



Audit Committee Annual Report for the Fiscal Year Ending on December 31, 2020

Dear shareholders of the National Gas and Industrialization Company,

We are pleased to present GASCO Audit Committee report in accordance with Article (104) of the Companies Law.

- **Appointment and Formation of the Audit Committee:**

GASCO current Audit Committee was appointed during the Ordinary General Assembly meeting held on January 27, 2020 G. By majority votes of those present and e-voting, the formation of the Audit Committee was approved for the current mandate, ending on November 28, 2022 G. Accordingly, the Audit Committee shall be composed of 4 members, two of which are non-executive board members and two non-board members, including an expert in financial affairs. The Committee comprised of the following members:

- Mr. Ahmed bin Abdulrahman bin Abdulaziz Al-Mohsen Board member and Chairman of the Audit Committee
- Mr. Raeed bin Abdullah bin Saleh Al-Tamimi Board member and Audit Committee member
- Dr. Ahmed bin Abdullah bin Ali Al-Munif Audit Committee member - Non-board member
- Mr. Mousa bin Abdullah bin Hamad al-Mousa Audit Committee member - Non-board member

The Audit Committee held 18 meetings during the fiscal year 2020 G.

- **A Summary of Major Tasks and Responsibilities Carried Out By the Audit Committee During 2020 G**

- **I: Financial Reports**

- Reviewing and approving the results and preliminary quarterly financial statements as mandated by the Board of Directors Decision No. 06/365 at the Board meeting No. 03/2020/365, dated 03/31/2020 G, recommending to the Board for approval of the financial statements of the final accounts, reviewing compliance to disclosures



in financial statements, changes to accounting policies, major and unexpected events, as well as verifying material matters-related accounting estimates in addition to compliance with accounting standards and other legal requirements.

– **II: Internal Auditing**

- Reviewing and approving Internal Audit Department (IAD) activities, scope, tools, methodology, outcomes, and plan prepared based on risk assessment, as well as ensuring whether it has the authorities and resources necessary to carry out its activities while maintaining its independence.
- Reviewing and monitoring the effectiveness of the governance mechanism adopted in the Company.
- Reviewing and assessing internal audit reports, and following up and monitoring the implementation of corrective actions and internal audit recommendations to determine whether appropriate actions have been taken or not.

– **III: External Auditing**

- Recommending to the Board of Directors for the appointment of an external auditor for 2020 G.
- Reviewing the plan, work scope, financial audit results, and external auditor relevant reports, together with the Department letter, responses, and comments on audit results.
- Ensuring that the Company's Executive Management has provided appropriate assistance to the external auditor, and that it did not experience any difficulties in the context of audit, including any restrictions on the audit scope or access to the required information.

– **IV: Annual Audit Mechanism and Results for The Effectiveness of Internal Control Procedures**

IAD shall implement the annual audit plan approved by the Audit Committee to assess the applied internal control status with an emphasis on assessing the control environment, organizational structure, risks, policies, procedures, tasks segregation, and information systems through random sampling of the activities planned to be reviewed to examine them, ensuring the effectiveness and



efficiency of the designed and implemented internal control systems, as well as obtaining reasonable affirmations on the effectiveness and efficiency of the internal control procedures during the year. The Audit Committee reviewed and discussed the quarterly and final financial statements for the fiscal year 2020 G to ensure the validity and fairness of the financial reports, along with their compliance with the requirements as per the generally accepted accounting standards. Consequently, the Committee shall submit its recommendations to the Board of Directors.

Based on the internal audit reports and notes contained in the risk log, together with the remarks of the Company's external auditor, the Committee, during the fiscal year 2020G, reviewed the Company's internal and financial control systems and their effectiveness. Accordingly, the Committee observed some of the deficiencies in the internal control systems and their validity, including the following:

- 1- No development and updating for some of the company's policies, in particular the financial policies related to procurement, sales and marketing.
- 2- Delays and wrong implementation of bank settlements.
- 3- Absence of clear segregation of duties for some positions and lack of updates in job descriptions as per the adopted best practices in this regard.
- 4- Errors in registering some accounting entries or delays in the registration, and the delay in conducting the necessary matches and adjustments for some accounts in the company's accounting system and not implementing them in a timely manner.
- 5- Delay in matching the balances of clients and suppliers of the company, and failure to implement it continuously and periodically.
- 6- Notes on the effectiveness of control on the Company's Accounting Information System (IT), as it has been applied by the company in Q2 2019.

During Q1 2020 G, the Committee made a recommendation to the Board of Directors concerning the necessity to establish a Risk Management Committee in accordance with the Corporate Governance Regulations issued by the Capital Market Authority (CMA). Such recommendation urges the establishment of an independent committee to manage the Company's risks other than the Audit Committee. Although the Article is indicative, the Company's current needs, nature of its business and activities, and the existence of several risks, internally or externally, related to the company require the formation of such committee to supervise, approve and monitor all aspects



related to the Company's compliance with the operational risks framework and regulatory and legal requirements, in addition to the Committee notes on the weakness or delay in applying the set controls to avoid such risks. Accordingly, the Board has approved this recommendation, and a Risk Management Committee was established within the Company.

On 1 Dhu'l-Hijjah 1441H (corresponding to July 22, 2020G), suspicion of embezzlements was discovered by an official within the Financial Affairs Sector (according to the preliminary investigation on time), namely fund disbursement through checks and bank transfers amounting to SAR 34.2 million without legal grounds for authorities that does not have a contractual relationship with the Company during 2017G to Q1 2020G. Further, the financial impact has not been systematically registered in the Company's records during such periods. As such, a law firm has been appointed to pursue the case, as well as a licensed chartered accountant office to review such transactions and issue a report to be submitted to the security bodies to take legal measures against those involved. Moreover, the Company has appointed a company specializing in internal auditing and fraud cases to engage in the investigation procedures and examine all financial transactions that took place during the previous years to ensure the absence of similar cases, as well as determining the financial impact of such amounts and the mechanism to address such cases systematically, in coordination with the external auditor. Such Company shall also identify deficiencies and weaknesses in the financial control system, and provide appropriate recommendations to address such matters, and avoid any potential risks in the future.

Based on the Consultant's examination work and its report issued thereon, no other sums have been disbursed without legal or issued justifications to entities having no a contractual relationship with the company other than the above-mentioned amount of SAR 34,2 million, and the financial impact of these amounts has been addressed in the financial statements for the year ending on December 31, 2020.

The committee confirms that it holds periodic meetings with the external auditor and the internal audit department (including the Consultant appointed to carry out the internal audit work) as well as the executive management with a view of discussing all issues and observations raised by the external auditor or the internal audit, and working to implement and follow up on the recommendations issued in this regard with the executive management periodically to ensure the



established plans are implemented with a view of correcting any remarks and providing the Board with any recommendations or issues it deems necessary to be informed.

During the 2020G, the Board of Directors issued decisions and directives related to improving the quality of internal audit systems and enhancing their effectiveness, and following up their implementation with the executive management, including developing, updating and reviewing policies periodically and updating job descriptions, and appointing specialized consultants to identify weaknesses and address gaps and work on improving supervisory controls and integration of financial and technical systems.

We would like to refer that the company's auditor plans and executes the audit work and accordingly issued an opinion stating that the attached financial statements present fairly, in all material respects, the financial position of the company as on December 31, 2020, and its financial performance and cash flows for the year ended on that date in accordance with international financial reporting standards applicable in the Kingdom of Saudi Arabia, and the other standards and publications approved by the Saudi Organization for Certified Public Accountants (SOCPA), except for the potential impacts of the matter described in the Basis for Qualified Opinion section of the auditor's report indicating the account of expenses payable and other current liabilities includes the balance of the account for amounts collected under settlement ("the account") amounting to SAR 27.4 million (2019: SAR 27.4 million). As indicated in Note 6.34 (a) to the financial statements, the company's management discovered embezzlements of SAR 25.7 million by a former employee that were directed through this account, and these embezzlements were reversed as of December 31, 2020. It was difficult to track other transactions within this account, and therefore the correctness of the balance of this account as of December 31, 2020 has not been verified due to the lack of adequate evidence, as well as obtaining sufficient audit evidence to be satisfied regarding the assertions of the existence of this account and the correctness of its recording. Consequently, it was not possible to determine the necessary adjustments, if any, to this account and their impact on the financial statements as of December 31, 2020.

The company confirms that it does its efforts continuously in coordination with the auditor to settle this account, and we expect that this settlement will have a positive impact on the company's results in the future.



We also note that it is not possible to absolutely assert the comprehensiveness of the examinations and evaluations carried out for the internal audit procedures, because the audit is, in essence, based on haphazard sampling as stated above.

Therefore, the committee and the internal audit department team seek to do improvement and development efforts continuously to ensure more effectiveness and efficiency in the follow-up mechanism of internal audit processes and procedures.

Best Regards,

Chairman of Audit Committee

Ahmed bin Abdulrahman Al Mohsen

**National Gas and Industrialization Company
(A Saudi Joint Stock Company)**

FINANCIAL STATEMENTS AND AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of National Gas and Industrialization Company
(A Saudi Joint stock Company)

Qualified Opinion

We have audited the accompanying financial statements of National Gas and Industrialization Company (A Saudi Joint stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Qualified Opinion

Included in the accrued expenses and other current liabilities is an unapplied collection account ("the unapplied account") of SR 27.4 million (2019: SR 27.4 million). As detailed in note 34.6(a) to the financial statements; the Company discovered that certain transactions totaling SR 25.7 million related to embezzlement transactions committed by a former employee, were routed through this account. These transactions were reversed as at 31 December 2020. Other transactions in this account could not be completely traced and the closing balance could not be reconciled as at 31 December 2020 due to lack of audit trail. We were unable to satisfy ourselves with respect to the existence and completeness of this account. Accordingly, we are unable to determine if any adjustments are required to this account and the related impact on these financial statements.

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

Other Matters

The financial statements of the Company for the year ended 31 December 2019 have been audited by another auditor who expressed an unmodified opinion on those financial statements on 8 Sha'aban 1441H (corresponding to 1 April 2020).

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of National Gas and Industrialization Company
(A Saudi Joint stock Company) – (continued)

Key Audit Matters – (continued)

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the 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 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 financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Unapplied collection account</p> <p>Included in the accrued expenses and other current liabilities is an unapplied collection account ("the Account") with a balance of SR 27.4 million as at 31 December 2020 (2019: SR 27.4 million and 1 January 2019: SR 18.5 million).</p> <p>This account represents payments received from various customers for purchases of gas tanks, other products and other transactions.</p> <p>Also, the embezzlement took place (as fully disclosed in note 34.6(a)), was routed through this account besides other accounts, which includes SR 1.7 million which is not related to this account.</p> <p>This is considered as a key audit matter as this account is susceptible to higher risks of material misstatement or which we deemed to be "significant risk" in accordance with ISA 315 (Revised), Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity of Its Environment and qualification associated in our audit report, as indicated in the "Basis for qualified opinion".</p> <p><i>Refer to note 19.b and 34.6(a) for adjustments and related disclosures.</i></p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • Obtain understanding and analysis of the nature of transactions recorded in this account. • Request the basis of the adjusting journal entry recorded to the unapplied collection account and related supporting evidence. • Assess the related disclosures included in the financial statements. • We have qualified our audit opinion as referred to the "Basis of Qualified Opinion" section of our report.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of National Gas and Industrialization Company
(A Saudi Joint stock Company) – (continued)

Key Audit Matters - (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Classification and valuation of financial assets</p> <p>As at 31 December 2020, the Company has financial assets amounted to SR 974.6 million (2019: SR 956.6 million) which were classified as investment at fair value through other comprehensive income (FVTOCI).</p> <p>These investments comprise of Sukuk, shares of unquoted entities, public and closed funds and portfolio of traded securities.</p> <p>During the year, the management re-assessed the criteria for the classification of these investments in accordance with International Financial Reporting Standard 9 - Financial Instrument ("IFRS 9").</p> <p>We considered this a key audit matter due to the significance of the investment balance and the complexity of the valuation of the investments in unquoted entities.</p> <p><i>Refer to note 2.2.8 for the accounting policy and note 9 and 34.6(b) for the related disclosures.</i></p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • Review and re-assess the management's assessments of the classification of the investments in line with IFRS 9. • Evaluate the independent professional valuer's competence, capabilities and objectivity. • Obtain direct confirmation for the ownership of those investments and review ownership documents for investments in unquoted entities. • Assess the valuation methodology used by the independent professional valuer to estimate the fair value of the Investment; which is made by our valuation team. • Select, on a sample basis, the accuracy and reasonableness of the input data provided by management to the independent professional valuer, to supporting evidence. • Review the basis of the restatement made by the management in relation to the reclassification of the investments held at FVTOCI to investments held at FVTPL of SR 169.1 million as at 31 December 2019 (note 34.6 (b)). • Assess the related disclosures included in the financial statements.



INDEPENDENT AUDITOR'S REPORT

To the shareholders of National Gas and Industrialization Company
(A Saudi Joint stock Company) – (continued)

Other information included in The Company's 2020 Annual Report

Other information consists of the information included in the Company's 2020 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Company's 2020 annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Company's 2020 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 Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



INDEPENDENT AUDITOR'S REPORT

To the shareholders of National Gas and Industrialization Company
(A Saudi Joint stock Company) – (continued)

Auditor's Responsibilities for the Audit of the 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 National Gas and Industrialization Company
(A Saudi Joint stock Company) - (continued)

Auditor's Responsibilities for the Audit of the 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 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

Abdulaziz A. Al-Sowailim
Certified Public Accountant
License No. 277



Riyadh: 23 Sha'aban 1442H
(5 April 2021)