



PKF

Ibrahim Ahmed Al-Bassam & Co.
Certified Public Accountants
(Member of PKF International)

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SAUDI ADVANCED INDUSTRIES COMPANY
(SAUDI JOINT STOCK COMPANY)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Saudi Advanced Industries Company (the "Company") as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

We have audited the financial statements of the company, which comprise of the following:

- The statement of financial position as at 31 December 2022;
- The statement of profit or loss and comprehensive income for the year then ended;
- The statement of changes in equity for the year then ended;
- The statement of cash flows for the year then ended, and;
- The notes to the financial statements, including a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent from the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the 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 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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KEY AUDIT MATTERS (CONTINUED)

| Key Audit Matters | How our audit addressed the key audit matter |
|--|--|
| Impairment assessment of equity- accounted investees (Deutsche Gulf Finance Company) | |
| <p>At 31 December 2022, the Company had an investment in Deutsche Gulf Finance Company amounting to Saudi Riyals 285,515,138.</p> <p>In accordance with the International Accounting Standard "Impairment of assets" (IAS 36), an entity is required to perform impairment reviews for non-financial assets whenever there is an identified trigger for impairment.</p> <p>Based on such data, management carried out an impairment assessment in respect of each of these investments by determining a recoverable amount based on fair value less costs of disposals (Deutsche Gulf Finance Company) using discounted cash flow model, which utilized the most recent business plans prepared by their management. The outcome of this assessment as at 31 December 2022 did not result in any impairment loss to be recognized.</p> <p>We considered impairment testing of equity-accounted investees performed by management as a key audit matter since the assessment of the recoverable amount under the value in use and fair value less costs of disposals basis require considerable judgment around use of estimates on the part of management. Refer to Note 4 for the accounting policies, Note 5 for the significant estimate significant judgements</p> | <p>We assessed management's impairment assessment of equity-accounted investees by performing the following procedures:</p> <ul style="list-style-type: none"> ▀ Assessed the methodology used by management to determine the recoverable value and compared it to that required by IAS 36; ▀ We tested the arithmetical accuracy of the models used and of the underlying calculations; ▀ Tested the reasonableness of the cash flow projections by comparison to historical results and underlying assumptions (revenue growth and EBITDA margin) supporting the growth in forecasted cash flows; ▀ Engaged our internal valuation experts to assist in the review of the valuation models and use of certain assumptions including discount rates and long term growth rates; and <p>We also reviewed the adequacy of the disclosures included in the notes to the accompanying financial statements.</p> |



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KEY AUDIT MATTERS (CONTINUED)

Valuation of financial assets at fair value through profit or loss which are not traded in an active market

Financial assets at fair value through profit or loss include a portfolio of equity instruments. These instruments are measured at fair value and the changes in fair value are recognized in profit or loss.

While the majority of the fair values of the company's investments were directly obtained from active markets as at 31 December 2022, the company held an amount of SR 208,114,197 of unquoted investments. The fair value of these investments is determined through the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions and estimates.

Estimation uncertainty exists for those not traded investments in an active market, and where the internal modeling techniques used:

Significant un-observable valuation inputs (ie Level 3 investments).

Estimation uncertainty is considered high for Level 3 investments.

In the Company's accounting policies, management has described the key sources of estimation involved in determining the valuation of Level 3 investments. The cost price has been endorsed due to the discounted cash flow approach or comparable entity data may result in a fair value that cannot be relied upon. The valuation of the Company's investments held as fair value through profit or loss in the Level 3 category is considered a key audit matter given the degree of complexity involved in valuating these investments and the significance of the judgments and estimates made by the management.

Refer to the summary of significant accounting policies, note No. (4) and note (5) which explains the critical judgments and estimates for fair value measurement.

We reviewed the methodology and assessed the appropriateness of valuation models and inputs used by the management to value the financial assets at fair value through profit or loss through involving our valuation experts.

We also tested the valuation of the investments which are not traded in an active market and held at fair value through profit or loss. As part of these audit procedures, we assessed key inputs used in the valuation, such as comparable entities data and liquidity discounts, by benchmarking them with external data to verify that there is no impairment of investments and the cost price adopted due to, the approach of comparable entities data or discounted cash flows may result in a fair value that cannot be relied upon.

We performed the following procedures:

- We obtained the management valuation and assessed the key inputs used in the valuation.
- Involved our valuation experts to perform an independent valuation and use specific assumptions.

We have assessed the adequacy of the related disclosures included in the financial statements



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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OTHER INFORMATION

Other information consists of the information included in the Company's 2022 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Company financial reporting process.

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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 Company'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 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 Company's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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(Saudi Joint Stock Company)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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, with relevant safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 Al-Bassam & Co.

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Corresponding to: 30 March 2023



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