SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS PERIOD AND YEAR ENDED 31 DECEMBER 2018

AND INDEPENDENT AUDITOR'S REVIEW REPORT

CHEMISTRY THAT MATTERS™

Index	Pages

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Ernst & Young & Co. (Certified Public Accountants)
General Partnership
Head Office
Al Faisaliah Office Tower - 14th floor
King Fahad Road
PO Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

riyadh@sa.ey.com
www.ey.com/mena

Independent auditor's review report on the interim condensed consolidated financial statements to the shareholders of Saudi Basic Industries Corporation (SABIC)
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Basic Industries Corporation ("SABIC") and its subsidiaries (collectively with SABIC referred to as "the Group") as at 31 December 2018, and the related interim condensed consolidated statements of income and comprehensive income, for the three months period and the year ended 31 December 2018, and the related interim condensed consolidated statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
License No. (366)

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

Riyadh: 21 Jumad Awal 1440H
(27 January 2019)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	As at 31 December 2018	As at 31 December 2017
ASSETS			
Non-current assets:			
Property, plant and equipment		163,787,226	167,355,911
Intangible assets		12,982,304	13,542,397
Investment in associates and joint ventures	*6.1*	25,803,005	14,304,140
Deferred tax assets		865,218	1,518,599
Other non-current assets	*5*	8,707,575	7,970,904
Total non-current assets		212,145,328	204,691,951
Current assets:			
Inventories		28,182,598	26,062,995
Trade receivables		21,568,262	22,609,432
Prepayments and other current assets		5,841,120	5,701,316
Short-term investments		9,465,083	4,351,072
Cash and bank balances		42,921,471	59,038,656
Total current assets		107,978,534	117,763,471
TOTAL ASSETS		320,123,862	322,455,422
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent		173,107,674	163,921,633
Non-controlling interests		48,342,226	46,216,859
Total equity		221,449,900	210,138,492
Non-current liabilities:			
Long-term debt		42,424,653	41,624,732
Employee benefits		15,026,470	17,635,036
Deferred tax liabilities		1,656,187	2,597,059
Other non-current liabilities		2,156,710	2,160,697
Total non-current liabilities		61,264,020	64,017,524
Current liabilities:			
Short-term borrowings and current portion of long-term debt	*6.3*	4,917,845	16,438,456
Trade payables and other current liabilities		32,492,097	31,860,950
Total current liabilities		37,409,942	48,299,406
Total liabilities		98,673,962	112,316,930
TOTAL EQUITY AND LIABILITIES		320,123,862	322,455,422

Executive Vice President Corporate Finance	Chief Executive Officer	Authorised Board of Directors Member

The notes on page 8 to 20 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	For the three months period ended 31 December 2018	2017	For the year ended 31 December 2018	2017
Sales		40,129,369	40,328,239	169,089,527	149,765,968
Cost of sales	*6.2*	(27,889,122)	(27,855,552)	(111,430,825)	(99,858,243)
Gross profit		12,240,247	12,472,687	57,658,702	49,907,725
General and administrative expenses	*6.2*	(2,945,950)	(3,051,081)	(10,927,630)	(10,569,801)
Selling and distribution expenses	*6.2*	(2,793,784)	(2,847,285)	(10,403,031)	(10,339,537)
Income from operations		6,500,513	6,574,321	36,328,041	28,998,387
Share of results of associates and joint ventures		32,499	289,018	1,055,967	1,419,680
Finance cost, net		(325,471)	(361,301)	(1,212,119)	(1,082,659)
Other (expense) income, net		(153,547)	15,397	(438,461)	289,337
Income before zakat and income tax		6,053,994	6,517,435	35,733,428	29,624,745
Zakat expense		(650,000)	(650,000)	(2,600,000)	(2,600,000)
Income tax expense		(185,696)	(356,591)	(1,195,696)	(1,540,000)
Net income for the period/year		5,218,298	5,510,844	31,937,732	25,484,745
Attributable to:					
Equity holders of the Parent		3,242,171	3,702,474	21,543,463	18,430,236
Non-controlling interests		1,976,127	1,808,370	10,394,269	7,054,509
		5,218,298	5,510,844	31,937,732	25,484,745
Basic and diluted earnings per share (Saudi Riyals):					
Earnings per share from income from operations		2.17	2.19	12.11	9.67
Earnings per share from net income attributable to equity holders of the Parent		1.08	1.23	7.18	6.14

Executive Vice President Corporate Finance | Chief Executive Officer | Authorised Board of Directors Member

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals '000 unless otherwise stated)

	For the three months period ended 31 December		For the year ended 31 December	
	2018	2017	**2018**	2017
Net income for the period/year	**5,218,298**	5,510,844	**31,937,732**	25,484,745
Other comprehensive income				
Items that will not be reclassified to the consolidated statement of income (net of tax):				
- Re-measurement gain on defined benefit plans and others	**1,544,937**	891,668	**2,159,804**	213,233
Items that will be reclassified to the consolidated statement of income (net of tax):				
- Exchange difference on translation of foreign operations and others	**(306,987)**	236,127	**(1,302,529)**	3,011,583
- Share of other comprehensive income of associates and joint ventures	**(228,168)**	(238,091)	**54,128**	(184,923)
Movement of other comprehensive income	**1,009,782**	889,704	**911,403**	3,039,893
Total comprehensive income for the period/year	**6,228,080**	6,400,548	**32,849,135**	28,524,638
Attributable to:				
Equity holders of the Parent	**3,942,674**	4,485,226	**22,045,426**	21,488,556
Non-controlling interests	**2,285,406**	1,915,322	**10,803,709**	7,036,082
	6,228,080	6,400,548	**32,849,135**	28,524,638

Executive Vice President Corporate Finance | Chief Executive Officer | Authorised Board of Directors Member

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Attributable to the equity holders of the Parent							
	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2017	30,000,000	15,000,000	110,889,032	(5,307,983)	6,953,960	157,535,009	44,544,030	202,079,039
Net income for the year	-	-	-	-	18,430,236	18,430,236	7,054,509	25,484,745
Other comprehensive income for the year	-	-	-	3,058,320	-	3,058,320	(18,427)	3,039,893
Total comprehensive income for the year	-	-	-	3,058,320	18,430,236	21,488,556	7,036,082	28,524,638
Dividends, net	-	-	-	-	(12,000,000)	(12,000,000)	(5,390,185)	(17,390,185)
Acquisition of non-controlling interest	-	-	-	-	(739,795)	(739,795)	(2,335,205)	(3,075,000)
Absorption of loss on behalf of non-controlling interests	-	-	-	-	(2,362,137)	(2,362,137)	2,362,137	-
Balance as at 31 December 2017	30,000,000	15,000,000	110,889,032	(2,249,663)	10,282,264	163,921,633	46,216,859	210,138,492
Adoption of IFRS 9 and IFRS 15 (Note 4)	-	-	-	389,025	(48,410)	340,615	1,539	342,154
Balance as at 1 January 2018	30,000,000	15,000,000	110,889,032	(1,860,638)	10,233,854	164,262,248	46,218,398	210,480,646
Net income for the year	-	-	-	-	21,543,463	21,543,463	10,394,269	31,937,732
Other comprehensive income for the year	-	-	-	501,963	-	501,963	409,440	911,403
Total comprehensive income for the year	-	-	-	501,963	21,543,463	22,045,426	10,803,709	32,849,135
Dividends, net (Note 8)	-	-	-	-	(13,200,000)	(13,200,000)	(8,679,881)	(21,879,881)
Balance as at 31 December 2018	30,000,000	15,000,000	110,889,032	(1,358,675)	18,577,317	173,107,674	48,342,226	221,449,900

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	For the year ended 31 December 2018	2017
Operating activities:			
Income before zakat and income tax		35,733,428	29,624,745
Adjustment to reconcile income before zakat and tax to net cash inflow from operating activities:			
- Depreciation, amortisation and impairment		15,558,647	16,410,973
- Finance costs		2,634,644	2,329,716
- Share of results of associates and joint ventures		(1,055,967)	(1,419,680)
- Provisions and other movements, net		(12,225)	485,144
Changes in operating assets and liabilities:			
Decrease (increase) in other non-current assets		1,141,136	(80,491)
Working capital changes		(1,967,573)	(5,357,028)
(Decrease) increase in employee benefits		(1,013,037)	878,512
(Decrease) increase in other non-current liabilities		(2,009)	766,393
Cash from operations		51,017,044	43,638,284
Finance cost paid		(1,991,264)	(1,738,073)
Zakat and income tax paid		(3,997,670)	(3,222,906)
Net cash from operating activities		45,028,110	38,677,305
Investing activities:			
Purchase of tangible and intangible assets, net		(14,499,109)	(11,471,104)
Short-term investments, net		(4,549,121)	15,754,305
Other assets movements		30,229	478,017
Investment in associates and joint ventures, net	6.1	(10,492,698)	11,111
Net cash (used in) from investing activities		(29,510,699)	4,772,329
Financing activities:			
Proceeds from debt	6.3	19,415,737	3,285,845
Debt and lease repayments		(30,319,553)	(8,951,962)
Dividends, net		(20,833,369)	(16,982,601)
Acquisition of non-controlling interests		-	(3,075,000)
Net cash used in financing activities		(31,737,185)	(25,723,718)
Net (decrease) increase in cash and cash equivalents		(16,219,774)	17,725,916
Cash and cash equivalents at the beginning of the year		57,973,656	40,247,740
Cash and cash equivalents at the end of the year		41,753,882	57,973,656
Cash and bank balances		42,921,471	59,038,656
Less: bank overdrafts		(1,167,589)	(1,065,000)
Cash and cash equivalents at the end of the year		41,753,882	57,973,656

Executive Vice President Corporate Finance   Chief Executive Officer   Authorised Board of Directors Member

The notes on page 8 to 20 form an integral part of these interim condensed consolidated financial statements.

1. Corporate information

Saudi Basic Industries Corporation ("SABIC" or "the Parent") is a Saudi Joint Stock Company established pursuant to Royal Decree Number M/66 dated 13 Ramadan 1396H (corresponding to 6 September 1976) registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397H (corresponding to 4 January 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia ("KSA") and 30% by the private sector. The registered office is located at Qurtubah district, P.O. Box 5101, Riyadh 11422, KSA.

SABIC and its subsidiaries (collectively the "Group") are engaged in the manufacturing, marketing and distribution of chemicals, polymers, plastics, agri-nutrients and metal products in global markets.

The interim condensed consolidated financial statements of the Group for the three months period and year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 27 January 2019.

2. Basis of preparation

These interim condensed consolidated financial statements for the three months period and year ended 31 December 2018 have been prepared in accordance with International Accounting Standard 34 *'Interim Financial Reporting'* ("IAS 34") as endorsed in the KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should therefore be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

Certain prior periods' figures have been reclassified to conform to the current period's presentation.

3. Summary of significant accounting polices

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in preparing the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of International Financial Reporting Standard 9 *'Financial Instruments'* ("IFRS 9") and IFRS 15 *'Revenue from Contracts with Customers'* ("IFRS 15") on their effective date 1 January 2018.

IFRS 9 replaces IAS 39 *'Financial Instruments: Recognition and Measurement'* ("IAS 39") bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. IFRS 15 replaces IAS 18 *'Revenue'* ("IAS 18") which covers revenue arising from the sale of goods and the rendering of services.

The Group has not early adopted any new standard, interpretation or amendment that have been issued but which are not yet effective.

3.1 IFRS issued but not yet effective

IFRS 16 - Leases

The Group will adopt IFRS 16 *'Leases'* ("IFRS 16") from its mandatory adoption date of 1 January 2019 by applying the simplified transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives for the 2018 financial year will not be restated. The Group has not used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 '*Leases'* and IFRIC 4 *'Whether an arrangement contains a Lease'.*

3. Summary of significant accounting polices (continued)

3.1 IFRS issued but not yet effective (continued)

IFRS 16 - Leases (continued)

On adoption of IFRS 16, the Group will recognise lease liabilities and associated right-of-use assets in relation to contracts that have been concluded as leases under the principles of IFRS 16. The liabilities will be measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The associated rights-of-use assets will be measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The Group is in the process of finalizing its calculation of the final amount for the right-of-use assets and lease liability as at 1 January 2019. The impact is expected to be between 1-3% of total assets and 5-7% of total liabilities. There will be no impact on retained earnings on 1 January 2019 and an insignificant impact on net income.

3.2 Financial instruments

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

<u>Initial measurement</u>

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows meet the requirements as solely payment of principal and interest.

<u>Subsequent measurement</u>

Debt instruments
The Group recognises three classifications to subsequently measure its debt instruments:

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

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

3. Summary of significant accounting polices (continued)

3.2 Financial instruments (continued)

Subsequent measurement (continued)

- *Fair Value through Income Statement ("FVIS")*
  Financial assets that do not meet the criteria for subsequent recognition at amortised cost or FVOCI are measured at fair value through the income statement. A gain or loss on a debt investment that is subsequently measured at fair value through the income statement and which is not part of a hedging relationship is recognised and presented net in the consolidated statement of income in the period in which it arises.

Equity instruments
The Group measures all equity investments at fair value and presents changes in fair value of equity investments in OCI. Dividends from such investments continue to be recognised in the consolidated statement of income as other income when the Group's right to receive payments is established. There shall be no subsequent reclassification of changes in fair value through the consolidated statement of income.

De-recognition

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

Impairment

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

3.3 Revenue recognition

Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer, when control of a good or service transfers to a customer.

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 duties. Revenue arrangements are assessed against specific criteria to determine whether the Group is acting as a principal or agent.

Specific recognition criteria described below must be met before revenue is recognised. Where there are no specific criteria, above policy will apply and revenue is recorded as earned and accrued.

3. Summary of significant accounting polices (continued)

3.3 Revenue recognition (continued)

Sales revenue

The Group recognises revenue when control of the products sold, transfers to the customer, which shall be considered in the context of a five-step approach and applying the applicable shipping terms.

Rights of return

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

Allocation of performance obligations

In certain instances, the Group determines delivery services as separately identifiable and distinct from the sale of goods. Revenues on these services are recognized when the Group transfers control of goods at the Group's loading site and provides delivery services to the buyer's site. The Group allocates a portion of the total transaction price to delivery services based on a best estimate of a similar stand-alone service.

Variable pricing – preliminary pricing

Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of control of the products while the final price for the products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of the products at an amount representing the expected final amount of consideration that the Group receives.

Where the Group records an 'accounts receivable' for the preliminary price, subsequent changes in the estimated final price shall not be recorded as revenue until such point in time at which the actual final price is determined (as long as these changes result from changes in the market price/market price index of the products). They may however be considered in subsequent re-measurement as a financial asset at fair value. Such re-measurement may be recorded as a separate revenue.

All other changes to the preliminary price is recorded against revenue with the additional receivable amount recorded under a contract asset or liability. Such contract asset or liability is derecognised against an accounts receivable at the point in time at which the actual final price is determined.

Variable pricing – volume rebates

The Group provides retrospective volume rebates to its customers on products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract. The Group estimates the expected volume rebates using a prudent assessment of the expected amount of rebates, reviewed and updated on a regular basis, if deemed necessary. These amounts will subsequently be repaid in cash to the customer or are offset against amounts payable by the customer; if allowed by the contract.

Under IFRS 15, volume rebates give rise to variable consideration. The Group considers the "most likely amount" method to be the best estimate of this variable consideration.

3. Summary of significant accounting polices (continued)

3.3 Revenue recognition (continued)

Rendering of services
In certain instances, the Group provides logistic services for goods sold. This service is satisfied over the period of delivery. Consequently, the Group defers revenue allocated to the logistic services and recognise it over that period.

3.4 Significant accounting estimates, assumptions and judgements

By adopting IFRS 9, the Group is required to make judgements about:

- The regional and business related risk profiles of the Group's customers to assess the expected credit losses on trade receivables.
- The basis to determine the fair value of its equity investments, in reference to similar kind of investments being sold in the market. The selection of the investments to determine the basis requires judgement by management to recognise equity investments at fair value through other comprehensive income. For fair value determination, these investments qualify as level 3 items.

For IFRS 15, management is required to make judgement and estimation of revenue and timing of when the logistic revenue has been provided to the Group's customers.

4. Adoption of IFRS 9 and IFRS 15

4.1 IFRS 9 - Financial Instruments

The Group adopted the new standard and has not restated comparative information. The difference between the carrying amounts of the financial assets resulting from adopting IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The financial liabilities are not affected.

The following assessments have been made based on the facts and circumstances at the date of initial application:
- The determination of the business model within which a financial asset is held
- The designation and revocation of previous designated financial assets as measured at FVIS
- The designation of certain investments in equity instruments not held for trading as FVOCI
- The designation of debt instruments as financial assets at amortised cost

(All amounts in Saudi Riyals '000 unless otherwise stated)

4. Adoption of IFRS 9 and IFRS 15 (continued)

4.1 IFRS 9 - Financial Instruments (continued)

The following table shows changes in measurement and classification of the different categories in accordance with IAS 39 and the new measurement and classification categories in accordance with IFRS 9 for the Group's financial assets as per 1 January 2018:

	Measurement under IAS 39	Measurement under IFRS 9	Carrying value under IAS 39	Carrying value under IFRS 9	Changes on adoption of IFRS 9
Financial assets:					
Held-to-maturity investments *	Amortised cost	FVIS	375,000	388,404	13,404
Held-to-maturity investments *	Amortised cost	Amortised cost	2,680,161	2,680,161	-
Available-for-sale financial assets *	Cost	FVOCI	696,243	1,085,543	389,300
Trade receivables	Amortised cost	Amortised cost **	22,609,432	22,569,822	(39,610)
Other receivables	Amortised cost	Amortised cost	2,001,134	2,011,288	10,154

* Held-to-maturity investments and available-for-sale financial assets have been classified as investments in debt instruments and investment in equity instruments respectively (Note 5).
** Trade receivables include certain receivables with provisional pricing that qualifies for FVIS.

4.2 IFRS 15 - Revenue from Contracts with Customers

The Group adopted IFRS 15, which resulted in a change in the revenue recognition of contracts with customers. The Group opted for the modified retrospective approach for the adoption without change in comparative financial information presented and has deferred revenue allocated to the logistic services.

(All amounts in Saudi Riyals '000 unless otherwise stated)

4. Adoption of IFRS 9 and IFRS 15 (continued)

4.3 Comparative financial information

The adoption of IFRS 9 and IFRS 15 has resulted in a change in the non-controlling interests, other reserves and retained earnings as follows:

	Non-controlling interests	Other reserves	Retained earnings
Balance as at 31 December 2017	46,216,859	(2,249,663)	10,282,264
IFRS 9 adjustments			
- Re-measurement of investments at FVOCI	-	389,300	-
- Re-measurement of investments at FVIS	-	-	13,404
- Recognition of provision based on ECL	1,539	-	(30,995)
- Recognition of related currency translation and deferred taxes	-	(275)	8,616
	1,539	389,025	(8,975)
IFRS 15 adjustment			
Deferral of revenue relating to logistic services	-	-	(39,435)
Total IFRS 9 and 15 adjustments	1,539	389,025	(48,410)
Opening balance as at 1 January 2018 (restated)	46,218,398	(1,860,638)	10,233,854

5. Other non-current assets

	As at 31 December 2018	As at 31 December 2017
Held to maturity investments (Note 4)	-	3,055,161
Available-for-sale investments (Note 4)	-	696,243
Investments in debt instruments at FVIS	**388,404**	-
Investments in debt instruments at amortised cost	**2,093,075**	-
Investments in equity instruments at FVOCI	**1,090,109**	-
Others	**5,135,987**	4,219,500
	8,707,575	7,970,904

6. Significant matters during the period

6.1 Acquisition of a stake in Clariant AG

After obtaining regulatory approvals on 10 September 2018, SABIC acquired approximately 83 million shares equivalent to 24.99% ownership in Clariant AG ("Clariant"), a global specialty chemical company listed at the Swiss Stock Exchange ("SIX"). As major stakeholder, management considers having significant influence, without having control over Clariant. Therefore, this investment is accounted for as an associate using equity method.

Due to prevailing law and regulations, the Preliminary Purchase Price Allocation ("PPA") is based on public available information only. The consideration paid amounted to SR 10.84 billion (equivalent to USD 2.89 billion). As part of the initial PPA, goodwill has been determined at approximately SR 4.88 billion (equivalent to USD 1.30 billion) at acquisition date, which is subject to further assessment of the fair value of the (net) assets of Clariant within 12 months from acquisition date. The Group recognized its share in Clariant with an estimated net loss of approximately SR 105 million. This is after fair value adjustments on the Group's share in Clariant's net income attributable to the shareholders over the period from 10 September 2018 until year-end.

The market price of Clariant share was approximately equivalent to SR 68 [Swiss Francs (CHF) 18.09] as at 28 December 2018, the last trading day at SIX. Based on the management's assessment as at 31 December 2018, taking the higher of the fair value less cost to sell and the value in use, the management believes the carrying value of its investment in Clariant is properly supported.

6.2 Strategic workforce optimization initiative

As a result of a strategic workforce optimization initiative in the first quarter of 2018, the Group has recorded a non-recurring restructuring expense of SR 1.38 billion, which is mainly related to severance cost. This strategic initiative is expected to reduce the Group's cost base going forward.

6.3 Period funding

In December 2018, the Group repaid its SR 11.25 billion bridge loan in full, which was obtained to finance certain strategic initiatives. The bridge loan had been entered into on 26 January 2018 and had an interest rate of LIBOR plus 30 bps.

6.4 Bonds issuance

In October 2018, SABIC Capital II BV, an indirect wholly owned subsidiary of SABIC, issued a 5 year and 10 year USD 1 billion bond each, equivalent to total SR 7.5 billion. These bonds are unsecured and carry coupon rates of 4% and 4.5% for those maturing in 5 and 10 years, respectively. The bonds are issued in accordance with Rule 144A/Reg S offering requirements under the U.S. Securities Act of 1933, as amended. The bonds are listed on the Irish Stock Exchange (Euronext Dublin) and the proceeds have been used for refinancing recently maturing debt.

6.5 Increase of shareholding in a subsidiary

On 4 December 2018, the Group and Japan Saudi Arabia Methanol Company, Inc. ("JSMC"), the partner in Saudi Methanol Company (Ar-Razi), entered into an agreement for the Group to acquire 50% of JSMC's share in Ar-Razi (equivalent to 25% of total shares in Ar-Razi) for USD 150 million, which will increase the Group's shareholding in Ar-Razi to 75%.

The transfer of share and payment are expected to be completed in 2019, subject to regulatory approvals. As there is no change in control, the acquisition would be accounted for as an equity transaction.

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Significant matters during the period (continued)

6.6 Fair value measurement

Derivative financial assets and derivative financial liabilities, amounting to SR 29.65 million and SR 0.38 million respectively (as at 31 December 2017: SR 26.81 million and SR 16.24 million) are valued at fair value and classified as Level 2 measurement.

Due to the adoption of IFRS 9, the measurement of the available-for-sale financial assets under IAS 39, changed from cost to FVOCI (note 4 and note 5). Since the valuation performed using a significant non-observable input, the fair value is classified as a level 3 measurement.

Description of valuation techniques used and key inputs to valuation investments in equity instruments is as follows:

Valuation technique	*Significant unobservable input*	*Range*
Market approach	• Equity value to EBITDA multiple	7.9 to 13.1
	• Midpoint of Net Asset Value and Price to Book multiple	0.76
Net Asset Value approach	Point estimate of distributable cash and cash equivalents and net assets	SR 46.1 to SR 49.9
Expected Returns approach	Equity value to Revenue multiple	0.73

At 31 December 2018, the fair values of Group's other financial assets and financial liabilities approximate the carrying value.

6.7 Related party transactions and balances

The significant related party transactions and balances are broken down as follows:

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Loans to related parties	Loans from related parties
	For the year ended 31 December 2018		As at 31 December 2018		As at 31 December 2018	
Associates	**15,871**	**5,937,172**	**27,818**	**23,499**	**35,135**	**-**
Joint ventures and partners	**14,318,120**	**1,229,386**	**3,098,870**	**24,025**	**769,654**	**2,309,743**
	For the year ended 31 December 2017		As at 31 December 2017		As at 31 December 2017	
Associates	8,881	5,285,739	201,453	157,464	62,135	-
Joint ventures and partners	12,160,154	476,172	2,976,637	40,614	752,715	2,491,245

(All amounts in Saudi Riyals '000 unless otherwise stated)

7 Segment information

For management purposes, the Group is organised into four segments, which based on its products are grouped in three reporting segments. Based on management decision and in line with changes in management reporting, the income, expenses, assets and liabilities relating to 'Corporate' segment has been allocated over the Petro-chemicals and Specialties, Agri-nutrients, Metals segments according to an internally agreed consistent basis. Accordingly, segment information for prior periods are restated in line with current period presentation.

All intercompany transactions within the reporting segments have been appropriately eliminated. The segments' financial details are shown below:

	For the three months period ended 31 December 2018			
	Petro-chemicals & Specialties	Agri-nutrients	Metals	Consolidated
Sales	35,454,204	2,186,693	2,488,472	40,129,369
Depreciation, amortisation and impairment	(3,433,303)	(186,877)	(278,907)	(3,899,087)
Income from operations	5,502,539	818,717	179,257	6,500,513
Share of results of associates and joint ventures	(55,100)	87,599	-	32,499
Finance cost, net				(325,471)
Other expenses, net				(153,547)
Income before zakat and income tax				6,053,994

	For the three months period ended 31 December 2017			
	Petro-chemicals & Specialties	Agri-nutrients	Metals	Consolidated
Sales	36,048,605	1,909,259	2,370,375	40,328,239
Depreciation, amortisation and impairment	(4,023,485)	(200,663)	(646,463)	(4,870,611)
Income from operations	7,077,942	153,757	(657,378)	6,574,321
Share of results of associates and joint ventures	245,777	43,241	-	289,018
Finance cost, net				(361,301)
Other income, net				15,397
Income before zakat and income tax				6,517,435

	For the year ended 31 December 2018			
	Petro-chemicals & Specialties	Agri-nutrients	Metals	Consolidated
Sales	149,737,193	8,212,205	11,140,129	169,089,527
Depreciation, amortisation and impairment	(13,694,812)	(744,607)	(1,119,228)	(15,558,647)
Income from operations	33,186,166	2,507,550	634,325	36,328,041
Share of results of associates and joint ventures	709,440	346,527	-	1,055,967
Finance cost, net				(1,212,119)
Other expenses, net				(438,461)
Income before zakat and income tax				35,733,428

(All amounts in Saudi Riyals '000 unless otherwise stated)

7 Segment information (continued)

	For the year ended 31 December 2017			
	Petro-chemicals & Specialties	Agri-nutrients	Metals	Consolidated
Sales	135,301,994	5,909,386	8,554,588	149,765,968
Depreciation, amortisation and impairment	(14,244,571)	(722,828)	(1,443,574)	(16,410,973)
Income from operations	29,781,574	782,710	(1,565,897)	28,998,387
Share of results of associates and joint ventures	1,229,655	190,025	-	1,419,680
Finance cost, net				(1,082,659)
Other income, net				289,337
Income before zakat and income tax				29,624,745

	As at 31 December 2018			
	Petro-chemicals & Specialties	Agri-nutrients	Metals	Consolidated
Total assets	285,085,363	13,979,562	21,058,937	320,123,862
Total liabilities	90,974,787	3,115,031	4,584,144	98,673,962

	As at 31 December 2017			
	Petro-chemicals & Specialties	Agri-nutrients	Metals	Consolidated
Total assets	286,895,005	13,143,050	22,417,367	322,455,422
Total liabilities	103,705,038	3,202,599	5,409,293	112,316,930

Geographical distribution of sales

	For the three months period ended 31 December 2018		For the three months period ended 31 December 2017	
KSA	5,945,488	15%	7,318,555	18%
China	6,667,356	17%	7,304,400	18%
Rest of Asia	9,129,987	23%	8,710,667	22%
Europe	8,762,534	22%	9,175,243	23%
Americas	3,983,866	9%	3,304,588	8%
Others	5,640,138	14%	4,514,786	11%
	40,129,369	100%	40,328,239	100%

(All amounts in Saudi Riyals '000 unless otherwise stated)

7 Segment information (continued)

Geographical distribution of sales (continued)

	For the year ended 31 December 2018		For the year ended 31 December 2017	
KSA	25,372,884	15%	22,751,799	15%
China	29,713,216	18%	25,404,525	17%
Rest of Asia	36,423,132	21%	32,595,863	22%
Europe	39,425,876	23%	35,913,940	24%
Americas	14,795,958	9%	12,744,946	8%
Others	23,358,461	14%	20,354,895	14%
	169,089,527	100%	149,765,968	100%

The revenue information above is based on the locations of the customers.

Geographical distribution of property, plant and equipment

	As at 31 December 2018		As at 31 December 2017	
KSA	138,583,716	85%	143,163,921	86%
Europe	13,896,235	8%	15,086,965	9%
Americas	9,759,217	6%	7,383,489	4%
Asia	1,545,226	1%	1,718,893	1%
Others	2,832	-	2,643	-
	163,787,226	100%	167,355,911	100%

8 Appropriations

The Annual General Assembly ("AGA"), in its meeting held on 1 Shabaan 1439H (corresponding to 17 April 2018), approved cash dividends of SR 12.6 billion (SR 4.2 per share) which includes the interim cash dividends amounting to SR 6 billion (SR 2 per share) for the first half of 2017. The AGA also approved Board of Directors' remuneration of SR 1.8 million that is charged to general and administrative expenses.

On 20 Ramadan 1439H (corresponding to 5 June 2018), SABIC declared interim cash dividends for the first half of the year 2018 amounting to SR 6.6 billion (at SR 2.2 per share).

The aforementioned appropriations have been reflected in these interim condensed consolidated financial statements for the year ended 31 December 2018, excluding interim dividend of SR 6 billion for the first half of 2017, which had already been accounted for in the consolidated financial statements for the year ended 31 December 2017.

On 11 Rabi Thani 1440H (corresponding to 18 December 2018), the Board of Directors proposed a distribution of cash dividends for the second half of the year 2018 amounting to SR 6.6 billion (at SR 2.2 per share). The proposed dividends are subject to approval of the shareholders in the AGA in April 2019.

9 Subsequent events

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