



ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023**

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)



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**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023**

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**Independent Auditor's Report
To the Shareholders of Advanced Petrochemical Company
(A Saudi Joint Stock Company)**

Opinion

We have audited the consolidated financial statements of Advanced Petrochemical Company ("the Company"), a Saudi Joint Stock Company, and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2023, 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 endorsed by the Saudi Organization for Chartered and Professional 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 the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with that Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

**Independent Auditor's Report
To the Shareholders of Advanced Petrochemical Company (continued)
(A Saudi Joint Stock Company)**

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Revenue recognition</i></p> <p>Revenue from sales of goods is recognized when control of the products sold is transferred to the customer and is measured at a provisional price which is a pre agreed price between the Group and its marketers. The Group is making majority of its sales through its marketers, and as per the terms of the agreement, the Group records sales for the products sold to its marketers at a pre-approved provisional price which is mutually agreed between both the parties. This provisional price is the best estimate based on the prices prevailing in the market at that time. Subsequent to the sale of the products to third parties by marketers on actual market price, a positive or negative net back adjustment is made by the Group with the provisional price serving as the base price. This adjustment is finalized on a regular basis whenever the product is sold.</p> <p>The Group focuses on revenue as a key performance measure, which could create an incentive for misstatement of revenue.</p> <p>Based on the above factors and the materiality of the amounts involved, we have considered revenue recognition as a key audit matter.</p> <p>Refer to note 3 to the consolidated financial statements for the Group's accounting policy relating to revenue recognition.</p>	<p>We performed the following procedures to address the key audit matter:</p> <ul style="list-style-type: none"> - Reviewed the revenue recognition policy applied by the Group to ensure its compliance with IFRS requirements that are endorsed in the Kingdom of Saudi Arabia. - Assessed the processes and controls over revenue stream. - Inspected a sample of contracts to validate that revenue recognition was in accordance with the contract terms and the Group's revenue recognition policies. - Evaluated provisional price adjustment as at year end for the sales made near to the year end. - Tested transactions around the year-end, to ensure revenues were recognised in the correct accounting period. - Assessed adequacy of the disclosure included in the notes to the consolidated financial statements.

**Independent Auditor's Report
To the Shareholders of Advanced Petrochemical Company (continued)
(A Saudi Joint Stock Company)**

Other information included in the Group's 2023 Annual Report

Other information consists of the information included in the Group's 2023 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 2023 annual report is expected to be made available to us after the date of this auditors' 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 2023 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 endorsed by the Saudi Organization for Chartered and Professional 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 is responsible for overseeing the Group's financial reporting process.

**Independent Auditor's Report
To the Shareholders of Advanced Petrochemical Company (continued)
(A Saudi Joint Stock Company)**

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.

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.

**Independent Auditor's Report
To the Shareholders of Advanced Petrochemical Company (continued)
(A Saudi Joint Stock Company)**

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

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

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

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

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 Professional Services



Marwan S. AlAfaliq
Certified Public Accountant
License No. 422



Al Khobar: 15 Sha'ban 1445H
25 February 2024


ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)





CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	<u>2023</u>	<u>2022</u>
Sales		2,373,514	2,948,471
Cost of sales	23	<u>(1,926,552)</u>	<u>(2,412,176)</u>
GROSS PROFIT		446,962	536,295
Selling and distribution expenses		(32,238)	(32,054)
General and administration expenses	24	<u>(141,178)</u>	<u>(105,273)</u>
OPERATING PROFIT		273,546	398,968
Finance costs, net		(2,715)	(1,393)
Share in loss of an associate	9	(97,006)	(109,099)
Other income, net		<u>2,554</u>	<u>7,264</u>
PROFIT BEFORE ZAKAT AND INCOME TAX		176,379	295,740
Zakat and income tax expense			
<i>Zakat</i>	22	(9,284)	(2,918)
<i>Current tax</i>	22	(194)	(439)
<i>Deferred tax</i>		<u>-</u>	<u>-</u>
PROFIT FOR THE YEAR		<u>166,901</u>	<u>292,383</u>
Profit (loss) attributable to:			
Equity holders of the Parent Company		171,061	294,501
Non-controlling interest	31	(4,160)	(2,118)
		<u>166,901</u>	<u>292,383</u>
Basic and diluted earnings per share			
- Earnings per share from profit for the year attributable to equity holders of the Parent Company	26	<u>0.661</u>	<u>1.135</u>


KHALIFA A. AL-MULHEM
Chairman of the Board


FAHAD S. AL-MATRAFI
President & CEO


ABDULAZIZ S. AL-ARDHI
Chief Financial Officer

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)



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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2023	2022
PROFIT FOR THE YEAR		166,901	292,383
OTHER COMPREHENSIVE (LOSS) INCOME			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of investment in an associate	9	<u>(8,561)</u>	<u>(41,577)</u>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		<u>(8,561)</u>	<u>(41,577)</u>
<i>Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:</i>			
Share of other comprehensive (loss) income of an associate	9	(936)	941
Unrealized fair value gains (loss) on equity investment at fair value through other comprehensive income	11	744	(272,140)
Re-measurements loss on employees' defined benefit liabilities	20	<u>(4,455)</u>	<u>(1,606)</u>
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		<u>(4,647)</u>	<u>(272,805)</u>
Other comprehensive loss for the year		<u>(13,208)</u>	<u>(314,382)</u>
Total comprehensive income (loss) for the year		<u>153,693</u>	<u>(21,999)</u>
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company		157,853	(19,881)
Non-controlling interest	31	<u>(4,160)</u>	<u>(2,118)</u>
		<u>153,693</u>	<u>(21,999)</u>

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ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2023	31 December 2022
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	8,614,556	5,184,951
Right-of-use assets	8	178,210	184,736
Investment in an associate	9	377,538	484,041
Investment in an unconsolidated subsidiary	10	376	376
Equity investment at fair value through other comprehensive income	11	460,870	460,126
Other non-current assets	13	203,329	217,611
TOTAL NON-CURRENT ASSETS		9,834,879	6,531,841
CURRENT ASSETS			
Inventories	14	193,360	180,678
Trade receivables	15	331,480	354,293
Prepayments and other current assets	16	186,868	165,009
Cash and cash equivalents	17	923,664	1,006,535
TOTAL CURRENT ASSETS		1,635,372	1,706,515
TOTAL ASSETS		11,470,251	8,238,356
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	2,600,000	2,600,000
Treasury shares	1	(79,301)	(49,926)
Statutory reserve		481,898	464,792
Other components of equity	12	(30,422)	(27,208)
Retained earnings		257,897	251,866
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		3,230,072	3,239,524
Non-controlling interest	31	374,804	378,964
TOTAL EQUITY		3,604,876	3,618,488
NON-CURRENT LIABILITIES			
SIDF loan	19	2,789,692	2,042,424
Long Term Murabaha loans	19	2,700,000	-
Islamic Loan Facilities	19	1,421,933	-
Non-current portion of lease liabilities	8	166,175	169,821
Retentions payable		-	81,605
Employees' defined benefit liabilities and other benefits	20	196,141	167,221
Deferred tax liabilities, net	22	1,157	1,157
TOTAL NON-CURRENT LIABILITIES		7,275,098	2,462,228
CURRENT LIABILITIES			
Short term Murabaha loans	19	-	1,740,400
Current portion of lease liabilities	8	11,551	11,450
Trade payable		126,679	144,400
Accruals and other current liabilities	21	253,488	242,009
Retentions payable		185,398	-
Zakat and income tax provision	22	9,002	15,324
Dividends payable	29	4,159	4,057
TOTAL CURRENT LIABILITIES		590,277	2,157,640
TOTAL LIABILITIES		7,865,375	4,619,868
TOTAL EQUITY AND LIABILITIES		11,470,251	8,238,356

KHALIFA A. AL-MULHEM
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ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES

(A SAUDI JOINT STOCK COMPANY)


CONSOLIDATED STATEMENT OF CHANGES IN EQUITY


FOR THE YEAR ENDED 31 DECEMBER 2023


(All amounts in Saudi Riyals thousands unless otherwise stated)



	Share capital	Treasury shares	Statutory reserve	General reserve	Other components of equity			Retained earnings	Total controlling interest	Non-controlling interest	Total equity
					Fair value reserve	Foreign currency translation reserve	Share-based payment reserve				
At 1 January 2022	2,164,734	-	696,502	81,539	316,458	(17,026)	-	491,950	3,734,157	221,782	3,955,939
Profit for the year	-	-	-	-	-	-	-	294,501	294,501	(2,118)	292,383
Other comprehensive loss for the year	-	-	-	-	(272,140)	(41,577)	-	(665)	(314,382)	-	(314,382)
Total comprehensive (loss) income for the year	-	-	-	-	(272,140)	(41,577)	-	293,836	(19,881)	(2,118)	(21,999)
Transfer of fair value reserve of equity investment at FVOCI (note 11)	-	-	-	-	(16,129)	-	-	16,129	-	-	-
Increase in share capital (note 1)	435,266	-	(261,160)	-	-	-	-	(174,106)	-	-	-
Transfer to statutory reserve	-	-	29,450	-	-	-	-	(29,450)	-	-	-
Share-based payment reserve (note 12.a)	-	-	-	-	-	-	3,206	-	3,206	-	3,206
Reversal of general reserve (note 1)	-	-	-	(81,539)	-	-	-	81,539	-	-	-
Purchase of treasury shares (note 1)	-	(49,926)	-	-	-	-	-	-	(49,926)	-	(49,926)
Non-controlling interest (note 31)	-	-	-	-	-	-	-	-	-	159,300	159,300
Dividends (note 29)	-	-	-	-	-	-	-	(428,032)	(428,032)	-	(428,032)
At 31 December 2022	2,600,000	(49,926)	464,792	-	28,189	(58,603)	3,206	251,866	3,239,524	378,964	3,618,488
At 1 January 2023	2,600,000	(49,926)	464,792	-	28,189	(58,603)	3,206	251,866	3,239,524	378,964	3,618,488
Profit for the year	-	-	-	-	-	-	-	171,061	171,061	(4,160)	166,901
Other comprehensive income (loss) for the year	-	-	-	-	744	(8,561)	-	(5,391)	(13,208)	-	(13,208)
Total comprehensive income (loss) for the year	-	-	-	-	744	(8,561)	-	165,670	157,853	(4,160)	153,693
Transfer to statutory reserve	-	-	17,106	-	-	-	-	(17,106)	-	-	-
Share-based payment reserve (note 12.a)	-	-	-	-	-	-	4,603	-	4,603	-	4,603
Purchase of treasury shares (note 1)	-	(29,375)	-	-	-	-	-	-	(29,375)	-	(29,375)
Dividends (note 29)	-	-	-	-	-	-	-	(142,533)	(142,533)	-	(142,533)
At 31 December 2023	2,600,000	(79,301)	481,898	-	28,933	(67,164)	7,809	257,897	3,230,072	374,804	3,604,876


KHALIFA A. AL-MULHEM
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ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2023	2022
OPERATING ACTIVITIES			
Profit before zakat and income tax		176,379	295,740
Adjustment to reconcile profit before zakat and income tax to net cash flows from operations:			
Depreciation of property, plant and equipment	7	176,331	214,091
Depreciation of right-of-use assets	8	1,631	1,375
Gain on disposal of property, plant and equipment		-	(823)
Finance costs		2,715	1,393
Share in loss of an associate	9	97,006	109,099
Share-based payment expense		4,603	3,206
Employees' defined benefits liabilities and other benefits	20	30,233	24,700
		<u>488,898</u>	<u>648,781</u>
Working capital adjustments:			
Inventories		(12,682)	20,914
Trade receivables		22,813	80,268
Prepayments and other current assets		(3,672)	(57,406)
Trade payable		(17,721)	(45,944)
Accruals and other current liabilities		9,832	(104,131)
Cash generated from operations		<u>487,468</u>	<u>542,482</u>
Employees' defined benefits liabilities and other benefits paid	20	(5,768)	(4,451)
Finance costs paid		(254,779)	(51,411)
Zakat and income tax paid	22	(15,800)	(26,123)
Net cash generated from operating activities		<u>211,121</u>	<u>460,497</u>
INVESTING ACTIVITIES			
Net movement in investments at fair value through profit or loss		-	72,333
Movement in equity investment at FVOCI	11	-	56,238
Additions to property, plant and equipment	7	(3,327,853)	(2,346,873)
Proceeds from disposal of property, plant and equipment		34	-
Dividends received from an associate	9	-	3,150
Net movement in other non-current assets		14,282	14,721
Movement in retentions payable		103,793	69,990
Investment in a subsidiary by a non-controlling shareholder	31	-	159,300
Net cash used in investing activities		<u>(3,209,744)</u>	<u>(1,971,141)</u>
FINANCING ACTIVITIES			
Purchase of treasury shares		(29,375)	(49,926)
Proceeds from SIDF loan		717,576	2,042,424
Proceeds from long term Murabaha loans		3,200,000	-
Repayment of long term Murabaha loans		(500,000)	-
Proceeds from Islamic Loan Facilities		1,421,933	-
Proceeds from short term Murabaha loans		-	1,062,700
Repayment of short term Murabaha loans		(1,740,400)	(200,000)
Payment of lease liabilities	8	(11,551)	(11,440)
Dividends paid	29	(142,431)	(569,465)
Net cash generated from financing activities		<u>2,915,752</u>	<u>2,274,293</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<u>(82,871)</u>	<u>763,649</u>
Cash and cash equivalents at the beginning of the year		<u>1,006,535</u>	<u>242,886</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	17	<u>923,664</u>	<u>1,006,535</u>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)



CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2023	2022
<u>SIGNIFICANT NON-CASH TRANSACTIONS:</u>			
Increase in share capital by issuance of bonus shares from statutory reserve	1	-	261,160
Increase in share capital by issuance of bonus shares from retained earnings	1	-	174,106
Reversal of general reserve	1	-	(81,539)
Finance costs on Murabaha loans charged to capital work in progress	7	283,307	63,307
Financial charges on lease liabilities against right-of-use assets charged to capital work in progress	8	6,998	7,121
Disposal of property, plant and equipment against asset disposal provision		-	6,526
Finance income on Murabaha deposits credited to capital work in progress		12,188	3,278
Depreciation of property, plant and equipment charged to capital work in progress	7	2,045	1,971
Additions in right-of-use assets by crediting lease liabilities	8	1,104	-

KHALIFA A. AL-MULHEM
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ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES

(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)



1. CORPORATE INFORMATION AND ACTIVITIES

Advanced Petrochemical Company (the “Company” or the “Parent Company”) is a Saudi joint stock company registered in Dammam city, Kingdom of Saudi Arabia under commercial registration numbered 2050049604 dated 27 Sha’ban, 1426H (corresponding to 1 October 2005). The paid-up share capital of the Company is SR 2,600,000,000 divided into 260,000,000 shares of SR 10 each (2022: SR 2,600,000,000 divided into 260,000,000 shares of SR 10 each).

During the Company’s extraordinary General Assembly meeting held on 17 Sha’aban 1443H (corresponding to 20 March 2022), an increase in share capital by 20.11% was approved by the shareholders by way of issuance of one bonus share for every 5 shares held by the existing shareholders. The increase in share capital was funded by way of capitalising retained earnings and statutory reserve amounting to SR 174.1 million and SR 261.2 million, respectively, of the Company. The number of shares increased from Two Hundred Sixteen Million Four Hundred Seventy Three Thousand Four Hundred (216,473,400) shares to Two Hundred Sixty Million (260,000,000) shares.

Further during 2022, the shareholders approved the purchase of Company’s own shares, with a maximum of (1,500,000) shares, for the purpose of allocating them to the Company’s employees within the Employees Share Incentive Program, provided that the purchase of these shares to be financed through the Company’s own resources. Further, to authorize the Board of Directors (or whomever it delegates) to complete the purchase within (12 months) from the date of the extraordinary general assembly's approval, and to determine the terms of the program and its implementation, including determination of the allocation for consideration or not, and to be kept no longer than (10) years from the date of approval as a maximum until the shares are allocated to eligible employees. Upon the end of mentioned period, the Company will follow the rules and procedures stipulated in the relevant laws and regulations. During the year, the Company purchased 650,655 (2022: 849,345) of its own shares amounting to SR 29.4 million (2022: SR 49.9 million).

In accordance with the Company’s By-Laws, the General Assembly can establish a general reserve as an appropriation of retained earnings. This general reserve can be increased or decreased by a resolution of the shareholders. During the Company’s extraordinary General Assembly meeting held on 1 Rabi Al-Awwal 1444H (corresponding to 27 September 2022), a transfer of general reserve balance amounting to SR 81.54 million to retained earnings was approved by the shareholders. During 2021, a transfer of retained earnings balance amounting to SR 81.54 million to general reserve was approved by the shareholders.

The consolidated financial statements as at 31 December 2023 and 2022 include the financial statements of the Company and its following subsidiaries (collectively referred to as the “Group”):

	<u>Effective ownership directly and indirectly</u>
Advanced Global Marketing Company (“AGMC”) - note (a)	100%
Advanced Global Investment Company (“AGIC”) - note (b) and its following subsidiary	100%
Advanced Polyolefins Industry Company (“APOC”) – note (c)	85%

Notes:

- a- Advanced Global Marketing Company (“AGMC”), is a single shareholder Limited Liability Company registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 2055015327 dated 27 Rabi’I 1433H (corresponding to 19 February 2012) and is 100% owned by the Company.
- b- Advanced Global Investment Company (“AGIC”) is a single shareholder Limited Liability Company registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 2055017024 dated 12 Ramadan 1433H (corresponding to 1 August 2012) and is 100% owned by the Company.

1. CORPORATE INFORMATION AND ACTIVITIES (continued)

c- Advanced Polyolefins Industry Company (“APOC”) is a Saudi mixed closed joint stock company incorporated in 2021 and is registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 20550130313 dated 14 Ramadan 1442H (corresponding to 26 April 2021) and is 85% owned by AGIC (remaining 15% is owned by SK Gas Petrochemical Pte. Ltd., a company organized and existing under the laws of Republic of Singapore). The Subsidiary has not commenced its commercial operations as its plants are under construction phase, which are expected to be completed by the end of second quarter of 2024.

During 2014, AGIC made 100% investment in Advanced Global Holding Limited (“AGHL”), a Limited Liability Company incorporated in Luxembourg. AGHL has not been consolidated in these consolidated financial statements due to immaterial financial position.

The Group is licensed to engaged in production and selling Propylene, Polypropylene, Isopropyl Alcohol, Polysilicon and Polysilicon downstream products which includes Photovoltaic cells and Photovoltaic, and establishing, operating and investing in industrial projects including petrochemical, chemical, basic and conversion industries and industries relating to renewable energy both within and outside the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of preparation

Statement of compliance

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

These consolidated financial statements are prepared using historical cost convention except for the equity investments at fair value through other comprehensive income (“FVOCI”) which are measured at fair value. These consolidated financial statements are presented in Saudi Riyals (“SR”) which is also the functional currency of the Group. All values are rounded to the nearest thousands (“SR ‘000”), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2023. 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:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- 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:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

Basis of consolidation (continued)

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 Other Comprehensive Income (“OCI”) are attributed to the equity holders of the parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group 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 the consolidated statement of profit or loss. Any investment retained is recognised at fair value.

3. MATERIAL ACCOUNTING POLICY INFORMATION

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries. The Group’s investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate 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 associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group’s share of the results of operations of the associate. 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 associate, 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 associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group’s share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are 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 associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as ‘Share in results of an associate’ in the consolidated statement of profit or loss.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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

All other assets are classified as non-current.

A liability is current when:

- It is 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 and non-financial assets at fair value at each balance sheet 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 to 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 economic best 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Fair value measurement (continued)

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 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.

External valuers are involved for valuation of significant assets, if required. The involvement of external valuers is decided by the Group after discussion and approval by the Group's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group decides, after discussion with the Group's external valuers, which valuation technique and inputs to use for each case.

At each reporting date, the Group analyses the movements in the values of assets and liabilities, which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Revenue recognition

Sale of goods

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

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

For international markets, all of the sales are made to the marketers of the Group under off take agreements. Upon delivery of products to the Marketers, sales are recorded at provisional selling prices which are later adjusted based upon actual selling prices received by Marketers from third parties, after deducting costs of shipping, distribution and marketing. Adjustments are recorded as they become known to the Group.

Variable pricing – preliminary pricing

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Revenue recognition (continued)

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

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

Dividend

Dividend is recognised when the Group's right to receive the payment is established, which is generally when the shareholders approve the dividend.

Finance income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR). 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 finance income in the consolidated statement of profit or loss.

Earnings on time deposits are recognised on an accrual basis.

Costs and Expenses

Operating costs are recognised on a historical cost basis. Production costs and direct expenses are classified as cost of sales.

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the products. All other expenses other than cost of sales and financial charges are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of production costs. Allocations between general and administrative expenses and production costs, when required, are made on a consistent basis.

Zakat and income tax

Zakat and current tax

Zakat is provided in accordance with the Regulations of the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia. Under the revised zakat standard issued by SOCPA, zakat provision is charged to the consolidated statement of profit or loss, as IAS 12 'Income Taxes' do not provide any guidance on the accounting treatment of zakat. Non-Saudi shareholder in the Group are 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 recognised in the consolidated statement of profit or loss.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Zakat and income tax (continued)

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 tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised 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 utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset/liability to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised 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 Group withholds taxes on certain transactions with non-resident parties in the KSA, including dividend payments to the non-resident shareholders, 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:

1. When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, 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.
2. 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 taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyal, which is also the Group'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 the consolidated statement of profit or loss reflects the amount that arises from using this method.

Transactions 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Foreign currencies (continued)

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or consolidated statement of profit or loss are also recognised in OCI or consolidated statement of profit or loss, respectively).

Group companies

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

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

Cash dividend and non-cash distribution to equity holders of the Group

The Group recognises a liability to make cash or non-cash distributions to equity holders of the Group when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the corporate laws in the KSA, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Property, plant and equipment

Property, plant and equipment and capital work-in-progress are 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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised 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 recognised in the consolidated statement of profit or loss as incurred. Further, the Group capitalised the spare parts in accordance with Group's accounting policies and meeting the capitalization criteria; and depreciate them over the plant life.

Depreciation is calculated from the date the item of property, plant and equipment are available for intended use or in respect of self-constructed assets, from the date such assets are completed and ready for the intended use.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

	<u>Years</u>
Plant, machinery and equipment	10 – 40
Capital spares	10 - 20
Buildings and leasehold improvements	10 - 33
Furniture, fixtures and office equipment	3 - 8
Catalysts	2 - 8
Laboratory and safety equipment	5
Vehicles and trucks	4 – 10

Capital work-in-progress are not depreciated.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic 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 the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

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

Planned turnaround costs are deferred and amortised over the period until the date of next planned turnaround. Should unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortised turnaround costs are immediately expensed and the new turnaround costs are deferred and amortised over the period likely to benefit from such costs.

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.

Group as a lessee

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 recognises 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 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 accumulated 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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.

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 to leases of office equipment 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.

Variable lease payments

Some leases contain variable payments that are linked to the usage / performance of the leased asset. Such payments are recognised in consolidated statement of profit or loss and comprehensive income.

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

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 the option, under some of its leases to renew the leases at the end of lease term. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. 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 (e.g., a change in business strategy).

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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 assets recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs to sell and its value-in-use and 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. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

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

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

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

For assets other than goodwill, an assessment is made at each financial year-end as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group's estimates the asset's or CGU's recoverable amount. A previously 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. This reversal is limited such that the recoverable amount doesn't exceed what the carrying amount would have been, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Financial assets and financial liabilities

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 classified, at initial recognition, at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies for revenue recognition.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets and financial liabilities (continued)

Financial assets (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets and financial liabilities (continued)

Financial assets (continued)

Financial assets at fair value through OCI (debt instruments) (continued)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the consolidated statement of profit or loss when the right of payment has been established.

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:

1. The rights to receive cash flows from the asset have expired; or
2. 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets and financial liabilities (continued)

Financial assets (continued)

Derecognition (continued)

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

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets and financial liabilities (continued)

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised 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, lease liabilities, dividend payable, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised 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 profit or loss.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets and financial liabilities (continued)

Financial liabilities (continued)

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 recognised amounts and there is an intention to settle on a net basis to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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 complete a sale.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks, cash on hand, short term deposits, demand deposits and highly liquid investments with original maturity of three months or less when purchased which are subject to an insignificant risk of changes in value. For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of profit or loss 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contract

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

Provision for inventory obsolescence

When inventories become old or obsolete, an estimate is made for their net realisable value. For individually significant amounts, this amount is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively, and an allowance applied according to the inventory type and degree of ageing or obsolescence based on expected selling prices. Inventories are measured at the lower of cost and net realisable value.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Employees' terminal benefits and other benefits

Employees' end-of-service 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 recognised 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 less the fair value of plan assets at that date. 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 recognised in equity through the consolidated statement of comprehensive income in the period in which they arise.

Employees' saving plan

The Group maintains an employees' saving plan for its Saudi employees. The contributions from the participants are deposited in separate bank account and liability is established for the Group's contributions. The Group's contribution under the saving plan is charged to the consolidated statement of profit or loss.

Employees' home ownership program

Unsold housing units constructed for eventual sale to eligible employees are included under land and buildings and are depreciated over 33 years. Upon signing the sale contract with the eligible employees, the relevant housing units are classified under other non-current assets.

Share based payments transactions

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. Grant date is the date at which the Group and an employee agree to a share-based payment arrangement, being when the Group and the counterparty have a shared understanding of the terms and conditions of the arrangement. The cost of equity-settled transactions is recognized in employee benefits expenses together with a corresponding increase in equity as a share-based payment reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the consolidated statement of profit or loss for a year represents the movement in cumulative expense recognised as at the beginning and end of that year.

Equity-settled transactions

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions. No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Share based payments transactions (continued)

Equity-settled transactions (continued)

In cases where an award is forfeited (i.e. when the vesting conditions relating to an award are not satisfied), the Group reverses the expense relating to such awards previously recognised in the consolidated statement of profit or loss. Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

Statutory reserve

In accordance with the Company's bylaw, the Group must set aside 10% of its net income for the year after deducting losses brought forward in each 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.

General reserve

In accordance with the Group's By-Laws, the General Assembly can establish a general reserve as an appropriation of retained earnings. This general reserve can be increased or decreased by a resolution of the shareholders.

Contingencies

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

4. CHANGES IN ACCOUNTING POLICES

New and amended standards and interpretations.

The Group applied for the relevant accounting standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts. 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 a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

4. CHANGES IN ACCOUNTING POLICES (continued)

IFRS 17 Insurance Contracts (continued)

- 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

The new standard had no impact on the Group's consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Group's consolidated financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

The amendments had no impact on the Group's consolidated financial statements.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the Organisation for Economic Co-operation and Development (OECD)'s BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the consolidated financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The amendments had no impact on the Group's consolidated financial statements.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that may affect the reported amount of assets and liabilities, revenues, expenses and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates which could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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 recognised in the consolidated financial statements) includes:

Deferred tax assets/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 recognised in the consolidated statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised 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 forecast cash flows from operations and judgment about the application of existing tax laws in each jurisdiction.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable 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 ageing or obsolescence, based on anticipated selling prices.

Useful lives of property, plant and equipment

The management determines the estimated useful lives of its property, plant and 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 where the management believes the useful lives differ from previous estimates.

Impairment test of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit 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 off 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 performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net cash-inflows and the growth rate used for extrapolation purposes.

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. Management's estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination, as well as on the technology required for clean up. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's judgement in estimating the expected cash outflows for severance payments and site closures or other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 and there has been no material change in the related assumptions in the current period.

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.

6. NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS 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.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

6. NEW IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of consolidated financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Plant	Capital spares	Buildings and leasehold improvements	Machinery and equipment	Furniture, fixtures and office equipment	Catalyst	Laboratory and safety equipment	Vehicles and trucks	Capital work-in- progress	Total 2023
<i>Cost:</i>										
At 1 January 2023	3,205,345	195,007	165,600	113,015	12,832	293,053	23,707	7,592	3,822,954	7,839,105
Additions	-	7,054	2,651	817	274	-	-	1,450	3,595,769	3,608,015
Transfers	527	-	95	176	-	-	-	-	(798)	-
Relating to disposals	-	-	-	(849)	-	-	-	(150)	-	(999)
At 31 December 2023	3,205,872	202,061	168,346	113,159	13,106	293,053	23,707	8,892	7,417,925	11,446,121
<i>Accumulated depreciation:</i>										
At 1 January 2023	2,123,214	75,982	65,895	87,083	10,593	265,933	21,031	4,423	-	2,654,154
Charge for the year	124,535	13,494	7,807	7,878	558	21,723	1,054	1,327	-	178,376
Relating to disposals	-	-	-	(849)	-	-	-	(116)	-	(965)
At 31 December 2023	2,247,749	89,476	73,702	94,112	11,151	287,656	22,085	5,634	-	2,831,565
<i>Net Book Value:</i>										
At 31 December 2023	958,123	112,585	94,644	19,047	1,955	5,397	1,622	3,258	7,417,925	8,614,556

Capital work-in-progress primarily represents costs incurred for the new Propane Dehydrogenation (PDH) & Polypropylene plant (PP) Project which are expected to complete in second half of 2024. The Group has capitalized financial charges on lease liabilities against right-of-use assets of SR 6.99 million (2022: SR 7.12 million) to capital work in progress. In addition, the Group has capitalized SR 283.31 million (2022: SR 63.30 million) financial charges on loans related to APOC's project financing. Buildings and plant facilities of the Group are constructed on land leased at nominal annual rent from the Royal Commission of Jubail and Yanbu for 30 Hijra years ending 1456H. Further, capital work-in-progress includes APOC ("a subsidiary") assets amounting to SR 7 billion (2022: SR 3.67 billion) mortgaged against SIDF loan (refer note 19).

The Group's management reviews the useful lives of its property, plant and equipment, on an annual basis. During the previous year, the Group's management revised the estimated useful lives of the 'Plant' category from 10-25 years to 10-40 years to better reflect the consumption pattern of the future economic benefit. This change has resulted in depreciation expense to be lowered by SR 50.4 million during the current year as compared to what it would have been using the previous useful lives.

ADVANCED PETROCHEMICAL COMPANY AND ITS SUBSIDIARIES

(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)



7. PROPERTY, PLANT AND EQUIPMENT (continued)

	Plant	Capital spares	Buildings and leasehold improvements	Machinery and equipment	Furniture, fixtures and office equipment	Catalyst	Laboratory and safety equipment	Vehicles and trucks	Capital work-in- progress	Total 2022
<i>Cost:</i>										
At 1 January 2022	3,212,678	190,249	165,600	111,077	12,534	293,053	23,720	5,692	1,417,624	5,432,227
Additions	-	11,526	-	1,348	298	-	22	1,900	2,406,898	2,421,992
Transfers	867	-	-	701	-	-	-	-	(1,568)	-
Relating to disposals	(8,200)	(6,768)	-	(111)	-	-	(35)	-	-	(15,114)
At 31 December 2022	<u>3,205,345</u>	<u>195,007</u>	<u>165,600</u>	<u>113,015</u>	<u>12,832</u>	<u>293,053</u>	<u>23,707</u>	<u>7,592</u>	<u>3,822,954</u>	<u>7,839,105</u>
<i>Accumulated depreciation:</i>										
At 1 January 2022	1,967,746	67,620	57,525	77,435	9,974	244,104	19,696	3,403	-	2,447,503
Charge for the year	161,481	11,696	8,370	9,677	619	21,829	1,370	1,020	-	216,062
Relating to disposals	(6,013)	(3,334)	-	(29)	-	-	(35)	-	-	(9,411)
At 31 December 2022	<u>2,123,214</u>	<u>75,982</u>	<u>65,895</u>	<u>87,083</u>	<u>10,593</u>	<u>265,933</u>	<u>21,031</u>	<u>4,423</u>	<u>-</u>	<u>2,654,154</u>
<i>Net Book Value:</i>										
At 31 December 2022	<u>1,082,131</u>	<u>119,025</u>	<u>99,705</u>	<u>25,932</u>	<u>2,239</u>	<u>27,120</u>	<u>2,676</u>	<u>3,169</u>	<u>3,822,954</u>	<u>5,184,951</u>

Allocation of depreciation charge for the year is as follows:

	<u>2023</u>	<u>2022</u>
Cost of sales (note 23)	166,096	203,073
General and administration expenses (note 24)	10,177	10,986
Selling and distribution expenses	58	32
Cost charged to capital work in progress (CWIP)	2,045	1,971
	<u>178,376</u>	<u>216,062</u>

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8. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Group has lease contracts for plant land, port land, pipeline corridor and office building. Leases of plant land and port land generally have lease terms between 10 and 30 years, while office building generally have lease term of 5 years. These lease contracts include extension and termination options.

The Group also has certain leases with lease terms of 12 months or less and leases of office equipment with low value, the Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year:

a) Right-of-use assets

	<u>2023</u>	<u>2022</u>
At the beginning of the year	184,736	192,109
Additions	1,104	-
Depreciation	(7,630)	(7,373)
At the end of the year	<u>178,210</u>	<u>184,736</u>

b) Lease Liabilities

	<u>2023</u>	<u>2022</u>
At the beginning of the year	181,271	185,074
Additions	1,104	-
Finance cost	6,902	7,637
Payments	(11,551)	(11,440)
At the end of the year	<u>177,726</u>	<u>181,271</u>
Current portion of lease liabilities	11,551	11,450
Non-current portion of lease liabilities	166,175	169,821
	<u>177,726</u>	<u>181,271</u>

The maturity analysis of lease liabilities is disclosed in note 27.

The following are the amounts recognised in profit or loss during the period;

	<u>2023</u>	<u>2022</u>
Depreciation expense of right-of-use assets (included in cost of sales) (note 23)	952	755
Depreciation expense of right-of-use assets (included in general and administration expenses) (note 24)	679	620
Finance (income) cost on lease liabilities	(96)	516
Expense relating to short-term leases (included in cost of sales) (note 23)	992	969
Expense relating to short-term leases (included in general and administrative expenses) (note 24)	2,250	1,310
Total amount recognised in profit or loss	<u>4,777</u>	<u>4,170</u>

The Group has capitalised interest expense of SR 6.99 million (2022: SR 7.12 million) to capital work in progress related to the plant land lease. The Group had total cash outflows for leases of SR 11.55 million in 2023 (2022: SR 11.44 million).

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9. INVESTMENT IN AN ASSOCIATE

The Group has an investment in SK Advanced Co. Limited through its subsidiary AGIC, in which AGIC owns 30% shareholding, and is classified as investment in an associate in these consolidated financial statements. It was incorporated and operating in South Korea in accordance with the Commercial Act of the Republic of Korea. The ownership of the associated Company is divided between AGIC with 30%, SK Gas Co. Limited with 45% and Petrochemical Industries Company K.S.C with 25%. It operates a PDH Plant with nameplate capacity of 600,000 MT per annum. The summarized financial position and operating results of the associate is given below:

	31 December 2023	31 December 2022
Current assets	491,588	528,753
Non-current assets	2,338,186	2,454,768
Current liabilities	859,238	733,963
Non-current liabilities	816,140	739,354
Equity	1,154,396	1,510,204
The Group's carrying amount of the investment	377,538	484,041
	2023	2022
Sales	1,727,729	2,105,912
Costs of sales	(1,942,674)	(2,454,694)
Selling, general and administration expenses	(23,050)	(25,167)
Other expenses	(142,652)	(79,035)
Loss before tax	(380,647)	(452,984)
Income tax	56,615	82,156
Loss for the year	(324,032)	(370,828)
Group's share of loss for the year	(97,006)	(109,099)
	2023	2022
Other comprehensive (loss) income	(3,816)	3,135
Group's share of other comprehensive (loss) income	(936)	941

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9. INVESTMENT IN AN ASSOCIATE (continued)

The movement in investment in an associate is as follows:

	<u>2023</u>	<u>2022</u>
At the beginning of the year	484,041	636,926
Share in results of loss for the year	(97,006)	(109,099)
Share in results of other comprehensive (loss) income	(936)	941
Exchange differences on translation of investment in an associate	(8,561)	(41,577)
Dividend received from an associate	-	(3,150)
At the end of the year	<u>377,538</u>	<u>484,041</u>

10. INVESTMENT IN AN UNCONSOLIDATED SUBSIDIARY

	Effective percentage of ownership	31 December 2023	31 December 2022
	<u>2023</u>	<u>2022</u>	
Advanced Global Holding Limited ("AGHL")	100%	100%	376 376

In 2014, AGIC made 100% investment in AGHL, a limited liability company incorporated in Luxembourg. The share capital contribution in AGHL was kept in its bank account and there were no other assets or liabilities, including contingent liabilities at the balance sheet date. AGHL does not have any operations for the reported year and as such the financial position and results for the year of subsidiary is immaterial to the consolidated financial statements.

11. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2023</u>	<u>2022</u>
<i>Cost:</i>		
At the beginning of the year	431,937	472,046
Disposals	-	(40,109)
At the end of the year	<u>431,937</u>	<u>431,937</u>
<i>Valuation adjustments:</i>		
At the beginning of the year	28,189	316,458
Net movement during the year	744	(272,140)
Realised gain transfer to retained earnings	-	(16,129)
At the end of the year (note 12)	<u>28,933</u>	<u>28,189</u>
Net carrying value	<u>460,870</u>	<u>460,126</u>

At 31 December 2023, equity investment at fair value through other comprehensive income comprise strategic investment in a Saudi listed entity (National Industrialization Company "TASNEE") and has been presented at related fair value. Equity investment at fair value through other comprehensive income has been measured and presented in Saudi Riyals.

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12. OTHER COMPONENTS OF EQUITY

	31 December 2023	31 December 2022
Fair value reserve (note 11)	28,933	28,189
Foreign currency translation reserve	(67,164)	(58,603)
Share-based payment reserve (note 12.a)	7,809	3,206
	<u>(30,422)</u>	<u>(27,208)</u>

12.a) Share-based payment reserve

On 20 March 2022, the shareholders in Extra Ordinary General Assembly meeting approved and authorized the Board of Directors to finalize the Employee Share Incentive Program (ESIP) for eligible employees; payable after completion of four-year service subject to other performance conditions. On 28 March 2022, The Board authorized the Nomination & Remuneration (N&RC) Committee to finalize and approve the ESIP, following which the N&RC approved the same via circulation on 12 April 2022. The plan was granted to eligible employees retroactive from 1 January 2022.

The Group offers Employee Share Incentive Program (ESIP), to certain eligible employees and the purpose of the scheme is to incentivize the employees to achieve the Group's long term goals and to attract and retain top performers. The plan vests over a period of a four years performance cycle.

Under Employee Share Incentive Program, shares of the Group are granted to employees with more than 12 months' service which will be equals to the monetary amount of the reward or bonus that has vested over the four years. The exercise price of the share options will equal to the market price of the underlying shares. The share options vest if and when the employees remain employed with the Group for next four years and achieve satisfactory performance in their provision of employment services. The share options granted will not vest if the service and performance conditions are not met. The ESIP scheme is supervised by (N&RC) after the ESIP scheme has been approved by the Board of Directors.

The total ESIP expense recognised for employees' services received is included in the 'salaries and employee related expenses' with a corresponding increase in the statement of changes in equity, as per the requirements of International Financial Reporting Standard (IFRS) 2 'Share Based Payments'. Accordingly, the Group recognised a share-based payment expense amounting to SR 4.6 million (2022: SR 3.2 million) in the consolidated statement of profit or loss with corresponding increase in the consolidated statement of changes in equity.

13. OTHER NON-CURRENT ASSETS

	31 December 2023	31 December 2022
Employees' home ownership program	<u>203,329</u>	<u>217,611</u>

It represents balances related to employees' Home Ownership Program (HOP). The Group started building residential houses for its employees in 2013. In May 2016, completed housing units were distributed to direct hire Saudi employees under a long-term repayment agreement in Phase-I. Further, in July 2019, additional completed housing units were distributed in Phase-II. During 2020, remaining completed housing units were also distributed to employees related to Phase-II. The employees pay 17% of their monthly basic salary in addition to their housing allowance which is being applied as loan repayment/installment until the total HOP loan is fully repaid. As at reporting date, SR 203.33 million (2022: SR 217.61 million) represents non-current portion and SR 16.56 million (2022: SR 17 million) represents current portion.

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14. INVENTORIES

	31 December 2023	31 December 2022
Spare parts	137,322	105,807
Catalyst	23,966	25,208
Semi-finished goods	11,847	24,979
Finished goods	9,130	8,160
Others	22,757	26,650
	205,022	190,804
Less: provision for slow moving items	(11,662)	(10,126)
	193,360	180,678

See below for the movements in the provisions for slow moving items:

	2023	2022
At the beginning of the year	10,126	16,871
Provision (reversal of provision) during the year	1,536	(6,745)
At the end of the year	11,662	10,126

The spare parts inventory primarily relates to periodic maintenance of plants and machinery and accordingly, is expected to be utilized over a period exceeding one year.

15. TRADE RECEIVABLES

	31 December 2023	31 December 2022
Trade receivables	331,559	354,372
Less: provisions for doubtful debts	(79)	(79)
	331,480	354,293

Trade receivables are non-interest bearing and are generally on 30 to 45 days terms. At 31 December 2023, no write off of trade receivables recorded (2022: write off value SR 0.21 million). See below for the movements in the provisions for doubtful debts:

	2023	2022
At the beginning of the year	79	387
Reversal of provision	-	(100)
Written off	-	(208)
At the end of the year	79	79

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15. TRADE RECEIVABLES (continued)

The ageing analysis of trade receivable is as follows:

	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i> SAR '000				
			<i>< 30 days</i>	<i>30 – 60 days</i>	<i>60 – 90 days</i>	<i>90 – 120 days</i>	<i>>120 days</i>
31 December 2023	331,559	297,272	5,607	759	1,698	12,042	14,181
Expected credit loss rate		0.0%	0.0%	0.0%	0.2%	0.4%	1.4%
31 December 2022	354,372	334,707	1,413	1,913	2,042	3,367	10,930
Expected credit loss rate		0.0%	0.0%	0.0%	0.2%	0.4%	1.6%

See note 27 on credit risk of trade receivables, which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

16. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2023	31 December 2022
Net VAT refundable from ZATCA	129,944	83,999
Current portion of employees' HOP receivable (note 13)	16,564	17,001
Prepayments	16,161	19,286
Advances to suppliers	19,034	38,885
Employees' furniture allowance	4,072	2,543
Others	1,093	3,295
	186,868	165,009

17. CASH AND CASH EQUIVALENTS

	31 December 2023	31 December 2022
Murabaha deposits	775,000	890,000
Bank balances and cash	148,664	116,535
	923,664	1,006,535

Murabaha deposits placed with the commercial banks, with maturity period of three months or less from date of placement and yield finance income at rates ranging from 4.15% to 5.44% per annum. The finance income has been adjusted against the finance cost amounting to SR 17.4 million (2022 SR 1.4 million).

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18. SHARE CAPITAL

	31 December 2023	31 December 2022
<i>Authorised shares</i>		
Ordinary shares of SR 10 each	2,600,000	2,600,000
<i>Shares issued and fully paid (See note 1)</i>		
Ordinary shares of SR 10 each	2,600,000	2,600,000

Refer to note 1 for details of increase in share capital.

19. LOANS AND BORROWINGS

19.1) SIDF LOAN

During 2022, the Group obtained a term loan facility from Saudi Industrial Development Fund (“SIDF”) with total amount of SR 3 billion to finance the construction of new PDH and PP Project. Up-front and administrative fees are charged by SIDF under the loan agreement, amortized as finance cost using the effective interest rate and presented as unamortized transaction costs deducted from the loan. As at 31 December 2023, full amount of SR 3 billion (2022: SR 2.2 billion) was withdrawn by the Group from the loan facility. The loan is secured by a mortgage over the property, plant and equipment of APOC (“a subsidiary”) amounting to SR 7 billion (2022: SR 3.67 billion) (refer note 7) and by promissory notes. The loan is payable in 16 un-equal semi-annual instalments, with first instalment payable on 15 Safar 1448H (corresponding to 29 July 2026). The facility agreement with SIDF contains certain covenants, which requires among other things, certain financial ratios to be maintained. At 31 December 2023, the Group was compliant with covenants.

	31 December 2023	31 December 2022
Saudi Industrial Development Fund (“SIDF”)	3,000,000	2,220,026
Less: unamortised transaction costs	(210,308)	(177,602)
	2,789,692	2,042,424

The maturity analysis of SIDF loan is disclosed in note 27.

19.2) ISLAMIC LOAN FACILITIES

During the year ended 31 December 2022, APOC (“a subsidiary”) signed multiple Islamic loan facilities with a consortium of financial institutions with total amount of SR 6.1 billion to finance the construction of new PDH, PP and IPA plant. These loans are secured by promissory notes and Debt Service Undertaking of USD 250 million from the Parent Company and carry a commission which commensurate with prevailing commercial rates which are mainly SIBOR based plus agreed margins. These loans are repayable in unequal semi-annual installments and maturities of these facilities are based on their respective repayment schedules spread up to 2035, with first instalment payable on 31 May 2025. These loan agreements include covenants to maintain certain financial ratios after the commencement of commercial operation. As at 31 December 2023, an amount of SR 1.42 billion was withdrawn from the loan facility.

During 2023, SIDF bridge facility of SR 600 million and VAT Murabaha facility amounting to SR 356.4 million has been cancelled by the Company as these facilities are no longer required.

19. LOANS AND BORROWINGS (continued)

19.3) LONG TERM MURABAHA LOANS

During 2023, the Group signed a Murabaha Facilities Agreement for a period of 5 years, with a local commercial bank amounting to SR 2 billion, bearing a commission rate of SIBOR plus specified margin. These facilities are intended to settle outstanding short-term loans, finance equity requirements and capital expenditures for APOC (“a subsidiary”) and are secured by promissory note. Each Murabaha period for a transaction shall be the same term as the initial Murabaha transaction, up to a maximum of 5 years tenure. During the current year an amount of SR 1.8 billion was withdrawn and SR 500 million was repaid by the Group. As at 31 December 2023, an amount of SR 1.3 billion was withdrawn by the Group. The loan to be paid in full by 28 May 2028.

In 27 September 2023, the Group signed a sharia-compliant Islamic credit facility for an amount of SR 1.6 billion from the Saudi National Bank to finance its general corporate purposes. The tenure of the facility is for a period of 5 years with a commission rate of SIBOR plus specified margin rate. As at 31 December 2023, an amount of SR 1.4 billion was withdrawn by the Group. These loan agreements include covenants to maintain certain financial ratios. At 31 December 2023, the Group was compliant with covenants.

The maturity analysis of the loans is disclosed in note 27.

19.4) SHORT TERM MURABAHA LOANS

During 2023, the Group signed a Murabaha Facility Agreement, with a local commercial bank amounting to SR 200 million, bearing a commission rate of SIBOR plus specified margin. This facility is intended to finance the working capital requirements of the Company and is secured by promissory note. Each Murabaha period for a transaction shall be the same term as the initial Murabaha transaction, up to a maximum of 12 months tenure. As at 31 December 2023, no amount is withdrawn by the Group.

In 2020, the Group entered into a Murabaha Facility Agreement on 9 July 2020 for a period of 5.5 years, with a consortium of local commercial banks amounting to SR 1.5 billion, bearing a commission rate of SIBOR plus 0.95%. This facility is intended to finance the development for new PDH & PP Project. During the year ended 31 December 2023, an amount of SR 1.5 billion was settled in full by the Group.

In 2019, the Group entered into a Murabaha Facility Agreement on 20 October 2019 for a period of 5 years, with a local commercial bank amounting to SR 250 million, bearing a commission rate of SIBOR plus 0.75%. This facility is intended to finance the working capital requirements of the Group. During the year ended 31 December 2023, an amount of SR 240.4 million was settled in full by the Group.

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20. EMPLOYEES' TERMINAL BENEFITS AND OTHER BENEFITS

The following table represents the components of the defined benefit and other liabilities:

	31 December 2023	31 December 2022
Present value of defined benefit obligation	175,237	149,012
Less: fair value of plan assets	<u>-</u>	<u>-</u>
Net defined liability (note 20.2)	175,237	149,012
Other long-term benefit (i.e., employees' saving plan) (note 20.1)	20,904	18,209
Employees terminal benefits and other benefits	<u>196,141</u>	<u>167,221</u>

Note 20.1 The movement in employees' saving plan was as follows:

	2023	2022
At the beginning of the year	18,209	15,194
Provided during the year	3,876	3,545
Payment during the year	(1,181)	(530)
At the end of the year	<u>20,904</u>	<u>18,209</u>

Note 20.2 The amounts recognised and the movements in the net defined benefits obligation over the year are as follows:

At 1 January 2022	130,172
Service cost	16,676
Finance cost	4,479
Benefits paid	(3,921)
Actuarial losses on re-measurement of net defined benefits obligation	<u>1,606</u>
At 31 December 2022	149,012
Service cost	18,375
Finance cost	7,982
Benefits paid	(4,587)
Actuarial losses on re-measurement of net defined benefits obligation	<u>4,455</u>
At 31 December 2023	<u>175,237</u>

Employees' terminal benefits are determined by actuarial valuations using a method based on projected end-of-career salaries ("The Projected Unit Credit Method"). Appropriate assumptions concerning mortality, employee turnover and interest rates are applied to determine the Group's projected benefit obligation for long-term employee benefits.

Actuarial gains and losses are recognised immediately through the consolidated statement of other comprehensive income, a component of equity. Past service costs are recognised directly in the consolidated statement of profit or loss in the reporting period as incurred.

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20. EMPLOYEES' TERMINAL BENEFITS AND OTHER BENEFITS (continued)

The principal actuarial assumptions used for valuing pension obligations are as follows (in percentages):

	<u>31 December</u> <u>2023</u>	31 December <u>2022</u>
Discount rate	5.20%	5.15%
Salary increase rate for first two years	5.20%	5.15%
Long term salary increase rate	5.20%	5.15%

A change in the material actuarial assumptions would have the following effects on the defined benefit obligation:

	<u>31 December</u> <u>2023</u>	31 December <u>2022</u>
Discount rate:		
Increase by 0.5% points	(11,669)	(10,096)
Decrease by 0.5% points	12,837	11,121
Long term salary increase rate:		
Increase by 0.5% points	12,994	11,254
Decrease by 0.5% points	(11,915)	(10,306)

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 is 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 benefit obligation as it is unlikely that changes in the assumptions would occur in isolation of one another.

The following payments are expected against the defined benefit liability in future years:

	<u>31 December</u> <u>2023</u>	31 December <u>2022</u>
Within the next 12 months (next annual reporting period)	3,516	3,554
Between 2 and 5 years	29,631	27,542
Beyond 5 years up to 10 years	77,812	65,766
	<u>110,959</u>	<u>96,862</u>

The average duration of the defined benefit plan obligation at 31 December 2023 is 14.10 years (2022: 14.33 years).

21. ACCRUALS AND OTHER CURRENT LIABILITIES

	<u>31 December</u> <u>2023</u>	31 December <u>2022</u>
Accrued purchases and expenses	222,621	232,799
Others	30,867	9,210
	<u>253,488</u>	<u>242,009</u>

The Group's exposure to currency and liquidity risk related to accounts payable, accruals and other liabilities is disclosed in note 27.

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22. ZAKAT AND INCOME TAX

The major components of zakat and income tax expense are:

	<u>2023</u>	<u>2022</u>
<i>Zakat and current income tax:</i>		
Zakat charge	9,284	2,918
Current income tax charge	194	439
	9,478	3,357
<i>Deferred tax:</i>		
Relating to origination and reversal of temporary differences	-	-
	9,478	3,357

Movement in zakat and income tax provision for the year was as follows:

	<u>2023</u>	<u>2022</u>
At 1 January	15,324	38,090
Current year provision	9,478	3,357
Payments during the year	(15,800)	(26,123)
At 31 December	9,002	15,324

Zakat

Charge for the year

The zakat charge consists of:

	<u>2023</u>	<u>2022</u>
Current year provision	8,534	14,182
Adjustment relating to prior years	750	(11,264)
Charge for the year	9,284	2,918

Income tax:

Current tax

Charge for the year

The income tax charge consists of:

	<u>2023</u>	<u>2022</u>
Current year provision	194	439
Adjustment relating to prior years	-	-
Charge for the year	194	439

No reconciliation of taxable profit and accounting profit relating to tax provision provided as there are no significant reconciling items that needs to be disclosed.

22. ZAKAT AND INCOME TAX (continued)

Status of assessments

Advanced Petrochemical Company (“the Company” or “APC”)

The tax/zakat position up-to 31 December 2013 has been finalized with ZATCA.

ZATCA issued an assessment for the year 31 December 2014 with an additional tax and zakat liability of approximately SR 0.24 million and SR 4.5 million, respectively. APC filed an appeal against the ZATCA’s assessment. The ZATCA issued a revised assessment with an additional tax and zakat liability of approximately SR Nil and SR 4.5 million, respectively. APC filed an appeal against ZATCA’s revised assessment with Tax Violations and Disputes Resolutions Committee (TVDRC). As the TVDRC issued its decision in favor of ZATCA, APC filed appeal against the TVDRC’s decision to Tax Violations and Disputes Appellate Committee (TVDAC).

However, during November 2022, APC availed the zakat amnesty issued per the Ministerial Resolution No. 13957 and accordingly, submitted the amended tax/zakat return for the year 2014 with ZATCA proposing a revised zakat liability of approximately SR 3.7 million. ZATCA sent preliminary acceptance of applying the MR 13957. Accordingly, APC withdrew the appeal from TVDAC in accordance with MR 13957. After review of the amended return, ZATCA issued the final assessment for the year 2014 with an additional zakat liability of SR 4.5 million. APC accepted ZATCA’s treatments under ‘protest’ and settled the additional zakat liability. Accordingly, the year 2014 shall now be considered as finalized.

The ZATCA also issued a revised assessment for the years 31 December 2015 through 2017 with tax liability of approximately SR 113K and zakat liability of approximately SR 12.5 million. APC filed an appeal against ZATCA’s assessment to TVDRC. TVDRC issued its decision in favor of APC however, ZATCA filed appeal against TVDRC’s decision to TVDAC. During March 2023, TVDAC issued its ruling rejecting ZATCA’s appeal and upholding TVDRC decision ruled in favor of the Company. As TVDAC ruling is considered final, the years 2015 to 2017 shall be considered as finalized.

The tax/zakat position for the year 2018 is finalized with ZATCA.

APC has filed tax/zakat declaration with ZATCA for the years 2019 through 2022 and ZATCA’s review is awaited.

Advanced Global Marketing Company (AGMC)

AGMC has filed its tax/zakat declarations with ZATCA for the years 2013 to 2022. However, there’s no assessment received so far from ZATCA with respect of those years..

Advanced Global Investment Company (“AGIC”)

ZATCA issued an assessment for the years 31 December 2016 through 2018 with an additional zakat liability amounting to SR 3.7 million. AGIC filed an appeal against ZATCA’s assessment to TVDRC and TVDRC has issued its decision in favor of AGIC on 5 February 2023. ZATCA did not object against the TVDRC ruling and is concluding the position for the years 2016 to 2018 based on the TVDRC ruling. As a result, ZATCA has cancelled the additional tax and zakat liabilities from the statement of account, except for a tax liability SR 9,540 (excluding delay fine) for the year 2016. Currently AGIC is liaising with ZATCA to cancel the remaining tax liability for 2016 as well.

AGIC has filed tax/zakat declaration with ZATCA for the years 2019 through 2022 and ZATCA’s review is awaited.

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22. ZAKAT AND INCOME TAX (continued)

Status of assessments (continued)

Advanced Polyolefins Industry Company ("APOC")

APOC has filed its tax/zakat declaration with ZATCA for the first period ended 31 December 2021 and for the year ending 31 December 2022 and ZATCA's review is awaited.

Zakat and income tax base has been computed based on the Group's understanding of the zakat and income tax regulations enforced in the Kingdom of Saudi Arabia. The zakat and income tax regulations in Saudi Arabia are subject to different interpretations. The assessments to be raised by the ZATCA could be different from the declarations filed by the Company and its subsidiaries.

Deferred tax

The deferred tax comprises of timing differences relating to:

	31 December 2023	31 December 2022
<i>Deferred tax asset</i>		
Provisions allowed on cash basis	147	147
<i>Deferred tax liability</i>		
Accelerated depreciation differential for tax purposes	<u>(1,304)</u>	<u>(1,304)</u>
Deferred tax liabilities, net	<u>1,157</u>	<u>1,157</u>

Reconciliation of deferred tax liabilities, net was as follows:

	2023	2022
At 1 January	1,157	1,157
Tax expense charged in profit or loss during the year	<u>-</u>	<u>-</u>
At 31 December	<u>1,157</u>	<u>1,157</u>

23. COST OF SALES

	2023	2022
Raw materials, utilities, consumables and change in inventories	1,621,686	2,078,412
Salaries and related benefits	124,803	119,397
Depreciation of property, plant and equipment (note 7)	166,096	203,073
Depreciation on right-of-use assets (note 8)	952	755
Short term leases (note 8)	992	969
Others	12,023	9,570
	<u>1,926,552</u>	<u>2,412,176</u>

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24. GENERAL AND ADMINISTRATION EXPENSES

	<u>2023</u>	<u>2022</u>
Salaries and related benefits	79,563	54,633
Contracted services	13,608	9,806
Depreciation of property, plant and equipment (note 7)	10,177	10,986
Legal and professional	8,445	4,262
Director's remuneration (note 30)	5,200	5,100
Software licenses and fees	3,480	2,424
Short term leases (note 8)	2,250	1,310
Communication	2,045	1,840
Allowances and board/committee meeting expenses	1,325	1,345
Depreciation on right-of-use assets (note 8)	679	620
Advertising and promotions	532	1,133
Others	13,874	11,814
	<u>141,178</u>	<u>105,273</u>

25. SEGMENT INFORMATION

A segment is a distinguishable component of the Group that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Group's management is of the view that all activities and operations of the Group comprise of a single operating segment for the purpose of decision making with respect to performance appraisal and resources allocation.

Substantial portion of the Group's sales are made to the marketers and Group's operations are related to one operating segment. Accordingly, segmental analysis by geographical and operating segment has not been presented.

Operating assets of the Group are located in the KSA. The sales are geographically distributed between domestic sales in the Kingdom representing 8% of the total sales and overseas sales represent 92% of the total sales.

26. EARNINGS PER SHARE

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

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

	<u>2023</u>	<u>2022</u>
Profit for the year attributable to equity holders of the Parent Company	<u>171,061</u>	<u>294,501</u>
*Weighted average number of ordinary shares ('000)	<u>258,765</u>	<u>259,501</u>
Earnings Per Share (SR)	<u>0.661</u>	<u>1.135</u>

26. EARNINGS PER SHARE (continued)

There has been no items of dilution affecting the weighted average number of ordinary shares except for share based payment transaction and the effect for that is negligible.

** The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year.*

27. RISK MANAGEMENT

Overview

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

- credit risk
- liquidity risk
- market risk
- operational risk

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

Risk management framework

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

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

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Financial instruments principally include cash and cash equivalents, trade receivables, equity investment at fair value through other comprehensive income, trade payables, other current liabilities, dividend payable, and other non-current liabilities.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and equity investment at fair value through other comprehensive income.

27. RISK MANAGEMENT (continued)

Credit risk (continued)

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each marketing agent who act as the exclusive sales agent of the product. The trade receivable from these marketing agents is covered through standby letter of credit issued by credit-worthy financial institutions. At 31 December 2023, the Group had 4 marketing agents that owed SR 223.3 million (2022: SR 296.5 million) and accounted for approximately 67% (2022: 84%) of all receivables as at the reporting date.

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

Credit limits are established for all customers using an internal and external rating criterion. Credit quality of the customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored.

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

The Group establishes an allowance for impairment that represents its estimate of expected losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Equity investment at fair value through other comprehensive income

The Group limits its exposure to credit risk by investing only in liquid securities with approved counterparties and within credit limit assigned to each counterparty by the Investment Committee. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis and may be updated throughout the year subject to approval of the Group's Investment Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2023 and 2022 is the carrying amounts as illustrated in note 15 except for financial guarantees.

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27. RISK MANAGEMENT (continued)

Liquidity risk

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

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Additionally, access to sources of funding is available and debt maturing within 12 months can be rolled over with existing lenders, if required.

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.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments except for short term murabaha loans which have options of roll-over:

<i>Year ended 31 December 2023</i>	<i>On Demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>2 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Lease liabilities	-	976	10,534	46,040	227,412	284,962
SIDF loan	-	-	-	772,000	2,228,000	3,000,000
Long term Murabaha loan	-	-	-	2,700,000	-	2,700,000
Islamic loan facilities	-	-	-	1,421,933	-	1,421,933
Retentions payable	-	-	185,398	-	-	185,398
Trade payables and other current liabilities	-	380,167	-	-	-	380,167
Dividends payable	4,159	-	-	-	-	4,159
	4,159	381,143	195,932	4,939,973	2,455,412	7,976,619

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27. RISK MANAGEMENT (continued)

Excessive risk concentration (continued)

<i>Year ended 31 December 2022</i>	<i>On Demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>2 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Lease liabilities	-	976	10,534	46,040	238,921	296,471
SIDF loan	-	-	-	162,802	2,057,224	2,220,026
Short term murabaha loan	-	1,740,400	-	-	-	1,740,400
Long term retentions	-	-	-	81,605	-	81,605
Trade payables and other current liabilities	2,026	384,383	-	-	-	386,409
Dividends payable	4,057	-	-	-	-	4,057
	<u>6,083</u>	<u>2,125,759</u>	<u>10,534</u>	<u>290,447</u>	<u>2,296,145</u>	<u>4,728,968</u>

Market risk

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

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk on sales, purchases, borrowings and investment that are denominated in a currency other than the respective functional currencies of Group entities, primarily US Dollars and South Korean Won. The Group is not significantly subject to fluctuations in foreign exchange rates in the normal course of its business as the US Dollars is pegged against Saudi Riyal and the Group monitors the fluctuations in currency exchange rate of South Korean Won and manages its effect on consolidated financial statements.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowing which expose the Group to cash flow interest rate risk.

The Group's receivables and floating-rate borrowings carried at amortised cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates as major finance cost is being capitalized. Hence, the Group is not exposed to fair value interest rate risk.

Commodity risk

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

Equity price risk

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to equity securities at fair value listed on the Saudi Stock Exchange was SR 460.1 million. Given that the changes in fair values of the equity investments held are strongly positively correlated with changes of the Saudi Stock Exchange market index, the Group has determined that a decrease of 20% on the Saudi Stock

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27. RISK MANAGEMENT (continued)

Equity price risk (continued)

Exchange market index could have an impact of approximately SR 92 million on the other comprehensive income or equity attributable to the Group. An increase of 20% in the value of the listed securities would only impact equity but would not have an effect on the consolidated statement of profit or loss.

	<i>Change in equity price</i>	<i>Effect on equity/other comprehensive income</i>	
	%	2023	2022
Equity investment at fair value through other comprehensive income	+/- 20	<u>92,174</u>	<u>92,025</u>

Capital management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio:

The gearing ratios as at the end of year were as follows:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Total debt (net of deposits)	6,136,625	2,892,824
Total equity	<u>3,604,876</u>	<u>3,618,488</u>
Total equity and total debt (net of deposits)	<u>9,741,501</u>	<u>6,511,312</u>
Debt to equity ratio	<u>170.23%</u>	<u>79.95%</u>

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 2022.

Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in transaction. As the consolidated financial statements are prepared under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

The Group has categorized its financial assets and liabilities into a three-level fair value hierarchy, based on the nature of the inputs used in determining fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

Following is a description of each category in the fair value hierarchy and the financial assets and liabilities of the Group that are included in each category at 31 December 2023.

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27. RISK MANAGEMENT (continued)

Fair Value (continued)

- Level 1: Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market.
- Level 2: Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

	<i>SR '000</i>	<i>Level 1 SR '000</i>	<i>Level 2 SR '000</i>	<i>Level 3 SR '000</i>
Year ended 31 December 2023				
<i>Assets measured at fair value</i>				
Equity investment at fair value through other comprehensive income	460,870	460,870	-	-
Year ended 31 December 2022				
<i>Assets measured at fair value</i>				
Equity investment at fair value through other comprehensive income	460,126	460,126	-	-

The Group has not disclosed the fair value of financial instruments such as cash and cash equivalent, trade receivables, trade payable, accruals, other current liabilities, SIDF loan, short term Murabaha loans and lease liabilities, because their carrying amounts are a reasonable approximation of fair value largely because of short term maturity of these instruments.

The fair value of the financial assets and liabilities is included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Floating-rate borrowings approximate their carrying amounts largely due to the fact that the floating rate approximates the market interest rate.
- The fair value of loans from banks and other financial indebtedness as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities.

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28. COMMITMENTS AND CONTINGENCIES

Commitments

At 31 December 2023, Capital commitments contracted but not yet incurred amounted to SR 2.4 billion in respect of the new PDH and PP Project (2022: SR 4.9 billion in respect of the new PDH and PP Project).

The Group has signed a five-year agreement for the purchase of 80,000 MT per annum of propylene (an intermediate product) which have been used in the production of polypropylene since 1 October 2014. In 2017, this agreement is extended up to 31 July 2023 with increase in the quantity to 100,000 MT per annum. In 4 January 2022, this agreement was extended up to 31 December 2025 with increase in quantity to 120,000 MT.

Contingencies

The Group's banker has given payment guarantees on behalf of the Group in favor of Jubail Commercial Port for land lease amounting to SR 1.31 million (31 December 2022: SR 1.95 million).

The Group's banker has given a Payment guarantees on behalf of the Group in favor of Royal Commission for beach camp amounting to SR 50,000 (31 December 2022: SR Nil).

The Group's banker has given a Payment guarantees on behalf of the Group in favor of Saudi Aramco, for securing propane supply amounting to USD 27 Million (31 December 2022: SR Nil).

29. DIVIDENDS

On 20 February 2023, the Board of Directors resolved to distribute interim cash dividend for the fourth quarter of 2022 of SAR 0.55 per share (totaling SAR 142.5 million). The distribution date was 28 May 2023.

On 27 September 2022, the Board of Directors resolved to distribute interim cash dividend for the third quarter of 2022 of SR 0.55 per share (totaling SR 142.5 million). The distribution was 18 December 2022.

On 5 July 2022, the Board of Directors resolved to distribute interim cash dividend for the second quarter of 2022 of SR 0.55 per share (totaling SR 142.5 million). The distribution date was 18 September 2022.

On 28 March 2022, the Board of Directors resolved to distribute interim cash dividend for the first quarter of 2022 of SR 0.55 per share (totaling SR 143 million). The distribution date was 22 May 2022.

On 21 December 2021, the Board of Directors resolved to distribute interim cash dividend for the fourth quarter of 2021 of SR 0.65 per share (totaling SR 141 million). The distribution date was 20 February 2022.

	<u>2023</u>	<u>2022</u>
At the beginning of the year	4,057	145,490
Dividend declared	142,533	428,032
Payments during the year	<u>(142,431)</u>	<u>(569,465)</u>
At the end of the year	<u>4,159</u>	<u>4,057</u>

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30. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the Company's major shareholders, associated companies and their shareholders, key management personnel, Directors, and entities controlled, jointly controlled or significantly influenced by such parties.

During the year, no significant transactions with the related parties resulting in balances.

Compensation of key management personnel

Below are the details of key management personnel compensation recorded during the year;

	<u>2023</u>	<u>2022</u>
Salaries and allowances	22,141	27,366
Short term and other benefits	4,874	3,044
	<u>27,015</u>	<u>30,410</u>

The non-executive directors do not receive pension entitlements from the Group. The Group has paid SR 5.2 million (2022: SR 5.1 million) as directors' remuneration during the year.

31. NON-CONTROLLING INTEREST

This represents 15% of the ownership in Advanced Polyolefins Industry Company owned by SK Gas Petrochemical Pte. Ltd., a company organized and existing under the laws of Republic of Singapore. Below is the movement during the year:

	<u>2023</u>	<u>2022</u>
At 1 January	378,964	221,782
Contributions made during the year	-	159,300
Share in results during the year	(4,160)	(2,118)
At 31 December	<u>374,804</u>	<u>378,964</u>

Contributions during the year was Nil while contributions during the previous year includes contributions for share capital amounting to SR 106.2 million and contributions for additional capital amounting to SR 53.1 million.

Summarised statement of financial position

Set out below is summarised financial information for Advanced Polyolefins Industry Company that has a non-controlling interest. The amounts disclosed are before inter-company eliminations.

	<u>31 December 2023</u>	<u>31 December 2022</u>
Current assets	156,445	981,990
Non-current assets	7,113,758	3,783,895
Current liabilities	279,085	32,197
Non-current liabilities	4,495,913	2,209,981
Equity	<u>2,495,205</u>	<u>2,523,707</u>

31. NON-CONTROLLING INTEREST (continued)

Summarised statement of comprehensive income

	<u>2023</u>	<u>2022</u>
General and administration expenses	(27,733)	(14,278)
Other income	-	167
Loss before Zakat	(27,733)	(14,111)
Zakat	(758)	(2,462)
Loss for the year	(28,491)	(16,573)
Other comprehensive income	-	-

32. SUBSEQUENT EVENT

In the opinion of management, there have been no other significant subsequent events since the year ended 31 December 2023 that would have a material impact on the consolidated financial position of the Group as reflected in these consolidated financial statements.

33. COMPARATIVE AMOUNTS

Certain of the prior period items have been reclassified to conform with the classification and presentation in the current year. However, such reclassification have not resulted in any additional impact on equity or profit for the prior period. The reclassifications were as follows:

<u>Particulars</u>	<u>Reclassification from</u>	<u>Reclassification to</u>	<u>Amount</u>
General and administration expenses	Director's Remuneration	Allowances and board/committee meeting expenses	1,218