

SAUDI INDUSTRIAL INVESTMENT GROUP COMPANY AND ITS SUBSIDIARY

(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 AND
INDEPENDENT AUDITOR'S REPORT

**Saudi Industrial Investment Group Company (A Saudi Joint Stock Company)
and its subsidiary**

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2019

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(1/6)

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saudi Industrial Investment Group Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saudi Industrial Investment Group Company, A Saudi Joint Stock Company ("the Company") and its subsidiary (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements 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 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 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 our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit 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 Industrial Investment Group Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

| The key audit matter | How the matter was addressed in our audit |
|--|---|
| <p><i>Uncertain Zakat Position</i></p> <p>The Company has filed its Zakat and Income Tax returns with the General Authority of Zakat and Tax ("GAZT") up to 2018. The Company has finalised its zakat status GAZT for all years up to 31 December 2006 on standalone basis. GAZT raised assessments for the years from 2007 to 2014 claiming additional zakat liability of SR 42 million. The Company has filed an appeal against the additional zakat liability with GAZT and hearing is awaited. The assessments for 2015 up to 2018 still under GAZT's review.</p> <p>Further, the Company's subsidiary, National Petrochemical Company ("the Subsidiary") files its zakat returns with GAZT. GAZT raised assessments for the years from 2011 to 2013 claiming additional zakat liability of SR 95.5 million. The Subsidiary has filed an appeal against the assessment of additional zakat liability with the Preliminary Appeal Committee ("PAC"). Subsequently, the Subsidiary received revised zakat assessments for the years from 2011 to 2013 from GAZT claiming additional zakat liability of SR 5.74 million. The Subsidiary accepted and paid SR 3.47 million and filed an appeal for the remaining balance SR 2.27 million with the Higher Appeal Committee ("HAC") and the HAC's hearing is awaited. GAZT raised an assessment for the years from 2014 to 2016 claiming additional zakat liability of SR 204.2 million from the Subsidiary. The Subsidiary has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC") and the PAC's hearing is awaited.</p> <p>The Group's management believes that the provision made in the consolidated statements of financial position is adequate to cover any additional zakat liability that may arise from GAZT.</p> <p>We considered this as a key audit matter as it involves significant management judgment, and zakat provision and the related additional assessments issued by GAZT are material to the consolidated financial statements.</p> | <p>We performed the following procedures in relation to the additional assessed zakat liability and related zakat provisions:</p> <ul style="list-style-type: none"> • Evaluated the appropriateness of the zakat provision provided by the Group given the related zakat assessments issued by GAZT for all years under appeal and for the years which still under GAZT's review; • Gained an understanding of the process that management followed to assess the impact of the assessments and the reasons for such differences between the positions of the Company and GAZT; • Performed a retrospective review of management's judgement related to similar cases in prior periods; • Together with specialists in our team, evaluated the reasonableness of management's assessment for the accounting of the uncertain zakat position in the light of zakat regulations, recent practices of GAZT and merits of the appeal filed with GAZT against the assessments raised; and • Assessed the appropriateness of the disclosure made in relation to the assessments issued by GAZT in respect of claiming additional zakat liability and the status of the related appeals. |

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saudi Industrial Investment Group Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

| The key audit matter | How the matter was addressed in our audit |
|--|---|
| <p>Adoption of IFRS 16</p> <p>As of 1 January 2019, IFRS 16 (Leases) became effective. IFRS 16 requires the Group to assess all its lease contracts and recognize depreciation, right of use and the lease liability.</p> <p>The management performed a detailed analysis of each lease contract to identify the differences between the requirements of the old and new standard, identify the changes required to be made to existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with identification of whether an arrangement meets the definition of a lease.</p> <p>This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.</p> <p>The Group has chosen to apply IFRS 16 "Leases" under the modified retrospective approach. Under the modified retrospective method, comparative consolidated financial information is not restated and continues to be reported under the accounting standards in effect for those periods.</p> <p>Management also assessed the disclosure requirements of the new standard to be made in the consolidated financial statements.</p> <p>We considered this as a key audit matter because the calculations of amounts underlying the right of use assets and the corresponding lease liabilities involve new processes for collecting data, complex rules and the application of significant management judgment.</p> | <p>We performed the following procedures in relation to the adoption of IFRS 16:</p> <ul style="list-style-type: none"> • Reviewed management's assessment of the impact of IFRS 16 in terms of the classification and measurement of its right of use assets and lease liabilities, and understood the approach taken towards implementation; • Assessed the accuracy of the lease data by testing on a sample basis, the lease data captured by management through the inspection of lease documents; • Tested lease schedules on a sample basis, by recalculating the amounts underlying the right of use assets and lease liabilities, based on the terms on the lease contracts. We also tested the arithmetical accuracy of those individual lease schedules; • Evaluated the accuracy of the discount rates applied in the computation of the lease liability obligations; and • Assessed the adequacy of the Group's disclosure included in the consolidated financial statements in relation to the implementation of the new standard. |

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saudi Industrial Investment Group Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in The Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 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 2019 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 do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 2019 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the 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 Company's By-laws, 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saudi Industrial Investment Group Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

We communicate with 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.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saudi Industrial Investment Group Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

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

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


Waleed G. Tawfiq
Certified Public Accountant
Registration No. 437



10 Rajab 1441H
5 March 2020

Al-Khobar

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | Note | 2019 SR "000" | 2018 SR "000" |
|---|------|-------------------|-------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7 | 14,175,897 | 15,020,745 |
| Investment in joint ventures | 8 | 2,010,642 | 2,175,980 |
| Employees' loans | 9 | 140,980 | 130,609 |
| Right of use asset | 10 | 69,280 | - |
| TOTAL NON-CURRENT ASSETS | | 16,396,799 | 17,327,334 |
| CURRENT ASSETS | | | |
| Trade receivables | 11 | 906,097 | 1,035,382 |
| Inventories | 12 | 915,053 | 1,103,108 |
| Prepayments and other receivables | 13 | 93,745 | 263,292 |
| Amounts due from related parties | 14 | 237,226 | 221,326 |
| Short term investments -- bank deposits | 15 | - | 330,000 |
| Cash and cash equivalents | 16 | 3,658,384 | 4,107,011 |
| TOTAL CURRENT ASSETS | | 5,810,505 | 7,060,119 |
| TOTAL ASSETS | | 22,207,304 | 24,387,453 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 17 | 4,500,000 | 4,500,000 |
| Statutory reserve | 18 | 897,136 | 836,509 |
| Retained earnings | | 1,396,789 | 1,561,595 |
| EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY | | 6,793,925 | 6,898,104 |
| Non-controlling interests | 19 | 8,174,422 | 7,517,348 |
| TOTAL EQUITY | | 14,968,347 | 14,415,452 |
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Term loans | 20 | 3,435,135 | 4,850,920 |
| Non-controlling partner's subordinated loan | 21 | 182,696 | 413,927 |
| Non-current portion of lease liability | 23 | 52,097 | - |
| Deferred tax liabilities, net | 26 | 326,273 | 311,055 |
| Employees' benefits | 24 | 242,400 | 170,664 |
| TOTAL NON-CURRENT LIABILITIES | | 4,238,601 | 5,746,566 |
| CURRENT LIABILITIES | | | |
| Trade payables | | 203,467 | 37,962 |
| Amounts due to related parties | 14 | 206,885 | 209,172 |
| Current portion of term loans | 20 | 1,210,425 | 1,374,772 |
| Sukuk-current portion | 22 | - | 948,000 |
| Current portion of lease liability | 23 | 12,917 | - |
| Accrued expenses and other payables | 25 | 364,304 | 629,740 |
| Dividends payable | | 337,500 | 337,500 |
| Zakat and income tax provisions | 26 | 664,858 | 688,289 |
| TOTAL CURRENT LIABILITIES | | 3,000,356 | 4,225,435 |
| TOTAL LIABILITIES | | 7,238,957 | 9,972,001 |
| TOTAL EQUITY AND LIABILITIES | | 22,207,304 | 24,387,453 |

Chairman of the Board of Directors

Hamad Al Sayari

Designated member

Sulaiman Al-Mandeel

Finance Manager

Hazem Abu Swaireh

The attached notes 1 to 39 form part of these consolidated financial statements

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Note | 2019 SR "000" | 2018 SR "000" |
|--|--------|------------------|------------------|
| Sales | | 7,434,705 | 8,930,414 |
| Cost of sales | 27 | (5,559,121) | (6,247,308) |
| GROSS PROFIT | | 1,875,584 | 2,683,106 |
| Selling and distribution expenses | 28 | (421,931) | (471,618) |
| General and administrative expenses | 29 | (193,405) | (230,902) |
| Share in net results of joint ventures | 8 | 273,996 | 311,506 |
| OPERATING PROFIT | | 1,534,244 | 2,292,092 |
| Other income, net | 30 | 129,574 | 252,317 |
| Finance costs | 31 | (218,580) | (304,033) |
| INCOME BEFORE ZAKAT AND INCOME TAX | | 1,445,238 | 2,240,376 |
| Zakat and income tax: | | | |
| Current tax | 26 | (52,133) | (97,126) |
| Deferred tax | 26 | (15,218) | (35,015) |
| Zakat | 26 | (90,897) | (126,843) |
| NET INCOME FOR THE YEAR | | 1,286,990 | 1,981,392 |
| NET INCOME FOR THE YEAR ATTRIBUTABLE TO: | | | |
| - Shareholders of the Company | | 606,267 | 864,908 |
| - Non-controlling interests | 19 | 680,723 | 1,116,484 |
| | | 1,286,990 | 1,981,392 |
| OTHER COMPREHENSIVE (LOSS) INCOME | | | |
| Re-measurement (loss) gain on defined benefit plans | 8 & 24 | (62,766) | 50,751 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 1,224,224 | 2,032,143 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO: | | | |
| - Shareholders of the Company | | 570,821 | 896,656 |
| - Non-controlling interests | 19 | 653,403 | 1,135,487 |
| | | 1,224,224 | 2,032,143 |
| EARNINGS PER SHARE FORM NET INCOME (Saudi Riyals) | | | |
| Number of shares outstanding (in thousands) | | 450,000 | 450,000 |
| Basic and diluted earnings per share attributable to the shareholders of the Company | 32 | 1.35 | 1.92 |

Chairman of the Board of Directors
Hamad Al Sayari

Designated member
Sulaiman Al-Mandeel

Finance Manager
Hazem Abu Swaireh

The attached notes 1 to 39 form part of these consolidated financial statements.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | <i>Attributable to the shareholders of the Company</i> | | | | Non-controlling interests SR "000" | Total equity SR "000" |
|--|--|-------------------|-------------------|------------------|---------------------------------------|---------------------------------|
| | Share capital | Statutory reserve | Retained earnings | Total | | |
| | SR "000" | SR "000" | SR "000" | SR "000" | | |
| Balance as 1 January 2019 | 4,500,000 | 836,509 | 1,561,595 | 6,898,104 | 7,517,348 | 14,415,452 |
| Income before zakat and income tax | - | - | 661,764 | 661,764 | 783,474 | 1,445,238 |
| Current tax | - | - | - | - | (52,133) | (52,133) |
| Deferred tax | - | - | - | - | (15,218) | (15,218) |
| Zakat | - | - | (55,497) | (55,497) | (35,400) | (90,897) |
| Net income for the year | - | - | 606,267 | 606,267 | 680,723 | 1,286,990 |
| Other comprehensive loss | - | - | (35,446) | (35,446) | (27,320) | (62,766) |
| Total comprehensive income for the year | - | - | 570,821 | 570,821 | 653,403 | 1,224,224 |
| Transfer to statutory reserve | - | 60,627 | (60,627) | - | - | - |
| Income tax reimbursed by non-controlling partner | - | - | - | - | 123,671 | 123,671 |
| Dividends | - | - | (675,000) | (675,000) | (120,000) | (795,000) |
| Balance at 31 December 2019 | 4,500,000 | 897,136 | 1,396,789 | 6,793,925 | 8,174,422 | 14,968,347 |
| Balance at 1 January 2018 | 4,500,000 | 750,018 | 1,313,930 | 6,563,948 | 6,435,591 | 12,999,539 |
| Income before zakat and income tax | - | - | 942,441 | 942,441 | 1,297,935 | 2,240,376 |
| Current tax | - | - | - | - | (97,126) | (97,126) |
| Deferred tax | - | - | - | - | (35,015) | (35,015) |
| Zakat | - | - | (77,533) | (77,533) | (49,310) | (126,843) |
| Net income for the year | - | - | 864,908 | 864,908 | 1,116,484 | 1,981,392 |
| Other comprehensive income | - | - | 31,748 | 31,748 | 19,003 | 50,751 |
| Total comprehensive income for the year | - | - | 896,656 | 896,656 | 1,135,487 | 2,032,143 |
| Transfer to statutory reserve | - | 86,491 | (86,491) | - | - | - |
| Income tax reimbursed by non-controlling partner | - | - | - | - | 66,270 | 66,270 |
| Dividends | - | - | (562,500) | (562,500) | (120,000) | (682,500) |
| Balance at 31 December 2018 | 4,500,000 | 836,509 | 1,561,595 | 6,898,104 | 7,517,348 | 14,415,452 |

Chairman of the Board of Directors
Hamad Al Sayari

Designated member
Sulaiman Al-Mandeel

Finance Manager
Hazem Abu Swaireh

The attached notes 1 to 39 form part of these consolidated financial statements.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Note | 2019 SR "000" | 2018 SR "000" |
|---|------|--------------------|--------------------|
| Cash flow from operating activities | | | |
| Income before zakat and income tax | | 1,445,238 | 2,240,376 |
| <i>Adjustments to reconcile income before zakat and income tax to net cash flows from operations:</i> | | | |
| Depreciation of property, plant and equipment | | 866,593 | 1,115,984 |
| Depreciation of right of use assets | | 20,379 | - |
| Adjustment of property, plant and equipment | | - | 4,881 |
| Finance costs | | 218,580 | 304,033 |
| Employees' benefits, net | | 28,331 | 31,783 |
| Share in net results of joint ventures | | (273,996) | (311,506) |
| Re-measurement gain on non-controlling partner's subordinated loan | | (5,508) | - |
| Gain on disposal of property, plant and equipment | | (967) | (138) |
| | | <u>2,298,650</u> | <u>3,385,413</u> |
| Working capital adjustments: | | | |
| Trade receivables | | 129,285 | 73,565 |
| Inventories | | 188,055 | (10,170) |
| Employees' loans, prepayments and other receivables | | 147,157 | (165,610) |
| Amounts due from related parties | | (15,900) | 7,184 |
| Amounts due to related parties | | (2,287) | (24,904) |
| Trade payables | | 165,505 | (181,005) |
| Accrued expenses and other payables | | (268,364) | 210,329 |
| Net cash flows from operations | | <u>2,642,101</u> | <u>3,294,802</u> |
| Finance costs paid | | (202,823) | (254,099) |
| Zakat and income tax paid | | (163,533) | (122,086) |
| Net cash flows from operating activities | | <u>2,275,745</u> | <u>2,918,617</u> |
| Investing activities | | | |
| Additions to property, plant and equipment | | (32,974) | (69,635) |
| Additions to right to use asset | | (113) | - |
| Net movement in short term investments – bank deposits | | 330,000 | 436,000 |
| Dividends received from joint ventures | | 431,250 | 628,125 |
| Proceeds from disposal of property, plant and equipment | | 12,196 | 138 |
| Zakat reimbursable to joint ventures | | (11,276) | (17,219) |
| Net cash flows from investing activities | | <u>729,083</u> | <u>977,409</u> |
| Financing activities | | | |
| Net movement in term loans | | (1,583,291) | (1,773,604) |
| Net movement in Sukuk | | (948,000) | (122,000) |
| Repayment of non-controlling partner's subordinated loan | | (236,250) | (446,250) |
| Income tax reimbursed by non-controlling partner | | 123,671 | 66,270 |
| Payment of lease liabilities | | (14,585) | - |
| Dividends paid | | (795,000) | (570,000) |
| Net cash flows used in financing activities | | <u>(3,453,455)</u> | <u>(2,845,584)</u> |
| Net (decrease) increase in cash and cash equivalents | | <u>(448,627)</u> | <u>1,050,442</u> |
| Cash and cash equivalents at the beginning of the year | | <u>4,107,011</u> | <u>3,056,569</u> |
| Cash and cash equivalents at the end of the year | 16 | <u>3,658,384</u> | <u>4,107,011</u> |

(continued)

The attached notes 1 to 39 form part of these consolidated financial statements.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2019

| | 2019 SR "000" | 2018 SR "000" |
|--|------------------|------------------|
| <u>Non-cash transactions</u> | | |
| Accrued finance cost on non-controlling partner's subordinated loan | 10,527 | 42,189 |
| Amortization of transaction costs on term loans | 3,159 | 5,400 |
| Remeasurement (loss) gain on defined benefit plans | (43,405) | 28,151 |
| Remeasurement (loss) gain recaptured on joint ventures | (19,360) | 22,600 |
| Amounts recognised as right of use asset and lease liability | 510 | - |
| Amounts recognised as right of use asset and lease liability when applying IFRS 16 | 77,017 | - |
| Amounts recognised as right of use asset when applying IFRS 16 which deducted from prepayments | 12,019 | - |
| Accrued interest on lease liabilities | 2,072 | - |
| Net amount of non-cash movement in accrued interest | - | 2,345 |
| Dividends declared and credited to dividends payable | - | 112,500 |

Chairman of the Board of Directors

Hamad Al Sayari

Designated member

Sulaiman Al-Mandeeel

Finance Manager

Hazem Abu Swaireh

The attached notes 1 to 39 form part of these consolidated financial statements.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

1 CORPORATE INFORMATION

Saudi Industrial Investment Group Company ("the Company") is a Saudi Joint Stock Company registered in Riyadh city, Kingdom of Saudi Arabia under Commercial Registration number 1010139946 dated on 10 Sha'ban 1416 H (corresponding to 1 January 1996). The registered address of the Company is P.O. Box 99833, Al Riyadh City, Kingdom of Saudi Arabia.

The accompanying consolidated financial statements include the activities of the Company and its following direct subsidiary and the two subsidiaries of its subsidiary (collectively referred to as "the Group"):

| | Country of incorporation | Percentage of ownership |
|---|--------------------------|-------------------------|
| National Petrochemical Company (A Joint Stock Company) and its subsidiaries | Saudi Arabia | 50% |
| The subsidiaries of National Petrochemical Company are as follows: | | |
| Saudi Polymers Company (A Limited Liability Company) | Saudi Arabia | 65% |
| | United Arab Emirates | 65% |
| Gulf Polymers Distribution Company (A Free Zone Limited Liability Company) | | |

National Petrochemical Company (Petrochem) ("the Company") is a Saudi Joint Stock Company registered under Commercial Registration Number 1010246363 issued in Riyadh on 8 Rabie I 1429 H (corresponding to 16 March 2008), and it was established pursuant to the Ministry of Commerce and Industry's resolution number 53/Q dated 16 Safar 1429 H (corresponding to 23 February 2008).

Saudi Polymers Company is a limited liability company registered in Jubail, Saudi Arabia under Commercial Registration number 2055008886 dated 29 Dhul-Qadah 1428H (corresponding to 9 December 2007), with a branch in Jubail under Commercial Registration number 2055009065.

During the year ended 31 December 2019, the partners of SPCO have resolved to decrease the share capital of SPCO from SR 4,800 million to SR 1,406 million. The legal process for the reduction in capital has not been completed till the year end.

Gulf Polymers Distribution Company FZCO was formed in the Dubai Airport Free Zone on 15 February 2011 as per DAFZA trade license. The registered address of the Company is Dubai Airport Free Zone, Office No.6EA 420, Dubai, United Arab Emirates.

The Group is engaged in the development of the industrial base in the Kingdom of Saudi Arabia, in particular the petrochemical industries and opening the fields of export to foreign markets and to allow the private sector to enter the other industries using the products of the petrochemical industry after obtaining the necessary licenses from the competent authorities.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA"). These consolidated financial statements have been prepared in accordance with the IFRSs as endorsed in KSA.

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019 (note 5). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has adopted IFRS 16 "Leases" from 1 January 2019 and accounting policies for this new standard is disclosed in note 5.

2.2 Basis of measurement

The consolidated financial statements are prepared under the historical cost convention using the accruals basis of accounting. For employee and other post-employment benefits, actuarial present value calculations are used.

The consolidated financial statements are presented in Saudi Riyals (SR), which is also the functional currency of the Group except for the Gulf Polymers Distribution Company FZCO which is translated in these consolidated financial statement from US Dollar currency to Saudi Riyals currency on a fixed rate of SR 3.75 to 1 US Dollar. All values are rounded to the nearest thousand (SR '000'), except when otherwise indicated.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary and the subsidiaries its subsidiary as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- a) Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- b) Exposure, or rights, to variable returns from its involvement with the investee; and
- c) The ability to use its power over the investee to affect its returns.

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

- a) The contractual arrangement(s) with the other vote holders of the investee;
- b) Rights arising from other contractual arrangements;
- c) The Group's voting rights and potential voting rights.

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

Profit or loss and each component of OCI are attributed to the shareholders of the Company 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 in line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.4 Approval of consolidated financial statements

These consolidated financial statements were approved on 10 Rajab 1441H (corresponding to 5 March 2020).

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Capital management
- Financial risk management objectives and policies

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognized in the financial statements) includes:

The Group uses a provision matrix to calculate expected credit losses ("ECLs") for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

These 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 recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods except for the significant new judgments and significant sources of estimates and uncertainties related to the application of IFRS 16 as mentioned below in note 5.

3.1 Impairment of trade receivables

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecasted economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated, and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecasted economic conditions and ("ECLs") is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecasted economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future.

3.2 Impairment of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of aging or obsolescence, based on anticipated selling prices.

3.3 Useful lives of property, plant and equipment

The management determines the estimated useful lives of its equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted when the management believes the useful lives differ from previous estimates.

3.4 Deferred tax asset/liabilities

The management determines the estimated tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecasted cash flows from operations and judgment about the application of existing tax laws in each jurisdiction.

3.5 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 calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the (CGU) being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

3.6 Provisions

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

3.7 Valuation of defined benefit obligations

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

3.8 Determining the lease term of contracts with renewal and termination options

Management of the Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Current versus non-current classification

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

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

All other assets are classified as non-current.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each consolidated statement of financial position date.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

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

The policies and procedures for both recurring fair value measurement are evaluated periodically.

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

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in 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. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over the subsidiary. The Group's investment in its joint venture's is accounted for using the equity method. Under the equity method, the investment in a joint venture's is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint ventures is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of income and other comprehensive income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture is eliminated to the extent of the interest in the joint ventures. The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the consolidated statement of income and other comprehensive income outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture is prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss as 'Share of profit of a joint venture' in the consolidated statement of income and other comprehensive income. Upon loss of significant influence over the 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 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 and other comprehensive income.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost and stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognize such parts as individual assets and depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income and other comprehensive income as incurred.

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

The estimated useful lives of the assets for the calculation of depreciation are as follows:

| | |
|---|----------------|
| Office buildings | 25 years |
| Plant and equipment | 10 to 25 years |
| Furniture, fixture and office equipment | 4 to 10 years |
| Motor vehicles | 5 years |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognized upon disposal or when no future benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of income and other comprehensive income in the year the asset is derecognized.

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

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, 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 applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

| | |
|----------------------------|------------|
| Land | 4-20 years |
| Warehouses | 4 years |
| Equipments | 4 years |
| Offices and motor vehicles | 3-4 years |

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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 asset is (or those assets are) not explicitly specified in an arrangement.

Borrowing costs

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

Impairment of non-financial assets

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

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

Impairment losses of continuing operations are recognised in the consolidated statement of income and other comprehensive income in expense categories consistent with the function of the impaired asset.

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

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

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

Subsequent measurement

Financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial asset at amortised cost that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables, and loans included under other non-current financial assets.

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

IFRS 9 requires the Group to record an allowance for expected credit losses ("ECL") for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECL based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., employee loans), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

Financial assets (continued)

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowing and non-controlling partner's subordinated loan.

Subsequent measurement

The financial liabilities are subsequently measured at amortized costs.

Derecognition

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

Offsetting of financial instruments

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

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials and spares: purchase cost on a weighted average basis.
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Consumable spare parts

Consumables are ancillary materials which are consumed in the production of semi-finished and finished products. Consumables may include engineering materials, one-time packaging materials and certain catalysts.

Spare parts are the interchangeable parts of plant and equipment which are considered to be essential to support routine maintenance, repair and overhaul of plant and equipment or to be used in emergency situations for repairs. The Group maintains the following different types of spare parts:

- Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalized as part of property, plant and equipment and depreciated from the purchase date over a period which is shorter of the component's useful life or the remaining useful life of the plant in which it is to be utilized. These do not form part of inventory, provided that capitalization criteria under property, plant and equipment is met.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)

- Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalized as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the plant and equipment in which it is installed. These do not form part of inventory.
- General capital spares and other consumable items, are not plant specific and can be used at any time for facilitating plant operations. They are generally classified as 'consumable spare parts' under inventory, unless they exceed the threshold for capitalization and have a useful life of more than one year, under which case they are recorded under property, plant and equipment (and depreciated similar to repairable items). Spares and consumable under inventories are subject to assessment for obsolescence provision and are charged to the consolidated statement of income and other comprehensive income upon their installation or use. The provision is based on a systematic consistent manner depending on management's estimates, as well as ageing, actual physical wear and tear, etc. Where such items meet the criteria for capitalization, their depreciation method is similar to repairable items, as noted above.

Cash and cash equivalents

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

Short term investments – bank deposits

Short term investments bank deposits in the consolidated statement of financial position comprise cash at short-term deposits with original maturities of more than three months but not more than one year from the date of acquisition, which are subject to an insignificant risk of changes in value.

Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, the Group must set aside 10% of its net income for the year until it has built up a reserve equal to 30% of the share capital. The Group may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

Earnings per share

Basic earnings per share is calculated by dividing:

- The net income attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares.
- By the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Fair value of non-controlling partner's subordinated loan

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

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia. Under the revised zakat standard issued by the Saudi Organization of Certified Public Accountants (SOCPA), zakat provision is charged to the consolidated statement of income and other comprehensive income, as IAS 12 'Income Taxes' do not provide any guidance on the accounting treatment of zakat. The Non-controlling interests in the Group is subject to income tax in the Kingdom of Saudi Arabia.

Current income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax is recognized in the consolidated statement of income and other comprehensive income. Management periodically evaluates positions taken in the Group's tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized on all deductible temporary difference, carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which these assets can be utilized.

The carrying amount of deferred income tax assets/liabilities 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 income tax asset/liability to be utilized. Unrecognized deferred income tax assets/liabilities are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Withholding tax

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividend payments to the non-Saudi partner, as required under Saudi Arabian Income Tax Law.

Value added tax

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the GAZT, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the GAZT is included as part of receivables or payables in the consolidated statement of financial position.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

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

Employees' benefits

The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized in equity through the consolidated statement of income and other comprehensive income in the period in which they arise.

Revenue from contracts with customers

Sale of products is the only source of revenue. Sales of products in the consolidated statement of income and other comprehensive income are recognized when the Group has an obligation to sell the goods, it is able to establish that a contract exists, the consideration is relatively measurable, and collection is probable. The amounts recognized as sales of products represent the fair values of the considerations received or receivable from related parties and third parties on the sales of such products. The Group's contracts with customers for the sale of its products generally includes one performance obligation. The Group recognizes revenue from products sales at the point in time when control of such products is transferred to the customer, generally on delivery.

Finance income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in other income in consolidated statement of income and other comprehensive income.

Expenses

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

Foreign currencies

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

Transaction and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of income and other comprehensive income with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in OCI until the disposal of the net investment, at which time they are reclassified to consolidated statement of income and other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. 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 a gain or loss on change in fair value of the item.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied, for the first time, IFRS 16 "Leases". As required by IAS 8, the nature and effect of these changes, if any, are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining 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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group applied modified retrospective approach, which requires the recognition of the cumulative effect of initially applying IFRS 16 at, 1 January 2019, to the retained earnings and not restate prior years. Since the Group recognized the right-of-use assets at the amount equal to the lease liabilities (excluding prepayment and accruals), there was no impact to the retained earnings. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases, applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

At 1 January 2019, the Group recognized SR 89 million of right-of-use assets and lease liabilities of SR 77 million (excluding prepayments of SR 12 million). The Group's consolidated statement of income and other comprehensive income for the year ended 31 December 2019 was impacted by depreciation of right of use of assets of SR 20.3 million and interest expenses of SR 2 million. The Group's consolidated statement of cash flows for year ended 31 December 2019 was impacted by a shift from the cash generated from operations of SR 14.6 million to the net cash used in financing activities.

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of land, warehouses and equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

IFRS 16 Leases (continued)

Nature of the effect of adoption of IFRS 16 (continued)

Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and trade and other payables, respectively. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group. 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.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.
- 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.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Summary of new accounting policies

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

IFRS 16 Leases (continued)

Summary of new accounting policies (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption that are considered of low value (i.e., below SR 18,750). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

The lease payments are discounted using the incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Significant judgment in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgment in determining whether these extension and termination options are reasonably certain to be exercised (see note 3).

Amounts recognised in the consolidated statement of financial position and consolidated statement of income and other comprehensive income

| | <i>Right-of-use assets</i> | | | | <i>Lease liabilities</i> SR "000" |
|--|----------------------------|-------------------------------|--|--------------------------|--------------------------------------|
| | <i>Land</i> SR "000" | <i>Warehouses</i> SR "000" | <i>Equipment, Offices and motor vehicles</i> SR "000" | <i>Total</i> SR "000" | |
| Amounts recognised in the consolidated statement of financial position when applying IFRS 16 at 1 January 2019 | 32,663 | 53,190 | 3,183 | 89,036 | 77,017 |
| Additions | - | - | 623 | 623 | 510 |
| Depreciation expense | (1,972) | (17,170) | (1,237) | (20,379) | - |
| Interest charged (note 31) | - | - | - | - | 2,072 |
| Payments | - | - | - | - | (14,585) |
| At 31 December 2019 | 30,691 | 36,020 | 2,569 | 69,280 | 65,014 |

The Group has used weighted average incremental borrowing rate of 3.83% for calculating the present value of the lease liabilities.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It 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 profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the year.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take into account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures. These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate or joint venture.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the financial statements of the Company, as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group, as there is no transaction where a joint control is obtained.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

Annual Improvements 2015-2017 Cycle (continued)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events. An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. These amendments had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity. The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

7 PROPERTY, PLANT AND EQUIPMENT

| | <i>Office buildings (Note 7.1) SR "000"</i> | <i>Plant and equipment (Note 7.1 & 7.2) SR "000"</i> | <i>Turnaround (Note 7.4) SR "000"</i> | <i>Furniture and office equipment SR "000"</i> | <i>Motor vehicles SR "000"</i> | <i>Platinum SR "000"</i> | <i>Construction work in progress SR "000"</i> | <i>Total SR "000"</i> |
|----------------------------------|---|--|---|--|--|------------------------------|---|---------------------------|
| <i>Cost:</i> | | | | | | | | |
| At 1 January 2018 | 682,960 | 18,816,854 | 528,863 | 175,540 | 31,748 | 29,951 | 123,614 | 20,389,530 |
| Additions | 240 | 4,718 | - | 1,528 | 659 | - | 62,490 | 69,635 |
| Transfer | 225 | 49,553 | - | 11,096 | - | - | (60,874) | - |
| Adjustment | - | - | (4,881) | - | - | - | - | (4,881) |
| Disposal | - | - | - | - | (976) | - | - | (976) |
| Write-off | - | - | - | - | (323) | - | - | (323) |
| At 31 December 2018 | 683,425 | 18,871,125 | 523,982 | 188,164 | 31,108 | 29,951 | 125,230 | 20,452,985 |
| Additions | - | 11,146 | 8,838 | 29 | - | - | 12,961 | 32,974 |
| Transfer | - | 94,890 | - | 1,560 | - | - | (96,450) | - |
| Disposal | - | (210) | - | - | - | (11,074) | - | (11,284) |
| At 31 December 2019 | 683,425 | 18,976,951 | 532,820 | 189,753 | 31,108 | 18,877 | 41,741 | 20,474,675 |
| <i>Accumulated depreciation:</i> | | | | | | | | |
| At 1 January 2018 | 142,738 | 3,885,892 | 113,590 | 145,975 | 29,360 | - | - | 4,317,555 |
| Charge for the year | 28,018 | 990,668 | 89,640 | 6,746 | 912 | - | - | 1,115,984 |
| Disposal | - | - | - | - | (976) | - | - | (976) |
| Write-off | - | - | - | - | (323) | - | - | (323) |
| At 31 December 2018 | 170,756 | 4,876,560 | 203,230 | 152,721 | 28,973 | - | - | 5,432,240 |
| Charge for the year | 27,826 | 748,067 | 83,763 | 6,334 | 603 | - | - | 866,593 |
| Disposal | - | (55) | - | - | - | - | - | (55) |
| At 31 December 2019 | 198,582 | 5,624,572 | 286,993 | 159,055 | 29,576 | - | - | 6,298,778 |
| <i>Net book amounts:</i> | | | | | | | | |
| At 31 December 2019 | 484,843 | 13,352,379 | 245,827 | 30,698 | 1,532 | 18,877 | 41,741 | 14,175,897 |
| At 31 December 2018 | 512,669 | 13,994,565 | 320,752 | 35,443 | 2,135 | 29,951 | 125,230 | 15,020,745 |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

7 PROPERTY, PLANT AND EQUIPMENT (continued)

- 7.1 The office buildings, plant and equipment are constructed on land leased from the Royal Commission for Jubail and Yanbu. The lease is initially for a period of 30 years commencing from 29 Dhul-Qada 1428 H (corresponding to 9 December 2007) and is renewable for further periods thereafter.
- 7.2 The Group's plant and equipment are secured by (i) liens against term loan from Saudi Industrial Development Fund (note 20.4) and (ii) assignment of residual proceeds against term loans from consortium of commercial banks (note 20.2) and Public Investments Fund (note 20.3).
- 7.3 At the reporting date, construction work in progress represents costs incurred in connection with the plant activities.
- 7.4 As per the Group's policy, the normal turnaround cycle occur at the interval of 72 months and planned turnaround costs are deferred and amortized over the next planned turnaround.
- 7.5 In 2018, the Group reviewed the estimated useful life of certain non-current assets and changes in the estimated useful life has been effected prospectively. Had this change not taken place, the profit for the year 2018 would have been increased by SR 236.5 million.

| | The yearly effect of more (less) depreciation charge SR "000" |
|------------------------------------|--|
| For the year 2018 | 236,537 |
| For each year from 2019 up to 2038 | (11,493) |
| For the year 2039 | (6,177) |

7.6 The depreciation charge has been allocated as follows:

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Cost of sales (note 27) | 856,792 | 1,104,585 |
| General and administrative expenses (note 29) | 9,801 | 11,399 |
| | 866,593 | 1,115,984 |

8 INVESTMENTS IN JOINT VENTURES

Carrying values of the Group's investment in joint ventures were as follows:

| | <i>Percentage of ownership</i> | | 2019 SR "000" | 2018 SR "000" |
|--|--------------------------------|-----------|------------------|------------------|
| | 2019 % | 2018 % | | |
| Jubail Chevron Phillips Company LLC (note 8.1) | 50% | 50% | 1,266,252 | 1,419,515 |
| Saudi Chevron Phillips Company LLC (note 8.2) | 50% | 50% | 744,390 | 756,465 |
| | | | 2,010,642 | 2,175,980 |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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8 INVESTMENTS IN JOINT VENTURES (continued)

8.1 Jubail Chevron Phillips Company ("JCPC")

8.1.1 Jubail Chevron Phillips Company ("JCPC") is a limited liability company registered in Jubail, Saudi Arabia under Commercial Registration number 2055005901 dated 25 Jumada' II 1424H (corresponding to 23 August 2003) with a branch in Jubail under Commercial Registration number 2055005935. The principal activities of the Company are to produce and to sell Styrene, Mixed Mogas, Aromatic Benzene and Fuel Oil.

8.1.2 During the year 2018, partners of JCPC resolved to decrease the capital of JCPC by SR 994 million through resolution dated 4 September 2018 (corresponding to 24 Dhul Hijjah 1439H). The legal formalities in relation to this matter had been completed subsequent to year end. This reduction will be returned to the partners of JCPC in stages according to JCPC's financial capabilities during the upcoming years.

8.1.3 Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

Summarised statement of financial position of JCPC

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Non-current assets | 2,111,739 | 2,387,032 |
| Current assets | 1,257,344 | 1,361,429 |
| Non-current liabilities | (122,766) | (104,804) |
| Current liabilities | (701,414) | (791,896) |
| Net assets | <u>2,544,903</u> | <u>2,851,761</u> |
| Proportion of the Group's ownership | 50% | 50% |
| Group's share of net assets | 1,272,452 | 1,425,881 |
| Other adjustments on zakat | (6,200) | (6,366) |
| Group's carrying amount of the investment | <u>1,266,252</u> | <u>1,419,515</u> |

Summarised statement of income and other comprehensive income of JCPC

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Sales | 5,503,724 | 6,213,753 |
| Cost of sales | (5,110,673) | (5,742,170) |
| Selling and distribution expenses | (86,730) | (86,663) |
| General and administrative expenses | (28,518) | (41,987) |
| Finance costs | (4,137) | (1,193) |
| Other loss, net | 12,253 | (4,687) |
| Income before zakat and income tax | <u>285,919</u> | 337,053 |
| Income tax | (27,576) | (35,113) |
| Zakat | (6,200) | (6,389) |
| Income for the year | <u>252,143</u> | 295,551 |
| Other comprehensive (loss) income | (11,527) | 15,135 |
| Total comprehensive income for the year | <u>240,616</u> | <u>310,686</u> |
| Group's share in net result from income before zakat and income tax (50%) | 142,960 | 168,527 |
| Less: zakat | (6,200) | (6,389) |
| Group's share in net result from net income | <u>136,760</u> | <u>162,138</u> |
| Group's share of comprehensive (loss) income | (5,764) | 7,568 |
| Group's share of total comprehensive income for the year | <u>130,996</u> | <u>169,706</u> |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

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8 INVESTMENTS IN JOINT VENTURES (continued)

8.2 Saudi Chevron Phillips Company ("SCPC")

8.2.1 Saudi Chevron Phillips Company ("SCPC") is a limited liability company registered in Jubail, Saudi Arabia under Commercial Registration number 2055003839 dated 22 Safar 1417H (corresponding to 8 July 1996) with a branch in Jubail under Commercial Registration number 2055009584, SCPC is engaged in the production of iso-pentane, toluene, fuel gas, heptane and hydrogen, normal pentane, benzene and cyclohexane mixed hydrocarbon aromatics. SCPC is engaged in the production of iso-pentane, toluene, fuel gas, heptane and hydrogen, normal pentane, benzene and cyclohexane mixed hydrocarbon aromatics.

8.2.2 During the year 2018, partners of SCPC resolved to decrease the capital of SCPC by SR 411.3 million through resolution dated 4 September 2018 (corresponding to 24 Dhul Hijjah 1439H). The legal formalities in relation to this matter had been completed subsequent to year end. This reduction will be returned to the partners of SCPC in stages according to SCPC's financial capabilities during the upcoming years.

8.2.3 Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

Summarised statement of financial position of SCPC

| | 2019 SR "000" | 2018 SR "000" |
|--|------------------|------------------|
| Non-current assets | 1,066,168 | 1,140,556 |
| Current assets | 1,444,916 | 1,538,745 |
| Non-current liabilities | (164,447) | (124,637) |
| Current liabilities | (833,714) | (1,024,926) |
| Net assets | <u>1,512,923</u> | <u>1,529,738</u> |
| Proportion of the Group's ownership | 50% | 50% |
| Group's carrying amount of the investment | <u>756,462</u> | <u>764,869</u> |
| Other adjustments on inventory | (7,178) | 2,779 |
| Other adjustments on zakat | (4,894) | (11,183) |
| Group's carrying amount of the investment net of other adjustments | <u>744,390</u> | <u>756,465</u> |

Summarised statement of income and other comprehensive income of SCPC

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Sales | 4,051,109 | 5,022,761 |
| Cost of sales | (3,704,607) | (4,638,425) |
| Selling and distribution expenses | (49,227) | (60,273) |
| General and administrative expenses | (12,068) | (26,192) |
| Finance costs | (4,795) | (3,496) |
| Other loss, net | 12,654 | 13,164 |
| Income before zakat and income tax | <u>293,066</u> | <u>307,539</u> |
| Zakat and income tax | (28,778) | (48,138) |
| Net income for the year | <u>264,288</u> | <u>259,401</u> |
| Other comprehensive (loss) income | (27,193) | 30,063 |
| Total comprehensive income for the year | <u>237,095</u> | <u>289,464</u> |
| Group's share in net result from income before zakat and income tax (50%) | 146,533 | 153,770 |
| Less: zakat | (4,894) | (11,497) |
| Other adjustments on inventory | (4,403) | 7,095 |
| Group's share in net result from net income | <u>137,236</u> | <u>149,368</u> |
| Group's share of comprehensive (loss) income | <u>(13,597)</u> | <u>15,032</u> |
| Group's share of total comprehensive income for the year | <u>123,639</u> | <u>164,400</u> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

8 INVESTMENTS IN JOINT VENTURES (continued)

8.3 Following are the movement in Investments in joint ventures during the year:

| | <i>JCPC</i> 2019 SR "000" | <i>SCPC</i> 2019 SR "000" | Total 2019 SR "000" | Total 2018 SR "000" |
|--------------------------------------|---------------------------------|---------------------------------|--|---------------------------|
| At the beginning of the year | 1,419,515 | 756,465 | 2,175,980 | 2,452,780 |
| Share in net results | 136,760 | 137,236 | 273,996 | 311,506 |
| Other comprehensive (loss) income | (5,764) | (13,597) | (19,361) | 22,600 |
| Dividends from joint ventures | (290,625) | (140,625) | (431,250) | (628,125) |
| Zakat reimbursable to joint ventures | 6,366 | 4,911 | 11,277 | 17,219 |
| At 31 December | <u>1,266,252</u> | <u>744,390</u> | <u>2,010,642</u> | <u>2,175,980</u> |

9 EMPLOYEES' LOANS

Employees' loans represent non-interest bearing housing loans provided to Saudi employees and are secured by mortgage over property purchased under the employee home ownership program. The loans are repayable in monthly installments within a maximum period of 15 years. The installments due within one year are included in prepayments and other receivables under current assets. The carrying value at the reporting date presented as following:

| | 2019 SR "000" | 2018 SR "000" |
|---|--------------------------------|------------------|
| Non-current portion - presented under non-current assets | 140,980 | 130,609 |
| Current portion - presented under prepayments and other receivables (note 13) | 30,234 | 27,942 |
| | <u>171,214</u> | <u>158,551</u> |

10 RIGHT OF USE ASSETS

| | <i>Land</i> SR "000" | <i>Warehouses</i> SR "000" | <i>Equipment</i> SR "000" | <i>Offices and motor vehicles</i> SR "000" | <i>Total</i> SR "000" |
|---|-------------------------|-------------------------------|------------------------------|---|--------------------------|
| <i>Cost:</i> | | | | | |
| Right of use assets recognised as of 1 January 2019 on adoption of IFRS 16 (note 5) | 32,663 | 53,190 | 491 | 2,692 | 89,036 |
| Additions | - | - | - | 623 | 623 |
| As of 31 December 2019 | <u>32,663</u> | <u>53,190</u> | <u>491</u> | <u>3,315</u> | <u>89,659</u> |
| <i>Accumulated depreciation:</i> | | | | | |
| Charge for the year | 1,972 | 17,170 | 123 | 1,114 | 20,379 |
| As of 31 December 2019 | <u>1,972</u> | <u>17,170</u> | <u>123</u> | <u>1,114</u> | <u>20,379</u> |
| <i>Net book amounts:</i> | | | | | |
| At 31 December 2019 | <u>30,691</u> | <u>36,020</u> | <u>368</u> | <u>2,201</u> | <u>69,280</u> |

During the year, depreciation of right-of-use-assets of SR 20,382 thousand have been recognised in consolidated statement income and other comprehensive income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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11 TRADE RECEIVABLES

| | 2019 SR "000" | 2018 SR "000" |
|------------|------------------|------------------|
| <30 days | 871,665 | 1,028,366 |
| 31-60 days | 32,620 | 5,696 |
| 61-90 days | 1,812 | 1,320 |
| | <u>906,097</u> | <u>1,035,382</u> |

11.1 As at 31 December 2019 and 31 December 2018 , none of the trade receivables were impaired.

11.2 Trade receivables are non-interest bearing and the Group's credit period is 30-60 days after which trade receivables are considered to be past due. Unimpaired trade receivables are unsecured and are expected, on the basis of past experience, to be fully recoverable.

12 INVENTORIES

| | 2019 SR "000" | 2018 SR "000" |
|-----------------------------------|------------------|------------------|
| Spares | 423,005 | 411,506 |
| Finished goods | 355,030 | 558,056 |
| Catalyst, chemicals and additives | 135,319 | 132,798 |
| Raw materials (note 12.1) | 1,699 | 748 |
| | <u>915,053</u> | <u>1,103,108</u> |

12.1 The Group purchases its raw materials primarily from three suppliers including two joint ventures of the Group in the Kingdom of Saudi Arabia.

13 PREPAYMENTS AND OTHER RECEIVABLES

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Prepayments | 34,765 | 27,429 |
| Employees' loans - current portion (note 9) | 30,234 | 27,942 |
| Value added tax receivables, net | 17,321 | 31,732 |
| Accrued interest income | 7,444 | 12,163 |
| Cash margin against bank guarantee | 2,264 | 2,264 |
| Recoverable insurance claim | - | 136,759 |
| Cash margin against issuance of Sukuk (note 22) | - | 16,455 |
| Other receivables | 1,717 | 8,548 |
| | <u>93,745</u> | <u>263,292</u> |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

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At 31 December 2019

14 RELATED PARTIES' TRANSACTIONS AND BALANCES

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

a The following are the major related parties' transactions :

| Related parties | Relationship | Nature of transactions | 2019 SR "000" | 2018 SR "000" |
|---|---------------|--------------------------|------------------|------------------|
| Saudi Chevron Phillips Company | Related party | Sales | 203,940 | 261,563 |
| | | Purchases | 69,349 | 19,804 |
| | | Support services | 313,410 | 341,354 |
| Jubail Chevron Phillips Company | Related party | Sales | 302,415 | 374,858 |
| | | Purchases | 1,064,058 | 1,197,694 |
| | | Support services | 853 | - |
| Chevron Phillips Chemical Company LLC (note a.2) | Related party | Royalty (note 27) | 51,323 | 51,488 |
| Chevron Phillips Chemical Global Employment Company LLC | Related party | Support services | 72,818 | 77,639 |
| Chevron Phillips Chemical International Sales LLC | Related party | Marketing fees (note 28) | 259,748 | 317,231 |
| | | Support services | 10,253 | 7,583 |
| Chemical Services Inc. | Related party | Support services | 18,743 | 17,487 |
| Chevron Phillips Chemicals International Inc. | Related party | Support services | 401 | 668 |
| Chevron Phillips Chemicals International N.V. | Related party | Support services | 765 | 788 |
| Chevron Phillips Chemical Asia Pte Limited. | Related party | Support services | 604 | 593 |
| Chevron Phillips (Shanghai) Corp. | Related party | Support services | 390 | 386 |
| CPC Global Employment Company LLC. | Related party | Support services | 634 | 1,309 |

- (a.1) The Group entered into a common facilities agreement (the "Agreement") with Saudi Chevron Phillips Company (Joint venture) pursuant to which, joint venture provides support services to the Group in operations and maintenance, management support and technical support.
- (a.2) The Group entered into a royalty agreement (the "Agreement") with Chevron Phillips Chemical Company LLC in prior years under which the related party charged the royalty for the use of polymerization processes.
- (a.3) The non-controlling partner of Saudi Polymers Company (a consolidated subsidiary) have provided non-interest bearing subordinated loan of SR 1,133 million in prior years to finance the construction of a petrochemical plant. The repayment of the loan is subject to certain covenants being met under the terms of commercial loan facilities (note 20). The Group has repaid SR 945 million in current and prior years.

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At 31 December 2019

14 RELATED PARTIES' TRANSACTIONS AND BALANCES (continued)

b The following are the related parties' ending balances:

| | 2019 SR "000" | 2018 SR "000" |
|--|------------------|------------------|
| <i>b.1 Amounts due from related parties under current assets:</i> | | |
| Saudi Chevron Phillips Company | 184,988 | 172,631 |
| Jubail Chevron Phillips Company | 52,238 | 48,695 |
| | <u>237,226</u> | <u>221,326</u> |
| <i>b.2 Amounts due to related parties under current liabilities:</i> | | |
| Jubail Chevron Phillips Company | 99,383 | 86,524 |
| Saudi Chevron Phillips Company | 65,509 | 72,187 |
| Chevron Phillips Chemical International Sales LLC | 41,993 | 48,200 |
| Chevron Phillips Chemical Global Employment Company LLC | - | 2,261 |
| | <u>206,885</u> | <u>209,172</u> |

c The following are the key management personnel compensation:

Key management personnel represent board members, directors and key personnel of the Group. Remuneration for the years ended 31 December 2019 and 31 December 2018 of key management of the Group are detailed as follows:

| | 2019 SR "000" | 2018 SR "000" |
|--------------------------------|------------------|------------------|
| Short-term employees' benefits | 25,465 | 28,452 |
| Terminal benefits | 3,727 | 8,147 |
| | <u>29,192</u> | <u>36,599</u> |

15 SHORT TERM INVESTMENT – BANK DEPOSITS

The bank deposits which held as short term investments are placed with local banks in Saudi Riyal, with original maturities of more than three months but not more than one year from the date of acquisition, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | 2019 SR "000" | 2018 SR "000" |
|---------------------|------------------|------------------|
| Bank balances | 2,368,634 | 1,102,011 |
| Short-term deposits | 1,289,750 | 3,005,000 |
| | <u>3,658,384</u> | <u>4,107,011</u> |

Short-term deposits which held as cash equivalents represent bank deposits are placed with local and foreign banks in Saudi Riyal and US Dollar respectively, with original maturities of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Part of the Group's cash and cash equivalents amounting to SR 2,098 million (31 December 2018: SR 2,097 million) are assigned as security against loan facilities from consortiums of commercial banks and Public Investment Fund ("PIF") (see note 20). This includes SR 1,191 million (31 December 2018: SR 1,185 million) related to debt service requirements.

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At 31 December 2019

17 SHARE CAPITAL

The share capital amounting to SR 4,500 million is divided into 450 million shares of SR 10 each as of 31 December 2019 and 31 December 2018.

18 STATUTORY RESERVE

In accordance with the Saudi Arabian Regulations for Companies, 10% of net income for the year is required to be transferred to the statutory reserve until the balance in the reserve equals 30% of the share capital. This reserve is not normally available for distribution except in circumstances specified in the Saudi Arabian Companies Regulations.

19 NON-CONTROLLING INTERESTS

19.1 Proportion of equity interest's held by non-controlling interests are as following:

| <u>Name</u> | <u>Country of incorporation</u> | 2019 | 2018 |
|------------------------------------|---------------------------------|------|------|
| National Petrochemical Company | Saudi Arabia | 50% | 50% |
| Saudi Polymers Company | Saudi Arabia | 35% | 35% |
| Gulf Polymers Distribution Company | United Arab Emirates | 35% | 35% |

19.2 Following are the movement of non-controlling interests during the year:

| | 2019 | 2018 |
|--|-----------|-----------|
| | SR "000" | SR "000" |
| At the beginning of the year | 7,517,348 | 6,435,591 |
| Share in net results | 680,723 | 1,116,484 |
| Share in other comprehensive (loss) income | (27,320) | 19,003 |
| Total comprehensive income for the year | 653,403 | 1,135,487 |
| Income tax reimbursed by non-controlling partner | 123,671 | 66,270 |
| Dividends | (120,000) | (120,000) |
| At the end of the year | 8,174,422 | 7,517,348 |

20 TERM LOANS

| <u>Current</u> | <u>Effective interest rate</u> | <u>Maturity</u> | 2019 | 2018 |
|--|--------------------------------|-----------------|-----------|-----------|
| | | | SR "000" | SR "000" |
| Consortium of commercial banks (note 20.1) | Libor + 1.05% | 15-Dec-20 | 497,396 | 517,770 |
| Consortium of commercial banks (note 20.2) | Libor + 0.06% | 15-Dec-20 | 221,250 | 177,000 |
| Public Investments Fund (PIF) (note 20.3) | Libor + 0.50% | 31-Dec-20 | 391,779 | 480,000 |
| Saudi Industrial Development Fund (SIDF) (note 20.4) | 0.01014 | 8-Apr-20 | 100,000 | 200,002 |
| | | | 1,210,425 | 1,374,772 |
| <u>Non-current</u> | <u>Effective interest rate</u> | <u>Maturity</u> | 2019 | 2018 |
| | | | SR "000" | SR "000" |
| Consortium of commercial banks (note 20.1) | Libor + (1.05% - 1.15%) | 2021 - 2023 | 2,673,505 | 3,300,773 |
| Consortium of commercial banks (note 20.2) | Libor + 0.06% | 2021 - 2023 | 765,108 | 1,031,933 |
| Public Investments Fund (PIF) (note 20.3) | Libor + 0.50% | | - | 424,849 |
| Saudi Industrial Development Fund (SIDF) (note 20.4) | 1.014% | | - | 100,002 |
| | | | 3,438,613 | 4,857,557 |
| Less: unamortized transaction costs | | | (3,478) | (6,637) |
| | | | 3,435,135 | 4,850,920 |

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At 31 December 2019

20 TERM LOANS (continued)

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

| | 2019 | 2018 |
|-------------------------------|---------------------|---------------------|
| | SR "000" | SR "000" |
| <i>Costs:</i> | | |
| At 1 January and 31 December | <u>238,369</u> | <u>238,369</u> |
| <i>Amortization:</i> | | |
| At 1 January | 231,732 | 226,332 |
| Charge for the year (note 31) | <u>3,159</u> | 5,400 |
| At 31 December | <u>234,891</u> | <u>231,732</u> |
| Balance at 31 December | <u><u>3,478</u></u> | <u><u>6,637</u></u> |

- 20.1 The Group obtained commercial loan facilities of SR 7,045.9 million (2018: SR 7,045.9 million) from a consortium of commercial banks which was fully drawn at the reporting date (2018: fully drawn). The loan is secured by the assignment of residual proceeds in project bank accounts, pledge and assignment over onshore project bank accounts (2018: same). The loan is repayable in 22 successive semi-annual installments varying from 2% to 20% of the facilities utilized, commenced from 15 June 2013. Accordingly, the portion of the loan payable before 1 January 2021 has been classified under current liabilities. The facilities are subject to interest at LIBOR plus a margin progressively increasing from 0.80% to 1.15% over the life of the loans.
- 20.2 The Group obtained a loan facility of SR 2,212.5 million (2018: SR 2,212.5 million) from a consortium of commercial banks. The facility is guaranteed by the Export-Import Bank of the U.S. At the reporting date the loan was fully drawn (2018: fully drawn). The loan is secured by the assignment of residual proceeds of plant and equipment, charge and assignment over secured project documents, charge and assignment over offshore project bank accounts, pledge and assignment over onshore project bank accounts (2018: same). The loan is repayable in 22 successive semi-annual installments varying from 3% to 8% of the facilities utilized, commenced from 15 June 2013. Accordingly, the portion of loan payable before 1 January 2021 has been classified under current liabilities. The facilities are subject to interest at LIBOR plus 0.06%.
- 20.3 The Group obtained a term loan facility of SR 3,000 million (2018: SR 3,000 million) from PIF which was fully drawn at the reporting date (2018: fully drawn). The loan is secured by assignment of residual proceeds of plant and equipment, charge and assignment over secured project documents, charge and assignment over offshore project bank accounts, pledge and assignment over onshore project bank accounts (2018: same). The loan is repayable in 15 half yearly installments. The first two installments were 1% each, and the remaining 13 installments at the rate of 7% to 9% of the entire loan utilized, commenced from 31 December 2013. The loan is subject to interest at LIBOR plus 0.5% along with an upfront fee of 0.5% of the principal amount of loan.
- 20.4 The Group also obtained two loan facilities of SR 600 million each (2018: SR 600 million each) from SIDF for financing the construction of the petrochemical plant. At the reporting date both facilities were fully drawn (2018: fully drawn). The loans are secured by liens on the Group's plant and equipment for the Ethylene, Metathesis, 1- hexene, and Polyethylene units, and assignment of insurance proceeds and technology rights (2018: same). The loans are repayable in 14 half yearly installments at the rate varying from 4.17% to 8.33% of the facilities utilized, commenced from 18 December 2013. The loans were subject to an upfront fee of 7.5% of the principal amount of two loan facilities.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

20 TERM LOANS (continued)

20.5 Following are the combined aggregate amounts of next five years' maturities of the term loans at the consolidated statement of financial position date:

| <u>Years</u> | 2019 SR "000" | 2018 SR "000" |
|--------------|------------------|------------------|
| 2019 | - | 1,374,772 |
| 2020 | 1,210,425 | 1,263,867 |
| 2021 | 762,896 | 783,268 |
| 2022 | 931,500 | 956,960 |
| 2023 | 1,744,217 | 1,853,462 |
| Total | <u>4,649,038</u> | <u>6,232,329</u> |

20.6 The Group is required to comply with certain covenants under all the loan facility agreements mentioned above.

21 NON-CONTROLLING PARTNER'S SUBORDINATED LOAN

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Non-controlling partner's subordinated loan | <u>182,696</u> | <u>413,927</u> |

Non-controlling partner's subordinated loan is repayable subject to certain covenants being met under the terms of the commercial loan facilities.

21.1 The movement in non-controlling partner's subordinated loan was as follows:

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| At 1 January | 413,927 | 817,988 |
| Notional interest charge for the year (note 31) | 10,527 | 42,189 |
| Remeasurement gain (note 30) | (5,508) | - |
| Payment during the year | (236,250) | (446,250) |
| At 31 December | <u>182,696</u> | <u>413,927</u> |

22 SUKUK

On 25 Sha'aban 1435H (corresponding to 23 June 2014), the National Petrochemical Company (a consolidated subsidiary) issued Sukuk amounting to SR 1.2 billion at par value of SR 1 million each without discount or premium. The Sukuk issued had a variable rate of return at SIBOR plus 1.7% margin, It was payable semi-annually. The Sukuk were due at par value on its maturity date of 20 Shawwal 1440H (corresponding to 23 June 2019).

On 19 Ramadan 1439H (corresponding to 3 June 2018), the Board of Directors of National Petrochemical Company (a consolidated subsidiary) resolved to re-purchase the issued Sukuk. Accordingly, the subsidiary re-purchased part of the issued sukuk amounting to SR 122 million. The Group repaid the remaining Sukuk during the year.

In accordance with the Sukuk agreement dated 25 Sha'ban 1435H (corresponding to 23 June 2014), an amount of SR 16.5 million was deposited as a cash margin held by Riyadh Capital Company in an open account on behalf of the Sukukholders' Agent (note13). The cash margin previously held by Riyadh Capital Company was released during the year.

23 LEASE LIABILITY

| | 2019 SR "000" | 2018 SR "000" |
|-------------|------------------|------------------|
| Non-current | 52,097 | - |
| Current | 12,917 | - |
| | <u>65,014</u> | <u>-</u> |

The Group has used weighted average incremental borrowing rate of 3.83% for calculating the present value of the lease liabilities.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

24 EMPLOYEES' BENEFITS

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

| | 2019 | 2018 |
|----------------------------------|------|------|
| Discount rate | 3.3% | 4.5% |
| Expected rate of salary increase | 4.0% | 4.0% |

The present values of the defined benefit obligations at reporting date were computed using the actuarial assumptions set out above.

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Present value of defined benefit obligation | 198,995 | 198,815 |
| Re-measurement loss (gain) on defined benefit plans | 43,405 | (28,151) |
| Balance as at 31 December | <u>242,400</u> | <u>170,664</u> |

The break up of net benefit costs charged to consolidated statement of income and other comprehensive income is as follows:

| | 2019 SR "000" | 2018 SR "000" |
|--|------------------|------------------|
| Current service cost | 21,426 | 31,326 |
| Interest cost on employees' benefit obligation (note 31) | 7,918 | 6,206 |
| | <u>29,344</u> | <u>37,532</u> |

24.1 Re-measurement loss (gain) on defined benefit plans arose due to the followings:

| | 2019 SR "000" | 2018 SR "000" |
|--|------------------|------------------|
| Actuarial losses arising from changes in demographic assumptions | - | 6,442 |
| Actuarial losses (gains) arising from changes in financial assumptions | 38,862 | (48,846) |
| Experience adjustments | 4,543 | 14,253 |
| Net benefit loss (gain) | <u>43,405</u> | <u>(28,151)</u> |

24.2 Movement in the present value of defined unfunded benefit obligation is as follows:

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| At 1 January | 170,664 | 167,032 |
| Net benefits charge for the year | 29,344 | 37,532 |
| Benefits paid | (1,013) | (5,749) |
| Re-measurement loss (gain) on defined benefit plans | 43,405 | (28,151) |
| At 31 December | <u>242,400</u> | <u>170,664</u> |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

24 EMPLOYEES' BENEFITS (continued)

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

| | Increase/ (decrease) | 2019 SR "000" | 2018 SR "000" |
|----------------------------------|---------------------------------|--------------------------|--------------------------|
| Discount rate | 0.25% | (8,146) | (5,442) |
| | (0.25%) | 8,599 | 5,739 |
| Expected rate of salary increase | 0.25% | 8,518 | 5,753 |
| | (0.25%) | (8,111) | (5,480) |

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

24.4 The following payments are expected contributions to the defined benefit plan in future years:

| | 2019 SR "000" | 2018 SR "000" |
|--|--------------------------|--------------------------|
| Within the next 12 months (next annual reporting period) | 6,553 | 5,304 |
| Between 2 and 5 years | 29,032 | 31,986 |
| Beyond 5 years | 46,595 | 64,372 |
| Total expected payments | <u>82,180</u> | <u>101,662</u> |

24.5 The average duration of the defined benefit plan obligation at the end of the reporting period is 15.9 years (2018: 15.2 years).

25 ACCRUED EXPENSES AND OTHER PAYABLES

| | 2019 SR "000" | 2018 SR "000" |
|-------------------------|--------------------------|--------------------------|
| Accrued expenses | 269,848 | 436,416 |
| Advances from customers | 29,029 | 63,645 |
| Other payables | 65,427 | 129,679 |
| | <u>364,304</u> | <u>629,740</u> |

25.1 Terms and conditions of the financial liabilities:

- Other payables are non-interest bearing and have an average term of six months.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

26 ZAKAT AND INCOME TAX PROVISIONS

The Group is subject to zakat and income tax in accordance with the regulation of the General Authority of Zakat and Income Tax ("GAZT"). Provisions for zakat and tax are charged to the consolidated statement of income and other comprehensive income. The companies of the group which are incorporate in kingdom of Saudi Arabia are filing separate zakat and income tax declarations with GAZT.

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Income tax related to non-controlling partner (non-Saudi partner) in Saudi Polymers Company | | |
| <i>Current tax</i> | 52,133 | 97,126 |
| <i>Deferred tax</i> | 15,218 | 35,015 |
| | <u>67,351</u> | <u>132,141</u> |
| Zakat related to Saudi Industrial Investment Group Company | 20,097 | 46,109 |
| Zakat related to National Petrochemical Company | 30,456 | 54,753 |
| Zakat related to Saudi Polymers Company | 40,344 | 25,981 |
| | <u>90,897</u> | <u>126,843</u> |
| Zakat and income tax charge | <u>158,248</u> | <u>258,984</u> |

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

26.1 Income Tax

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Current income tax charge (note 26.2) | 52,140 | 97,108 |
| Adjustment in respect of current income tax of previous year | (7) | 18 |
| | <u>52,133</u> | <u>97,126</u> |
| <i>Deferred tax</i> | | |
| Relating to origination and reversal of temporary differences | 15,218 | 35,015 |
| Income tax reported in the statement of income and other comprehensive income | <u>67,351</u> | <u>132,141</u> |

26.2 Current income tax expense

The current income tax expense for the year ended 31 December 2019 is calculated at statutory income tax rate of 20% (2018: 20%).

26.3 Effective income tax rate reconciliation

| | 2019 SR "000" | 2019 % | 2018 SR "000" | 2018 % |
|--|------------------|---------------|------------------|---------------|
| Accounting profit related to Saudi Polymers Company ("SPCO") before tax attributable to non-controlling partner in SPC (non-Saudi partner) | <u>343,392</u> | | <u>611,499</u> | |
| Tax at the applicable rate to the income related to non-controlling partner in SPCO (non-Saudi partner) | 68,678 | 20% | 122,300 | 20% |
| Tax effect on the deferred income tax rate and the expense that are not deductible for tax purposes | (1,327) | (0.4%) | 9,841 | 0.6% |
| Tax charged during the year in consolidated statement of income and other comprehensive income | <u>67,351</u> | <u>19.60%</u> | <u>132,141</u> | <u>20.60%</u> |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

26 ZAKAT AND INCOME TAX PROVISIONS (continued)

26.4 Deferred tax

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

| | 2019 SR "000" | 2018 SR "000" |
|-------------------------------|------------------|------------------|
| <i>Deferred tax liability</i> | | |
| Property, plant and equipment | 758,074 | 755,595 |
| Total deferred tax liability | <u>758,074</u> | <u>755,595</u> |
| <i>Deferred tax assets</i> | | |
| Employees' benefits | 15,467 | 10,826 |
| Taxable loss carry forward | 416,334 | 433,714 |
| Total deferred tax asset | <u>431,801</u> | <u>444,540</u> |
| Net deferred tax liability | <u>326,273</u> | <u>311,055</u> |

26.5 Zakat

Charge for the year

The zakat charge relating to the Group consists of:

| | 2019 SR "000" | 2018 SR "000" |
|---------------------|------------------|------------------|
| Charge for the year | <u>55,497</u> | <u>77,533</u> |

The differences between the financial and the zakatable results are mainly due to adjustments for certain costs/claims based on the relevant fiscal regulations.

26.6 Movement in the zakat and income tax payable is as follows:

| | <i>31 December 2019</i> | | | <i>Deferred tax</i> |
|--------------------------|-------------------------------------|----------------|----------------|---------------------|
| | <i>Current income tax and Zakat</i> | | | |
| | <i>Current tax</i> | <i>Zakat</i> | <i>Total</i> | <i>tax</i> |
| | SR "000" | SR "000" | SR "000" | SR "000" |
| At 1 January | 64,125 | 624,164 | 688,289 | 311,055 |
| Charge for the year | 52,133 | 90,897 | 143,030 | 15,218 |
| Prior year adjustments | - | (2,928) | (2,928) | - |
| Payments during the year | (112,676) | (50,857) | (163,533) | - |
| At 31 December | <u>3,582</u> | <u>661,276</u> | <u>664,858</u> | <u>326,273</u> |
| | <i>31 December 2018</i> | | | |
| | <i>Current income tax and Zakat</i> | | | |
| | <i>Current tax</i> | <i>Zakat</i> | <i>Total</i> | <i>tax</i> |
| | SR "000" | SR "000" | SR "000" | SR "000" |
| At 1 January | 43,958 | 542,448 | 586,406 | 276,040 |
| Charge for the year | 97,126 | 126,843 | 223,969 | 35,015 |
| Payments during the year | (76,959) | (45,127) | (122,086) | - |
| At 31 December | <u>64,125</u> | <u>624,164</u> | <u>688,289</u> | <u>311,055</u> |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

26 ZAKAT AND INCOME TAX PROVISIONS (continued)

26.7 Status of assessments

Status of assessments of Saudi Industrial Investment Group Company

The Company has filed its Zakat and Income Tax returns with the General Authority of Zakat and Tax ("GAZT") up to 2018. The Company has finalised its zakat status with GAZT for all years up to 31 December 2006 on standalone basis. The GAZT raised an assessments for the years from 2007 to 2014 claiming additional zakat liability of SR 42 million. The Company has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC") and the PAC's hearing is awaited. The assessments for 2015 up to 2018 still under GAZT's review.

Status of assessments of National Petrochemical Company (Petrochem)

The subsidiary has filed its Zakat and Income Tax returns with GAZT up to 2018. The subsidiary has finalised its zakat status with GAZT for all years up to 31 December 2010 on a standalone basis and number of additional liability have been issued by GAZT for the years from 2011 up to 2016 as follows:

GAZT raised assessments for the years from 2011 to 2013 claiming additional zakat liability of SR 95.5 million. The subsidiary has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC"). The subsidiary received revised zakat assessments for the years from 2011 to 2013 from GAZT claiming additional zakat liability of SR 5.74 million. The subsidiary accepted and paid SR 3.47 million and filed an appeal for the remaining balance SR 2.27 million with the Higher Appeal Committee ("HAC") and the HAC's hearing is awaited.

GAZT raised an assessments for the years from 2014 to 2016 claiming additional zakat liability of SR 204.2 million. The subsidiary has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC") and the PAC's hearing is awaited. The assessments for 2017 and 2018 still under GAZT's review.

Status of assessments of Saudi Polymers Company

The subsidiary has filed its zakat and income tax returns with GAZT up to 2018. The assessment for the period ended 31 December 2008 has been finalised with GAZT with nil liability. The assessments for the years from 2009 through 2018 have not yet been raised by GAZT.

Zakat base has been computed based on the managements' understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations. The assessments to be raised by GAZT could be different from the declarations filed by the companies in Saudi Arabia.

Status of assessments of Gulf Polymers Distribution Company FZCO

The subsidiary registered in the Dubai Airport Free Zone and the subsidiary is exempted from income tax.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

27 COST OF SALES

| | 2019 SR "000" | 2018 SR "000" |
|--|------------------|------------------|
| Cost of material consumed | 3,420,949 | 3,905,648 |
| Depreciation (note 7) | 856,792 | 1,104,585 |
| Utilities, supplies and services | 607,519 | 552,782 |
| Support services recharged by affiliates (note 14) | 296,224 | 313,826 |
| Employee's benefits expense | 203,400 | 192,600 |
| Royalty (note 14) | 51,323 | 51,488 |
| Contract services | 48,371 | 63,709 |
| Other | 74,543 | 62,670 |
| | <u>5,559,121</u> | <u>6,247,308</u> |

28 SELLING AND DISTRIBUTION EXPENSES

| | 2019 SR "000" | 2018 SR "000" |
|--|------------------|------------------|
| Marketing fees (note 14) | 259,748 | 317,231 |
| Freight and distribution | 70,234 | 60,821 |
| Terminating and warehousing | 57,627 | 81,934 |
| Employee's benefits expense | 8,228 | 7,575 |
| Support services recharged by affiliates (note 14) | 5,145 | - |
| Other | 20,949 | 4,057 |
| | <u>421,931</u> | <u>471,618</u> |

29 GENERAL AND ADMINISTRATIVE EXPENSES

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Support services recharged by affiliates (note 14) | 117,502 | 133,981 |
| Remunerations of board of directors and key personnel (note 14) | 29,192 | 36,599 |
| Employee's benefits expense | 12,286 | 20,621 |
| Depreciation (note 7) | 9,801 | 11,399 |
| Bank charges | 6,260 | 6,841 |
| Professional fees | 2,928 | 4,252 |
| Other | 15,436 | 17,209 |
| | <u>193,405</u> | <u>230,902</u> |

30 OTHER INCOME, NET

| | 2019 SR "000" | 2018 SR "000" |
|---|------------------|------------------|
| Commission income | 106,243 | 78,649 |
| Oil insurance claim | 11,768 | 186,786 |
| Remeasurement gain of non-controlling partner's subordinated loan (note 21) | 5,508 | - |
| Foreign currency exchange loss | (6,649) | (19,740) |
| Other, net | 12,704 | 6,622 |
| | <u>129,574</u> | <u>252,317</u> |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

31 FINANCE COSTS

| | 2019 | 2018 |
|---|-----------------------|----------------|
| | SR "000" | SR "000" |
| Interest on term loans | 171,224 | 203,160 |
| Interest on Sukuk | 21,739 | 44,352 |
| Interest on non-controlling partner's subordinated loan (note 21) | 10,527 | 42,189 |
| Interest cost on employees' benefit obligation (note 24) | 7,918 | 6,206 |
| Amortization of transaction costs on term loans (note 20) | 3,159 | 5,400 |
| Interest on lease liabilities (note 5) | 2,072 | - |
| Discounting of employees' loans granted during the year | 1,061 | 1,778 |
| Other service charges | 880 | 948 |
| | <u>218,580</u> | <u>304,033</u> |

32 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net income for the year attributable to shareholders of the Company by the weighted average number of shares during the year.

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

| | For the year ended 31 December | |
|--|--------------------------------|----------------|
| | 2019 | 2018 |
| Net income attributable to shareholders of the Company (SR '000) | <u>606,267</u> | <u>864,908</u> |
| Weighted average number of ordinary shares ('000) | <u>450,000</u> | <u>450,000</u> |
| Basic and diluted earnings per share attributable to the shareholders of the Company | <u>1.35</u> | <u>1.92</u> |

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

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

33 CAPITAL COMMITMENTS

The Group has authorised future capital expenditure amounting to SR 83 million (31 December 2018: SR 135 million) relating to certain expansion projects.

34 CONTINGENCIES

During 2010, the Company and the non-controlling partner in Saudi Polymers Company (a consolidated subsidiary) resolved to increase the capital of Saudi Polymers Company by SR 3,394 million, which will cause the non-controlling partner to incur additional costs; the management of the Company has agreed to compensate the non-controlling partner by making annual payments in the future based on the future earnings of Saudi Polymers Company, considering the non-distributable cash as a result of the proposed capital increase. During the year ended 31 December 2019, the partners of SPCO (the subsidiary and the non-controlling) have resolved to decrease the share capital of SPCO with the same amount. The legal process for the reduction in capital has not been completed till the year end.

The Group's bankers has issued guarantees, on behalf of the Group, amounting to SR 459 million (31 December 2018: SR 389 million) relating to uplift of feedstock for plant from a supplier and zakat appeals.

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, non-controlling partner's subordinated loan, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include employees' loans, trade and other receivables, short term deposits and bank balances that derive directly from its operations. The Group's management reviews and agrees policies for managing each of these risks which are summarized below.

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

35.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and commodity price risk. Financial instruments affected by market risk include loans, borrowings and bank deposits well as bank balances. The sensitivity analysis in the following sections relate to the position as at 31 December in 2019 and 31 December 2018.

(a) 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 to sukuk and long-term debt obligations with floating interest rates. The interest rate risk is partially mitigated by interest income, which Group earns at floating interest rates from its bank deposits.

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

| | Increase/ decrease in basis points | Effect on profit before tax SR '000 |
|-------------|---|--|
| 2019 | -50 | 43,360 |
| | +50 | (43,360) |
| 2018 | -50 | 84,023 |
| | +50 | (84,023) |

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

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At 31 December 2019

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

35.1 Market risk (continued)

(b) Foreign Currency risk

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

(c) Commodity price risk

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

35.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its cash and cash equivalents, short term deposits, trade receivables, amounts due from related parties and employees' loans as follows:

| | 2019 SR "000" | 2018 SR "000" |
|--|------------------|------------------|
| Employees' loans | 171,214 | 158,551 |
| Amounts due from related parties | 237,226 | 221,326 |
| Trade receivables | 906,097 | 1,035,382 |
| Short term investments – bank deposits | - | 330,000 |
| Cash and cash equivalents | 3,658,384 | 4,107,011 |
| | <u>4,972,921</u> | <u>5,852,270</u> |

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

35.3 Liquidity risk

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

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

35.3 Liquidity risk (continued)

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

| | 31 December 2019 | | | | | |
|---|------------------|----------------|------------------|------------------|-----------|------------------|
| | On | Less than 3 | 3 to 12 months | 1 to 5 years | > 5 years | Total |
| | requested | months | SR "000" | SR "000" | SR "000" | SR "000" |
| Term loans | - | - | 1,210,425 | 3,438,613 | - | 4,649,038 |
| Non-controlling partner's subordinated loan | - | - | - | 182,696 | - | 182,696 |
| Trade payables | - | 203,467 | - | - | - | 203,467 |
| Accrued expenses and other payables | - | - | 364,304 | - | - | 364,304 |
| Amounts due to related parties | 206,885 | - | - | - | - | 206,885 |
| | 206,885 | 203,467 | 1,574,729 | 3,621,309 | - | 5,606,390 |

| | 31 December 2018 | | | | | |
|---|------------------|---------------|------------------|------------------|-----------|------------------|
| | On | Less than 3 | 3 to 12 months | 1 to 5 years | > 5 years | Total |
| | requested | months | SR "000" | SR "000" | SR "000" | SR "000" |
| Term loans | - | - | 1,374,772 | 4,857,557 | - | 6,232,329 |
| Non-controlling partner's subordinated loan | - | - | - | 413,927 | - | 413,927 |
| Sukuk | - | - | 948,000 | - | - | 948,000 |
| Trade payables | - | 37,962 | - | - | - | 37,962 |
| Accrued expenses and other payables | - | - | 629,740 | - | - | 629,740 |
| Amounts due to related parties | 209,172 | - | - | - | - | 209,172 |
| | 209,172 | 37,962 | 2,952,512 | 5,271,484 | - | 8,471,130 |

35.4 Excessive risk concentration

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

35.5 Capital management

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

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, term loans, trade and accrued expenses and other payables and Sukuk, less bank balances.

Saudi Industrial Investment Group Company (A Saudi Joint Stock Company) and its subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2019

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

35.5 Capital management (continued)

| | 2019 | 2018 |
|---|-------------------|-------------------|
| | SR "000" | SR "000" |
| Term loans | 4,649,038 | 6,232,329 |
| Sukuk | - | 948,000 |
| Trade payables | 203,467 | 37,962 |
| Accrued expenses and other payables | 364,304 | 629,740 |
| Less: cash and cash equivalents and short term investment – bank deposits | (3,658,384) | (4,107,011) |
| Net debt | <u>1,558,425</u> | <u>3,741,020</u> |
| Non-controlling partner's subordinated loan | 182,696 | 413,927 |
| Equity | 14,968,347 | 14,415,452 |
| Total equity and non-controlling partner's subordinated loan | <u>15,151,043</u> | <u>14,829,379</u> |
| Capital and net debt | <u>16,709,468</u> | <u>18,570,399</u> |
| Gearing ratio | 9% | 20% |

36 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The management has assessed the fair value of employee loans and non-controlling partner's subordinated loan based on level 3 hierarchy, which is not materially different from their respective carrying values.

The fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

37 SEGMENT INFORMATION

In respect of performance appraisal and allocation of resources, the Group's management is of the opinion that all activities and operations of the Group comprise one single operating segment, the petrochemical sector. Therefore, financial reports are issued only for geographical segments.

Geographical segments

Operating assets are located in the Kingdom of Saudi Arabia. The sales are geographically distributed as follows:

| | 2019 | 2018 |
|----------------------|------------|------------|
| | % | % |
| Domestic/Middle East | 20 | 19 |
| Asia | 55 | 51 |
| Europe/Africa | 25 | 30 |
| | <u>100</u> | <u>100</u> |

38 SUBSEQUENT EVENTS

In the opinion of the management, there have been no significant subsequent events since the period ended 31 December 2019 that would have a material impact on the consolidated financial position of the Group as reflected in these consolidated financial statements.

39 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.