



SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

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

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CHEMISTRY THAT MATTERS™

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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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 REPORT

To the Shareholders of Saudi Basic Industries Corporation (SABIC)
(A Saudi Arabian Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saudi Basic Industries Corporation (SABIC) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 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 ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Independent Auditor's Report

To the Shareholders of Saudi Basic Industries Corporation (SABIC) (continued)
(A Saudi Arabian Joint Stock Company)

Key audit matter	
<i>Impairment of non-financial assets</i>	
<p>In relation to impairment of property, plant and equipment, the carrying values of the property, plant and equipment are reviewed annually by management for potential indicators of impairment. For such assets where impairment indicators exist, management performs detailed impairment reviews, taking into account, inter alia, the impact of revenue assumptions, technical factors, usage and economic condition which may affect the expected remaining useful lives and carrying value of the assets.</p> <p>In relation to impairment of goodwill, management performs an annual impairment test on the recoverability of the goodwill. Accordingly, the management assesses the recoverable amount of each cash generating unit (CGU) or group of CGUs to which the goodwill relates, to determine if an impairment is required or not. In this regard, management needs to apply considerable judgement in allocating the goodwill to the appropriate business units as well as in assessing the future performance and prospects of each CGU and the discount rates to apply.</p>	
<i>a. Assessing impairment of property, plant and equipment</i>	<i>How our audit addressed the key audit matter</i>
<p>As at 31 December 2018, the Group's consolidated statement of financial position includes property, plant and equipment amounting to SR 164 billion. The assessment of the recoverable value of these assets, incorporates significant judgement in respect of factors such as future production levels, commodity prices, operating/capital costs and economic assumptions such as discount rates.</p> <p>Based on the assessment, the management concluded that no material impairment of property, plant and equipment was required.</p> <p>We identified the impairment of property, plant and equipment as a key audit matter as the assessment involves a significant degree of management judgement in determining the key assumptions such as expected revenue levels and technical factors.</p> <p>Refer to consolidated financial statements note 6 for the significant accounting policy relating to impairment of non-current assets, note 3.1.1 for the significant accounting estimates, assumptions and judgements relating to impairment of non-financial assets and note 7 for property, plant and equipment related disclosures.</p>	<p>We performed the following procedures, among others:</p> <ul style="list-style-type: none"> • Evaluating the management's assumptions and estimates to determine the recoverable value of its property, plant and equipment, including those relating to production, cost, capital expenditure and discount rates. This included using specialists to compare these assumptions against external benchmarks and evaluating management's assumptions based on our knowledge of the Group and its industry; • Validating the mathematical accuracy of cash flow models and agreeing relevant data to the latest production plans and approved budgets; and • Assessing the adequacy of the Group's disclosures in respect of asset carrying values and impairment losses.

Independent Auditor's Report

To the Shareholders of Saudi Basic Industries Corporation (SABIC) (continued)
(A Saudi Arabian Joint Stock Company)

Key audit matter	
b. Impairment assessment of Goodwill	How our audit addressed the key audit matter
<p>As of 31 December 2018, the Group's goodwill balance was SR 8.7 billion. Based on the annual goodwill impairment assessment, including sensitivity tests, the management concluded that no material impairment of goodwill was required.</p> <p>We have considered this to be a key audit matter in light of the amount of judgment involved and estimation required to assess the recoverable amount of CGUs.</p> <p>Refer to consolidated financial statements note 6 for the significant accounting policy relating to impairment of non-current assets, note 3.1.1 for the significant accounting estimates, assumptions and judgements relating to impairment of non-financial assets and note 8 for intangible assets related disclosures.</p>	<p>We performed the following procedures in respect of the impairment assessment of goodwill:</p> <ul style="list-style-type: none"> • Evaluated the methodology used by management to estimate the recoverable amount of each CGU; • Evaluated the assumptions and methodologies used in the annual impairment test prepared by the management; • Evaluated management's critical assumptions in particular, the projected revenue growth, margin developments, discount rates and terminal growth rates. This included using specialists in assessing management's assumptions based on our knowledge of the Group and its industry; • Verified whether the CGU definition is in line with internal reporting and IAS 36 criteria and verified whether carrying values were appropriately allocated to the different CGUs; • Performed an assessment of the mathematical accuracy of the calculations and a reconciliation to the underlying plan as approved by the management; and • We also focused on the adequacy of the Group's disclosures in the consolidated financial statement concerning those key assumptions to which the outcome of the impairment test is most sensitive.

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2018 annual report is expected to be made available to us after the date of this auditor's 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 2018 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Independent Auditor's Report

To the Shareholders of Saudi Basic Industries Corporation (SABIC) (continued)
(A Saudi Arabian Joint Stock Company)

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and SABIC's By-law, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs that are endorsed in KSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Independent Auditor's Report

To the Shareholders of Saudi Basic Industries Corporation (SABIC) (continued)
(A Saudi Arabian Joint Stock Company)

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

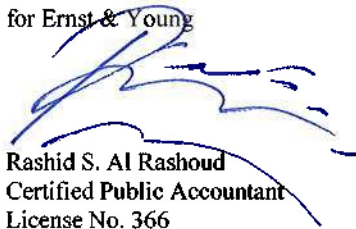
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate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

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

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

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

for Ernst & Young



Rashid S. Al Rashoud
Certified Public Accountant
License No. 366
Riyadh: 5 Rajab 1440H
12 March 2019



SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

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

	<i>Notes</i>	As at 31 December 2018	As at 31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	7	163,819,684	167,355,911
Intangible assets	8	12,947,211	13,542,397
Investments in associates and joint ventures	9	25,780,550	14,304,140
Investments in debt instruments	10	2,493,880	-
Held-to-maturity investments	10	-	3,055,161
Investments in equity instruments	11	1,090,109	-
Available-for-sale financial assets	11	-	696,243
Deferred tax assets	31.2	865,156	673,983
Other non-current assets	12	5,126,456	4,219,500
Total non-current assets		212,123,046	203,847,335
Current assets			
Inventories	14	28,244,803	26,062,995
Trade receivables	15	21,821,849	22,609,432
Prepayments and other current assets	16	5,114,857	5,701,316
Short-term investments	17	9,815,499	4,351,072
Cash and bank balances	18	42,590,820	59,038,656
Total current assets		107,587,828	117,763,471
Total assets		319,710,874	321,610,806

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

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

	<i>Notes</i>	As at 31 December 2018	As at 31 December 2017
Equity and liabilities			
Equity			
Share capital	19	30,000,000	30,000,000
Statutory reserve	20	15,000,000	15,000,000
General reserve	20	110,889,032	110,889,032
Other reserves	20	(1,359,184)	(2,249,663)
Retained earnings		18,554,532	10,282,264
Equity attributable to equity holders of the Parent		173,084,380	163,921,633
Non-controlling interests	21	48,352,095	46,216,859
Total equity		221,436,475	210,138,492
Non-current liabilities			
Long-term debt	22	42,345,396	41,624,732
Employee benefits	23	15,000,025	17,635,036
Deferred tax liabilities	31.2	1,664,138	1,752,443
Other non-current liabilities		2,156,437	2,160,697
Total non-current liabilities		61,165,996	63,172,908
Current liabilities			
Current portion of long-term debt	22	3,750,256	15,373,456
Short-term borrowings	22	1,167,589	1,065,000
Trade payables	24	14,969,357	18,061,464
Accruals and other current liabilities	25	13,016,884	10,124,246
Zakat and income tax payable	31	4,204,317	3,675,240
Total current liabilities		37,108,403	48,299,406
Total liabilities		98,274,399	111,472,314
Total equity and liabilities		319,710,874	321,610,806


EVP Corporate Finance


Vice Chairman & CEO



Chairman, Board of Directors

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

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

	Notes	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue	27	169,128,339	149,765,968
Cost of sales	28.1	(111,520,471)	(99,858,243)
Gross profit		57,607,868	49,907,725
General and administrative expenses	28.2	(10,944,907)	(10,569,801)
Selling and distribution expenses	28.3	(10,399,937)	(10,339,537)
Income from operations		36,263,024	28,998,387
Share of results of associates and joint ventures	9.1	1,049,850	1,419,680
Finance income	33	1,422,720	1,247,057
Finance cost	29 & 33	(2,646,115)	(2,329,716)
		(1,223,395)	(1,082,659)
Other (expenses) income, net	30	(406,411)	289,337
Income before zakat and income tax		35,683,068	29,624,745
Zakat expense	31.1	(2,600,000)	(2,600,000)
Income tax expense	31.2	(1,197,661)	(1,540,000)
Net income for the year		31,885,407	25,484,745
Attributable to:			
Equity holders of the Parent		21,520,678	18,430,236
Non-controlling interests		10,364,729	7,054,509
		31,885,407	25,484,745
Basic and diluted earnings per share (Saudi Riyals)			
Earnings per share from income from operations	32	12.09	9.67
Earnings per share from net income attributable to equity holders of the Parent	32	7.17	6.14


EVP Corporate Finance


Vice Chairman & CEO


Chairman, Board of Directors

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

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

	Notes	For the year ended 31 December 2018	For the year ended 31 December 2017
Net income for the year		31,885,407	25,484,745
Other comprehensive income			
<i>Items that will not be reclassified to the consolidated statement of income (net of tax):</i>			
- Re-measurement gain on defined benefit plans	23	2,147,893	274,582
- Share of other comprehensive income of associates and joint ventures	9 & 20	1,596	-
- Net change on revaluation of investments in equity instruments at FVOCI	20	4,880	-
- Deferred tax expense	31.2	(5,204)	(61,349)
		2,149,165	213,233
<i>Items that will be reclassified to the consolidated statement of income (net of tax):</i>			
- Exchange difference on translation of foreign operations	20	(1,301,215)	3,021,606
- Share of other comprehensive income of associates and joint ventures	9 & 20	52,181	(184,923)
- Net change on revaluation of available-for-sale financial assets	20	-	(10,023)
		(1,249,034)	2,826,660
Movement of other comprehensive income		900,131	3,039,893
Total comprehensive income for the year		32,785,538	28,524,638
Attributable to:			
Equity holders of the Parent		22,022,132	21,488,556
Non-controlling interests		10,763,406	7,036,082
		32,785,538	28,524,638


EVP Corporate Finance


Vice Chairman & CEO


Chairman, Board of Directors

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

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

	Attributable to the equity holders of the Parent					Total	Non-controlling interests	Total equity
	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings			
				(Note 20)				
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	-	-	-	-	21,520,678	21,520,678	10,364,729	31,885,407
Other comprehensive income	-	-	-	501,454	-	501,454	398,677	900,131
Total comprehensive income	-	-	-	501,454	21,520,678	22,022,132	10,763,406	32,785,538
Dividends (Note 39) and others	-	-	-	-	(13,200,000)	(13,200,000)	(8,629,709)	(21,829,709)
Balance as at 31 December 2018	30,000,000	15,000,000	110,889,032	(1,359,184)	18,554,532	173,084,380	48,352,095	221,436,475

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

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

	Attributable to the equity holders of the Parent						Non-controlling interests	Total equity
	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Total		
				(Note 20)				
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	-	-	-	3,058,320	-	3,058,320	(18,427)	3,039,893
Total comprehensive income	-	-	-	3,058,320	18,430,236	21,488,556	7,036,082	28,524,638
Dividends and others	-	-	-	-	(12,000,000)	(12,000,000)	(5,390,185)	(17,390,185)
Acquisition of non-controlling interests (Note 21.1)	-	-	-	-	(739,795)	(739,795)	(2,335,205)	(3,075,000)
Absorption of loss on behalf of non-controlling interests (Note 21.2)	-	-	-	-	(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



EVP Corporate Finance



Vice Chairman & CEO



Chairman, Board of Directors



The notes on page 15 to 108 form an integral part of these consolidated financial statements.

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

	<i>Notes</i>	For the year ended 31 December 2018	For the year ended 31 December 2017
Operating activities:			
Income before zakat and income tax		35,683,068	29,624,745
<i>Adjustment to reconcile income before zakat and income tax to net cash from operating activities:</i>			
- Depreciation of plant and equipment	7	14,472,437	13,928,217
- Amortisation of intangible assets	8	663,644	917,567
- Impairment and write downs of plant and equipment and intangible assets	7 & 8	365,484	1,565,189
- Provision for slow moving and obsolete inventories	14	(60,228)	276,248
- Provision for doubtful debts, net	15	3,320	116,656
- Share of results of associates and joint ventures	9	(1,049,850)	(1,419,680)
- Fair value adjustment to derivatives, net		(39,206)	3,728
- Loss on sale/disposals of property, plant and equipment	30	179,700	88,512
- Finance costs	29	2,646,115	2,329,716
<i>Changes in operating assets and liabilities:</i>			
Decrease (increase) in other non-current assets		774,757	(80,491)
Increase in inventories		(2,121,581)	(3,737,745)
Decrease (increase) in trade receivables		744,653	(2,872,849)
Decrease (increase) in prepayments and other current assets		881,779	(1,049,311)
Increase in other non-current liabilities		185,249	766,393
(Decrease) increase in trade payables		(3,092,107)	1,692,630
(Decrease) increase in employee benefits		(1,048,193)	878,512
Increase in accruals and other current liabilities		1,551,203	610,247
Cash from operations		50,740,244	43,638,284
Finance cost paid		(2,002,413)	(1,738,073)
Zakat and income tax paid	31	(4,007,987)	(3,222,906)
Net cash from operating activities		44,729,844	38,677,305

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

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

	<i>Notes</i>	For the year ended 31 December 2018	For the year ended 31 December 2017
Investing activities:			
Purchase of property, plant and equipment	7	(14,165,177)	(11,097,382)
Short-term investments, net		(5,279,537)	15,754,305
Purchase of held-to-maturity investments		-	(100,000)
Proceeds on the maturity of investments in debt instruments		402,040	521,420
Purchase of intangible assets	8	(71,058)	(373,722)
Proceeds from sale/disposals of property, plant and equipment		48,605	53,398
Purchase of investments in equity instruments		(46,054)	(24,169)
Proceeds from sale of investments in equity instruments		23	27,368
Investments in associates and joint ventures	9	(10,954,760)	(352,995)
Distributions received from associates and joint ventures		462,361	364,106
Net cash (used in) from investing activities		(29,603,557)	4,772,329
Financing activities:			
Proceeds from debt		26,787,021	3,428,345
Repayment of debt		(37,480,836)	(9,040,786)
Finance lease payments		(187,113)	(53,676)
Dividends paid to shareholders		(12,059,538)	(11,592,416)
Dividends paid to non-controlling interests		(8,736,246)	(5,390,185)
Acquisition of non-controlling interests		-	(3,075,000)
Net cash used in financing activities	18	(31,676,712)	(25,723,718)
Net (decrease) increase in cash and cash equivalents		(16,550,425)	17,725,916
Cash and cash equivalents at the beginning of the year	18	57,973,656	40,247,740
Cash and cash equivalents at the end of the year	18	41,423,231	57,973,656


EVP Corporate Finance


Vice Chairman & CEO


Chairman, Board of Directors

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED STATEMENTS

For the year ended 31 December 2018

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

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 manufacturing, marketing and distribution of chemicals, polymers, high performance plastics, agri-nutrients and metal products in global markets.

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 12 March 2019.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations as issued by the International Accounting Standards Board (“IASB”) as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organisation for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

Certain prior period’s figures have been reclassified to conform to the current period’s presentation (Note 38).

The consolidated financial statements are prepared under the historical cost convention, except for financial instruments, which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services at the time of the transaction.

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, regardless whether that price is directly observable or estimated using another technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 ‘Leases’, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 ‘Inventories’ or value in use in IAS 36 ‘Impairment of Assets’.

The Group has categorized its financial assets and liabilities into a three-level fair value hierarchy, based on the degree to which the lowest level inputs to fair value measurement are observable and the significance of the inputs to the fair value measurement as a whole, which are described as follows:

- 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

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2. Basis of preparation and accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of SABIC and entities controlled by SABIC, except for joint operations which are consolidated based on the Group's relative share in the arrangement.

Consolidation of a subsidiary begins when SABIC obtains control over the subsidiary and ceases when SABIC loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the period are included in the consolidated financial statements from the date SABIC gains control until the date SABIC ceases to control the subsidiary. Refer Note 3.2.2 for judgements applied by SABIC to assess control. SABIC re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the elements of control.

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If SABIC loses control over a subsidiary, it de-recognises the related assets (including goodwill, if applicable), liabilities, non-controlling interests and other components of equity, while any resulting gain or loss is recognized in the consolidated statement of income.

2.3 Foreign currencies

The consolidated financial statements are presented in Saudi Riyals (SR), which is the functional currency of the Parent. 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.

Transactions and balances

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

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of income 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 recognised in OCI until the net investment is disposed, at which time, the cumulative amount is reclassified to consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2. Basis of preparation and accounting policies (continued)

2.3 Foreign currencies (continued)

Group's companies

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

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

3. Significant accounting estimates, assumptions and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions at reporting date that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustments in the future to the carrying amount of the asset or liability affected.

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

Other disclosures relating to the Group's exposure to risks and uncertainties include:

- Capital management, financial instrument risk management and policies (Note 36)
- Sensitivity analysis disclosures (Notes 23 and 36)

3.1 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing material differences in the carrying amounts of assets and liabilities within the next financial period, are disclosed below. The Group used these assumptions and estimates on the basis available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3.1.1 Impairment of non-financial assets

Impairment exists when the carrying value of an asset or Cash Generating Unit ("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 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 the asset. The value in use is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget and business plan 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 performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs are disclosed in Notes 7 and 8.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

3. Significant accounting estimates, assumptions and judgements (continued)

3.1 Estimates and assumptions (continued)

3.1.2 Purchase price allocation interest in Clariant AG (“Clariant”)

Upon acquiring control or significant influence over a company, the Group has to follow the policy for business combinations. In the specific case of acquiring significant influence over Clariant, management had to allocate its consideration paid to the fair value of assets and liabilities at the date of acquisition. As Clariant is stock listed, the Group had to rely on only publically available information to assess the fair value of the assets and liabilities at that time. The fair values of non-current assets and working capital were derived from similar transactions in the petrochemical industry, including estimating the value of customer lists, licenses and useful life of intangible assets and plants and equipment.

3.1.3 Measurement of financial instruments (Notes 10, 11, 13 & 15)

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 (“ECL”) on trade receivables.
- The basis to determine the fair value of its investments in equity instruments, 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 investments in equity instruments at Fair Value through Other Comprehensive Income (“FVOCI”). For fair value determination, these investments qualify as level 3 items (Note 2.1).

3.1.4 Provisions

By their nature, the measurement of provisions depend upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. The Group’s estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination, as well as on the technology required for remediation. Provisions for litigation are based on an estimate of costs, taking into account legal advice and other information available.

3.1.5 Defined employee benefit plans (Note 23)

Post-employment defined benefits plans, end-of-service benefits plans, indemnity payments and other long-term employee related liabilities represent obligations that will be settled in the future and require actuarial valuations to determine these obligations. The Group is required to make assumptions regarding variables such as discount rates, rate of salary increase, longevity, employee turnover and future healthcare costs, if applicable. Changes in key assumptions can have a significant impact on the projected benefit obligations and employee defined benefit costs. All assumptions are reviewed each reporting date.

Defined benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate or government bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the size of the bonds, quality of the corporate bonds and the identification of outliers which are excluded, if any.

3.1.6 Accounting for income tax (Note 31.2)

As part of the process of preparing consolidated financial statements, the Group estimates income tax in each of the jurisdictions it operates. This process involves estimating current tax expense and temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the related tax bases. Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated statement of financial position. Deferred tax assets and liabilities are carried at nominal value.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

3. Significant accounting estimates, assumptions and judgements (continued)

3.1 Estimates and assumptions (continued)

3.1.6 Accounting for income tax (Note 31.2) (continued)

The Group assesses periodically the likelihood whether deferred tax assets will be recovered from future taxable income, to the extent these deferred tax assets are recorded. Deferred tax assets are recognised for unused tax losses to the extent that it probable that the taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

3.2 Critical judgements in applying accounting standards

In addition to the application of the judgement in the above-mentioned estimates and assumptions, the following critical judgements have the most significant effect on the amounts recognised in the consolidated financial statements:

3.2.1 Component parts of plant and equipment

The Group's plant and equipment are broken down into significant components and depreciated on a straight-line basis over their economic useful lives. Judgement is required in ascertaining the significant components of a larger asset. In defining the significance of a component, the Group considers quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to related asset.

3.2.2 Determination of control, joint control and significant influence

Subsidiaries are all investees over which the Group has control. Management considers that it controls an entity when the Group is exposed to or has rights to the majority of the variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns through its power to direct the relevant activities of the investees.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has equal or less than a majority of the voting or similar rights of an investee, the Group considers all other relevant facts and circumstances in assessing whether it has power over an investee, including any contractual and other such arrangements which may affect the activities which impact investees' return.

3.2.2.1 Assessing control over consolidated subsidiaries

The determination about whether the Group has power depends on such relevant activities, the way decisions about the relevant activities are made and the rights the Group has, in relation to the investees.

In certain cases where the Group owns less than 50% of voting rights, it may still be the single largest shareholder with presence on the governing body giving it power to direct relevant activities of the investees, whereby the other shareholders individually do not hold sufficient voting rights and power to overrule the Group's directions. There is no prior instance of other shareholders collaborating to exercise their votes collectively or to out-vote the Group.

Management has considered the integration of all KSA investees (where the Group has equal or less than a majority of the voting rights) within the Group structure and located in the industrial cities in KSA, the ability of the Group to impact the majority of the variable returns of the investees through the provision of various key services to such investees, the relationship of the Group with other entities which may impact returns of investees, appointment of certain key management personnel and various other such factors.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

3. Significant accounting estimates, assumptions and judgements (continued)

3.2 Critical judgements in applying accounting standards (continued)

3.2.2.1 Assessing control over consolidated subsidiaries (continued)

Based on above considerations, the Group believes:

- There is a pattern of past and existing practice of the Group's involvement in the relevant activities of these investees resulting in an impact on their returns and also indicating a more than passive interest of the Group in such investees; and
- The Group has created an ecosystem in which the set-up and function of these investees and their inter-relationship with the Group leads towards a judgement of 'control'.

Hence, the Group has consolidated those KSA investees, which meet the above criteria as part of the Group's consolidated financial statements.

4. Changes in accounting policies

Effective 1 January 2018, the Group has applied two new accounting standards, International Financial Reporting Standard 9 '*Financial Instruments*' ("IFRS 9") and IFRS 15 '*Revenue from Contracts with Customers*' ("IFRS 15").

4.1 IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 and has opted for the modified retrospective approach for the adoption without changing the comparative financial information presented. The difference between the carrying amounts of the financial assets resulting from adopting IFRS 9 are recognised in retained earnings and other 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 Fair Value through Income Statement ("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

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

4. Changes in accounting policies (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 *Financial Instruments: Recognition and Measurement* 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 (i)	Amortised cost	FVIS	375,000	388,404	13,404
Held-to-maturity investments (i)	Amortised cost	Amortised cost	3,070,481	3,070,481	-
Available-for- sale financial assets (i)	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

(i) Held-to-maturity investments and available-for-sale financial assets have been classified as investments in debt instruments and investment in equity instruments respectively.

4.2 IFRS 15 - Revenue from Contracts with Customers

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

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

4. Changes in accounting policies (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
<i>IFRS 9 adjustments</i>			
- 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)
<i>IFRS 15 adjustment</i>			
- 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. New IFRS issued but not yet effective

The IFRS standards and interpretations that are issued and relevant for the Group, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are elaborated below. These standards will be adopted by the Group when they become effective.

IFRS 16 - Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace: IAS 17 – 'Leases' ("IAS 17"), IFRIC 4 'Whether an arrangement contains a lease', SIC 15 'Operating leases – Incentives' and SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'.

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

In addition, under the new lease standard, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group will adopt IFRS 16 from its mandatory adoption date of 1 January 2019 using the modified 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.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

5. New IFRS issued but not yet effective (continued)

IFRS 16 - Leases (continued)

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. In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

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. The impact of adopting IFRS 16 on the Group's net income for 2019 will be insignificant.

IFRIC Interpretation 23 - Uncertainty over Income Tax Treatment

The Interpretation addresses accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 '*Income Taxes*' ("IAS 12") and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable results, tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group expects no significant impact from this interpretation and will adopt from its effective date.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

5. New IFRS issued but not yet effective (continued)

Amendments to IAS 19 – Plan Amendment Curtailment or Settlement

The Amendments to IAS 19 *'Employee Benefits'* specifies how companies determine pension expenses when changes to a defined benefit pension plan occur.

The Amendments require a company to use the updated assumptions from this re-measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments are effective on or after 1 January 2019. The Group expects no significant impact from these Amendments and will adopt from its effective date.

Amendment to IFRS 3 – Business Combinations

The Amendment narrowed and clarified the definition of a business. It also permits a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The Amendment is effective for business combinations which are entered into for annual reporting periods beginning on or after 1 January 2020. The Group will apply the Amendment from its effective date.

6. Summary of significant accounting policies

The significant accounting policies adopted by the Group in preparing these consolidated financial statements are applied consistently and are described below:

Business combinations 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 fair value on the acquisition date 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 proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed in the consolidated statement of income when incurred.

When the Group acquires a business, it assesses the financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. 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 IFRS 9 *'Financial Instruments'*, is measured at fair value with the changes in fair value recognized in the consolidated statement of income or OCI.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised 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. If the reassessment still results in an excess the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, if applicable. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to have benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed off, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Investments in associates and joint arrangements

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Judgement is required, particularly where the Group owns shareholding and voting rights of generally 15% and above, the Group assessed not to have 'control' or 'joint control' over such investees.

Investments in joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

- *Joint operations*

A joint operation is an arrangement whereby the parties that have joint control on the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held assets or incurred liabilities, revenues and expenses for its joint operations.

- *Joint ventures*

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position.

Under the equity method of accounting, the investments in an associate or joint venture are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition results in the consolidated statement of income, and the Group's share of movements in OCI in the consolidated statement of comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it is liable due to constructive or legal obligations on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in the consolidated statement of income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to the consolidated statement of income.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Investments in associates and joint arrangements (continued)

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in OCI, except for the items that will not be reclassified to the consolidated statement of comprehensive income, are reclassified to the consolidated statement of income, where appropriate.

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when it is due to be settled within twelve months after the reporting period. The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Zakat and tax

Zakat

Zakat is levied at the higher of adjusted income subject to zakat or the zakat base in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in KSA. The Group computes its zakat by using the zakat base, which makes this a levy not based on income subject to zakat. The zakat provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the period of their finalisation.

Current Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the relevant tax authorities.

Deferred tax

Deferred tax is provided for using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax law enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Government grants

Government grants are recognised when 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 in the consolidated statement of income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Government grants (continued)

Where the grant relates to an asset, it is recognised in the consolidated statement of financial position as deferred income and released to the consolidated statement of 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 its fair value and released to the consolidated statement of income over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced in intervals, the Group recognizes and depreciates them separately based on its specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred. 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 useful life of the asset as follows:

Buildings	13 to 40 years
Plant and equipment	4 to 50 years
Furniture, fixtures and vehicles	3 to 10 years

Land and assets under construction, which are not ready for their intended use, are not depreciated.

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

The assets' residual values, useful lives and methods of depreciation are periodically reviewed, and adjusted prospectively in case of a significant change in the assets technological capabilities or estimated planned use.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that substantially transfers all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are recognised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of income.

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

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

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Borrowing costs

Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the costs of these assets, until such time as the asset is substantially ready for its intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted for the borrowing costs eligible for capitalization. All other borrowing costs are expensed in the period they occur.

Intangible assets

Intangible assets are measured at cost upon initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indicator that the intangible asset may be impaired. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible asset.

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 the asset will be available for use or sale
- Its intention to complete and its ability and intention 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

Amortization of the intangible asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortization is recorded in the consolidated statement of income. During the period of development, the asset is tested for impairment annually.

Technology and innovation expense related to product development is recorded in the consolidated statement of income in other operating expense and expense related to process improvement is recorded in cost of sales.

The amortization period for intangible assets with a finite useful life is as follows:

Licenses	5 to 15 years
Trademarks	22 years
Customer lists	18 years
(Un)patented technology	10 years
Others, including in-house developed software and technology and innovation assets	3 to 5 years

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Impairment of non-current assets

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

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

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

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

For assets other than goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group's estimates the asset's or CGU's recoverable amount. A previously 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. Such reversal is recognized in the consolidated statement of income.

Goodwill is tested for impairment annually or when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGU's) to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future years.

Financial assets

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

- financial assets measured at amortised cost; or
- financial assets measured at fair value

Gains or losses of assets measured at fair value will be recognised either through the consolidated statement of income or through the consolidated statement of OCI.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Financial assets (continued)

Initial measurement

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

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.

Subsequent measurement

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 an investment in debt instruments subsequently measured at amortised cost, and not part of a hedging relationship, is recognised in the consolidated statement of income when the asset is de-recognised or impaired. Interest income from these financial assets is included in finance income using the Effective Interest Rate ("EIR") method.

- *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 de-recognised, 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 EIR method. Foreign exchange gains and losses are presented in other income/expense.

- *FVIS*

Financial assets at fair value through income statement include financial assets held for trading, financial assets designated upon initial recognition at fair value through income statement, or financial assets mandatorily required to be measured at fair value. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through income statement, irrespective of the business model.

Financial assets at fair value through income statement are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of income. This category includes derivative instruments.

Equity instruments

The Group measures all investments in equity instruments at fair value and presents changes in fair value of investments in equity instruments 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.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Financial assets (continued)

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 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 or a lifetime ECL. The 12-month ECL results from default events on a financial instrument that are possible within 12 months after the reporting date. When there has been a significant increase in credit risk since initial recognition, the allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (the lifetime ECL).

For accounts receivables, the Group applies the simplified approach in calculating ECL's. Therefore, the Group does not track changes in credit risk, but instead recognized a loss allowance base on lifetime ECL's at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Accounting policy until end 2017

Until the end of 2017, financial assets are classified as financial assets at fair value through the statement of income, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial liabilities

Initial recognition and measurement

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

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

The category of financial liability at FVIS has two sub-categories:

- *Designated*: A financial liability that is designated by the entity as a liability at FVIS upon initial recognition; and
- *Held for trading*: A financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

Financial liabilities at FVIS continue to be recorded at fair value with changes being recorded in the consolidated statement of income.

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

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

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value adjusted for transaction costs that are directly attributable to the issuance of the guarantee. The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

De-recognition

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

Offsetting of financial instruments

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

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the consolidated statement of income.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to yield curves for similar instruments.

Inventories

Inventories, including raw materials, work in progress, finished goods, and consumables and spare parts are measured at the lower of cost i.e. historical purchase prices based on the weighted average principle plus directly attributable costs or the net realisable value. Inventories of work in progress and finished goods include cost of materials, labour and an appropriate proportion of direct overheads.

Cash dividend paid to equity holders of the Parent

The Group recognises a liability to make cash distribution to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. In accordance with the Companies Law in KSA, a distribution is authorised when it is approved by the shareholders. Interim dividends, if any, are recorded when approved by the Board of Directors. A corresponding amount is recognised directly in the consolidated statement of changes in equity.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation amount. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

Environmental obligations

In accordance with the Group's environmental policy and applicable legal requirements, the Group recognises a provision for environmental clean-up cost when it is probable that a legal or constructive liability has materialised and the amount of cash outflow can be reasonably estimated.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost meeting its obligation under the contract.

De-commissioning liability

The Group records a provision for de-commissioning costs of manufacturing facilities when an obligation exists. De-commissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the de-commissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of income as a finance cost. The estimated future cost of de-commissioning is 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.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Employee benefits

Long-term employee benefit obligations

Long-term employee benefit obligations are measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method and recorded as non-current liabilities. Consideration is given to expected future salary increase and historic attrition rates. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate or government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of changes in actuarial assumptions are recognised in the consolidated statement of comprehensive income. The Group offers various post-employment schemes, including both defined contribution and defined benefit plans, and post-employment medical and life insurance plans for eligible employees and their dependents.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation. The contributions are recognised as employee benefit expense in the consolidated statement of income when they are due.

Within KSA, the Group offers a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Group's normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance, and for the purpose of presentation in the financial statements, it is offset with the related liability under the savings plan and the net liability to employees is reported under the employee benefits liability.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group primarily has end of service benefits, defined benefit pension plans and post-retirement medical and life insurance plans, which qualify as defined benefit plans.

End of service benefits and pension plans

In KSA, for the liability for employees' end of service benefits, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labour and Workmen Law as well as the Group's policy. In other countries, the respective labour laws are taken into consideration.

The net pension asset or liability recognised in the consolidated statement of financial position in respect of defined benefit post-employment plans is the present value of the projected Defined Benefits Obligation ("DBO") less the fair value of plan assets, if any, at the reporting date.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the DBO and the fair value of plan assets.

DBO costs are calculated, using the actuarially determined pension cost rate at the end of the prior year, adjusted for significant market fluctuations and for any significant one-off events, such as plan amendments, curtailments and settlements. In the absence of such significant market fluctuations and one-off events, the actuarial liabilities are rolled forward based on the assumptions as at the beginning of the year. If there are significant changes to the assumptions or arrangements during the interim period, consideration is given to re-measure such liabilities and the related costs.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Employee benefits

Long-term employee benefit obligations (continued)

End of service benefits and pension plans (continued)

Re-measurement gains and losses arising from changes in actuarial assumptions are recognised in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of income as past service costs.

When the benefits plan are amended, the portion of the change in benefit relating to the past service by employees is recognised as an expense or income; if applicable, on a straight-line basis over the average period until the benefits become vested in the consolidated statement of income. To the extent that benefits vest immediately, the expense or income, if applicable is recognised immediately in the consolidated statement of income.

Current and past service costs related to post-employment benefits are recognised immediately in the consolidated statement of income while unwinding of the liability at discount rates used are recorded as financial cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in OCI.

Employee Home Ownership Program (“HOP”)

Certain companies within the Group have established employee’s HOP that offer eligible employees the opportunity to buy residential units constructed by these subsidiaries through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment.

Under the HOP, the amounts paid by the employee towards the house are repayable back to the employee in case the employee discontinues employment and the house is returned back to the Group. HOP is recognised as a non-current prepayment asset at time the residential units are allocated to the employees and are amortised over the repayment period of the facility due from employees.

Employee Home Loan Program (“HLP”)

The Group provides interest free home loan to its eligible employees for purposes related to purchase or building of a house or apartment. The loan is repaid in monthly instalment by deduction of employee’s pay.

HLP is recognised as a non-current financial asset at fair value and measured at amortised cost using the EIR method. The difference between the fair value and the actual amount of cash given to the 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.

Revenue recognition

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.

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

Rights of return

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

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

6. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Allocation of performance obligations

In certain instances, the Group determines delivery services as separately identifiable and distinct from the sale of goods. These are 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 updates to the preliminary price is recorded against revenue with the additional receivable amount recorded under a contract asset or contract liability. Such contract asset or liability is de-recognised 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. 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.

Volume rebates give rise to variable consideration. The Group considers the "most likely amount" method to be the best estimate of this variable consideration.

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.

Accounting policy until end 2017

Until the end of 2017, the Group recognized revenue in accordance with IAS 18 'Revenue'. The prevailing principle of recognizing revenue was upon the sale of goods when significant risks and rewards of ownership of the goods have been passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods was measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Finance income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as investments in equity instruments at FVOCI, finance income is recorded using the EIR. EIR is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

NOTES TO THE CONSOLIDATED STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

7 Property, plant and equipment

For the year ended 31 December 2018

	Land and buildings	Plant and equipment	Furniture and fixtures	Vehicles	Finance lease	Assets under construction	Total
Cost:							
At the beginning of the year	31,853,024	281,502,829	1,016,897	755,245	1,217,233	24,894,448	341,239,676
Additions	207,171	2,090,600	17,238	16,655	29,858	11,812,453	14,173,975
Transfers (i)	975,707	13,426,401	39,453	4,659	79,795	(16,235,952)	(1,709,937)
Disposals	(165,221)	(985,644)	(14,111)	(29,584)	(578)	(146,612)	(1,341,750)
Currency translation adjustment	(302,680)	(1,605,634)	(12,498)	(1,293)	(45)	(56,394)	(1,978,544)
At the end of the year	32,568,001	294,428,552	1,046,979	745,682	1,326,263	20,267,943	350,383,420
Accumulated depreciation and impairment:							
At the beginning of the year	(14,807,964)	(156,161,828)	(754,507)	(554,027)	(633,818)	(971,621)	(173,883,765)
Charge for the year	(1,054,903)	(13,230,628)	(64,986)	(45,421)	(76,499)	-	(14,472,437)
Impairment	-	(303,750)	-	-	-	-	(303,750)
Transfers	(22,193)	(1,046,616)	5,853	(48)	-	937,022	(125,982)
Disposals	143,179	936,681	12,388	20,620	577	-	1,113,445
Currency translation adjustment	125,847	975,049	8,462	(444)	(161)	-	1,108,753
At the end of the year	(15,616,034)	(168,831,092)	(792,790)	(579,320)	(709,901)	(34,599)	(186,563,736)
Net book amounts:							
At 31 December 2018	16,951,967	125,597,460	254,189	166,362	616,362	20,233,344	163,819,684
At 1 January 2018	17,045,060	125,341,001	262,390	201,218	583,415	23,922,827	167,355,911

(i) Includes transfers within property, plant and equipment and transfer of housing units constructed for employees to other non-current assets.

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7 Property, plant and equipment (continued)

	For the year ended 31 December 2017						
	Land and buildings	Plant and equipment	Furniture and fixtures	Vehicles	Finance lease	Assets under construction	Total
Cost:							
At the beginning of the year	30,135,060	269,962,131	937,676	747,204	1,217,969	25,670,957	328,670,997
Additions	96,779	3,473,092	11,151	11,935	-	7,504,425	11,097,382
Transfers	992,607	6,898,846	59,797	2,215	-	(8,343,989)	(390,524)
Disposals	(90,017)	(2,030,891)	(10,141)	(8,437)	(867)	(45,781)	(2,186,134)
Write down	(14,362)	(59,811)	-	(538)	-	(103,414)	(178,125)
Currency translation adjustment	732,957	3,259,462	18,414	2,866	131	212,250	4,226,080
At the end of the year	31,853,024	281,502,829	1,016,897	755,245	1,217,233	24,894,448	341,239,676
Accumulated depreciation and impairment:							
At the beginning of the year	(13,237,142)	(142,658,096)	(662,491)	(508,372)	(585,907)	(669,007)	(158,321,015)
Charge for the year	(1,043,519)	(12,689,525)	(74,505)	(52,154)	(68,514)	-	(13,928,217)
Impairment and write down	(105,527)	(976,939)	(15)	538	(921)	(302,614)	(1,385,478)
Transfers	(142,450)	289,860	(13,550)	-	21,022	-	154,882
Disposals	88,640	1,936,588	9,947	8,182	867	-	2,044,224
Currency translation adjustment	(367,966)	(2,063,716)	(13,893)	(2,221)	(365)	-	(2,448,161)
At the end of the year	(14,807,964)	(156,161,828)	(754,507)	(554,027)	(633,818)	(971,621)	(173,883,765)
Net book amounts:							
At 31 December 2017	17,045,060	125,341,001	262,390	201,218	583,415	23,922,827	167,355,911
At 1 January 2017	16,897,918	127,304,035	275,185	238,832	632,062	25,001,950	170,349,982

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7 Property, plant and equipment (continued)

Allocation of depreciation charge for the year

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Cost of sales	13,903,349	13,268,321
Selling and distribution expenses	59,737	74,328
General and administrative expenses	509,351	585,568
Total	<u>14,472,437</u>	<u>13,928,217</u>

Land and building

The land on which plant and related facilities of certain subsidiaries in KSA are constructed are leased from the Royal Commission for Jubail and Yanbu under renewable lease agreements for a period up to 30 years. Land and buildings include an amount of SR 2.04 billion as of 31 December 2018 (2017: SR 2.04 billion) representing the cost of freehold land.

Assets under construction

Assets under construction mainly represents the expansion of existing plants and new projects being executed by certain subsidiaries. The related capital commitments are reported in Note 37.

Capitalised borrowing costs

The borrowing cost capitalised during the year ended 31 December 2018 amounted to SR 0.04 billion (2017: SR 0.18 billion), out of which SR 0.02 billion (2017: SR 0.10 billion) relate to non-conventional facilities. The Group uses the capitalisation rate of 4% (2017: 4%) to determine the amount of borrowing costs eligible for capitalisation.

Finance lease

Leased assets are pledged as security for the related finance lease and hire purchase liabilities.

Pledged property, plant and equipment

Property, plant and equipment of certain subsidiaries in the KSA pledged to Saudi Industrial Development Fund ("SIDF") as security for its term loans amounting to SR 34.62 billion (2017: SR 36.86 billion).

Impairment and write down of plant and equipment

During the year ended 31 December 2018, total impairment and write down, amounting to SR 0.30 billion (2017: SR 1.56 billion), was recorded against the plant and equipment mainly are as follows:

- During 2018, impairment was determined based on the fair value less cost of disposal of the related CGU. (Note 8).
- During 2017, an impairment loss amounting to SR 0.48 billion, recorded against certain plant and equipment of subsidiaries to bring these to their recoverable amount due to lower profitability and demand. The recoverable amount of the plant and equipment were computed as SR 1.37 billion as at 31 December 2017 based on "value-in-use" method and determined at the level of CGU as identified by respective subsidiaries' management. In determining value in use for the CGU, the cash flows – determined using approved 5-year business plan and budget – were discounted at a rate of 7.48%-9.49% on a pre-zakat basis and were projected up to the year 2047 in line with the estimated useful life of the concerned plant and equipment.
- During 2017, a write down amounting SR 1.08 billion recorded against certain plant and equipment that have been decided to be idle as a result of their economic conditions and were not expected to bring these plant and equipment to become operative in the near future and hence the amount above is recognised in the consolidated statement of income under cost of sales. These write-downs were to reduce the total carrying value of certain plant and equipment to nil.

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8 Intangible assets

	For the year ended 31 December 2018					Total
	Goodwill	Software and IT development	Licenses	Others (i)	Intangibles under development	
Cost:						
At the beginning of the year	9,089,745	2,328,153	9,906,856	105,741	32,950	21,463,445
Additions	-	1,310	65,611	1,092	3,045	71,058
Additions – through business combination (Note 9)	-	-	201,668	-	-	201,668
Transfers	-	44,376	65,514	(49,145)	(28,903)	31,842
Impairment and write down	(97,500)	(202,867)	(649)	(836)	(4,047)	(305,899)
Currency translation adjustment	(248,350)	(17,524)	(57,231)	(2,598)	-	(325,703)
At the end of the year	8,743,895	2,153,448	10,181,769	54,254	3,045	21,136,411
Accumulated amortisation:						
At the beginning of the year	-	(1,651,660)	(6,215,522)	(53,866)	-	(7,921,048)
Charge for the year	-	(192,560)	(471,084)	-	-	(663,644)
Transfers	-	-	101,862	-	-	101,862
Write down	-	202,867	649	40,649	-	244,165
Currency translation adjustment	-	10,343	38,644	478	-	49,465
At the end of the year	-	(1,631,010)	(6,545,451)	(12,739)	-	(8,189,200)
Net book amounts:						
At 31 December 2018	8,743,895	522,438	3,636,318	41,515	3,045	12,947,211
At 1 January 2018	9,089,745	676,493	3,691,334	51,875	32,950	13,542,397

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8 Intangible assets (continued)

	For the year ended 31 December 2017					Total
	Goodwill	Software and IT development	Licenses	Others (i)	Intangibles under development	
Cost:						
At the beginning of the year	8,432,788	2,461,065	9,079,283	20,605	44,916	20,038,657
Additions	-	23,339	269,531	6,652	74,200	373,722
Transfers	-	(60,800)	549,047	76,684	(86,166)	478,765
Write down	-	(139,028)	(129,616)	(4,634)	-	(273,278)
Currency translation adjustment	656,957	43,577	138,611	6,434	-	845,579
At the end of the year	9,089,745	2,328,153	9,906,856	105,741	32,950	21,463,445
Accumulated amortisation:						
At the beginning of the year	-	(1,571,844)	(5,530,686)	(10,219)	-	(7,112,749)
Charge for the year	-	(235,318)	(663,768)	(18,481)	-	(917,567)
Transfers	-	35,617	(67,701)	(28,561)	-	(60,645)
Write down	-	139,028	128,030	4,634	-	271,692
Currency translation adjustment	-	(19,143)	(81,397)	(1,239)	-	(101,779)
At the end of the year	-	(1,651,660)	(6,215,522)	(53,866)	-	(7,921,048)
Net book amounts:						
At 31 December 2017	9,089,745	676,493	3,691,334	51,875	32,950	13,542,397
At 1 January 2017	8,432,788	889,221	3,548,597	10,386	44,916	12,925,908

(i) Others includes trademarks, customer lists, (un)patented technology, in-house developed software and technology and innovation assets.

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For the year end 31 December 2018

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

8 Intangible assets (continued)

Allocation of amortisation charge for the year

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cost of sales	529,906	818,741
General and administrative expenses	133,738	98,826
Total	<u>663,644</u>	<u>917,567</u>

Goodwill

Goodwill, resulting from the Group's acquisitions in 2002 and 2007, has been allocated to the Group's CGUs at which the goodwill is managed. For goodwill impairment testing, these CGUs are Petrochemicals and Specialties. The goodwill allocated to Petrochemicals amounts to SR 5.99 billion and to Specialties SR 2.82 billion. The Weighted Average Cost of Capital ("WACC") rate applied is 7.1% for Petrochemicals (2017: 6.4%) and for Specialties 7.7% (2017: 7.3%)

The WACC is calculated based on long-term moving monthly average assumptions that reflect market assessments of the risk specific to each CGU. Segment specific risk is incorporated by applying average beta factors. The beta factors are evaluated annually based on publicly available market data of SABIC's peers. The average effective tax rate is assumed to be 23%-25% (2017: 25%). The cash flow projections are derived from the respective business plans. Cash flow projections beyond the five year business plan are extrapolated taking into account an assumed growth rate of 1.1%-2.0% (2017: 1.8%- 2.0%).

During 2018, the impairment and write down included an amount of SR 0.098 billion (2017: SR NIL) was determined based on the fair value less cost of disposal of the related CGU. (Note 7).

With respect to the assessment of the value in use, management believes that a reasonably possible change in its used assumptions would not cause the carrying value of its goodwill to exceed its recoverable amount further.

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9 Investments in associates and joint ventures

The table below outlines the Group's investment in associates and joint venture companies:

Name of associates and joint ventures	Ownership %	Place of business / country of incorporation	Nature of activities	31 December 2018	31 December 2017
Associate:					
Gulf Petrochemical Industries Company ("GPIC")	33.33	Bahrain	Petrochemical	697,515	628,503
Gulf Aluminium Rolling Mills Company ("GARMCO")	30.40	Bahrain	Aluminium	-	83,059
Ma'aden Phosphate Company ("MPC")	30.00	KSA	Agri-nutrients	2,125,868	1,960,276
Power and Water Utilities Company for Jubail and Yanbu ("MARAFIQ")	24.81	KSA	Utilities	1,696,036	1,719,222
Aluminium Bahrain BSC ("ALBA")	20.62	Bahrain	Aluminium	2,227,253	2,152,435
National Chemical Carrier Company ("NCC")	20.00	KSA	Transportation	301,975	331,604
Ma'aden Wa'ad Al Shamal Phosphate Company ("MWSPC")	15.00	KSA	Agri-nutrients	1,876,238	1,799,877
Saudi Arabian Industrial Investment Company ("Dussur")	25.00	KSA	Investments	115,706	144,687
Clariant AG ("Clariant") (Note 9.1)	24.99	Switzerland	Specialty chemical	10,550,156	-
Black Diamond Structures, LLC ("Black Diamond") (i)	50.00	USA	Specialties	-	103,926
Others	-	-	-	874,588	766,199
Joint venture:					
Sinopec Sabic Tianjin Petrochemical Company ("SSTPC")	50.00	China	Petrochemical	4,770,486	4,031,268
Sabic SK Nexlene Company ("SSNC")	50.00	Singapore	Petrochemical	544,729	583,084
				25,780,550	14,304,140

(i) The Group acquired control over Black Diamond as per 1 January 2018. Due to change in control, this equity investment is consolidated from 1 January 2018. The carrying values of total assets amounted to SR 0.2 billion reflected the fair value at the date of acquisition.

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9 Investments in associates and joint ventures (continued)

9.1 Acquisition of Clariant

At 10 September 2018, SABIC acquired approximately 83 million shares equivalent to 24.99% ownership in 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 the equity method.

Due to prevailing Swiss law and regulations, the preliminary Purchase Price Allocation ("PPA") is based on public available information only. Through an independent appraiser, management applied a benchmark analysis approach, where it reviewed recent PPA's of transactions in the chemicals industry and applied the outcome of this analysis on the applied enterprise value of Clariant. This is subject to further assessment of the fair value of the (net) assets of Clariant during next 12 months.

The Group paid a consideration of SR 10.82 billion which includes an initial goodwill amounting to SR 5.38 billion. The market price of a Clariant share was Swiss Francs (CHF) 18.09 [approximately SR 68] each as at 28 December 2018, the last trading day at SIX, amounting to a total quoted fair value of approximately SR 5.72 billion. Management believes that the fair value per share as unit of account is not representative of the value of this investment. A premium on this investment is considered appropriate, given the fact that SABIC has significant influence through its 24.99% share in Clariant and the fact that on 18 September 2018, SABIC and Clariant announced their long-term strategic relationship, whereby both parties are currently in discussion about strategic initiatives. At year-end, management assessed the carrying value of its investment using the higher of fair value less cost of disposal and value in use approach using publicly available information taking an average analyst consensus and reasonable assumptions. Based on its assessment, management concluded that the carrying value of this investment at 31 December 2018 is supportable under both valuation methodologies.

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9 Investments in associates and joint ventures (continued)

The movement of investments in associate and joint venture is as follows:

	For the year ended 31 December 2018												
	Associates								Joint ventures				Total
	GPIC	GARMCO	MPC	MARAFIQ	ALBA	NCC	MWSPC	Dussur	Clariant	Others	SSTPC	SSNC	
Balance at the beginning of the year	628,503	83,059	1,960,276	1,719,222	2,152,435	331,604	1,799,877	144,687	-	870,125	4,031,268	583,084	14,304,140
Capital contribution during the year	-	-	-	-	-	-	-	-	10,822,077	132,683	190,475	-	11,145,235
Share of results	106,803	(83,026)	163,160	(7,977)	150,543	(29,677)	77,169	(28,905)	(106,973)	(24,292)	831,728	1,297	1,049,850
Movements in OCI	(291)	(33)	2,432	20,185	-	48	(808)	(76)	(164,948)	-	236,920	(39,652)	53,777
Dividends received	(37,500)	-	-	(35,394)	(75,725)	-	-	-	-	-	(504,217)	-	(652,836)
Others (i)	-	-	-	-	-	-	-	-	-	(103,928)	(15,688)	-	(119,616)
Balance at the end of the year	697,515	-	2,125,868	1,696,036	2,227,253	301,975	1,876,238	115,706	10,550,156	874,588	4,770,486	544,729	25,780,550

(i) Others include obtaining control of Black Diamond Structures, LLC as well as other movements in joint ventures.

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9 Investments in associates and joint ventures (continued)

	For the year ended 31 December 2017											
	Associates								Joint ventures			Total
	GPIC	GARMCO	MPC	MARAFIQ	ALBA	NCC	MWSPC	Dussur	Others	SSTPC	SSNC	
Balance at the beginning of the year	478,150	106,300	1,885,816	1,643,288	2,017,284	319,768	1,587,540	96,240	808,382	3,508,677	488,879	12,940,324
Capital contribution during the year	-	-	-	-	-	-	140,625	92,550	119,820	-	-	352,995
Share of results	43,853	(23,241)	74,460	83,705	196,314	11,836	71,712	(44,103)	(35,453)	1,059,693	(19,096)	1,419,680
Movements in OCI	-	-	-	23,241	-	-	-	-	(56,294)	(265,171)	113,301	(184,923)
Dividends received, net of withholding tax and adjustments (i)	106,500	-	-	(31,012)	(61,163)	-	-	-	33,670	(271,931)	-	(223,936)
Balance at the end of the year	628,503	83,059	1,960,276	1,719,222	2,152,435	331,604	1,799,877	144,687	870,125	4,031,268	583,084	14,304,140

(i) Adjustments related to prior year's dividend declaration from GPIC, which has been rescinded in 2017 and thus reversed.

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9 Investments in associates and joint ventures (continued)

Summarised financial information of associates

The tables below provide summarised financial information of the material associates of the Group. The information disclosed reflects the amounts presented in the available financial statements of the relevant investee and not SABIC's share of those amounts.

	MPC	MARAFIQ	ALBA	MWSPC (i)	Clariant (ii)
As at 31 December 2018					
Current assets	2,837,269	3,349,284	4,507,876	3,763,582	12,727,365
Non-current assets	14,624,827	19,186,046	17,034,081	27,180,114	31,803,920
Current liabilities	1,547,546	2,959,695	4,204,279	2,330,057	8,770,556
Non-current liabilities	8,828,324	12,739,537	6,536,255	19,705,388	14,746,700
Net assets	7,086,226	6,836,098	10,801,423	8,908,251	21,014,029
<u>Reconciliation:</u>					
Group's share in %	30.00%	24.81%	20.62%	15.00%	24.99%
Group's share in associate	2,125,868	1,696,036	2,227,253	1,336,238	5,251,406
Intangible / goodwill	-	-	-	540,000	5,298,750
Carrying amount	2,125,868	1,696,036	2,227,253	1,876,238	10,550,156
For the year ended 31 December 2018					
Revenue	5,215,648	4,053,837	9,075,806	1,163,825	25,393,900
Net income for the year - all from continuing operations	705,082	228,214	594,270	415,816	1,364,975
<u>Reconciliation:</u>					
Group's share in %	30.00%	24.81%	20.62%	15.00%	24.99%
Group's share in associate	211,525	56,620	122,538	62,372	341,107
Share in earnings (losses) (iii)	163,160	(7,977)	150,543	77,169	(106,973)

Notes:

- (i) The Group's investment in MWSPC includes additional contribution made to one of the shareholders in relation to mineral rights.
- (ii) The Group's share in losses of Clariant's net income over the period from 10 September 2018 until year-end are recorded after fair value adjustments.
- (iii) The Group's share of earnings (losses) include certain adjustments made in Group's share of investments and earnings (losses).

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9 Investments in associates and joint ventures (continued)

Summarised financial information of associates (continued)

	MPC	MARAFIQ	ALBA	MWSPC
	As at 31 December 2017			
Current assets	2,388,835	3,967,877	4,356,845	2,175,416
Non-current assets	15,219,205	21,443,315	12,337,072	26,328,595
Current liabilities	1,824,375	2,772,990	1,764,673	2,111,058
Non-current liabilities	9,249,412	15,708,648	4,490,666	17,993,770
Net assets	6,534,253	6,929,554	10,438,578	8,399,183
<u>Reconciliation:</u>				
Group's share in %	30.00%	24.81%	20.62%	15.00%
Group's share in associate	1,960,276	1,719,222	2,152,435	1,259,877
Intangible	-	-	-	540,000
Carrying amount	1,960,276	1,719,222	2,152,435	1,799,877
	For the year ended 31 December 2017			
Revenue	4,253,916	3,983,429	8,494,263	1,096,917
Net income for the year - all from continuing operations	248,200	337,384	952,056	478,080
<u>Reconciliation:</u>				
Group's share in %	30.00%	24.81%	20.62%	15.00%
Group's share in associate	74,460	83,705	196,314	71,712
Share in earnings	74,460	83,705	196,314	71,712

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9 Investments in associates and joint ventures (continued)

Summarised financial information of joint ventures

The tables below provide the summarised financial information of SSTPC, a material joint venture of the Group. The information disclosed reflects the amounts presented in the financial statements of the joint venture and not SABIC's share of those amounts.

	As at 31 December 2018	As at 31 December 2017
Cash and bank balances	2,778,440	3,759,990
Total current assets	4,956,637	5,321,463
Non-current assets	8,384,204	8,460,766
Current financial liabilities (excluding trade payables)	785,666	1,507,095
Total current liabilities	1,634,680	2,620,246
Total non-current liabilities	2,165,189	3,099,448
Net assets	<u>9,540,972</u>	<u>8,062,535</u>
<u>Reconciliation:</u>		
Group's share in %	50.00%	50.00%
Group's share in joint venture	<u>4,770,486</u>	<u>4,031,268</u>
Carrying amount	<u>4,770,486</u>	<u>4,031,268</u>
	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Revenue	10,334,966	12,844,702
Depreciation and amortisation	483,784	(446,064)
Interest income	94,355	57,921
Interest expense	(95,467)	(123,731)
Income tax expense	(559,773)	(709,951)
Net income for the year - all from continuing operations	<u>1,663,456</u>	<u>2,119,386</u>
<u>Reconciliation:</u>		
Group's share in %	50.00%	50.00%
Group's share of earnings in joint venture	<u>831,728</u>	<u>1,059,693</u>
Share of earnings	<u>831,728</u>	<u>1,059,693</u>

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9 Investments in associates and joint ventures (continued)

Summarised financial information of individually immaterial associates and joint venture

	For the year ended 31 December 2018		For the year ended 31 December 2017	
	Individually immaterial associates	Individually immaterial joint ventures	Individually immaterial associates	Individually immaterial joint ventures
Net income (loss) for the year - all from continuing operations	556,571	20,013	72,364	(43,995)

Fair value of listed associates

The fair value of the Group's investment in ALBA and Clariant is SR 1.75 billion and SR 5.72 billion (Note 9.1) respectively (2017: ALBA SR 1.79 billion).

10 Investments in debt instruments

	31 December 2018	31 December 2017
<i>Current (in short-term investments)</i>		
Fixed rate instruments	93,750	-
Floating rate instrument	481,460	390,320
	575,210	390,320
<i>Non-current</i>		
Fixed rate instruments	1,146,865	1,755,531
Floating rate instrument	1,347,015	1,299,630
	2,493,880	3,055,161
	3,069,090	3,445,481

As at 2017, the investments in debt instruments were classified as held-to-maturity investments (Note 4).

Currency exposure

	31 December 2018	31 December 2017
SR	1,641,779	2,029,856
USD	1,427,311	1,415,625
	3,069,090	3,445,481

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11 Investments in equity instruments

Carrying value of the investments in equity instruments carried at FVOCI are as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Listed securities</i>		
Equity securities	-	20
<i>Unlisted securities</i>		
Equity securities	784,815	396,817
Mutual fund units	305,294	299,406
	<u>1,090,109</u>	<u>696,223</u>
Total	<u>1,090,109</u>	<u>696,243</u>

As at 2017, the investments in equity instruments were classified as available-for-sale financial assets (Note 4).

12 Other non-current assets

	<u>31 December 2018</u>	<u>31 December 2017</u>
Employee advances	3,585,847	2,576,031
Loan receivable from related parties	620,029	576,090
Pre-paid mining fee	112,500	112,500
Re-imburement of tax receivable	-	244,112
Others	808,080	710,767
	<u>5,126,456</u>	<u>4,219,500</u>

Employee advances

Employee advances represents receivables from employees related to HOP and other benefits.

Loan receivable from related parties

Loans receivable from related parties relates to certain associates and joint ventures at normal market rates.

Re-imburement of tax receivable

Reimbursement of tax payments relates to the recovery of the tax payments from GE Company as a result of the purchase price agreement related to the acquisition of SABIC Innovative Plastics Holding B.V., a subsidiary of SLUX. During 2018, this amount transferred to prepayment and other current assets as the collection is expected within twelve months.

Others

Others mainly include advances to contractors and miscellaneous items

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13 Financial assets and financial liabilities

	31 December 2018							
	Total	Financial assets / liabilities at amortised cost	Financial assets / liabilities at FVIS	Financial assets at FVOCI	Fair value (iii)	Level I	Level II	Level III
<i>Financial assets</i>								
Investments in debt instruments								
- Fixed	1,240,615	1,240,615	-	-	1,720,920	-	1,720,920	-
- Floating	1,828,475	1,441,498	386,977	-	1,692,752	-	1,692,752	-
Investments in equity instruments								
- Unquoted	1,090,109	-	-	1,090,109	1,090,109	-	305,294	784,815
Derivative financial assets	29,651	-	29,651	-	29,651	-	29,651	-
Trade receivables	21,821,849	21,821,849	-	-	N/A	-	-	-
Short-term investments								
- Time deposits	9,240,289	9,240,289	-	-	N/A	-	-	-
Cash and bank balances								
- Bank balances	13,152,820	13,152,820	-	-	N/A	-	-	-
- Time deposits	29,437,610	29,437,610	-	-	N/A	-	-	-
Other financial assets (ii)	1,780,085	1,780,085	-	-	N/A	-	-	-
Total	79,621,503	78,114,766	416,628	1,090,109	4,533,432	-	3,748,617	784,815
<i>Financial liabilities</i>								
Debt	47,263,241	47,263,241	-	-	45,715,403	-	45,715,403	-
Derivative financial liabilities	381	-	381	-	381	-	381	-
Trade payables	14,969,357	14,969,357	-	-	N/A	-	-	-
Other financial liabilities (ii)	3,357,882	3,357,882	-	-	N/A	-	-	-
Total	65,590,861	65,590,480	381	-	45,715,784	-	45,715,784	-

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13 Financial assets and financial liabilities (continued)

	31 December 2017							
	Total	Loans and advances/ liabilities at amortised cost	Financial assets / liabilities at FVIS	Available for sale through OCI	Fair value (iii)	Level I	Level II	Level III
Financial assets								
Held-to-maturity investments	3,445,481	3,445,481	-	-	3,856,110	-	3,856,110	-
Available for sale financial assets								
- Quoted	20	-	-	20	20	20	-	-
- Unquoted (i)	696,223	-	-	696,223	299,406	-	299,406	-
Derivative financial assets	26,806	-	26,806	-	26,806	-	26,806	-
Trade receivables	22,609,432	22,609,432	-	-	N/A	-	-	-
Short-term investments	3,960,752	3,960,752	-	-	N/A	-	-	-
Cash and bank balances	59,038,656	59,038,656	-	-	N/A	-	-	-
Other financial assets (ii)	2,001,134	2,001,134	-	-	N/A	-	-	-
Total	91,778,504	91,055,455	26,806	696,243	4,182,342	20	4,182,322	-
Financial liabilities								
Debt	58,063,188	58,063,188	-	-	56,939,299	-	56,939,299	-
Derivative financial liabilities	16,236	-	16,236	-	16,236	-	16,236	-
Trade payables	18,061,464	18,061,464	-	-	N/A	-	-	-
Other financial liabilities (ii)	2,347,871	2,347,871	-	-	N/A	-	-	-
Total	78,488,759	78,472,523	16,236	-	56,955,535	-	56,955,535	-

- (i) Includes SR 396,817 thousand of investments in unquoted equity shares of companies operating within and outside KSA. The fair value of these equity shares cannot be measured reliably since there is no active market available for these shares. SABIC intends to hold these investments for strategic purposes.
- (ii) Other financial assets include lease receivables, loans to related parties and interest receivables, and other financial liabilities include dividend payable, payables to related parties and interest payables.
- (iii) The Group assessed that trade receivables, short-term investments, cash and bank balances, trade payables and other financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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13 Financial assets and financial liabilities (continued)

The Group's exposure to various risks associated with the financial instruments is discussed in Note 36. The maximum exposure to credit risk at the end of the reporting year is the carrying amount of each class of financial assets mentioned above.

There were no transfers between Level 1 and Level 2 during the year ended 31 December 2018 and the year ended 31 December 2017.

The Group assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables and borrowings. As at 31 December 2018 and 31 December 2017, the carrying amounts of such net receivables and borrowings, were not materially different from their calculated fair values.
- Fair value of the quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward contracts and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.
- The valuation requires the Group to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in the Group's estimate of fair value for these unquoted investments in equity instruments. Fair value of quoted investments in equity instruments at FVOCI is derived from quoted prices in active markets.
- 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). 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	<ul style="list-style-type: none"> • Equity value to EBITDA multiple • Midpoint of Net Asset Value and Price to Book multiple 	7.9 to 13.1 0.76
Net Asset Value approach	Point estimate of distributable cash and bank balances	SR 46.1 to SR 49.9
Expected Returns approach	Equity value to Revenue multiple	0.73

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14 Inventories

	<u>31 December 2018</u>	<u>31 December 2017</u>
Finished goods	17,561,580	15,547,664
Raw materials	4,202,729	4,445,988
Spare parts	5,890,142	5,560,723
Goods in transit	2,260,171	2,163,711
Work in process	46,227	121,183
	<u>29,960,849</u>	<u>27,839,269</u>
Less: Provision for slow moving and obsolete items	<u>(1,716,046)</u>	<u>(1,776,274)</u>
	<u>28,244,803</u>	<u>26,062,995</u>

Movements in the provision for obsolete inventories were as follows:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Balance at 1 January	1,776,274	1,500,026
(Reversal) charge for the year	<u>(60,228)</u>	<u>276,248</u>
Balance at 31 December	<u>1,716,046</u>	<u>1,776,274</u>

The Group's exposure to commodity price risks is disclosed in Note 36.

15 Trade receivables

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trade receivables	19,111,571	19,838,279
Due from related parties	3,116,951	3,134,896
	<u>22,228,522</u>	<u>22,973,175</u>
Less: allowance for expected credit losses	<u>(406,673)</u>	<u>(363,743)</u>
	<u>21,821,849</u>	<u>22,609,432</u>

Accounts receivable are non-interest bearing and are generally on 30 – 120 days terms.

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15 Trade receivables (continued)

As of 31 December the ageing analysis of trade receivable along with related expected credit loss is as follows:

	Total	Neither past due nor impaired	Less than 60 days	61-90 days	91-180 days	181-365 days	More than one year
31 December 2018							
Expected credit loss rate (rounded)		0.15%	1.72%	29.16%	17.34%	35.28%	52.07%
Gross carrying amount	22,228,522	20,442,712	968,193	34,856	114,193	108,073	560,495
Expected credit loss	406,673	30,095	16,655	10,165	19,797	38,132	291,829
1 January 2018							
Expected credit loss rate (rounded)		0.11%	1.94%	19.78%	23.96%	36.77%	61.34%
Gross carrying amount	22,973,175	21,414,369	822,558	36,824	91,353	159,645	448,426
Expected credit loss	403,353	22,860	15,940	7,284	21,886	60,300	275,083

Movements in the allowance for expected credit losses were as follows:

	2018	2017
Opening balance	363,743	247,087
Additional allowance for expected credit losses on adoption of IFRS 9 (Note 4)	39,610	-
As at 1 January	403,353	247,087
Charge for the year	70,411	175,774
Write-off /reversals during the year	(67,091)	(59,118)
As at 31 December	406,673	363,743

16 Prepayments and other current assets

	31 December 2018	31 December 2017
Prepaid expenses	1,897,589	1,811,990
Taxes and subsidies receivable	1,198,681	920,506
Current portion of loan receivable from related parties	184,760	238,760
Finance income receivable	152,964	147,627
Employee advances and receivables	76,569	91,267
Others	1,604,294	2,491,166
	5,114,857	5,701,316

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17 Short-term investments

	31 December 2018	31 December 2017
Time deposits	9,240,289	3,960,752
Investments in debt instruments / held-to-maturity investments (Note 10)	575,210	390,320
	<u>9,815,499</u>	<u>4,351,072</u>

The time deposits with banks are of original maturities of more than three months and less than twelve months and carry commission rates in line with the prevailing market rates.

18 Cash and bank balances

	31 December 2018	31 December 2017
Cash in hand	390	413
Bank balances	13,152,820	14,566,314
Time deposits	29,437,610	44,471,929
	<u>42,590,820</u>	<u>59,038,656</u>

The time deposits represent deposits with banks of original maturities of less than three months.

18.1 Cash flows related disclosures

Cash and cash equivalents:

	31 December 2018	31 December 2017
Cash and bank balances	42,590,820	59,038,656
Less: bank overdrafts	(1,167,589)	(1,065,000)
Cash and cash equivalents at the end of the year	<u>41,423,231</u>	<u>57,973,656</u>

Reconciliation of liabilities arising financing activities

	As at 1 January 2018	Charged during the year	Cash flows	Foreign currency exchange and other non-cash	As at 31 December 2018
Debt	57,198,175	-	(10,693,815)	19,956	46,524,316
Finance lease payments	865,013	61,025	(187,113)	-	738,925
Dividends payable to shareholders	1,633,220	13,200,000	(12,059,538)	-	2,773,682
Dividends paid to non-controlling interests	-	8,629,709	(8,736,246)	106,537	-
Total financing activities	<u>59,696,408</u>	<u>21,890,734</u>	<u>(31,676,712)</u>	<u>126,493</u>	<u>50,036,923</u>

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18 Cash and bank balances (continued)

18.1 Cash flows related disclosures (continued)

Reconciliation of liabilities arising financing activities (continued)

	As at 1 January 2017	Charged during the year	Cash flows	Foreign currency exchange and other non-cash	As at 31 December 2017
Debt	62,254,380	-	(5,612,441)	556,236	57,198,175
Finance lease payments	855,369	63,320	(53,676)	-	865,013
Dividends payable to shareholders	1,225,636	12,000,000	(11,592,416)	-	1,633,220
Dividends paid to non- controlling interests	-	5,390,185	(5,390,185)	-	-
Acquisition of non- controlling interests	-	3,075,000	(3,075,000)	-	-
Total financing activities	64,335,385	20,528,505	(25,723,718)	556,236	59,696,408

Bank balances earn interest at fixed and floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest or profit at the respective short-term deposit rates.

At 31 December 2018, the Group had available SR 10.06 billion (31 December 2017: SR 7.1 billion) of undrawn committed borrowing facilities.

The table below provides details of amounts placed in various currencies:

	31 December 2018	31 December 2017
SR	15,700,877	30,398,916
USD	25,304,981	25,342,450
Others	1,584,962	3,297,290
	42,590,820	59,038,656

19 Share capital

	31 December 2018	31 December 2017
Authorised shares		
Ordinary shares of SR 10 each	3,000,000	3,000,000
Ordinary shares issued and fully paid of SR 10 each	3,000,000	3,000,000
Issued and paid capital (SR '000)	30,000,000	30,000,000

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20 Reserves

Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, SABIC must set aside 10% of net income in each year until it has built up a reserve equal to 30% of the share capital. As the reserve has reached the minimum amount, SABIC has resolved to discontinue such transfers. The reserve is not available for distribution.

General reserve

In accordance with SABIC's By-Laws, the General Assembly can establish general reserve as an appropriation of retained earnings. The general reserve can be increased or decreased by a resolution of the shareholders and is available for distribution.

Other reserves

The following table shows a breakdown of 'other reserves' and the movements during the year:

31 December 2018	Equity instruments and others at FVOCI	Foreign currency translation	Actuarial gain/loss	Cash flow hedge	Total
At the beginning of the year	28,956	(1,430,422)	(792,486)	(55,711)	(2,249,663)
Adoption of IFRS 9 (Note 4)	389,300	(275)	-	-	389,025
At 1 January 2018	418,256	(1,430,697)	(792,486)	(55,711)	(1,860,638)
Net change on currency translation of foreign operations	-	(1,301,215)	-	-	(1,301,215)
Re-measurement impact of employee benefit obligations	-	-	1,744,012	-	1,744,012
Re-measurement impact of investments in equity instrument at FVOCI	4,880	-	-	-	4,880
Share of other comprehensive income for associates and joint ventures	-	31,996	1,596	20,185	53,777
Other comprehensive income for the year	4,880	(1,269,219)	1,745,608	20,185	501,454
At the end of the year	423,136	(2,699,916)	953,122	(35,526)	(1,359,184)

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20 Reserves (continued)

31 December 2017	Available- for-sale financial assets	Foreign currency translation	Actuarial gain/loss	Cash flow hedge	Total
At the beginning of the year	38,979	(4,213,936)	(1,024,146)	(108,880)	(5,307,983)
Net change on currency translation of foreign operations	-	3,021,606	-	-	3,021,606
Re-measurement impact of employee benefit obligations	-	-	231,660	-	231,660
Re-measurement impact of investments in equity instrument at FVOCI	(10,023)	-	-	-	(10,023)
Share of other comprehensive income for associates and joint ventures	-	(238,092)	-	53,169	(184,923)
Other comprehensive income for the year	(10,023)	2,783,514	231,660	53,169	3,058,320
At the end of the year	28,956	(1,430,422)	(792,486)	(55,711)	(2,249,663)

Re-measurement impact of employee benefit obligations include a net (tax) benefit amounting to SR 0.01 billion (2017 SR: 0.06 billion).

21 Non-controlling interests

Non-controlling interests in the group companies are included in the consolidated statement of financial position as part of equity. Non-controlling interests in the net results of subsidiaries are disclosed separately in the consolidated statement of income.

21.1 Acquisition of non-controlling interests

On 22 January 2017 (the "Value Date"), SABIC and Shell Chemicals Arabia LLC ("Shell"), SABIC's partner in Saudi Petrochemical Company ("Sadaf"), entered into an agreement pursuant to which SABIC agreed to purchase Shell's entire stake in Sadaf for SR 3.075 billion (the "Transaction"), thereby increasing SABIC's ownership interest in Sadaf from 50% to 100%. SABIC and Shell completed the Transaction on 16 August 2017.

Due to no change in control, the acquisition of Shell's ownership interest in Sadaf is accounted for as an equity transaction. Consequently, the excess consideration paid over the carrying value of Shell's ownership interest in Sadaf is recognised in retained earnings.

As agreed between SABIC and Shell, Shell's share of Sadaf's operating results related to the financial year ended 31 December 2017 has been reallocated to SABIC.

The carrying value of the net assets of Sadaf as of the Value Date was SR 2.34 billion. The details of additional interest acquired in Sadaf are:

	For the year ended 31 December 2017
Cash consideration paid to non-controlling interest partner (USD 0.82 billion)	(3,075,000)
Carrying value of the additional interest in Sadaf	2,335,205
Difference recognised in retained earnings	(739,795)

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21 Non-controlling interests (continued)

21.2 Absorption of loss on behalf of non-controlling interests

During the year ended 31 December 2017, the Board of Directors of SABIC, in order to support and continue the operation of Arabian Industrial Fibers Company ("Ibn Rushd"), a subsidiary, on a going concern basis, and to ensure compliance with the regulatory obligations under the Companies Regulations, resolved and recommended the following:

- Convert SR 4.58 billion representing the value of dues owed by the subsidiary to SABIC at 1 April 2017, as an "additional non-cash investment" to reduce the subsidiary's accumulated losses without affecting the subsidiary's existing number of shares and shareholding rights
- Reduce the subsidiary's share capital by SR 6.51 billion, to absorb further accumulated losses of the subsidiary, without affecting the subsidiary's shareholding proportion
- Convert the subsidiary's legal entity structure from closed Joint Stock Company ("JSC") to Limited Liability Company ("LLC")

In accordance with the outcome of Ibn Rushd's Extra Ordinary General Assembly, held on 31 December 2017, with respect to the capital restructuring and the conversion of the legal entity structure, these recommendations/resolutions were put into effect on 31 December 2017. As no change of control has occurred, the above have been accounted for as an equity transaction, in accordance with IFRS 10 – 'Consolidated Financial Statement' provisions. This resulted in a SR 2.36 billion reduction of retained earnings attributable to the equity holders of the Parent, with an offset to non-controlling interests.

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21 Non-controlling interests (continued)

Summarised statement of financial position

Set out below is summarised financial information for each subsidiary that has non-controlling interest that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations:

	As at 31 December 2018							
	YANSAB	AR RAZI	YANPET	SHARQ	KEMYA	IBN RUSHD	SAFCO	KAYAN
Current assets	6,227,525	3,428,862	5,941,261	8,044,262	3,690,629	2,165,665	2,249,981	9,173,922
Current liabilities	1,343,865	2,938,323	2,494,188	1,560,340	2,138,286	984,443	855,264	3,295,944
<i>Current net assets</i>	4,883,660	490,539	3,447,073	6,483,922	1,552,343	1,181,222	1,394,717	5,877,978
Non-current assets	12,844,534	2,818,632	4,415,143	13,867,515	13,129,797	4,074,091	7,254,486	31,521,004
Non-current liabilities	472,499	775,785	847,336	2,439,668	4,701,917	3,752,541	743,154	21,700,622
<i>Non-current net assets</i>	12,372,035	2,042,847	3,567,807	11,427,847	8,427,880	321,550	6,511,332	9,820,382
<i>Net assets</i>	17,255,695	2,533,386	7,014,880	17,911,769	9,980,223	1,502,772	7,906,049	15,698,360
Accumulated non-controlling interests (i)	8,143,373	1,109,028	3,392,926	8,596,724	4,852,558	712,967	4,183,245	9,620,400

(i) Accumulated non-controlling interests includes adjustments such as inter-group profit elimination, absorption of income tax in non-controlling interests and others.

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21 Non-controlling interests (continued)

Summarised statement of financial position (continued)

	As at 31 December 2017							
	YANSAB	AR RAZI	YANPET	SHARQ	KEMYA	IBN RUSHD	SAFCO	KAYAN
Current assets	6,582,991	1,668,841	4,795,571	8,867,168	4,439,751	2,050,745	1,192,281	6,811,410
Current liabilities	2,323,147	583,217	1,899,696	1,647,884	2,969,987	1,046,139	785,304	3,350,402
<i>Current net assets</i>	4,259,844	1,085,624	2,895,875	7,219,284	1,469,764	1,004,606	406,977	3,461,008
Non-current assets	13,181,539	2,832,730	4,418,245	14,656,409	13,611,878	4,356,819	7,154,587	33,499,880
Non-current liabilities	703,953	854,018	983,466	2,716,243	5,798,158	4,016,225	700,939	23,052,842
<i>Non-current net assets</i>	12,477,586	1,978,712	3,434,779	11,940,166	7,813,720	340,594	6,453,648	10,447,038
<i>Net assets</i>	16,737,430	3,064,336	6,330,654	19,159,450	9,283,484	1,345,200	6,860,625	13,908,046
Accumulated non-controlling interests (i)	7,898,003	1,393,102	3,027,742	9,003,506	4,419,052	631,311	3,645,208	8,555,340

(i) Accumulated non-controlling interests includes adjustments such as inter-group profit elimination, absorption of income tax in non-controlling interests and others.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

21 Non-controlling interests (continued)

Summarised statement of comprehensive income

	For the year ended 31 December 2018							
	YANSAB	AR RAZI	YANPET	SHARQ	KEMYA	IBN RUSHD	SAFCO	KAYAN
Revenue	7,628,470	5,249,864	7,859,468	11,383,526	8,766,320	6,302,650	3,859,836	12,263,159
<i>Net income for the year</i>	2,413,978	3,045,453	2,944,221	2,859,182	1,965,479	130,862	1,738,438	1,702,248
Other comprehensive income	73,037	55,640	124,006	93,484	67,696	53,508	140,320	88,645
<i>Total comprehensive income</i>	2,487,015	3,101,093	3,068,227	2,952,666	2,033,175	184,370	1,878,758	1,790,893
Net income attributable to non-controlling interests	1,156,336	1,360,836	1,304,256	1,406,008	946,798	67,784	874,950	1,007,816
Dividends to non-controlling interests	946,063	1,938,503	1,424,437	2,131,029	696,144	-	475,083	-
	For the year ended 31 December 2017							
Revenue	7,220,906	3,631,472	7,510,101	10,066,000	7,910,236	5,704,262	2,759,455	9,983,926
<i>Net income for the year</i>	2,376,365	1,778,390	2,993,537	2,735,429	1,604,213	(608,807)	878,628	668,174
Other comprehensive income	(6,978)	(1,699)	7,378	(5,814)	(2,219)	1,088	44,113	(11,473)
<i>Total comprehensive income</i>	2,369,387	1,776,691	3,000,915	2,729,615	1,601,994	(607,719)	922,741	656,701
Net income attributable to non-controlling interests	996,942	787,865	1,496,174	1,150,915	856,623	(316,182)	429,438	352,992
Dividends to non-controlling interests	793,083	1,080,100	1,996,505	814,688	540,229	-	415,698	-

Net income (loss) attributable to non-controlling interests includes adjustments such as inter-group profit elimination, absorption of income tax in non-controlling interests and others.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

21 Non-controlling interests (continued)

Summarised statement of cash flows

	Year ended 31 December 2018							
	YANSAB	AR RAZI	YANPET	SHARQ	KEMYA	IBN RUSHD	SAFCO	KAYAN
Cash flow from operating activities	3,928,161	3,202,785	2,881,894	3,966,259	2,553,916	526,637	2,083,578	3,432,919
Cash flow from investing activities	(1,857,714)	(294,522)	(547,071)	(408,623)	(310,722)	(86)	(802,588)	(2,115,782)
Cash flow from financing activities	(3,096,501)	(1,558,860)	(1,711,058)	(4,341,786)	(2,935,188)	(210,573)	(833,080)	(1,454,539)
Net increase / (decrease) in cash and cash equivalents	(1,026,054)	1,349,403	623,765	(784,150)	(691,994)	315,978	447,910	(137,402)
	Year ended 31 December 2017							
Cash flow from operating activities	3,235,901	2,110,365	3,900,893	3,325,029	2,051,289	432,166	1,395,787	3,592,324
Cash flow from investing activities	(716,755)	(303,434)	(314,653)	(425,839)	(863,816)	(291,734)	(703,277)	(905,316)
Cash flow from financing activities	(3,143,125)	(1,873,585)	(3,777,386)	(1,779,483)	(1,604,184)	(160,972)	(732,898)	(1,560,010)
Net increase / (decrease) in cash and cash equivalents	(623,979)	(66,654)	(191,146)	1,119,707	(416,711)	(20,540)	(40,388)	1,126,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

22 Debt

	Interest rate	31 December 2018	31 December 2017
Current			
Shot-term bank borrowings	USD LIBOR variable rate	1,167,589	1,065,000
Current portion of long-term debt	SAIBOR and USD LIBOR	3,664,754	8,535,254
Obligations under finance leases (Note 37)	5.7% to 9.6%	85,502	93,301
Bonds	2.63%	-	3,744,901
Notes	SAIBOR variable rate	-	3,000,000
Total current loans and borrowings		3,750,256	15,373,456
Non-current			
Long-term debt	SAIBOR and USD LIBOR	31,058,023	35,500,304
Obligations under finance leases (Note 37)	5.7% to 9.6%	653,423	771,712
Notes	SAIBOR variable rate	-	2,000,000
Bonds	2.75%	10,633,950	3,352,716
		42,345,396	41,624,732
Total debt		47,263,241	58,063,188

Long-term debt

The Group obtained commercial loans from various financial institutions in order to finance its expansions, new projects and acquisitions, which are repayable in instalments at varying interest rates in conformity with the applicable loan agreements.

The Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF) term loans are generally repayable in semi-annual instalments and financing charges on these loans are at varying rates.

Bonds

The following bonds were outstanding as of 31 December 2018:

- 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.
- On 20 November 2013, SABIC Capital I B.V. issued a 7 year € 0.75 billion bond with a coupon of 2.75%. The proceeds were used to redeem Eurobond € 0.75 billion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

22 Debt (continued)

Notes

On 29 December 2009, the Group entered into an agreement with PIF for a private placement of unsecured Saudi Riyal notes amounting to SR10 billion with multiple tranches. These notes are fully drawn and have a bullet maturity after 7 years of their respective issuance. As at 31 December 2018, all outstanding notes were all fully repaid.

The aggregate repayment schedule of long-term debt is as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Within one year	4,832,343	16,345,155
1-2 years	7,388,859	6,676,568
2-5 years	25,510,327	26,970,381
Thereafter	8,792,787	7,206,071
Lease obligation (Note 37)	738,925	865,013
Total	<u>47,263,241</u>	<u>58,063,188</u>

23 Employee benefits

The provision for employee benefits can be broken down as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Defined benefit obligations		
End of service benefits	10,598,972	12,846,175
Defined benefits pension schemes	2,226,295	2,690,085
Post-retirement medical benefits	1,154,575	1,038,172
	<u>13,979,842</u>	<u>16,574,432</u>
Other long term employee benefits and termination benefits		
Early retirement plans	37,311	49,937
Long-term service awards	125,340	155,227
Others	857,532	855,440
	<u>1,020,183</u>	<u>1,060,604</u>
	<u>15,000,025</u>	<u>17,635,036</u>

Management monitors the risks of all pension plans of the Group and issues guidelines regarding the governance and risk management of pension plans, particularly with regard to the funding of the pension plans and the portfolio structure of the existing plan assets. The obligations and the plan assets used to fund the obligations are subject to demographic, legal and economic risks. Economic risks are primarily due to unforeseen developments in goods and capital markets. Measures were taken to close plans with defined benefits for future service. This led to a reduction in risk with regard to future benefit levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

23 Employee benefits (continued)

Defined benefits obligation

The Group provides end of service and pension benefits to its employees taking into consideration the local labour laws, employment market and tax laws of the countries where the companies are located. Outside KSA, the Group limits the risks of changing financial market conditions and demographic developments by offering defined contribution pensions to new-hires in most countries. As in recent years, when many of the defined benefit plans have been closed to future benefit accrual, the US and Canadian plan will be closed for future pension accrual from 31 December 2019.

End of service benefits

End of service benefits are mandatory for all KSA based employees under the Saudi Arabian labour law and the Group's employment policies. End of service benefit is based on employees' compensation and accumulated period of service and is payable upon termination, resignation or retirement. The Defined Benefit Obligation ("DBO") in respect of employees' end of service benefits is calculated by estimating the future benefit payment that employees have earned in return for their service. This amount using an appropriate discount rate to determine the present value of the Group's obligation. This is an unfunded plan.

Re-measurements are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to consolidated statement of income in subsequent periods.

Defined benefit pension plans

The Group has a number of defined benefit pension plans outside KSA. The most significant plans are located in the United States of America ("USA") and in the United Kingdom ("UK"). These plans are funded pension plans. Other pension plans include plans in Germany, Austria, Japan, Taiwan, Canada, France and Belgium, most of which are funded. The benefits provided by these pension plans are based primarily on years of service and employees' compensation.

The funding of the plans is consistent with local requirements in the countries of establishment. Generally, pension obligations are subject to a government regulation, including minimum funding requirements in many countries. Furthermore, there are restrictions in qualitative and quantitative terms for the investment in different asset categories. This could result in fluctuating employer contributions, financing requirements and the assumption of obligations in favour of the pension fund to comply with the regulatory requirements.

Below is a brief description of the Group's main defined benefit pension plans:

United States of America

In the USA, the Group offers a defined benefit pension plan. This plan is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The funding policy for the US Plans is to make regular contributions each year in such amounts that are necessary to meet or exceed the minimum funding standard as set forth in employee benefit and tax laws in USA. As of 1 January 2014, the US Plan was closed for new participants. Employees who were already participants in the US plan as of 31 December 2013 continue to accrue benefits until 31 December 2019. As per 1 January 2020, the plan will be frozen and employee will participate in alternative defined contribution arrangements. The primary contributors to the total change in liabilities was a one-off adjustment linked to the decision to freeze future accruals. The gain is recognized as part service cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

23 Employee benefits (continued)

Defined benefits obligation (continued)

Defined benefit pension plans (continued)

These defined benefit pension plans are administered by fiduciaries, who represents the interests of the beneficiaries and ensure that the benefits can be paid in the future.

United Kingdom

Group companies maintain final salary pension plans in UK which have been closed to further increases in benefits for future years of service. A part of the workforce still receives benefit increases linked to salary increases. Since the closure of service accrual, all employees have had the opportunity to participate in a defined contribution plan.

The defined benefit pension plans are administered by trusts, whose Boards of Trustees, according to the trustees' agreement and law, represents the interests of the beneficiaries and ensures that the benefits can be paid in the future. The required funding is determined using technical valuations according to local regulations every three years. Pensions are adjusted each year to compensate for increases in the cost of living.

Other long-term employee benefits

Early retirement plans

Employee early retirement plan costs are provided for in accordance with the Group's policies. If an instalment based compensation is agreed on, the obligation is initially discounted to its present value and then unwound through the period of compensation which can be up to the regular retirement age of the employee.

Long-term service awards

The Group offers a long-term service award depending on years of service. This is measured similarly to a DBO, however, any re-measurement is recognised in the current year consolidated statement of income.

The following table represents the movement of the net pension position:

	For the year ended 31 December 2018	For the year ended 31 December 2017
At the beginning of the year	16,551,957	15,596,799
Current service cost	1,489,315	1,290,975
Past service cost	(283,821)	44,175
Finance cost, net of finance income	557,467	581,024
Actuarial changes arising due to:		
- financial assumptions	(1,863,573)	(21,966)
- demographic changes	(101,639)	(37,125)
- experience adjustments	(404,933)	95,005
- actual return on plan assets	222,252	(249,147)
	(2,147,893)	(213,233)
Payments during the year	(1,980,715)	(627,038)
Contributions into pension plans	(308,526)	(313,995)
Foreign currency translation adjustment and others	72,551	193,250
	13,950,335	16,551,957
Reclassification as net pension asset	29,507	22,475
At the end of the year	13,979,842	16,574,432

For net pension, assets are presented under non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

23 Employee benefits (continued)

Following table represents the components of the employee benefits in the KSA:

	For the year ended 31 December 2018		
	End of service	Post-retirement medical	Total
At the beginning of the year	12,846,175	589,463	13,435,638
Current service cost	849,404	425,964	1,275,368
Finance cost	443,941	20,195	464,136
Actuarial changes arising due to:			
- financial assumptions	(1,602,947)	17,104	(1,585,843)
- experience adjustments	(183,674)	(158,423)	(342,097)
	(1,786,621)	(141,319)	(1,927,940)
Payments during the year	(1,894,134)	(52,602)	(1,946,736)
Others	140,207	(14,441)	125,766
At the end of the year	10,598,972	827,260	11,426,232
	For the year ended 31 December 2017		
	End of service	Post-retirement medical	Total
At the beginning of the year	12,046,025	277,738	12,323,763
Current service cost	1,043,387	23,496	1,066,883
Finance cost	464,664	9,776	474,440
Actuarial changes arising due to:			
- financial assumptions	(82,200)	35,772	(46,428)
- experience adjustments	(78,379)	254,453	176,074
	(160,579)	290,225	129,646
Payments during the year	(561,757)	(14,351)	(576,108)
Others	14,435	2,579	17,014
At the end of the year	12,846,175	589,463	13,435,638

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

23 Employee benefits (continued)

Following table represents the components of the DBO outside KSA at 31 December 2018:

	For the year ended 31 December 2018			
	USA	UK	Others	Total
At the beginning of the year	3,227,844	2,850,210	946,352	7,024,406
Current service costs	191,740	-	22,207	213,947
Past service costs	(275,757)	716	(8,780)	(283,821)
Finance costs	116,607	73,036	21,942	211,585
Benefits paid	(168,006)	(149,753)	(30,092)	(347,851)
Actuarial changes arising due to:				
- financial assumptions	(247,148)	(14,921)	(15,661)	(277,730)
- demographic changes	(10,559)	(87,670)	(3,410)	(101,639)
- experience adjustments	(67,629)	6,324	(1,531)	(62,836)
	(325,336)	(96,267)	(20,602)	(442,205)
Foreign currency	-	(161,838)	(49,087)	(210,925)
	2,767,092	2,516,104	881,940	6,165,136
Reclassification as net pension asset	-	-	(198,271)	(198,271)
At the end of the year	2,767,092	2,516,104	683,669	5,966,865

The development of plan assets for major plans in the different regions is elaborated in the next table:

	For the year ended 31 December 2018			
	USA	UK	Others	Total
Plan assets as at start of the year	1,463,419	2,165,539	279,129	3,908,087
Interest income	53,377	55,425	9,452	118,254
Employers' contribution	262,013	39,069	7,444	308,526
Return on plan assets (excluding interest income)	(136,807)	(75,375)	(10,070)	(222,252)
Benefits paid	(149,621)	(149,755)	(14,496)	(313,872)
Administrative expenses	(13,516)	-	(510)	(14,026)
Foreign currency	-	(123,030)	(20,654)	(143,684)
Plan assets as at end of the year	1,478,865	1,911,873	250,295	3,641,033
Reclassification as net pension assets	-	-	(227,778)	(227,778)
Plan assets at end of the year	1,478,865	1,911,873	22,517	3,413,255
Defined benefit obligation, net	1,288,227	604,231	661,152	2,553,610

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

23 Employee benefits (continued)

Following table represents the components of the DBO outside the KSA at 31 December 2017:

	For the year ended 31 December 2017			
	USA	UK	Others	Total
At the beginning of the year	3,040,708	2,835,871	854,189	6,730,768
Current service costs	200,498	-	23,594	224,092
Past service costs	18,307	12,960	12,908	44,175
Finance costs	119,284	79,250	20,814	219,348
Benefits paid	(251,914)	(180,253)	(35,019)	(467,186)
Participants' contributions	-	-	211	211
Actuarial changes arising due to:				
- financial assumptions	208,541	(156,096)	(27,983)	24,462
- demographic changes	(37,064)	-	(61)	(37,125)
- experience adjustments	(70,516)	-	(10,553)	(81,069)
	100,961	(156,096)	(38,597)	(93,732)
Foreign currency	-	258,478	108,252	366,730
	3,227,844	2,850,210	946,352	7,024,406
Reclassification as net pension asset	-	-	(235,349)	(235,349)
At the end of the year	3,227,844	2,850,210	711,003	6,789,057

The development of plan assets for major plans in the different regions is elaborated in the next table:

	For the year ended 31 December 2017			
	USA	UK	Others	Total
Plan assets as at start of the year	1,246,675	1,969,282	241,775	3,457,732
Finance income	47,675	55,509	9,580	112,764
Employers' contribution	260,343	43,276	10,587	314,206
Actual return on plan assets	143,180	89,562	16,405	249,147
Benefits paid	(218,805)	(180,253)	(17,198)	(416,256)
Administrative expenses	(15,649)	-	(506)	(16,155)
Foreign currency	-	188,163	18,486	206,649
	1,463,419	2,165,539	279,129	3,908,087
Reclassification as net pension assets	-	-	(257,824)	(257,824)
Plan assets at end of the year	1,463,419	2,165,539	21,305	3,650,263
Defined benefit obligation, net	1,764,425	684,671	689,698	3,138,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

23 Employee benefits (continued)

	For the year ended 31 December 2018	For the year ended 31 December 2017
<i>Net benefit expense</i>		
Current service cost	1,205,494	1,335,150
Finance cost on benefit obligation	557,467	581,024
Net benefit expense	1,762,961	1,916,174

Employee pension plan assets:

Following table represents the categories of plan assets for major pension plans outside KSA:

	For the year ended 31 December 2018		
	USA	UK	Others
<i>Quoted and unquoted</i>			
Equity	36.90%	33.54%	37.02%
Debt securities	29.27%	1.09%	60.17%
- Government debtors	-	1.09%	60.17%
- Other debtors	29.27%	-	-
Investment funds and insurance companies	-	46.56%	1.58%
Other investments	31.14%	18.26%	1.23%
Cash and cash equivalents	2.69%	0.55%	-
Total	100.00%	100.00%	100.00%

	For the year ended 31 December 2017		
	USA	UK	Others
<i>Quoted and unquoted</i>			
Equity	38.86%	33.67%	39.90%
Debt securities	48.46%	24.25%	54.05%
- Government debtors	-	23.22%	54.05%
- Other debtors	48.46%	1.03%	-
Investment funds and insurance companies	-	23.04%	1.41%
Other investments	9.90%	17.28%	4.64%
Cash and cash equivalents	2.78%	1.76%	-
Total	100.00%	100.00%	100.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

23 Employee benefits (continued)

Major economic and actuarial assumptions used in benefits liabilities computation:

	31 December 2018		
	KSA	USA	UK
Discount rate	4.40%	4.16%	2.90%
Average salary increase	5.50% to 7.00%	3.22%	3.21%
Pension in payment increase	N/A	N/A	3.25%
	9% in 2019 decrease to 5% for 2023+		
Inflation rate (health care cost)		N/A	N/A

	31 December 2017		
	KSA	USA	UK
Discount rate	3.60%	3.70%	2.70%
Average salary increase	5.00% to 7.00%	3.28%	2.76%
Pension in payment increase	N/A	N/A	3.15%
	10% in 2018 decrease to 5% for 2023+		
Inflation rate (health care cost)		N/A	N/A

Sensitivity analysis

The table below illustrates the approximate impact on the DBO if the Group were to change one key assumption, while the other actuarial assumptions remain unchanged. The sensitivity analysis is intended to illustrate the inherent uncertainty in the valuation of the DBO under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in key actuarial assumptions may have on the total DBO. The sensitivities only apply to the DBO and not to the net amounts recognised in the statement of financial position. Movements in the fair value of plan assets would, to a certain extent, be expected to offset movements in the DBO resulting from changes in the given assumptions.

	31 December 2018			
	KSA	USA	UK	Others
<i>Increase</i>				
Discount rate (+25 bps)	(287,462)	(104,965)	(129,394)	(33,532)
Salary (+25 bps)	278,079	133	30,668	7,745
Pension (+25 bps)	NA	-	94,662	17,641
Longevity (+1 year)	NA	38,245	71,718	(14,807)
Health care costs (+25 bps)	23,010	NA	NA	NA
<i>Decrease</i>				
Discount rate (-25 bps)	299,478	111,092	138,607	35,715
Salary (-25 bps)	(268,468)	(131)	(29,895)	(7,358)
Pension (-25 bps)	NA	-	(89,594)	(16,685)
Longevity (-1 year)	NA	(39,562)	(71,355)	14,511
Health care costs (-25 bps)	(21,991)	NA	NA	NA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

23 Employee benefits (continued)

Sensitivity analysis (continued)

	31 December 2017			
	KSA	USA	UK	Others
<i>Increase</i>				
Discount rate (+25 bps)	(362,579)	(138,858)	(150,558)	(36,689)
Salary (+25 bps)	313,884	16,841	34,170	9,370
Pension (+25 bps)	NA	-	112,018	NA
Longevity (+1 year)	NA	42,608	80,372	NA
Health care costs (+25 bps)	21,255	NA	NA	NA
<i>Decrease</i>				
Discount rate (-25 bps)	338,388	147,656	162,140	39,109
Salary (-25 bps)	(341,056)	(16,546)	(33,309)	(15,291)
Pension (-25 bps)	NA	-	(105,766)	NA
Longevity (-1 year)	NA	(44,040)	(79,939)	NA
Health care costs (-25 bps)	(20,268)	NA	NA	NA

Expected total benefit payments

	31 December 2018	
	KSA	Outside KSA
Within one year	591,513	317,973
1 – 2 years	585,755	339,374
2 – 3 years	644,072	352,686
3 – 4 years	737,023	370,104
4 – 5 years	810,999	387,863
Next 5 years	5,229,918	2,067,327
Total	8,599,280	3,835,327

	31 December 2017	
	KSA	Outside KSA
Within one year	720,507	371,901
1 – 2 years	665,140	397,270
2 – 3 years	741,461	419,623
3 – 4 years	839,591	444,219
4 – 5 years	901,619	472,071
Next 5 years	5,920,141	2,724,245
Total	9,788,459	4,829,329

Annual premiums paid to defined contribution schemes amount to SR 0.39 billion (2017: SR 0.33 billion) and relate primarily to defined contribution pension schemes in the Netherlands.

The expected employer contributions related to the defined benefit pension plans for next year amount to SR 0.15 billion (2017: SR 0.14 billion).

The weighted average duration of the defined benefit obligation is 10 years for KSA plans, 20 years for plans outside KSA (31 December 2017: 12 years for KSA plans, 20 years for plans outside KSA).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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24 Trade payables

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trade accounts payable	14,938,392	17,886,738
Amounts due to related parties	30,965	174,726
	<u>14,969,357</u>	<u>18,061,464</u>

The Group's exposure to currency and liquidity risk related to accounts payables is disclosed in Note 36.

25 Accruals and other current liabilities

	<u>31 December 2018</u>	<u>31 December 2017</u>
Accrued liabilities	6,250,270	5,087,426
Employees related liabilities	2,461,530	1,904,510
Dividend payable	2,773,681	1,633,220
Sales and other tax payables	401,584	303,879
Contract retentions	112,201	227,109
Others	1,017,618	968,102
	<u>13,016,884</u>	<u>10,124,246</u>

26 Derivatives

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Derivative asset:</i>		
<i>Not designated in hedging relationship</i>		
- Foreign exchange forward contracts	29,651	2,828
- Interest rate collar derivatives – current (i)	-	3,472
- Interest rate collar derivatives – non-current (i)	-	20,506
Total financial derivatives	<u>29,651</u>	<u>26,806</u>
Notional amount	<u>615,342</u>	<u>1,070,622</u>
	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Derivative liability:</i>		
<i>Not designated in hedging relationship</i>		
- Foreign exchange forward contracts	381	-
- Interest rate swap agreements – current	-	14,258
- Interest rate swap agreements – non-current	-	1,978
Total financial derivatives	<u>381</u>	<u>16,236</u>
Notional amount	<u>291,967</u>	<u>716,645</u>

(i) On adoption of IFRS 9, these derivatives have been combined with host contracts.

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For the year ended 31 December 2018

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27 Revenue

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Sales of goods	164,896,782	149,242,828
Logistic services	3,518,301	-
Rendering of services	713,256	523,140
	<u>169,128,339</u>	<u>149,765,968</u>

There is no significant revenue that has been recognised in 2018 from performance obligations satisfied in previous years. All unfulfilled remaining performance obligations as at 31 December 2018 are expected to be satisfied in the following year.

Refer to Note 35 for the segment and geographical distribution of revenue.

Contract balances

Payment terms are immediate to a maximum of 120 days from the date of invoice. Date of invoice is usually prior to, or at the time of fulfilling the related performance obligations. Consequently, the Groups holds no material contract assets and recognises contract liabilities when amounts are invoiced prior to fulfilment of performance obligations.

There are no significant changes of contract assets or contract liability balances during the year. The Group recognises all incremental costs of obtaining contracts as an expense when incurred as the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

Comparative information

The comparative information is not presented for the current year disclosures as the Group has adopted IFRS 15 using the modified retrospective method (Note 4).

28 Expenses

Based on the nature of the expenses, cost of sales, selling and distribution expenses and general and administrative expenses include the following:

28.1 Cost of sales

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Changes in inventories of finished products, raw materials and consumables used	83,322,735	72,029,578
Employee related costs	13,294,298	12,178,000
Depreciation of plant and equipment	13,903,349	13,268,321
Impairment and write down of plant and equipment	470,183	1,563,603
Amortisation of intangible assets	529,906	818,741
	<u>111,520,471</u>	<u>99,858,243</u>

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

28 Expenses (continued)		
28.2 General and administrative expenses		
	For the year ended 31 December 2018	For the year ended 31 December 2017
Employee related (i)	5,923,083	5,488,822
Research and technology cost	1,163,468	1,130,223
Professional and other consultant services	1,834,609	1,666,168
Administrative support	514,064	572,642
Depreciation and amortisation	643,089	684,394
Maintenance	288,079	242,453
Others	578,515	785,099
	10,944,907	10,569,801
28.3 Selling and distribution expenses		
	For the year ended 31 December 2018	For the year ended 31 December 2017
Transportation and shipping	7,995,009	7,810,112
Employee related (i)	1,578,477	1,438,797
Rental and lease expenses	389,374	586,197
Marketing expenses	153,468	158,645
Depreciation	59,737	74,328
Others	223,872	271,458
	10,399,937	10,339,537
<p>(i) 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.</p>		
29 Finance cost		
	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest expense on loans and borrowings	2,088,648	1,748,692
Interest expenses related to defined benefit plans (Note 23)	557,467	581,024
	2,646,115	2,329,716
30 Other (expenses) income, net		
	For the year ended 31 December 2018	For the year ended 31 December 2017
Dividend from investments in equity instruments at FVOCI	61,631	44,364
Insurance claims	147,216	279,973
Foreign currency exchange differences	(193,489)	200,921
Rental income	39,010	39,831
Loss on disposal of property, plant and equipment	(179,700)	(88,512)
Others	(281,079)	(187,240)
	(406,411)	289,337

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For the year ended 31 December 2018

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31 Zakat and income tax

The movement in Group's zakat and income tax payable is as follows:

	For the year ended 31 December 2018		
	Zakat	Income Tax	Total
At the beginning of the year	2,619,140	1,056,100	3,675,240
Provided during the year	2,600,000	1,503,406	4,103,406
Paid during the year, net	(2,375,997)	(1,631,990)	(4,007,987)
Other movements (foreign currency translations and reclassification)	-	433,658	433,658
At the end of the year	2,843,143	1,361,174	4,204,317

	For the year ended 31 December 2017		
	Zakat	Income Tax	Total
At the beginning of the year	2,386,336	447,246	2,833,582
Provided during the year	2,600,000	1,466,329	4,066,329
Paid during the year, net	(2,367,196)	(855,710)	(3,222,906)
Other movements	-	(1,765)	(1,765)
At the end of the year	2,619,140	1,056,100	3,675,240

The movement in Group's deferred tax is as follows:

	For the year ended 31 December 2018		For the year ended 31 December 2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
At the beginning of the year	1,518,599	2,597,059	678,221	1,858,820
Changes during the year (i)	(653,443)	(932,921)	(4,238)	(106,377)
At the end of the year	865,156	1,664,138	673,983	1,752,443

(i) Includes impact of foreign exchanges translation and non-controlling interests

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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31 Zakat and income tax (continued)

31.1 Zakat

Zakat returns of SABIC and wholly owned subsidiaries are submitted to the General Authority of Zakat and Tax ("GAZT") based on separate financial statements prepared for zakat purposes only. Other non-wholly owned subsidiaries file their zakat returns separately. SABIC has filed its zakat returns with GAZT, received the zakat certificates, settled the zakat dues for the year ended 31 December 2017 and cleared its zakat assessments with GAZT up to the year ended 31 December 2016.

31.2 Income Tax

The major components of income tax in the consolidated statement of income can be broken down as follows for the year ended 31 December:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
<i>Current corporate income tax</i>		
Current year	1,503,406	1,466,329
Adjustments in respect of current income tax of previous year	-	-
<i>Deferred corporate income tax</i>		
(Decrease) increase in deferred tax, net	(305,745)	73,671
Total income tax expense reported in the consolidated statement of income	<u>1,197,661</u>	<u>1,540,000</u>
	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
<i>Deferred tax related to items recognised in OCI during in the year</i>		
- Deferred tax expense on actuarial gains and losses	<u>5,204</u>	<u>61,349</u>
Deferred tax charged to OCI	<u>5,204</u>	<u>61,349</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

31 Zakat and income tax (continued)

31.2 Income Tax (continued)

The numerical reconciliation of income tax expense derived from the accounting profit is presented in the table below:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Income before zakat and income tax	35,683,068	29,624,745
Exclude: income subject to Zakat	(27,830,507)	(23,521,746)
Income subject to income tax	<u>7,852,561</u>	<u>6,102,999</u>
Domestic income tax rate (KSA)	20%	20%
Income tax at domestic tax rate	<u>1,570,512</u>	<u>1,220,600</u>
Tax effects of		
- Current year tax benefits not recognised	342,686	498,436
- Foreign currency translation results	(405,308)	433,424
- Deviating rates	(26,800)	280,638
- Tax rate change	(94,415)	(118,201)
- Tax charge due to other liabilities	183,229	12,739
- Return-to-provision true-ups and exempt items	(566,923)	(74,551)
- Non-tax deductible expenses	198,135	62,667
- Recognition of previously unrecognised tax benefits	(81,560)	(818,022)
- Withholding tax	67,998	30,120
- State, local and other taxes	<u>10,107</u>	<u>12,150</u>
Income tax expense	<u>1,197,661</u>	<u>1,540,000</u>
Zakat expense	<u>2,600,000</u>	<u>2,600,000</u>
Total income tax and zakat expense	<u>3,797,661</u>	<u>4,140,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

31 Zakat and income tax (continued)

31.2 Income Tax (continued)

Components of deferred tax are as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Difference in accounting and tax base related to:</i>		
- Tangible and intangible assets	(3,466,676)	(3,200,976)
- Inventories	(29,120)	(27,413)
- Reserves	(204,670)	(195,011)
- Others	(23,997)	(27,011)
Deferred tax liabilities	(3,724,463)	(3,450,411)
Set-off with deferred tax assets	2,060,325	1,697,968
Net deferred tax liabilities	(1,664,138)	(1,752,443)
Net operating losses	7,279,239	6,824,447
<i>Difference in accounting and tax base related to:</i>		
- Tangible and intangible assets	445,332	320,871
- Employee benefits	583,956	967,003
- Deferred charges	10,912	164,163
- Provisions on receivables and inventories	355,480	286,524
- Tax credits	145,754	151,241
- Others	76,571	41,512
Deferred tax assets	8,897,244	8,755,761
Un-recognised deferred tax assets	(5,971,763)	(6,383,810)
Set-off with deferred tax liabilities	(2,060,325)	(1,697,968)
Net deferred tax assets	865,156	673,983

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred to income taxes levied by the same tax authority.

The Group has tax losses of SR 27.74 billion (2017: SR 25.25 billion) with carry-forward periods ranging from 2021 to indefinite, which are available for offsetting against future taxable profits of companies in which the losses arose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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32 Basic and diluted earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the (Parent) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Income from operations (SR '000)	<u>36,263,024</u>	<u>28,998,387</u>
Net income attributable to equity holders of the Parent (SR '000)	<u>21,520,678</u>	<u>18,430,236</u>
Weighted average number of ordinary shares ('000)	<u>3,000,000</u>	<u>3,000,000</u>
Earnings per share from income from operations (SR)	<u>12.09</u>	<u>9.67</u>
Earnings per share from net income attributable to equity holders of the Parent (SR)	<u>7.17</u>	<u>6.14</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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33 Conventional and non-conventional financing and investments

The tables below outline the breakdown of Group's financing and investments into conventional and non-conventional:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Cash and bank balances</i>		
- Conventional call (excluding Fixed term deposits)	11,221,338	12,485,139
- Conventional time deposits	3,556,550	4,318,927
Conventional cash and bank balances	<u>14,777,888</u>	<u>16,804,066</u>
- Murabaha (including fixed term deposits)	25,881,062	40,153,002
- Current accounts (excluding fixed term deposits)	1,931,870	2,081,588
Non-conventional cash and bank balances	<u>27,812,932</u>	<u>42,234,590</u>
Total cash and bank balances	<u>42,590,820</u>	<u>59,038,656</u>
<i>Short-term and investments in debt instruments</i>		
- Bonds and floating rate notes	556,151	543,750
- Conventional time deposits	478,075	123,963
Conventional short-term and investments in debt instruments	<u>1,034,226</u>	<u>667,713</u>
- Murabaha (including fixed time deposits)	8,762,214	3,836,790
- SUKUK	1,861,143	2,264,140
- Murabaha structured deposits	651,796	637,590
Non-Conventional short-term and investments in debt instruments	<u>11,275,153</u>	<u>6,738,520</u>
Total short-term and investments in debt instruments	<u>12,309,379</u>	<u>7,406,233</u>
<i>Investments in equity instruments at FVOCI</i>		
- Mutual funds	305,294	299,407
- Equity investments	784,815	396,836
Conventional investments in equity instruments at FVOCI	<u>1,090,109</u>	<u>696,243</u>
Total Investments in equity instruments at FVOCI	<u>1,090,109</u>	<u>696,243</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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33 Conventional and non-conventional financing and investments (continued)

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Short-term borrowings</i>		
- Conventional short-term borrowings	1,167,589	1,065,000
Total short-term borrowings	1,167,589	1,065,000
<i>Long and short-term debt</i>		
- Conventional loans	11,796,848	24,071,844
- Bonds/notes	10,633,950	12,097,616
- Finance leases	738,925	865,013
Conventional long-term debt	23,169,723	37,034,473
- Ijarah facilities	4,761,727	5,073,886
- SIDF	1,678,192	2,012,726
- Murabaha	16,486,010	12,877,103
Non-conventional long-term debt	22,925,929	19,963,715
Total long-term debt	46,095,652	56,998,188
Total debt	47,263,241	58,063,188
	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
<i>Borrowing cost capitalised during the year:</i>		
- Conventional loans	23,568	75,867
Borrowing costs capitalised from conventional loans	23,568	75,867
- Murabaha loans and SIDF	15,151	102,482
Borrowing costs capitalised from non-conventional loans	15,151	102,482
Total borrowing cost capitalised during the year	38,719	178,349

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33 Conventional and non-conventional financing and investments (continued)

	For the year ended 31 December 2018	For the year ended 31 December 2017
<i>Finance income</i>		
- Conventional call account	3,555	3,838
- Conventional time deposits	187,680	74,574
- Conventional structured deposits	28,513	31,244
- Derivatives	(11,577)	54,064
- Others	76,484	24,665
Total conventional finance income	<u>284,655</u>	<u>188,385</u>
- Current Murabaha (including fixed term deposits)	1,035,951	949,056
- SUKUK	82,571	98,980
- Murabaha structured deposits	19,543	10,636
Total non-conventional finance income	<u>1,138,065</u>	<u>1,058,672</u>
Total finance income	<u>1,422,720</u>	<u>1,247,057</u>
<i>Finance cost</i>		
- Conventional loans	695,355	669,872
- Conventional loans - (related party)	108,158	-
- Bonds/notes	359,675	383,987
- Finance leases	61,025	91,889
- Derivative liabilities	-	10,797
- Net interest on employee benefits	557,467	581,024
- Others	146,795	124,759
Conventional finance cost	<u>1,928,475</u>	<u>1,862,328</u>
- SIDF	68,381	61,331
- Murabaha	575,235	117,286
- Ijarah facilities	-	288,771
- Others	74,024	-
Non-conventional financial expenses	<u>717,640</u>	<u>467,388</u>
Total finance cost	<u>2,646,115</u>	<u>2,329,716</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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34 Related party transactions and balances

Interests in subsidiaries are set out in Note 41.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	For the year ended 31 December 2018		31 December 2018	
Associates	15,871	5,937,172	27,818	23,499
Joint ventures	14,300,850	1,229,386	3,098,870	24,025
			31 December 2018	
			Associates	Joint ventures
Loans from related parties			-	2,309,743
Loans to related parties			35,135	769,654
				Total
				2,309,743
				804,789
			For the year ended 31 December 2018	
			Associates	Joint ventures
Dividends paid to related parties			650,000	5,099,221
Dividends received from related parties			148,619	504,217
				Total
				5,749,221
				652,836
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	For the year ended 31 December 2017		31 December 2017	
Associates	8,881	5,285,739	201,453	157,464
Joint ventures	12,160,154	476,172	2,976,637	40,614
			31 December 2017	
			Associates	Joint ventures
Loans from related parties			-	2,491,245
Loans to related parties			62,135	752,715
				Total
				2,491,245
				814,850
			For the year ended 31 December 2017	
			Associates	Joint ventures
Dividends paid to related parties			250,000	4,262,696
Dividends received from related parties			92,175	271,931
				Total
				4,512,696
				364,106

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 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 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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34 Related party transactions and balances (continued)

Transactions and balances with the Saudi government are as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Purchases of goods and services	39,272,783	31,612,060
Sales of goods and services	7,135,370	6,660,941
Due to entities controlled by Saudi government	3,079,962	1,618,469
Due from entities controlled by Saudi government	705,569	756,573

Key management personnel compensation

In addition to their remunerations to key management personnel, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. Remuneration of key management is detailed as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Short-term employee benefits	70,040	43,501
Post-employment benefits	494	452
Other long-term benefits	8,727	11,880
Total	79,261	55,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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35 Segment information

For management purposes, the Group is organised into three Strategic Business Units (“SBU”) and Hadeed, a wholly-owned manufacturing business, which based on its products are grouped in three reporting segments.

The **Petrochemicals** SBU - products are produced from hydrocarbon feedstock including methane, ethane, propane, butane, and light naphtha, with a wide range of products including carbon dioxide, ethylene, methyl tert-butyl ether and other chemicals. During 2017, products related to polymers were merged into a single segment with chemical products. These included Polyethylene (PE) and Polypropylene (PP). The PE range includes all of the commodity thermo-polymers: Linear Low Density Polyethylene (LLDPE), Low Density Polyethylene (LDPE), and High Density Polyethylene (HDPE). The PP product range includes Random, Homopolymer, Copolymer and specialty automotive grades. Other key products include Polycarbonate (PC), Polyester, Polyvinylchloride (PVC), Polystyrene, and PP compounding and Stamax.

The **Specialties** SBU – includes polymer technologies, application development on a global scale, innovative process technologies, and environmentally responsible solutions in almost every area of modern life, from automotive, aviation and electronics to construction, alternative energy, and health care. The extensive product portfolio includes thermoplastic resins, specialty compounds, film and sheet products, and coatings. As the Specialties SBU does not meet the individual reporting requirements of *IAS 8 ‘Segment Reporting’* the SBU amounts are included as part of the Petrochemicals’ reporting segment.

The **Agri-Nutrients** SBU – includes production of a range of fertilisers; including urea, ammonia, phosphate, as well as compound fertilisers.

Hadeed is concerned with production of steel products; long products (e.g. rebars) and flat products.

The Executive Management Committee, chaired by the Chief Executive Officer monitors the results of its segments for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income statement and is measured consistently with profit or loss in the consolidated financial statements.

Based on management decision and in line with changes in management reporting, the income, expenses, assets and liabilities relating to 'Corporate' segment, in prior years, has been allocated over the Petrochemicals and Specialties, Agri-nutrients SBU's and Hadeed according to an internally agreed consistent basis. Accordingly, segment information for prior year are restated in line with current year presentation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

35 Segment information (continued)

	For the year ended 31 December 2018			
	Petrochemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Revenue	150,422,057	7,938,052	10,768,230	169,128,339
Depreciation, amortisation, impairment and write down	(13,636,068)	(745,312)	(1,120,185)	(15,501,565)
Income from operations	33,708,253	2,262,772	291,999	36,263,024
Share of results of associates and joint ventures	702,718	347,132	-	1,049,850
Finance cost, net				(1,223,395)
Other expenses, net				(406,411)
Income before zakat and income tax				35,683,068

	For the year ended 31 December 2017			
	Petrochemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Revenue	135,301,994	5,909,386	8,554,588	149,765,968
Depreciation, amortisation, impairment and write down	(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			
	Petrochemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Total assets	284,711,898	13,963,504	21,035,472	319,710,874
Total liabilities	90,775,228	3,037,431	4,461,740	98,274,399

	As at 31 December 2017			
	Petrochemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Total assets	286,050,389	13,143,050	22,417,367	321,610,806
Total liabilities	102,860,422	3,202,599	5,409,293	111,472,314

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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35 Segment information (continued)

Geographical distribution of revenue

	31 December 2018		31 December 2017	
		%		%
KSA	25,270,853	15%	22,751,799	15%
China	29,713,216	17%	25,404,525	17%
Rest of Asia	36,386,396	22%	32,595,863	22%
Europe	39,449,558	23%	35,913,940	24%
Americas	14,796,092	9%	12,744,946	8%
Others (i)	23,512,224	14%	20,354,895	14%
	169,128,339	100%	149,765,968	100%

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

Geographical distribution of property, plant and equipment

	31 December 2018		31 December 2017	
		%		%
KSA	138,563,584	85%	143,163,921	86%
Europe (ii)	13,948,735	8%	15,086,965	9%
Americas (ii)	9,759,324	6%	7,383,489	4%
Asia (ii)	1,545,226	1%	1,718,893	1%
Others (ii)	2,815	-	2,643	-
	163,819,684	100%	167,355,911	100%

- (i) Others includes sales made by certain subsidiaries to their foreign shareholders amounting to SR 14.32 billion (2017 SR 13.31 billion) and for which detailed geographical breakdown for final end consumer sales is not available with the Group.
- (ii) Significant value of property, plant and equipment in Europe is concentrated in Netherlands, UK, Germany and Spain; in Americas is concentrated in USA and in Asia is concentrated in China and India. Others include countries in Africa and Oceania.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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36 Financial risk management

Overview

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk.

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

Risk management framework

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

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

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. Financial instruments principally include cash and bank balances, trade and other accounts receivable, derivative financial instruments, investments in securities, loans and advances, short term bank borrowings, accounts payable, accrued expenses, long term debt and other liabilities.

Credit risk

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

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. Also geographically there is no concentration of credit risk.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

36 Financial risk management (continued)

Trade receivables (continued)

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers using an internal and external rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored.

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

Investments

Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Guarantees

The Group monitors its risk to a shortage of funds using forecasting models to model impacts of operational activities on overall liquidity availability. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, the revolving credit facilities and other sources of liquidity.

Credit risk quality

External Rating	31 December 2018							Carrying value in the statement of financial position
	AA+	AA	AA-	A+	A	A-	Others	
Bank balances	208,350	426,408	1,578,047	18,769,664	9,792,158	7,905,030	3,910,773	42,590,430
Investments in equity instruments at FVOCI	-	-	-	305,294	-	-	784,815	1,090,109
Investments in debt instruments	-	-	-	2,668,285	388,404	-	12,401	3,069,090
Short-term investments (excluding investments in debt instruments)	375,000	-	-	2,660,318	2,350,990	212,500	3,641,481	9,240,289
Financial derivatives	-	-	11,038	3,424	-	-	15,189	29,651
Total	583,350	426,408	1,589,085	24,406,985	12,531,552	8,117,530	8,364,659	56,019,569

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For the year ended 31 December 2018

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36 Financial risk management (continued)

Credit risk quality (continued)

External Rating	31 December 2017							Carrying value in the statement of financial position
	AA+	AA	AA-	A+	A	A-	Others	
Bank balances	74,190	80,236	4,032,418	24,702,761	8,399,650	18,872,720	2,876,268	59,038,243
Available for sale financial assets	-	-	-	299,406	-	-	396,837	696,243
Held-to-maturity investments	-	-	-	3,070,481	-	375,000	-	3,445,481
Short-term investments (excluding held-to-maturity investments)	-	-	-	489,655	1,624,252	1,157,672	689,173	3,960,752
Financial derivatives	-	22,498	1,013	2,920	326	-	49	26,806
Total	74,190	102,734	4,033,431	28,565,223	10,024,228	20,405,392	3,962,327	67,167,525

The credit ratings above are based on credit ratings issued by globally accepted credit rating agencies.

Liquidity risk

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

The Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains different lines of credit.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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36 Financial risk management (continued)

Liquidity risk (continued)

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels. The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	31 December 2018			
	Within 1 year	Between 1-5 years	More than 5 years	Total
Debt	4,098,894	35,426,705	6,019,150	45,544,749
Short-term borrowings	1,167,589	-	-	1,167,589
Trade payable	14,969,357	-	-	14,969,357
Other liabilities	3,357,882	-	-	3,357,882
Derivatives	381	-	-	381
	23,594,103	35,426,705	6,019,150	65,039,958

	31 December 2017			
	Within 1 year	Between 1-5 years	More than 5 years	Total
Debt	15,599,125	33,152,024	9,078,533	57,829,682
Short-term borrowings	1,065,000	-	-	1,065,000
Trade payable	18,061,464	-	-	18,061,464
Other liabilities	2,230,384	-	-	2,230,384
Derivatives	1,978	14,258	-	16,236
	36,957,951	33,166,282	9,078,533	79,202,766

Market risk

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

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

36 Financial risk management (continued)

Equity price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified as Investments in equity instruments at FVOCI. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as investments in equity instruments at FVOCI.

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the fluctuations of the other currencies towards the SR. Foreign currency risk mainly arises from commercial transactions, investing and financing activities.

The Group's policy requires all subsidiaries to conduct a regular review of currency exposures, however the hedge decisions is delegated to Global Treasury, who manages the execution of all derivatives trading centrally. In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group is currently exposed to currency risk on balances including receivable against sales, payable to suppliers, placement with banks and borrowings that are denominated in a currency other than SR. The currencies in which these transactions are primarily denominated includes US Dollar (USD), Euro (EUR), British Pounds (GBP), Japanese Yen (JPY) and Chinese Yuan (CNY).

The currency risk on USD exposure is not considered significant by the Group as USD is pegged against SR.

The following table demonstrates the sensitivity of the Group to a reasonably possible change in the exchange rate of SR to foreign currencies, with all other variables held constant, of the Group's monetary assets and liabilities net of hedges entered into for the year ended 31 December:

	Gains (losses) through statement of income for the year ended	
	31 December 2018	31 December 2017
Increase in EUR/SR (10%)	(72,031)	(277,522)
Increase in GBP/SR (10%)	(70,056)	(116,404)
Increase in CNY/SR (10%)	149,298	68,796
Increase in JPY/SR (10%)	11,172	151,093
	18,383	(174,037)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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36 Financial risk management (continued)

Currency risk (continued)

Exposure to foreign currency risk at the end of the reporting year, was as follows (converted in SR '000):

	As at 31 December 2018			
	EUR	GBP	CNY	JPY
Cash and bank (including fixed term deposits)	988,961	(892,503)	1,092,707	90,467
Trade receivables	3,577,112	284,624	477,540	137,828
Debt	(3,216,375)	-	-	-
Trade payables	(1,054,166)	(92,681)	(54,718)	(56,841)
Other monetary payables	(1,015,837)	-	(22,547)	(59,735)
Total net monetary exposure	(720,305)	(700,560)	1,492,982	111,719

	As at 31 December 2017			
	EUR	GBP	CNY	JPY
Cash and bank (including fixed term deposits)	1,015,186	(1,003,738)	562,710	904,078
Trade receivables	3,840,916	257,776	125,293	606,856
Debt	(3,373,875)	-	-	-
Trade payables	(1,419,887)	(75,902)	(41)	-
Other monetary payables	(2,837,559)	(342,174)	-	-
Total net monetary exposure	(2,775,219)	(1,164,038)	687,962	1,510,934

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. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. To lower volatility and increase predictability of interest expenses, the Group may enter into simple financial derivatives such as interest rate swaps.

The following table demonstrates the sensitivity of the Group to a reasonably possible change in interest rates after taking into account the effect of the interest rate swap hedges, with all other variables held constant, of the Groups profit before tax (through the impact on floating rate borrowings) for the year ended 31 December:

	31 December 2018	
	Gains (losses) through the consolidated statement of income	
	+100 bps	-100 bps
3M SAIBOR	114	(114)
6M SAIBOR	(2,129)	2,129
9M SAIBOR	(778)	778
1M LIBOR	(94)	94
6M LIBOR	(6,394)	6,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

36 Financial risk management (continued)

Interest rate risk (continued)

	31 December 2017	
	Gains (losses) through the consolidated statement of income	
	+100 bps	-100 bps
3M SAIBOR	(73)	73
6M SAIBOR	(2,063)	2,063
9M SAIBOR	(546)	546
1M LIBOR	(679)	679
3M LIBOR	(200)	200
6M LIBOR	(4,795)	4,795

Commodity risk

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

Capital management

The primary objective to the Group's capital management is to support its business and maximise shareholder value.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity, excluding non-redeemable preference shares and non-controlling interests. There were no changes in the Group's approach to capital management during the year. The Board of Directors also monitors the level of dividends to ordinary shareholders and capital management. Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements. The Group's debt to equity ratio at the end of the reporting year was as follows:

	31 December 2018	31 December 2017
Total liabilities	98,274,399	111,472,314
Less: cash and bank balances	(42,590,820)	(59,038,656)
Net debt	55,683,579	52,433,658
Total equity	221,436,475	210,138,492
Debt to equity ratio as of 31 December	25%	25%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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37 Commitments and contingencies

Capital commitments

At 31 December 2018, the Group had commitments of SR 9.92 billion (31 December 2017: SR 9.11 billion) relating to capital expenditures.

SABIC has an equity contribution commitment towards its 15% interest in MWSPC. As of 31 December 2018, the outstanding commitment toward this investment amounts to SR 0.07 billion (31 December 2017: SR 0.07 billion). Pursuant to the terms of agreements with the other shareholders and external lenders, SABIC has agreed to contribute additional funds to the project, under certain circumstances and to the extent required, in the event of project cost over-runs.

SABIC also has an equity contribution commitment towards its 25% interest in Dussur. As at 31 December 2018, the outstanding commitment towards this investment amounts to SR 0.28 billion (as at 31 December 2017: SR 0.28 billion).

The Group has signed agreements with vendors maturing over various years through 2025 for capital commitment for the ongoing operations of its business. Under the terms of these agreements, the Group has committed to contractually specified minimums over the contract periods.

Guarantees

SABIC has provided guarantees for bonds and certain term loans for certain subsidiaries which amounted to SR 29.4 billion as of 31 December 2018 (31 December 2017: SR 31.0 billion).

Contingent liabilities

The Group's bankers have issued, on its behalf, bank guarantees amounting to SR 2.72 billion (31 December 2017: SR 2.86 billion) in the normal course of business.

Operating lease commitments

The Group has entered into operating leases on certain motor vehicles and items of machinery. Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Within one year	1,520,312	1,012,977
After one year but not more than five years	3,929,788	2,886,844
More than five years	3,455,462	2,657,715
	<u>8,905,562</u>	<u>6,557,536</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

37 Commitments and contingencies (continued)

Finance leases

Group as a lessee

The Group has finance lease contracts for various items of plant and machinery.

Future minimum lease payments under finance lease contracts, together with the present value of the net minimum lease payments, are as follows:

	31 December 2018	
	Minimum Payments	Present value of payments
Within one year	138,709	85,502
After one year but not more than five years	497,430	348,325
More than five years	356,093	305,098
Total minimum lease payments	992,232	738,925
Less: amounts representing finance charges	(253,307)	-
Present value of minimum lease payments	738,925	738,925
	31 December 2017	
	Minimum Payments	Present value of payments
Within one year	102,230	93,301
After one year but not more than five years	517,629	439,798
More than five years	564,113	331,914
Total minimum lease payments	1,183,972	865,013
Less: amounts representing finance charges	(318,959)	-
Present value of minimum lease payments	865,013	865,013

Group as a lessor

Future minimum lease receivables under these contracts, together with the present value of the net minimum lease payments, are as follows:

	31 December 2018	
	Minimum lease receivable	Present value
Within one year	37,919	18,103
After one year but not more than five years	132,851	84,306
More than five years	242,150	153,666
Total minimum lease receivable	412,920	256,075
Less: amounts representing finance income	(156,845)	-
Present value of minimum lease receivable	256,075	256,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

37 Commitments and contingencies (continued)

Finance leases (continued)

Group as a lessor (continued)

	31 December 2017	
	Minimum lease receivable	Present value
Within one year	41,673	16,389
After one year but not more than five years	163,845	108,671
More than five years	253,235	162,818
Total minimum lease receivable	458,753	287,878
Less: amounts representing finance income	(170,875)	-
Present value of minimum lease receivable	287,878	287,878

The Group is deemed as a lessor in certain supply contracts where the agreements convey the right to use related equipment mainly gas pipelines and other related accessories. The duration of the lease agreements are between 15 to 20 years which are a significant majority of the useful lives of the related assets. The lessor is responsible for maintenance and insurance of the assets.

Generally, there are minimum payments due from the lessee regardless of potential termination of the agreements. Renewal of lease agreements are possible but are subject to mutual agreement.

38 Reclassification in comparative numbers

During the year, the Group reclassified certain balances as listed below, which are considered by management a more accurately presentation and reflects the related nature. These reclassifications have no impact on previously reported net income or retained earnings:

	As per previously reported	Reclassified amounts	Amount of reclassification
Consolidated statement of financial position			
Deferred tax assets	1,518,599	673,983	844,616
Deferred tax liabilities	2,597,059	1,752,443	844,616
Consolidated statement of income statement			
Cost of sales	99,785,144	99,858,243	73,099
General and administrative expenses	10,642,900	10,569,801	73,099

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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39 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 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.

40 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 consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

41 Subsidiaries

SABIC Group's subsidiaries are set out below:

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
SABIC Luxembourg S.à r.l. ("SLUX") and its subsidiaries (Note 41.1)	Luxembourg	100.00	100.00
SABIC Industrial Investments Company ("SIIC") and its subsidiaries (Note 41.2)	KSA	100.00	100.00
Arabian Petrochemical Company ("PETROKEMYA")	KSA	100.00	100.00
Saudi Iron and Steel Company ("HADEED")	KSA	100.00	100.00
SABIC Sukuk Company ("SUKUK")	KSA	100.00	100.00
SABIC Industrial Catalyst Company ("SABCAT")	KSA	100.00	100.00
Saudi Carbon Fibre Company ("SCFC")	KSA	100.00	100.00
SABIC Supply Chain Services Limited Company ("SSCS")	KSA	100.00	100.00
Saudi Petrochemical Company ("SADAF")	KSA	100.00	100.00
Saudi Japanese Acrylonitrile Company ("SHROUQ")	KSA	100.00	80.00
Saudi European Petrochemical Company ("IBN ZAHR")	KSA	80.00	80.00
Jubail United Petrochemical Company ("UNITED")	KSA	75.00	75.00
National Chemical Fertiliser Company ("IBN AL-BAYTAR")	KSA	71.50	71.50
National Industrial Gases Company ("GAS")	KSA	70.00	70.00
Yanbu National Petrochemical Company ("YANSAB")	KSA	51.95	51.95
Saudi Methanol Company ("AR-RAZI")	KSA	50.00	50.00
Al-Jubail Fertiliser Company ("AL BAYRONI")	KSA	50.00	50.00
Saudi Yanbu Petrochemical Company ("YANPET")	KSA	50.00	50.00
National Methanol Company ("IBN-SINA")	KSA	50.00	50.00
Eastern Petrochemical Company ("SHARQ")	KSA	50.00	50.00
Al-Jubail Petrochemical Company ("KEMYA")	KSA	50.00	50.00
Saudi Methacrylates Company ("SAMAC")	KSA	50.00	50.00
Arabian Industrial Fibers Company ("IBN RUSHD")	KSA	48.07	48.07
Saudi Arabian Fertiliser Company ("SAFCO")	KSA	42.99	42.99
Saudi Kayan Petrochemical Company ("SAUDI KAYAN")	KSA	35.00	35.00
Saudi Speciality Chemicals Company ("SP. CHEM")	KSA	100.00	100.00
Saudi Organometallic Chemicals Company ("SOCC")	KSA	50.00	50.00

Notes:

- The country of incorporation is also their principal place of business.
- The principal activities of majority of the Group's subsidiaries are manufacturing, marketing and distribution of petrochemical, specialties and related products except for;
 - SAFCO, AL BAYRONI and IBN AL-BAYTAR that are involved in agri-nutrients business; and
 - HADEED is involved in metal business
- YANSAB, SAFCO, and SAUDI KAYAN are public companies and listed on Saudi Stock Exchange (Tadawul)
- SHROUQ; during 2018, the Group acquired 20% of the non-controlling interests in SHROUQ.
- AR-RAZI; on 4 December 2018, the Group and Japan Saudi Arabia Methanol Company, Inc., the partner in AR-RAZI, entered into an agreement for the Group to acquire 50% of JSMC's share in AR-RAZI (equivalent to 25% in AR-RAZI) for USD 0.15 billion. 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.
- SP. CHEM is 99% owned by Petrokemya and 1% owned by SIIC, and SOCC is 50% owned by SP. CHEM
- SUKUK is currently in the process of liquidation

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41 Subsidiaries (continued)

41.1 SABIC Luxembourg S.à r.l. and its subsidiaries

Subsidiaries	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
SABIC Innovative Plastics Argentina SRL	Argentina	100.00	100.00
SABIC Australia Pty Ltd.	Australia	100.00	100.00
SABIC Innovative Plastics Australia Pty Ltd.	Australia	100.00	100.00
SABIC Innovative Plastics Austria GmbH	Austria	100.00	100.00
SABIC Innovative Plastics GmbH & Co. KG	Austria	100.00	100.00
SABIC Innovative Plastics South America - Indústria e Comércio de Plásticos Ltda	Brazil	100.00	100.00
NV Pijpleiding Antwerpen-Limburg-Luik (PALL)	Belgium	100.00	100.00
SABIC Belgium NV	Belgium	100.00	100.00
SABIC Innovative Plastics Canada, Inc.	Canada	100.00	100.00
SABIC Innovative Plastics (China) Co., Ltd.	China	100.00	100.00
SABIC Innovative Plastics (Chongqing) Co., Ltd.	China	100.00	100.00
SABIC Innovative Plastics International Trading (Shanghai) Ltd.	China	100.00	100.00
SABIC Innovative Plastics Management (Shanghai) Co., Ltd.	China	100.00	100.00
SABIC Innovative Plastics Shanghai Co., Ltd.	China	100.00	100.00
SABIC (Shanghai) Trading Co. Ltd.	China	100.00	100.00
SABIC (China) Research & Development Co. Ltd.	China	100.00	100.00
SABIC (Shanghai) Industry Co. Ltd.	China	100.00	100.00
SABIC Innovative Plastics Czech s.r.o.	Czech Republic	100.00	100.00
SABIC Innovative Plastics Denmark Aps	Denmark	100.00	100.00
SABIC Nordic A/S	Denmark	100.00	100.00
SABIC Innovative Plastics Finland Oy	Finland	100.00	100.00
SABIC France S.A.S.	France	100.00	100.00
SABIC Innovative Plastics France S.A.S.	France	100.00	100.00
SABIC Deutschland GmbH	Germany	100.00	100.00
SABIC Holding Deutschland GmbH	Germany	100.00	100.00
SABIC Innovative Plastics GmbH	Germany	100.00	100.00
SABIC Innovative Plastics Holding Germany GmbH	Germany	100.00	100.00
SABIC Polyolefine GmbH	Germany	100.00	100.00
SABIC Greece M.E.P.E.	Greece	100.00	100.00
SABIC Innovative Plastics Hong Kong Ltd.	Hong Kong	100.00	100.00
SABIC Innovative Plastics SIT Holding Ltd.	Hong Kong	100.00	100.00
SABIC Innovative Plastics Taiwan Holding Ltd.	Hong Kong	100.00	100.00

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41 Subsidiaries (continued)

41.1 SABIC Luxembourg S.à r.l. and its subsidiaries (continued)

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
Subsidiaries			
SABIC Hungary Kft.	Hungary	100.00	100.00
SABIC Innovative Plastics Kereskedelmi Kft.	Hungary	100.00	100.00
SABIC India Pvt Ltd.	India	100.00	100.00
SABIC Innovative Plastics India Private Ltd.	India	100.00	100.00
SABIC R&T Pvt Ltd.	India	100.00	100.00
SABIC Innovative Plastics Italy Srl	Italy	100.00	100.00
SABIC Italia Srl	Italy	100.00	100.00
SABIC Sales Italy Srl	Italy	100.00	100.00
SABIC Japan Ltd.	Japan	100.00	100.00
SABIC Korea Ltd.	Korea	100.00	100.00
SABIC Luxembourg S.à r.l.	Luxembourg	100.00	100.00
SABIC Innovative Plastics Malaysia Sdn Bhd	Malaysia	100.00	100.00
SABIC Innovative Plastics Mexico S de RL de CV	Mexico	100.00	100.00
SABIC Innovative Plastics Servicios Mexico S de RL de CV	Mexico	100.00	100.00
BV Snij-Unie HiFi	Netherlands	100.00	100.00
FRT B.V.	Netherlands	95.00	95.00
FRT Tapes B.V.	Netherlands	100.00	100.00
SABIC Capital B.V.	Netherlands	100.00	100.00
SABIC Capital I B.V.	Netherlands	100.00	100.00
SABIC Capital II B.V.	Netherlands	100.00	100.00
SABIC Innovative Plastics GP B.V.	Netherlands	100.00	100.00
SABIC Innovative Plastics Holding B.V.	Netherlands	100.00	100.00
SABIC Innovative Plastics Utilities B.V.	Netherlands	100.00	100.00
SABIC Licensing B.V.	Netherlands	100.00	100.00
SABIC Limburg B.V.	Netherlands	100.00	100.00
SABIC Sales Europe B.V.	Netherlands	100.00	100.00
SABIC Petrochemicals B.V.	Netherlands	100.00	100.00
SABIC Ventures B.V.	Netherlands	100.00	100.00
SABIC Mining B.V.	Netherlands	100.00	100.00
Petrochemical Pipeline Services B.V.	Netherlands	100.00	100.00
SABIC Europe B.V.	Netherlands	100.00	100.00
SABIC International Holdings B.V.	Netherlands	100.00	100.00
SABIC Innovative Plastics B.V.	Netherlands	100.00	100.00
SABIC Global Technologies B.V.	Netherlands	100.00	100.00
SABIC Innovative Plastics Poland Sp. Z o.o.	Poland	100.00	100.00
SABIC Poland Sp. Z o.o.	Poland	100.00	100.00
LLC SABIC Eastern Europe	Russia	100.00	100.00
SABIC Innovative Plastics Russia Z o.o.	Russia	100.00	100.00

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41 Subsidiaries (continued)

41.1 SABIC Luxembourg S.à r.l. and its subsidiaries (continued)

Subsidiaries	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
SABIC Innovative Plastics (SEA) Pte. Ltd.	Singapore	100.00	100.00
SABIC Innovative Plastics Holding Singapore Pte. Ltd.	Singapore	100.00	100.00
SABIC Innovative Plastics Singapore Pte. Ltd.	Singapore	100.00	100.00
SABIC Asia Pacific Pte Ltd	Singapore	100.00	100.00
SABIC Innovative Plastics Espana ScpA	Spain	100.00	100.00
SABIC Innovative Plastics GP BV, Sociedad en Comandita	Spain	100.00	100.00
SABIC Sales Spain SL	Spain	100.00	100.00
SABIC Marketing Ibérica S.A.	Spain	100.00	100.00
Saudi Innovative Plastics Sweden AB	Sweden	100.00	100.00
SABIC Innovative Plastics (Thailand) Co. Ltd.	Thailand	100.00	100.00
SABIC Global Ltd.	UK	100.00	100.00
SABIC Tees Holdings Ltd.	UK	100.00	100.00
SABIC Innovative Plastics ABS UK Ltd.	UK	100.00	100.00
SABIC Innovative Plastics Ltd.	UK	100.00	100.00
SABIC UK Ltd.	UK	100.00	100.00
SABIC UK Pension Trustee Ltd.	UK	100.00	100.00
SABIC UK Petrochemicals Ltd.	UK	100.00	100.00
Exatec, LLC	US	100.00	100.00
Mt. Vernon Phenol Plant Partner	US	51.00	51.00
SABIC Americas Inc.	US	100.00	100.00
SABIC Innovative Plastics Holding US LP	US	100.00	100.00
SABIC Innovative Plastics Mt. Vernon, LLC	US	100.00	100.00
SABIC Innovative Plastics US LLC	US	100.00	100.00
SABIC Petrochemicals Holding US, Inc.	US	100.00	100.00
SABIC Ventures US Holdings LLC	US	100.00	100.00
SABIC US Projects LLC	US	100.00	100.00
SABIC Uruguay SA	Uruguay	100.00	100.00
SABIC Vietnam Ltd.	Vietnam	100.00	100.00
SABIC Americas Growth LLC	US	100.00	-
SABIC US Methanol LLC	US	100.00	-
Black Diamonds Structures, LL	US	50.1	-

Note:

- Black Diamonds; as the Group acquired control over Black Diamond as at 1 January 2018 and due to change in control, this equity investment is now consolidated from 1 January 2018. (Note 9)

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41 Subsidiaries (continued)

41.2 SIIC Group Subsidiaries

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
SABCAP Insurance Limited ("SABCAP")	Guernsey	100.00	100.00
SABIC Petrokemya Ticaret Limited ("SABIC TURKEY")	Turkey	100.00	100.00
SABIC Middle East Offshore Company ("SABIC MIDDLE EAST")	Lebanon	100.00	100.00
SABIC South Africa	South Africa	100.00	100.00
SABIC Africa for Trading & Marketing ("SABIC AFRICA")	Egypt	100.00	100.00
SABIC Morocco	Morocco	100.00	100.00
SABIC Global Mobility Company ("GMC")	UAE	100.00	100.00
SABIC Mobility Company ("GMC LLC")	UAE	100.00	--
SABIC Tunisia	Tunisia	100.00	100.00
SABIC Kenya	Kenya	100.00	100.00
SABIC (Pvt.) Pakistan	Pakistan	100.00	100.00
International Shipping and Transportation Co. ("ISTC")	KSA	99.00	99.00
SABIC Terminal Services Company ("SABTANK")	KSA	90.00	90.00
Jubail Chemical Storage and Services Company ("CHEMTANK")	KSA	75.00	75.00

Notes:

- GMC LLC was established during 2018 and is engaged in providing administrative services to the Group's global assignees and GMC is currently under liquidation.
- CHEMTANK; during 2018, management has decided to change the legal name of JCSCC as "CHEMTANK".

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42 Investment in associates and joint arrangements

Below is the listing of the Group's investment in associates and joint arrangements. These are strategic investments for the Group.

	Country of incorporation	Principal activities	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
Associates				
Gulf Petrochemical Industries Company ("GPIC")	Bahrain	Petrochemical	33.33	33.33
Gulf Aluminium Rolling Mills Company ("GARMCO")	Bahrain	Aluminium	30.40	30.40
Ma'aden Phosphate Company ("MPC")	KSA	Agri-Nutrients	30.00	30.00
Power and Water Utilities Company for Jubail and Yanbu ("MARAFIQ")	KSA	Utilities	24.81	24.81
Aluminium Bahrain BSC ("ALBA")	Bahrain	Aluminium	20.62	20.62
National Chemical Carrier Company ("NCC")	KSA	Transportation	20.00	20.00
Ma'aden Wa'ad Al Shamal Phosphate Company ("MWSPC")	KSA	Agri-Nutrients	15.00	15.00
Saudi Arabian Industrial Investment Company ("DUSSUR")	KSA	Investments	25.00	25.00
Clariant AG ("CLARIANT")	Switzerland	Specialty chemical	24.99	-
Cosmar Inc. ("COSMAR")	USA	Petrochemical	50.00	50.00
Black Diamonds Structures, LLC ("BLACK DIAMONDS")	USA	Specialities	-	50.00
Joint Ventures				
SINOPEC/SABIC Tianjin Petrochemical Company Limited	China	Petrochemical	50.00	50.00
SABIC SK Nexelene Company	Singapore	Petrochemical	50.00	50.00
Joint Operations				
Utility Support Group ("USG") B.V.	Netherlands	Petrochemical	50.00	50.00
Gulf Coast Growth Venture LLC ("GCGV")	USA	Petrochemical	50.00	50.00

Notes:

- The country of incorporation is also their principal place of business.
- CLARIANT; during 2018, SABIC acquired 24.99% ownership in Clariant, a global specialty chemical company listed at the Swiss Stock Exchange. (Note 9.1)
- BLACK DIAMONDS; as the Group acquired control over Black Diamond as at 1 January 2018 and due to change in control, this equity investment is now consolidated from 1 January 2018. (Note 9)
- SLUX Group participates in following Joint Operations:
 - USG (Geleen, the Netherlands), which is operated jointly with other stakeholders to produce utilities for a production site
 - GCGV (Houston, USA), a cooperation with ExxonMobil Chemical to investigate the feasibility of constructing an ethane steam cracking facility and downstream plants.

The Group holds a 50% share in each of these joint operations and controls them jointly with the respective partners. The partners ensure the ongoing financing of the companies, either by the utilities directly sold to the partners or sharing the costs.