	**(5,895,626)**	**28,550,654**	**194,333,663**	**(19,228,353)**	**(26,332,208)**	**599,533,702**
Attributable to :									
Equity holder of parent	**384,650,561**	**(54,704,528)**	**(10,545,689)**	**(5,140,597)**	**20,556,471**	**144,288,093**	**(10,114,568)**	**(19,749,156)**	**449,240,587**
Non-controlling interests	**156,068,631**	**(45,813,801)**	**(1,549,602)**	**(755,029)**	**7,994,183**	**50,045,570**	**(9,113,785)**	**(6,583,052)**	**150,293,115**

Notes to the Consolidated Financial Statements
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5. GROUP INFORMATION (continued)

Summarized statements of comprehensive income for the year ended 31 December 2016

	IMC	IDC	IAC	IVC	IGC	IPC	GACI	SSPC	Total
Revenue	818,589,381	284,561,734	691,498,915	1,003,452,493	223,840,376	932,007,429	141,871,141	1,550,857	4,097,372,326
Cost of sales	(416,033,010)	(324,183,094)	(633,841,300)	(1,070,596,999)	(181,778,206)	(571,625,986)	(125,310,403)	(4,236,431)	(3,327,605,429)
Selling and distribution expenses	(119,295,977)	(18,105,409)	(7,231,271)	(9,956,226)	-	(18,389,429)	(5,034,493)	(253,937)	(178,266,742)
General and administrative expenses	(34,481,715)	(23,242,345)	(28,546,595)	(23,262,184)	(21,349,500)	(53,241,802)	(10,750,402)	(1,928,737)	(196,803,280)
Investment income	6,787,745	306,142	418,111	633,077	134,958	2,198,666	246,351	(573,263)	10,151,787
Finance cost	(11,371,125)	(31,255,223)	(50,163,998)	(21,807,154)	(8,450,134)	(64,798,839)	(5,596,040)	(347,235)	(193,789,748)
Other income (expense), net	(22,789,530)	855,904	369,909	562,260	413,353	(456,744)	(80,352)	357,045	(20,768,155)
Profit before zakat and tax	221,405,769	(111,062,291)	(27,496,229)	(120,974,733)	12,810,847	225,693,295	(4,654,198)	(5,431,701)	**190,290,759**
Zakat and tax	(19,364,288)	(198,294)	(103,808)	(1,038,668)	(468,810)	(3,517,377)	(1,326,882)	-	(26,018,127)
Profit for the year	202,041,481	(111,260,585)	(27,600,037)	(122,013,401)	12,342,037	222,175,918	(5,981,080)	(5,431,701)	**164,272,632**
Comprehensive income	1,579,774	1,429,355	499,610	1,044,468	1,009,430	1,715,005	(73,964)	(235,303)	6,968,375
Total comprehensive income	203,621,255	(109,831,230)	(27,100,427)	(120,968,933)	13,351,467	223,890,923	(6,055,044)	(5,667,004)	**171,241,007**
Attributable to :									
Equity holder of parent	**140,643,893**	**(59,393,191)**	**(23,973,162)**	**(107,507,512)**	**9,616,686**	**168,929,153**	**(3,272,851)**	**(4,250,256)**	**120,792,760**
Non-controlling interests	**62,977,362**	**(50,438,039)**	**(3,127,265)**	**(13,461,421)**	**3,734,781**	**54,961,770**	**(2,782,193)**	**(1,416,748)**	**50,448,247**

6. OTHER (EXPENSES) / INCOME, NET

	2017	2016
Foreign exchange (loss) / gain	**(4,800,828)**	5,971,638
Settlement of claim	**8,438,372**	-
Others	**9,815,656**	2,881,704
	13,453,200	8,853,342

7. SELLING AND DISTRIBUTION EXPENSES

	2017	2016
Freight costs	**176,289,314**	175,947,586
Transportation costs	**13,306,358**	11,519,400
Demurrage charges	**3,603,720**	2,853,497
Custom charges	**1,580,092**	1,951,601
Insurance costs	**1,074,441**	1,464,749
Others	**4,554,493**	11,020,074
	200,408,418	204,756,907

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Employee related costs	**179,837,187**	157,179,290
Depreciation and amortization	**58,771,690**	34,047,663
Legal and professional fees	**9,165,636**	5,611,915
Donations	**7,713,234**	6,915,111
Expenses of board of directors and board meetings for the group	**4,644,191**	5,351,119
Others	**30,816,646**	10,253,865
	290,948,584	219,358,963

8.1 Employee related costs

	2017	2016
Included in costs of sales	**405,334,885**	430,138,594
Included in general and administrative expenses	**179,837,187**	157,179,290
	585,172,072	587,317,884

8.2 Depreciation and amortization

	2017	2016
Included in costs of sales	**661,037,171**	710,599,985
Included in general and administrative expenses	**58,771,690**	34,047,663
	719,808,861	744,647,648

9. FINANCE COSTS

	2017	2016
Finance charges on loans	**277,078,822**	268,452,780
Commission on LC's & LG's	**7,667,878**	4,294,233
Interest costs on end of services benefits	**7,438,520**	7,633,024
Un-winding costs of decommissioning liabilitiy	**4,142,635**	6,155,805
Bank charges	**1,834,378**	2,061,752
	298,162,233	288,597,594

10. ZAKAT AND INCOME TAX

	2017	2016
Zakat payable	**102,739,292**	95,196,095
Income tax payable	**46,807,466**	6,028,551
	149,546,758	101,224,646

The principal elements of the zakat base of the Group are as follows:

	2017	2016
Non-current assets	**12,375,525,584**	12,493,993,433
Non-current liabilities	**6,899,141,127**	7,022,657,232
Opening shareholder equity	**5,264,038,341**	5,253,236,147
Net income before zakat and income tax	**671,186,604**	164,493,761
Consumables spares	**193,605,436**	210,505,507
Dividend paid	-	-

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

Zakat for the year is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to Saudi shareholders.

10. ZAKAT AND INCOME TAX (continued)

The movement in the Zakat and income tax provision is as follows:

	Zakat	Income Tax	2017 Total	2016 Total
Balance as at 1 January	**95,196,095**	**6,028,551**	**101,224,646**	104,555,524
Charge for the year	**25,323,194**	**58,513,067**	**83,836,261**	72,950,875
Payments during the year	**(17,779,997)**	**(17,734,152)**	**(35,514,149)**	(76,281,753)
Balance as at 31 December	**102,739,292**	**46,807,466**	**149,546,758**	101,224,646

The zakat and income tax charge for the year ended 31 December comprises of the following:

	Zakat	Income Tax	2017 Total	2016 Total
Company's share in zakat and income taxes	**25,478,856**	**989,899**	**26,468,755**	55,422,469
Non controlling's share in the zakat and income taxes	**(155,662)**	**57,523,168**	**57,367,506**	17,528,406
	25,323,194	**58,513,067**	**83,836,261**	72,950,875

Outstanding assessments:

Sipchem received Zakat assessments for the years 2007 to 2010 with additional zakat liability of SR 109 million against which Sipchem appealed to Higher Appeal Committee's (HAC). In March 2017, Sipchem received HAC's decision No 1695 of 1438H in relation to assessments for the year 2007 and 2008, which was in the Sipchem's favour and resulted in zakat saving of approximately SR 37 million. The revised assessment from GAZT following the HAC decision has been received with a liability of SR 1.9 million. The company has settled the liability and accordingly the years are finalized. In respect of years 2009 and 2010, Sipchem filed an appeal with HAC against GAZT's revised assessment of SR 72 million. The HAC conducted appeal hearing session on 26 Sep 2017 and requested certain additional information which is duly submitted to them. HAC ruling is awaited.

IMC received tax and zakat assessments for the years 2003 through 2010 with a tax, zakat and delay fine liability of SR 60.6 million. IMC accepted and settled SR 0.17 million under protest and has filed appeal on remaining liability. IMC received withholding tax assessment for the years 2007 to 2012 for the delay fines of SR 18 million. IMC does not agree with the delay fines and has filed an appeal against this assessment in Preliminary Appeal Committee (PAC). PAC upheld the GAZT's contention and subsequently IMC has filed an appeal against the PAC decision at HAC. The HAC appeal hearing was conducted on 21 November 2017. The HAC decision was in line with PAC and upheld the GAZT's contention. IMC may file appeal against HAC decision at Board of Greivance (BOG).

IAC received an assessment for the year 2006 to 2008 with an additional tax, withholding tax and zakat liability of SR 0.6 million, SR 2.8 million and SR 3.9 million respectively. IAC paid SR 1.1 million out of SR 7.3 million and has appealed against these assessments.

SSPC received an assessment for the period/year 2014 and 2015 with an additional zakat and withholding tax liability of SR 4.7 million. SSPC accepted and settled SR 944K under protest and has filed appeal on remaining liability.

All of the companies within the Group submitted their zakat and income tax declarations up to the year ended 31 December 2016 within the statutory deadline and these are still under review of the GAZT.

11. EARNINGS PER SHARE

Basic earnings per share for profit attributable to ordinary shares holders for the year ended 31 December 2017 & 2016 are computed based on the weighted average number of shares outstanding during such years. The diluted earnings per share are the same as the basic earnings per share because the Group does not have any dilutive instruments in issue.

	2017	2016
Profit for the year attributable to equity holders of the company	**437,393,221**	43,083,753
Weighted average number of shares outstanding during the year	**366,666,666**	366,666,666
Basic and Dilutive earnings per share	**1.19**	0.12

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12. PROPERTY, PLANT AND EQUIPMENT

2017	Land, buildings and lease hold improvements	Plant and machinery	Catalyst and tools	Vehicles, computers, furniture, fixture and office equipment	Capital work in progress (CWIP)	Total
Cost:						
At 1 January 2017	**532,617,573**	**13,669,453,754**	**519,185,611**	**246,321,484**	**1,753,070,813**	**16,720,649,235**
Additions	**79,649**	**109,305,214**	**35,486,356**	**2,367,074**	**462,963,013**	**610,201,306**
Transfers*	**47,470,471**	**61,267,226**	**7,403,707**	**1,728,226**	**(891,200,239)**	**(773,330,609)**
Transfers to intangibles (note 13)	-	-	-	-	**(307,980,334)**	**(307,980,334)**
Write off	-	**(2,712,303)**	**(35,579,326)**	**(25,006)**	-	**(38,316,635)**
At 31 December 2017	**580,167,693**	**13,837,313,891**	**526,496,348**	**250,391,778**	**1,016,853,253**	**16,211,222,963**
Accumulated Depreciation:						
At 1 January 2017	**53,294,159**	**3,865,322,085**	**379,477,469**	**75,941,569**	-	**4,374,035,282**
Depreciation charge for the year	**15,760,397**	**538,798,122**	**87,613,406**	**24,246,678**	-	**666,418,603**
Write off	-	**(1,363,036)**	**(35,579,326)**	**(13,040)**	-	**(36,955,402)**
At 31 December 2017	**69,054,556**	**4,402,757,171**	**431,511,549**	**100,175,207**	-	**5,003,498,483**
Net Book Value:						
At 31 December 2017	**511,113,137**	**9,434,556,720**	**94,984,799**	**150,216,571**	**1,016,853,253**	**11,207,724,480**
At 31 December 2016	479,323,414	9,804,131,669	139,708,142	170,379,915	1,753,070,813	12,346,613,953

*Transfers include an amount of SR 773 million, related to Sipchem House Ownership Program (SHOP). The cost incurred on the project is transferred to employees' home ownership program. Refer (note – 14).

(Expressed in Saudi Riyal)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

2016	Land, Buildings and lease hold improvements	Plant and machinery	Catalyst and tools	Vehicles, computers, furniture, fixture and office equipment	Capital work in progress (CWIP)	Total
Cost:						
At 1 January 2016	355,314,737	13,117,627,111	473,059,648	92,287,515	2,252,275,107	16,290,564,118
Additions	60,000	-	-	1,322,103	496,870,791	498,252,894
Transfers	177,242,836	615,343,601	46,125,963	155,643,746	(994,356,146)	-
Transfers to intangibles	-	-	-	(2,931,880)	(1,718,939)	(4,650,819)
Write off	-	(63,516,958)	-	-	-	(63,516,958)
At 31 December 2016	532,617,573	13,669,453,754	519,185,611	246,321,484	1,753,070,813	16,720,649,235
Accumulated Depreciation:						
At 1 January 2016	40,968,929	3,262,200,913	325,188,625	61,739,456	-	3,690,097,923
Depreciation charge for the year	12,325,230	635,316,192	54,288,844	14,202,113	-	716,132,379
Write off	-	(32,195,020)	-	-	-	(32,195,020)
At 31 December 2016	53,294,159	3,865,322,085	379,477,469	75,941,569	-	4,374,035,282
Net Book Value:						
At 31 December 2016	479,323,414	9,804,131,669	139,708,142	170,379,915	1,753,070,813	12,346,613,953
At 31 December 2015	314,345,808	9,855,426,198	147,871,023	30,548,059	2,252,275,107	12,600,466,195

12.1 Capital Work In Progress

The Group's capital work-in-progress as at 31 December 2017 is SR 1,017 million (2016: SR 1,753 million) and comprises mainly of construction costs related to Polybutylene terephthalate plant, Ethylene-vinyl acetate (EVA) Film plant, Debottlenecking (DBN), Environmental Efficiency Centre (SEEC) and costs related to several projects for improvements and enhancements of operating plants. During the year, the Group transferred an amount of SR 301 million from capital work-in-progress to intangible assets which represent costs in relation to construction of one of its supplier's assets. The asset constructed gives the beneficial right to the group to use a portion of the asset output. Moreover, an amount of SR 6.7 million was transferred to ERP cost for enhancement of SAP configuration.

On account of test runs prior to commercial production of projects, the Group capitalized an amount of SR 22.24 million with respect to EVAF project, net of test run revenue amounting to SR 4.44 million. Moreover, an amount of SR 64.64 million was capitalized in PBT project net of test run revenue amounting to SR 242.67 million.

12.2 Property, plant and equipment

Property plant and equipment are constructed over a land in Jubail Industrial City leased from the Royal Commission for Jubail and Yanbu for 30 years commencing on 16 Muharram 1432 (corresponding 30 March 2002).

Some of the Group's property, plant and equipment which has carrying amount of 8,213 million (2016: SR 8,383 million) are pledged as security against Saudi Industrial Development Fund Loans, syndicated bank loans and Public Investment Fund loans (note 16).

12.3 Impairment

As at 1 January 2016, the Group determined that the recoverable amounts of two of its CGUs namely International Diol Company ("IDC") and Polybutylene terephthalate ("PBT") of SR 1,541 million were less than its carrying amount of SR 2,241 million. An impairment loss of SR 400 million in IDC and SR 300 million in PBT was recognized in the 2016 financial results.

During the current year ended 31 December 2017, the recoverable amounts of CGUs have been analysed based on a value in use calculation using cash flow projections from financial budgets and forecasts covering a five-year period. The projected cash flows have been updated to reflect the industry trend. As a result of analysis, the management did not identify an impairment for the CGUs, hence no impairment losses were recognized for 2017.

The key assumptions used in the estimation of value in use were as follows:

	2017	2016
Discount rate	**10%**	10%
Terminal Value growth rate	**2%**	2%

The discount rate was a pre tax measure calculated based on weighted average cost of capital, using CAPM model to calculate the cost of equity. CAPM model used was adjusted for a risk premium to reflect both the increased risk of investing in equities generally and systematic risk of the specific CGU.

Five years of cash flows were included in the discounted cash flow model. A long term growth rate into perpetuity has been determined by reference to nominal Gross Domestic Product (GDP) of Saudi Arabia, i.e. the country where the CGUs operate.

12.4 Assets written off

During 2016, the Group completed the turnaround of the IMC plant in which assets with a carrying amount of SR 31 million were replaced. The management consequently booked a loss on disposal of these assets amounting to SR 31 million. For the current year ended certain assets mainly related to IDC plant amounting to SR 1.36 million were written off.

(Expressed in Saudi Riyal)

13. INTANGIBLE ASSETS

	Software	Deferred costs	Rights	2017 Total	2016 Total
Costs					
Balance as at 01 January	125,066,784	81,058,719	-	**206,125,503**	200,841,074
Additions	1,571,917	664,632	-	**2,236,549**	633,610
Transfers	6,779,535	-	301,200,799	**307,980,334**	4,650,819
Balance as at 31 December	133,418,236	81,723,351	301,200,799	**516,342,386**	**206,125,503**
Balance as at 01 January	43,619,941	44,670,005	-	**88,289,946**	59,774,677
Amortization	29,516,460	5,936,125	6,355,169	**41,807,754**	28,515,269
Balance as at 31 December	73,136,401	50,606,130	6,355,169	**130,097,700**	**88,289,946**
Net book value					
At 31 December	60,281,835	31,117,221	**294,845,630**	**386,244,686**	**117,835,557**

Computer software mainly includes SAP and other programs which management has capitalized and amortization is calculated on 5 -10 years of useful life.

Deferred cost mainly includes costs related to Sipchem Total Optimization Project, and consideration paid to Tasnee for future price reduction. Amortization is calculated on 10 – 15 years of useful life.

Rights represent the costs incurred by the Group on one of the plants of a supplier in accordance with a tolling agreement, giving the Group a right to a fraction of the output produced by the plant. The risk and rewards of the plant and the related ownership is with the supplier. Amortization is calculated on 16 years of useful life.

14. EMPLOYEES' HOME OWNERSHIP PROGRAM

	2017	2016
Receivable from employees	**393,876,790**	-
Deferred costs	**315,246,411**	-
	709,123,201	-

The movement in employee's home ownership program as at 31 December as follows:

	Note	Employees' receivables	Deferred Costs	2017 Total	2016 Total
Balance as at 1 January		-	-	**-**	-
Additions during the year		-	24,490,756	**24,490,756**	-
Transfers from CWIP	12	617,909,150	155,421,459	**773,330,609**	-
Amortization		-	(11,582,504)	**(11,582,504)**	-
Recoveries		(38,893,837)	-	**(38,893,837)**	-
Transfers*		(146,916,700)	146,916,700	**-**	-
Current portion of employees' receivable	19	(33,472,511)	-	**33,472,511**	-
Provision for refund liability		(4,749,312)	-	**(4,749,312)**	-
Balance as at 31 December		393,876,790	315,246,411	**709,123,201**	-

*Employees' receivables under SHOP program, were discounted at the market rate to reflect the fair value of long term receivable. Consequently, an amount of SR 147 million was transferred to deferred cost representing long term employee benefits. This is amortized on a straight line basis over an average period of 14 years.

15. GOODWILL

On 31 December 2011 SMC acquired 100% of the voting shares of Aectra SA, an unlisted Company registered in Switzerland and subsidiary of Sipchem Europe Cooperative U.A, for a consideration of SR 106 million. SR 30 million of goodwill arose on this transaction. Accordingly, the balance sheet of Aectra SA has been consolidated in these consolidated financial statements. The goodwill is subject to annual impairment testing.

The recoverable amount of the CGU is SR 95 million as at 31 December 2017, was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the current trend in industry.

As a result of the analysis, there is headroom of SR 65 million and management did not identify an impairment for Goodwill. Therefore, no impairment losses were recognised in 2017.

15. GOODWILL (continued)

The key assumptions used in the estimation of value in use were as follows:

	2017	2016
Discount rate	**10%**	10%
Terminal Value growth rate	**1%**	1%

The pre-tax discount rate applied to the cash flow projections is 10%. The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 1%. Management of the Group believes this growth rate is justified based on the acquisition of Aectra SA Limited in the current market and is reflective of current growth rate of a country where the CGU operates.

Management has identified that a reasonably possible change in the key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the percentage by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	2017	2016
Discount rate	**45%**	42%
Terminal value growth rate	**(9.04%)**	(9.5%)

16. FINANCIAL INSTRUMENTS

16.1 Financial Assets

	2017	2016
Financial assets measured at fair value:		
Short term investments	31,032,642	23,672,928
Total financial instruments at fair value	31,032,642	23,672,928
Financial assets measured at amortized cost:		
Short term investment	222,500,001	-
Trade receivables (note 18)	876,778,008	623,567,540
Other current assets (note 19)	8,815,698	11,107,190
Cash and cash equivalent (note 20)	1,722,754,310	1,822,689,059
Total financial assets at amortized cost	**2,830,848,017**	**2,457,363,789**
Total financial assets	**2,861,880,659**	**2,481,036,717**

Loans and receivables are non-derivatives financial assets carried at amortised cost which generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

16.2 Financial Liabilities

Financial liabilities measured at amortized cost

a. Other financial liabilities

	2017	2016
Trade and other payables (note 25)	**196,924,708**	135,088,911
Accrued expenses and other liabilities	**92,009,203**	71,760,056
Total other financial liabilities measured at amortized cost	**288,933,911**	**206,848,967**

b. Loans and borrowings

	Effective interest rate %	Maturity	2017	2016
Short term bank loans	3.95%	2017	**-**	**200,000,000**
Current loans and borrowings				
Saudi industrial development fund	1.41% - 2.52%	2019 – 2022	283,850,000	397,209,000
Shari'a compliant bank loans	2.87% - 3.80%	2021 – 2027	296,476,766	159,533,160
Public investment fund loans	3.80% - 4.68%	2020 – 2026	189,208,000	189,208,000
Islamic Tawwaruq facility	3.42% - 4.75%	2021 – 2023	34,929,768	281,160,714
Murabaha Facility	2.89%	2023	29,250,000	26,000,000
Other current loans				
Advances from partners	3%-6.19%		33,205,788	67,120,396
Total current loans and borrowings			866,920,322	1,320,231,270

(Expressed in Saudi Riyal)

16. FINANCIAL INSTRUMENTS (continued)

16.2 Financial Liabilities (continued)

	Effective interest rate %	Maturity	2017	2016
Non-current loans and borrowings				
Saudi industrial development fund	1.41% - 2.52%	2019 – 2022	1,021,861,206	1,047,580,766
Shari'a compliant bank loans	2.87% - 3.80%	2021 – 2027	1,903,153,178	2,110,506,730
Public investment fund loans	3.80% - 4.68%	2020 – 2026	648,086,991	855,198,929
Islamic Tawwaruq facility	3.42% - 4.75%	2021 – 2023	1,646,252,413	1,349,552,422
Murabaha Facility	2.89%	2023	220,345,826	250,091,516
Other non-current loans				
Advances from partners	2%		**87,920,236**	**68,888,323**
Islamic Murabaha bonds (SUKUK)	4.63%	2021	**998,136,277**	**997,402,964**
Total non-current loans and borrowings			**6,525,756,127**	**6,679,221,650**
Total loans and borrowings			**7,392,676,449**	**7,999,452,920**
Total financial liabilities measured at amortized cost			7,681,610,360	8,206,301,887

Aggregate maturities of the long term loans at 31 December were as follows:

	2017	2016
2017	-	1,320,231,270
2018	**866,920,322**	1,072,023,299
2019	**1,399,258,781**	989,718,971
2020	**1,182,323,845**	949,927,027
2021	**2,006,541,874**	1,820,342,108
2022 and above	**1,937,631,627**	1,847,210,244
	7,392,676,449	7,999,452,919

Secured loan - SIDF

The Saudi Investment Development Fund ("SIDF") granted loans to IAC, IVC, IGC, IPC, SCC, SSPC and GACI. These loans are secured by guarantees from partners of relevant affiliates proportionate to partner shareholdings and a first priority mortgage on all present and future assets. The loans are repayable in unequal semi-annual installments. The loan agreements include covenants to maintain financial ratios during the loans period. Management fees and follow-up fees are charged to the loans as stated in the loan agreements.

Secured bank loan

The Group entered into Shari'a compliant credit facility agreements with syndicates of financial institutions. The loans are secured by pre-completion guarantees from partners of relevant affiliates proportionate to partner shareholdings and a second priority mortgage on the assets already mortgaged to SIDF. The only pre-completion guarantee outstanding in 2016 and 2017 was for International Polymers Company. Under a partner support agreement for the projects financing, the partners have the right following completion of a project to provide a letter of credit for support of operations during the life of loans. The loans are repayable in unequal semi-annual installments. The agreements include covenants to maintain certain financial ratios and also require maintenance of certain restricted bank accounts. The loans carry financial charges at SIBOR plus a fixed margin.

Secured loan - PIF

The Public Investment Fund ("PIF") granted loans to IAC, IVC, IGC and IPC to finance the construction of plants of these companies. The obligation under these loan agreements at all times are pari passu with all other creditors. The loans are repayable in equal semi-annual instalments. The agreements include covenants to maintain certain financial ratios. The loans carry financial charges at LIBOR / SIBOR plus a fixed margin.

Murabaha facility agreement

In 2013, IMC entered into a Murabaha facility agreement with a Saudi bank for the purpose of refinancing its capital lease obligation. The new agreement provided an extension of loan tenure for an additional 6 years, conversion from LIBOR to SIBOR, reduction in loan margin.

16. FINANCIAL INSTRUMENTS (continued)

16.2 Financial Liabilities (continued)

Advances from partners

The partners of IAC, IPC, GACI, and SSPC have agreed to contribute long term advances to finance certain percentage of their projects' costs as per the shareholder agreements. As per the shareholder agreements, long term partners' advances shall be repaid after the repayment of external indebtedness and funding of the reserve accounts.

As of 31 December 2016, the shareholders of the subsidiaries of the Company had granted long term advances of SR 88 million (2016: SR 69 million). The shareholders have also made short term advances of SR 33 million (2016: SR 67 million). Some of the long term advances do not carry any finance charges and have no specific maturity dates, while other long term advances and the short term advances carry finance charges at normal commercial rates.

Sukuk

On 27 November 2010, the Extraordinary General Assembly approved the issue of Islamic Murabaha Bonds ("Sukuk") so as to be in compliance with Shari'a Laws, for the purpose of financing the capital expansion of the new projects. The Company obtained the approval of the Capital Market Authority for Sukuk issuance during the second quarter of 2011 and the first issuance was completed on 29 June 2011 for an amount of SR 1,800 million which will be for five years and carry an interest rate of SIBOR plus a profit margin of 1.75% per annum payable at the end of each quarter. In June 2016, the Company extinguished its liability related to old Mudaraba Sukuk amounting to SR 1,800 million and issued new Mudaraba/Murabaha Sukuk amounting to SR 1,000 million with a maturity of five years and with commission payable semi-annually at a rate of SIBOR plus 2.35% per annum, incurring transaction costs of SR 3 million.

Bank Facilities

The Group has bank facilities from local banks in the form of bank overdrafts, working capital facilities, letters of credit and guarantee, and other facilities ("the Facilities"). The Facilities carry commission at the prevailing market rates. The Facilities are secured by corporate guarantees. At 31 December 2017, the Group had SR Nil million (2016: SR 200 Million) of working capital facilities, which were fully repaid by the Group.

16.3 Financial Assets measured at fair value

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows the carrying amounts and fair values of financial assets, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value:

	Carrying value	Fair value	Level 1	Level 2	Level 3
		As at 31 December2017			
Short term investments					
Equity securities	**31,032,642**	**31,032,642**	**31,032,642**	**-**	**-**
Total	**31,032,642**	**31,032,642**	**31,032,642**	**-**	**-**

	Carrying value	Fair value	Level 1	Level 2	Level 3
		As at 31 December 2016			
Short term investments					
Equity securities	23,672,928	23,672,928	23,672,928	-	-
Total	23,672,928	23,672,928	23,672,928	-	-

	Carrying value	Fair value	Level 1	Level 2	Level 3
		As at 1 January 2016			
Short term investments					
Equity securities	31,095,389	31,095,389	31,095,389	-	-
Total	31,095,389	31,095,389	31,095,389	-	-

The financial assets and liabilities of the Group are recognised in the consolidated statement of financial position in accordance with the accounting policies. The carrying value of the financial assets and financial liabilities of the Group approximate the fair value.

16. FINANCIAL INSTRUMENTS (continued)

16.4 Held to maturity financial assets

This represents deposits with banks having maturity of more than three months but less than a year from date of placement. The group has the intention to hold the investment till maturity. The amount of such investments as at 31 Deceber 2017 is SR 222.5 million (2016: SR nil).

16.5 Financial instruments risk management objectives and policies

The Group's principal financial assets include cash and cash equivalents, accounts receivable and certain other receivables, that arrive directly from its operations. The Group has entered into derivative transactions. The Group's principal financial liabilities, comprise short and long term loans and borrowings, including advances from partners, as well as trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

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 financial risk activities are governed by appropriate policies and procedures. Financial risks are identified, measured and managed in accordance with group policies and risk appetite. All derivative activities for risk management purposes are carried out by teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

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 prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity price risk and commodity price risk. Financial instruments affected by market risk include: loans and borrowings, deposits, and derivative financial instruments.

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 obligations with floating interest rates. To manage this, the Group has a policy to assess implications of changes in interest rates and evaluate need of entering into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2017, the group has no interest rate swaps. At 31 December 2017, fixed amount of interest on long term loan is approximately around 23% (2016 : 20%) of finance charges on loans.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings, after the impact of hedge accounting (if any). With all other variables held constant, the Group's profit before zakat and foreign income tax is affected through the impact on floating rate borrowings, as follows:

	Increase/ decrease in basis points	Effect on profit before zakat and foreign income tax
31 December 2017		
Impact in SR in million due to change in base point	+0.5%	(35.65)
Impact in SR in million due to change in base point	-0.5%	35.65
31 December 2016		
Impact in SR in million due to change in base point	+0.5%	(35.18)
Impact in SR in million due to change in base point	-0.5%	35.18

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a higher volatility than in prior years.

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's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries including foreign currency amounts due from related parties. The Group is subject to fluctuations in foreign exchange rates for Euros. The currency risk is monitored at the Group level. The Group monitors the fluctuations in Euro exchange rates and manages its foreign currency risk by entering into hedging transactions using forward exchange contracts. At 31 December 2017, the Group had receivables of € 42.2 million (2016: € 29.9 million) included in amounts due from related parties.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit before zakat and foreign income tax (due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives) and the Group's pre-tax equity, if any. The Group's exposure to foreign currency changes for all other currencies is not material.

16. FINANCIAL INSTRUMENTS (continued)

16.5 Financial instruments risk management objectives and policies (continued)

	Change in Euro rate	Effect on profit before tax SR in million	Effect on equity SR in million
31 December 2017			
Euro to Saudi Riyals	+0.5	27.16	27.16
Euro to Saudi Riyals	-0.5	(27.16)	(27.16)
31 December 2016			
Euro to Saudi Riyals	+0.5	17.07	17.07
Euro to Saudi Riyals	-0.5	(17.07)	(17.07)

Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities involve owning, establishing, operating and managing industrial projects specially those related to chemical and petrochemical industries. The Group's Board of Directors has developed and enacted a risk management strategy dealing with commodity price risk and its mitigation.

Price sensitivity

The following table shows the effect of price changes for commodities:

	Change in year-end price	Effect on profit before tax SR in million	Effect on equity SR in million
31 December 2017			
Crude Oil (USD/MT)	+5%	175.4	175.4
Crude Oil (USD/MT)	-5%	(231.2)	(231.2)
31 December 2016			
Crude Oil (USD/MT)	+5%	262.9	262.9
Crude Oil (USD/MT)	-5%	(125.7)	(125.7)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance. At 31 December 2017, the Group had 15 customers that owed more than SR 523 million (2016: SR 358 million) altogether and accounted for approximately 60% (2016: 57%) of the total trade receivables.

The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 16. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as normal, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts as illustrated in note 18, except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments are in note 26.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manages its liquidity risk by managing the working capital and ensuring that the bank facilities are available.

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

16. FINANCIAL INSTRUMENTS (continued)

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

As at 31 December 2017	Carrying Value	On demand	Less than 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
				SR '000			
Trade and other payables	196,925	39,104	157,524	221	72	4	196,925
Other liabilities	92,009	6,738	-	85,271	-	-	92,009
Loans and borrowings	7,392,676	33,206	388,381	445,334	5,789,317	736,438	7,392,676
As at 31 December 2017	**7,681,610**	**79,048**	**545,905**	**530,826**	**5,789,389**	**736,442**	**7,681,610**

As at 31 December 2016	Carrying Value	On demand	Less than 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
				SR '000			
Trade and other payables	135,089	-	134,864	225	-	-	135,089
Other liabilities	71,760	5,097	-	66,663	-	-	71,760
Loans and borrowings	7,999,453	67,120	690,849	562,262	5,430,312	1,248,910	7,999,453
	8,206,302	**72,217**	**825,713**	**629,150**	**5,430,312**	**1,248,910**	**8,206,302**

Capital management

Capital includes equity paid up capital and equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio and current ratio, the Group's policy is to keep the gearing ratio maximum 3:1 and current ratio minimum 1.5:1. The Group calculates the gearing ratio by total liabilities divided by total shareholder's equity including non-controlling interest.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants may lead to call-back of facilities. During the year, there were breach of loan covenants related to SIDF, PIF and commercial loans for which the Company contacted the financial institution and obtained necessary waiver letters before the end of the year ended 31 December 2017. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2017.

17. INVENTORIES

	2017	2016
Raw materials	**148,457,366**	144,234,764
Finished goods	**326,292,105**	399,662,463
Spare parts and consumables	**218,765,408**	210,505,507
Provision for slow moving stores and spares	**(25,159,972)**	-
	668,354,907	754,402,734

18. TRADE RECEIVABLES

	2017	2016
Trade receivables	**984,790,783**	767,976,766
Less: provision for doubtful debts	**(108,012,775)**	(144,409,226)
	876,778,008	623,567,540

Trade receivables include an amount of SR 300 million (2016: SR 292 million) from related parties. For terms and conditions relating to related party receivables, refer to note 29. Trade receivables are non-interest bearing and are generally on terms in accordance with the agreements with customers. The management analyse customers outstanding balance on regular basis and write off any balance which management realize to be un-collectible. Following is the provision matrix used by the Group for provision in case of trade receivables:

			Past due but not impaired				
	Total	Neither past due nor impaired	< 6 months	6 to 12 months	12 months to 18 months	18 months to 24 months	>24 months
			SR '000				
31 December 2017	**876,778**	**721,576**	**148,590**	**6,201**	**255**	**139**	**17**
31 December 2016	623,568	580,777	21,362	4,391	1,448	12,475	3,115

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

19. PREPAYMENTS AND OTHER ASSETS

	Note	2017	2016
Advances, deposits and prepayments		**74,242,051**	74,022,834
Current portion of employees' receivable for SHOP	14	**33,472,511**	-
Accrued investments income		**8,104,833**	3,004,459
Others		**710,865**	8,102,731
		116,530,260	85,130,024

20. CASH AND CASH EQUIVALENTS

	2017	2016
Cash in hand	**119,091**	151,980
Cash at bank	**442,035,219**	693,078,598
Short term deposits	**1,280,600,000**	1,129,458,481
	1,722,754,310	1,822,689,059

Cash and cash equivalents include cash and bank balances, demand deposits, and highly liquid investments with original maturities of three months or less. At 31 December 2017, the Group had available SR: Nil of undrawn committed borrowing facilities. Short term deposits represents deposits with commercial banks carrying profit rate ranging from 0.5% – 2.5%.

21. SHARE CAPITAL AND RESERVES

	2017	2016
Authorized shares		
Ordinary shares @ SR 10 each		
Ordinary shares issued and fully paid		
As at 1 January	**366,666,666**	366,666,666
Issued during the year	**-**	-
As at 31 December	**366,666,666**	366,666,666

21.1 Statutory reserve

In accordance with Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for distribution to shareholders.

21.2 Reserve for result of sales / purchase of shares in subsidiaries

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

(Expressed in Saudi Riyal)

22. SHARE BASED PAYMENTS ARRANGEMENTS

As at 31 December 2017, the Group had following share-based payments arrangements;

Share purchase plan (Equity-settled)

The Group had offered to its employees to participate in an employee share purchase plan. To participate in plan, employees must have fulfil eligibility criteria of the Company i.e. must have competed one year of services and good performance rating, approval of the Company. Under the terms of Plan, at the end of 36 months period the employees are entitled to purchase shares using funds saved at a price of 30% below the market price at grant date. Only employees that remain in services and save the required amount of their gross monthly salary for 36 consecutive months will become entitled to purchase the shares. The subscriber pays 25% of value of the allotted shares in cash and remaining is paid in equal monthly instalments not exceeding 20% of the subscriber's monthly salary. Employees who ceases their employment, before completion of 36 instalments, or elect not to exercise their options to purchase shares will be refunded their saved amounts.

The key terms and conditions related to the grant under these programmes are as follows; all options are to be settled by the physical delivery of shares.

31 December 2017:

Grant date	Number of Instruments	Vesting conditions	Grant Date Fair Value	Exercise Price	Contractual life of options
1 May 2015	30,212	3 years services from grant date	30.69	21.5	3 Years
1 Nov 2015	117,851	Same as above	20.40	14.3	3 Years
1 May 2016	471,896	Same as above	14.19	9.9	3 Years
1 May 2017	185,743	Same as above	18.06	12.6	3 Years
1 Nov 2017	159,845	Same as above	15.17	10.6	3 Years

31 December 2016:

Grant date	Number of instruments	Vesting conditions	Grant date fair value	Exercise price	Contractual life of options
1 May 2014	29,016	3 years services from grant date	30.77	21.5	3 Years
1 Nov 2014	8,656	Same as above	37.90	26.5	3 Years
1 May 2015	44,694	Same as above	30.69	21.5	3 Years
1 Nov 2015	171,575	Same as above	20.40	14.3	3 Years
1 May 2016	505,059	Same as above	14.19	9.9	3 Years

The Group has cash and cash equivalent of SR 1.232 million (2016: SR 7.035 million) and short-term investments of SR 31.033 million (SR 23.672 million) under share based payments arrangements. The expense recognized during the year arising from amortization of discount offered under share based payments arrangements amounted SR 1.158 million (2016: SR 1.384 million).

23. DIVIDENDS

The Board of Directors in their meetings held on 19 December 2017 decided as recommendation to the General Assembly to distribute a cash dividends amounting to SR 183.3 million i.e., SR 0.50 per share, equivalent to 5% of the share capital. The distribution is limited to the shareholders who are registered in Tadawul at end of second trading day following the General Assembly Meeting.

24. EMPLOYEES BENEFITS

		2017	2016
Post employments benefits	24.1	**222,517,174**	193,360,439
Thrift plan	24.2	**19,894,625**	14,981,339
		242,411,799	208,341,778

24.1 Post employments benefits

The group has a post-employment defined benefit plan. The benefits are required by Saudi Labour and Workman Law. The Group and its subsidiaries recognized the benefits in the consolidated statement of profit and loss. The benefit is based on employees' final salaries and allowances and their cumu lative years of service, as stated in the laws of Saudi Arabia.

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

Net benefit expense recognised in consolidated income statement:

	2017	2016
Current service cost	**27,346,808**	30,990,587
Interest cost on benefit obligation	**7,438,520**	7,633,024
	34,785,328	38,623,611

24. EMPLOYEES BENEFITS (continued)

Net benefit expense recognised in consolidated income statement and other comprehensive income:

	2017	2016
Re-measurement gains and losses on obligation		
Loss due to change in financial assumptions	**3,196,023**	138,639
Loss due to change in demographic assumptions	**353,878**	-
Gain due to change in experience adjustments	**(3,892,714)**	(7,837,005)
	(342,813)	(7,698,366)

Movement in the present value of defined benefit obligation:

	2017	2016
As at 1 January	**193,360,439**	184,231,331
Current service cost	**27,346,808**	30,990,587
Interest cost	**7,438,520**	7,633,024
Actuarial gain on the obligation	**(342,813)**	(7,698,366)
Benefits paid during the year	**(5,285,780)**	(21,796,137)
As at 31 December	**222,517,174**	193,360,439

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

	2017	2016
Discount rate	**3.30%**	3.75%
Future salary increases	**3.75%**	3.75%
Mortality rates	**WHO 15**	SLIC (2001-05)-1
Rates of employee turnover	**Moderate**	Moderate

Assumptions regarding future mortality have been based on published statistics and mortality tables. For the current year ended World Health Organization "WHO" 15 mortality table is used as compared to SLIC (2001-05)-1 used in 2016. There is no major daviation in the mortality tables used.

A quantitative sensitivity analysis for discount rate assumption on the defined benefit obligation as at 31 December 2017 is shown below:

Assumptions	Discount rate	
Sensitivity analysis	0.5% Increase	0.5% Decrease
Defined benefit obligation as at 2017	212,176,283	233,786,533
Defined benefit obligation as at 2016	181,980,553	205,930,417

	Future Salary increase	
	0.5% Increase	**0.5% Decrease**
Defined benefit obligation as at 2017	229,620,222	215,873,486
Defined benefit obligation as at 2016	205,372,775	182,368,087

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

The average duration of the defined benefit obligation at the end of the reporting period is 8.43 years (2016: 11.77 years).

24.2 Thrift Plan

The Group maintains an employee's savings plan for Saudi employees. The contribution from the participants are deposited in separate bank account. The Company's contribution under the savings plan is charged to the consolidated income statement.

24.3 Employee benefit expenses

	2017	2016
Salaries and wages	**528,811,435**	528,013,410
End of service benefits	**27,346,808**	30,990,587
Social security contributions	**18,400,112**	18,576,951
Contribution towards thrift plan	**6,225,655**	5,458,638
Share based payment transactionss	**1,157,754**	1,384,011
Others	**3,230,308**	2,894,287
	585,172,072	587,317,884

(Expressed in Saudi Riyal)

25. TRADE AND OTHER PAYABLES

	2017	2016
Trade payables	186,978,995	108,799,762
Retention payable	9,945,713	26,289,149
	196,924,708	135,088,911

26. ACCRUED EXPENSE AND OTHER LIABILITIES

	2017	2016
Goods received invoices not received	206,250,636	251,750,326
Precious metals accruals	90,617,682	58,591,086
Finance costs accruals	64,281,043	32,326,276
Distribution costs accruals	49,008,291	31,814,303
Dividends payables	38,887,065	4,998,305
Employees related liabilities	31,886,641	3,290,209
IT, maintenance accruals and projects accruals	29,603,812	46,948,734
Donations	14,497,223	12,812,637
SEIP payable	6,738,274	5,097,180
Forward contracts fair value provision*	2,804,977	-
Others	112,513,295	91,429,609
	647,088,939	539,058,665

FAIR VALUE OF DERIVATIVE CONTRACTS

*The Company entered into cash settled "EURO/USD forward foreign exchange derivative contracts with commercial banks having a notional amount of EURO 34,402,774. As at the reporting date, the net fair value of these contracts is SR 2.804 million "un-favorable" (2016: Nil). The change in the fair value has been recognized in consolidated income statement as part of other expenses.

27. DEFERRED REVENUE

The Group had entered into a Carbon Monoxide ("CO") supply agreement with a customer to process Natural Gas and supply Carbon Monoxide. The Group had received an advance of SR 50.6 million which is being adjusted against the supply of CO during the first sixty months from the commencement date of CO supply to the customer. During the year 2017, the advance starts to adjust against supply of CO supply. As at 31 December 2017, outstanding advance amounted SR 45.5 million out of which SR 10 million is classified as current.

28. COMMITMENTS AND CONTINGENCIES

28.1 Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain IT equipment, motor vehicles and land leases. The main leases are with the Royal Commission and the Port Authority. The lease with Royal Commission is for an initial term of 30 Hijri years and is renewal upon the agreement of the two parties.

The Group also leased precious metals, such as gold, palladium and rhodium for manufacturing catalysts. The lease terms for precious metals are for one year term and renewable for further term.

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

	2017	2016
Within one year	2,569,548	2,569,548
After one year but not more than five years	10,278,192	10,278,192
More than five years	24,354,137	26,923,685
	37,201,877	39,771,425

28.2 Commitments

	2017	2016
Capital commitments	502,191,501	687,072,285

28. COMMITMENTS AND CONTINGENCIES (continued)

28.3 Contingencies

	2017	2016
Letter of guarantees and credits	480,022,581	502,232,250

Contingent liabilities

The Group has no material contingent liabilities as at year ended 31 December 2017 except for those as disclosed in note 10 to the consolidated financial statements.

29. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the Group's shareholders, associated and affiliated companies and their shareholders, Board of Directors, and entities controlled, jointly controlled or significantly influenced by such parties. During the year, the Group transacted with the following related parties:

Name	Relationship
Japan Arabia Methanol Company Limited (JAMIC)	Non-controlling interest
HELM –Arabia GmbH & Co. KG (Helm –Arabia)	Non-controlling interest
Hanwha Chemical Malaysia Sdn Bhd	Non-controlling interest
Johnson Matthey Davy Technologies Limited	Affiliate of a non-controlling interest

Foreign partners of the Company marketed part of the Group's products. Total sales made through those foreign partners amounted to SR 1,546 million (2016: SR 1,442 million).

One of the subsidiaries bought certain fixed assets from one of the foreign partners. Total purchases of the fixed assets from the foreign partner during the year amounted to SR 39.5 million (2016: SR 20.0 million).

The Company and minority partners granted advances to the companies of the group to support their operations and comply with the debt covenants. Some of the long-term advances do not carry any finance charges and have no specific maturity dates, whilst other long and short term advances carry finance charges ranging from 2% to 6%. (note 16).

The prices and terms of the above transactions were approved by the Board of Directors of the companies of the Group. The above transactions resulted in the following balances with related parties as at 31 December:

a) Due from related parties (Refer note – 18 Trade receivables)

	2017	2016
Japan Arabia Methanol Company Limited (JAMC)	52,492,518	35,758,902
HELM -Arabia GmbH & Co. KG (Helm -Arabia)	132,957,969	171,726,842
Hanwha Chemical Malaysia Sdn Bhd	114,787,609	84,341,784
	300,238,096	291,827,528

b) Due to related parties

	2017	2016
Johnson Matthey Davy Technologies Limited	-	1,146,605
	-	1,146,605

Terms and conditions of transactions with related parties

The sales to and purchases from 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, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

c) 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 Company.

(Expressed in Saudi Riyal)

29. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

d) Compensations of key management personnel of the Group

The key management personnel compensation is as follows:

	2017	2016
Short-term employee benefits	**22,895,561**	15,083,251
End of service benefits	**3,099,251**	3,261,372
Termination benefits	-	1,969,293
Thrift plan	**1,074,280**	779,707
Share based payment transactions	-	133,000
Other benefits	-	604,832
Total compensation paid to key management personnel	**27,069,092**	21,226,623

e) Directors' interest in the Senior Executive Plan

Share options held by executive members of the Board of Directors under the senior executive plan to purchase ordinary shares have the following expiry dates and exercise prices:

31 December 2017

Grant date employees entitled	Number of instruments	Vesting conditions	Contractual life of options
On 1 January 2014	5,000	3 years service	3 years
On 1 November 2015	75,000	3 years service	3 years
On 1 May 2016	10,000	3 years service	3 years
Total share options	**90,000**		

31 December 2016

Grant date employees entitled	Number of instruments	Vesting conditions	Contractual life of options
On 1 January 2014	5,000	3 years service	3 years
On 1 November 2015	75,000	3 years service	3 years
On 1 May 2016	10,000	3 years service	3 years
Total share options	**90,000**		

30. NON-CASH TRANSACTIONS

	2017	2016
Non-cash transactions		
Transfer from CWIP to employees' home ownership program	**773,330,609**	-
Transfer from CWIP to intangible assets	**307,980,334**	-
Transfer from CWIP to other class of property, plant and equipment	**891,200,239**	994,356,146
Amortization of deferred cost on long term loans	**4,598,028**	3,279,656
Amortization of deferred cost on Sukuk	**733,313**	121,564
Accruals related to effective interest rate	**(11,777,397)**	16,435,882
Discounting impact on decommissioning liability	**4,142,635**	6,155,805
Finance cost on employees' end of service benefits	**7,438,520**	7,633,024

31. POST BALANCE SHEET EVENTS

No adjusting event occurred at the date of authorization of consolidated financial statements by Board of Directors which may have impact on the consolidated financial statements.