SABIC AGRI-NUTRIENTS COMPANY
(FORMERLY: SAUDI ARABIAN FERTILIZER COMPANY (SAFCO))
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
AND INDEPENDENT AUDITOR'S REPORT

SABIC AGRI-NUTRIENTS COMPANY (FORMERLY: SAUDI ARABIAN FERTILIZER COMPANY (SAFCO))

(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2020

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SABIC AGRI-NUTRIENTS COMPANY (FORMERLY: SAUDI ARABIAN FERTILISER COMPANY (SAFCO)) (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of SABIC Agri-Nutrients Company (the "Company") (formerly: Saudi Arabian Fertilizer Company (SAFCO)), a Saudi Joint Stock Company, which comprise the statement of financial position as at 31 December 2020, and the statement of income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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

Other Matter
The financial statements of the Company for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 29 Jumada II 1441H (corresponding to 23 February 2020).

Key Audit Matter
Key audit matter is this matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on this matter. For the 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 financial statements section of our report, including in relation to that matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

**TO THE SHAREHOLDERS OF SABIC AGRI-NUTRIENTS COMPANY (FORMERLY: SAUDI ARABIAN FERTILISER COMPANY (SAFCO))
(A SAUDI JOINT STOCK COMPANY) - continued**

Key Audit Matter - continued

Key audit matter	How the matter was addressed in our audit
Allowance for dormant and obsolete spare parts inventory	
The nature of the operations of the Company requires carrying spare parts to support continuous operations of the Company. Such spare parts are also planned to be utilised during turn around and the maintenance periods. The total gross spare parts inventory as of 31 December 2020 amounted to SR 432 million (31 December 2019: SR 422 million against which the Company has maintained an allowance for dormant and obsolete spare parts amounted as at 31 December 2020 amounted to SR 71 million (31 December 2019: SR 41 million). We identified allowance of spare parts inventory as a key audit matter due to the critical judgement exercised by the Company's management in identifying dormant and obsolete spare parts and assessing the amount of allowance for spare parts. Refer to note 6 to the financial statements for the significant accounting policy, note 3.1.3 for the critical accounting estimates and judgments and note 14 which details the disclosure of inventories.	Our procedures in relation to evaluate the appropriateness of the allowance of spare parts inventory included: - Understanding of how the Company's management identifies the dormant and obsolete inventories and assesses the amount of allowance for spare parts inventory; - Testing the accuracy of the aging analysis of inventories, on a sample basis; and arithmetical accuracy of computation; - physically verifying a sample of spare parts and observing their conditions; - Evaluating the historical accuracy of allowance of inventories assessed by management by comparing the actual loss to historical allowance recognized; - Reperforming the calculation of the allowance based on the Company's policy; and - Assessing the completeness of disclosures in the financial statements related to the matter.

Other information included in The Company's 2020 Annual Report

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

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

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SABIC AGRI-NUTRIENTS COMPANY (FORMERLY: SAUDI ARABIAN FERTILISER COMPANY (SAFCO))
(A SAUDI JOINT STOCK COMPANY) - continued

Other information included in The Company's 2020 Annual Report (continued)
In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Company's 2020 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SABIC AGRI-NUTRIENTS COMPANY (FORMERLY: SAUDI ARABIAN FERTILISER COMPANY (SAFCO)) (A SAUDI JOINT STOCK COMPANY) - continued

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

for Ernst & Young

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

Marwan Al-Afaliq
Certified Public Accountant
Registration No. 422

18 Rajab 1442H
2 March 2021
Al Khobar

SABIC AGRI-NUTRIENTS COMPANY (FORMERLY: SAUDI ARABIAN FERTILIZER COMPANY (SAFCO))

(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	***2020***	*2019*
		SR '000	*SR '000*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	**5,589,933**	5,897,990
Right-of-use assets	8	**127,773**	123,781
Intangible assets	9	**62,736**	63,701
Investment in an associate	10	**792,271**	744,176
Financial assets at fair value through other comprehensive income	11	**606,443**	530,519
Other non-current assets	12	**102,062**	134,377
TOTAL NON-CURRENT ASSETS		**7,281,218**	7,494,544
CURRENT ASSETS			
Inventories	14	**403,048**	434,019
Trade receivables	15	**475,318**	630,421
Prepayments and other current assets	16	**119,732**	199,815
Short term investments - bank deposits	17	**1,250,000**	150,000
Cash and cash equivalents	18	**465,461**	753,743
TOTAL CURRENT ASSETS		**2,713,559**	2,167,998
TOTAL ASSETS		**9,994,777**	9,662,542
EQUITY AND LIABILITIES			
EQUITY			
Share capital	19	**4,166,667**	4,166,667
Statutory reserve	20	**1,250,000**	1,250,000
Retained earnings		**2,309,767**	2,221,373
Fair value reserve of financial assets at fair value through other comprehensive income	11	**434,175**	358,251
TOTAL EQUITY		**8,160,609**	7,996,291
NON-CURRENT LIABILITIES			
Lease liabilities	21	**102,913**	105,649
Employees' benefits	22	**1,092,148**	879,217
TOTAL NON-CURRENT LIABILITIES		**1,195,061**	984,866

The attached notes 1 to 41 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2020

	Note	***2020***	*2019*
		SR '000	*SR '000*
CURRENT LIABILITIES			
Current portion of lease liabilities	21	**20,298**	13,878
Trade payables	23	**114,423**	186,703
Accruals and other current liabilities	24	**323,702**	304,098
Dividends payable	38	**117,936**	137,412
Zakat provision	31	**62,748**	39,294
TOTAL CURRENT LIABILITIES		**639,107**	681,385
TOTAL LIABILITIES		**1,834,168**	1,666,251
TOTAL EQUITY AND LIABILITIES		**9,994,777**	9,662,542

Chairman of the Board
Yousuf A. Al-Benyan

for
Company's President
Ahmed M. Al-Jabr

Director Finance and Planning
Ali S. Al Dossary

The attached notes 1 to 41 form part of these financial statements.

SABIC AGRI-NUTRIENTS COMPANY (FORMERLY: SAUDI ARABIAN FERTILIZER COMPANY (SAFCO))

(A Saudi Joint Stock Company)

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	*2020*	*2019*
		SR '000	*SR '000*
Sales	34	**3,327,542**	3,287,582
Cost of sales	25	**(1,662,354)**	(1,593,557)
GROSS PROFIT		**1,665,188**	1,694,025
Selling and distribution expenses	26	**(119,801)**	(89,435)
General and administrative expenses	27	**(237,419)**	(276,320)
OPERATING PROFIT		**1,307,968**	1,328,270
Share of results of an associate	10	**48,095**	126,535
Finance income	28	**13,453**	19,748
Other income, net	29	**12,788**	26,973
Finance costs	30	**(28,087)**	(26,705)
INCOME BEFORE ZAKAT		**1,354,217**	1,474,821
Zakat expense	31	**(59,816)**	(902)
NET INCOME FOR THE YEAR		**1,294,401**	1,473,919
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss not to be reclassified to income in subsequent period:			
Net gain (loss) on financial assets at fair value through other comprehensive income	11	**75,924**	(74,975)
Remeasurement losses on defined benefits plans	22	**(164,313)**	(58,702)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(88,389)**	(133,677)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,206,012**	1,340,242
Number of shares outstanding (in thousands)	32	**416,667**	416,667
Basic and diluted earnings per share from net income attributable to the equity holders of the Company	32	**3.11**	3.54

Chairman of the Board	for **Company's President**	**Director Finance and Planning**
Yousuf A. Al-Benyan	Ahmed M. Al-Jabr	Ali S. Al Dossary

The attached notes 1 to 41 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Share capital *SR '000*	*Statutory reserve* *SR '000*	*Retained earnings* *SR '000*	*Fair value reserve of financial assets at fair value through other comprehensive income* *SR '000*	*Total* *SR '000*
As at 1 January 2019	4,166,667	1,250,000	2,056,156	433,226	7,906,049
Net income for the year	-	-	1,473,919	-	1,473,919
Other comprehensive loss for the year	-	-	(58,702)	(74,975)	(133,677)
Total comprehensive income for the year	-	-	1,415,217	(74,975)	1,340,242
Dividends (note 38)	-	-	(1,250,000)	-	(1,250,000)
As at 31 December 2019	4,166,667	1,250,000	2,221,373	358,251	7,996,291
Net income for the year	-	-	1,294,401	-	1,294,401
Other comprehensive (loss) income for the year	-	-	(164,313)	75,924	(88,389)
Total comprehensive income for the year	-	-	1,130,088	75,924	1,206,012
Dividends (note 38)	-	-	(1,041,694)	-	(1,041,694)
Balance at 31 December 2020	**4,166,667**	**1,250,000**	**2,309,767**	**434,175**	**8,160,609**

Chairman of the Board
Yousuf A. Al-Benyan

for
Company's President
Ahmed M. Al-Jabr

Director Finance and Planning
Ali S. Al Dossary

The attached notes 1 to 41 form part of these financial statements.

SABIC AGRI-NUTRIENTS COMPANY (FORMERLY: SAUDI ARABIAN FERTILIZER COMPANY (SAFCO))

(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	***2020***	*2019*
		SR '000	*SR '000*
Cash flow from operating activities			
Income before zakat		**1,354,217**	1,474,821
Adjustments to reconcile profit before zakat to net cash from operating activities:			
Depreciation of property, plant and equipment	7	**543,806**	547,838
Depreciation of right-of-use assets	8	**23,738**	19,914
Amortisation of intangible assets	9	**8,063**	7,168
Employees' benefits charge	22	**62,151**	51,617
Share in results of an associate	10	**(48,095)**	(126,535)
Loss on disposal of property, plant and equipment		**-**	921
Finance income		**(13,453)**	(19,748)
Finance costs		**28,087**	26,705
		1,958,514	1,982,701
Working capital adjustments:			
Inventories		**30,971**	51,646
Trade receivables		**165,191**	(20,434)
Prepayments and other current assets		**80,083**	(76,638)
Trade payables		**(76,770)**	(54,320)
Accruals and other current liabilities		**17,050**	(37,566)
Cash from operations		**2,175,039**	1,845,389
Employees' benefits paid		**(31,506)**	(28,719)
Finance costs paid		**(13,158)**	(9,112)
Zakat paid		**(36,362)**	(29,856)
Net cash from operating activities		**2,094,013**	1,777,702
Investing activities			
Purchase of property, plant and equipment		**(235,749)**	(722,084)
Proceeds from disposal of property, plant and equipment		**-**	58
Purchases of intangible assets		**(7,098)**	(18,293)
Finance income received		**13,453**	19,748
Dividends received from an associate		**-**	75,000
Net movement in other non-current assets		**32,315**	36,047
Net movement in short term investments - bank deposits		**(1,100,000)**	200,000
Net cash used in investing activities		**(1,297,079)**	(409,524)
Financing activities			
Payment of lease liabilities		**(24,046)**	(18,534)
Dividends paid		**(1,061,170)**	(1,288,595)
Net cash used in financing activities		**(1,085,216)**	(1,307,129)
(Decrease) increase in cash and cash equivalents		**(288,282)**	61,049
Cash and cash equivalents at the beginning of the year		**753,743**	692,694
Cash and cash equivalents at the end of the year		**465,461**	753,743

The attached notes 1 to 41 form part of these financial statements.

SABIC AGRI-NUTRIENTS COMPANY (FORMERLY: SAUDI ARABIAN FERTILIZER COMPANY (SAFCO))
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2020

	Note	***2020*** ***SR '000***	*2019* *SR '000*
Non-cash transactions:			
Recognition of right-of-use assets due to adoption of IFRS 16		-	134,826
Property, plant and equipment transferred to intangible assets		-	727
Finance costs on lease liabilities	30	**7,154**	7,409
Property, plant and equipment transferred to right-of-use assets	7 &8	-	8,869
Additions to right-of-use assets and lease liabilities	8 & 21	**27,730**	-
Other employment benefits charged to related parties		**1,213**	-
Post-employees' benefits charged to a related parties		**8,875**	11,783
Transfer of employee benefits (to) from related parties	22	**(4,490)**	30,395

Chairman of the Board	for **Company's President**	**Director Finance and Planning**
Yousuf A. Al-Benyan	Ahmed M. Al-Jabr	Ali S. Al Dossary

The attached notes 1 to 41 form part of these financial statements.

1 CORPORATE INFORMATION

SABIC Agri-Nutrients Company (the "Company") (formerly: Saudi Arabian Fertilizer Company (SAFCO)), is a Saudi Joint Stock Company incorporated under Royal Decree Number M/13 dated 11 Jumada' I 1385H (corresponding to 7 September 1965). The Company was initially registered in the city of Dammam with Commercial Registration number 2050001841 dated 1 Dhul al-Hijjah1385H (corresponding to 24 March 1966), and later on the Company's head office was shifted to Jubail Industrial City with commercial registration number 2055002359 dated 29 Shawwal 1411H (corresponding to 14 May 1991). The previous commercial registration was converted to a branch and then cancelled in 2013.

During the year, the shareholders in the extraordinary general assembly meeting dated 3 Rabi' II 1442H (corresponding to 18 November 2020) have resolved to change the Company's name from Saudi Arabian Fertilizer Company (SAFCO) to SABIC Agri-Nutrients Company.

The Company's shares are owned 42.99% by Saudi Basic Industries Corporation ("SABIC"), 8.85% by the General Organization for Social Insurance, and the remaining shares are owned by general public shareholders.

The Company is engaged in the production, conversion and manufacturing, marketing and trade of fertilizers of all types inside and outside the Kingdom of Saudi Arabia.

The Company holds a 50% equity interest in National Chemical Fertilizers Company ("Ibn Al Baytar"), 3.87% equity interest in Arabian Industrial Fibers Company ("Ibn Rushd") and 1.69% equity interest in Yanbu National Petrochemicals Company ("Yansab").

The financial statements of the Company for the year ended 31 December 2020 were authorised for issue on 18 Rajab 1442H (corresponding to 2 March 2021).

2 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

The financial statements are prepared under the historical cost convention, except for certain financial assets that are measured at fair value through other comprehensive income, using the accruals basis of accounting. For employee and other post-employment benefits, actuarial present value calculations are used.

All values are rounded to the nearest thousand (SR '000), except when otherwise indicated.

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.1 Estimates and assumptions

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

3.1.1 Impairment of non-financial assets

Impairment of non-financial assets incur when the carrying value of an asset or Cash Generating Unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing off the asset. The value in use is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget and business plan for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net cash-inflows and the growth rate used for extrapolation purposes.

3.1.2 Incremental borrowing rate for lease agreements

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

3.1.3 Allowance for dormant and obsolete inventories

Allowances for inventory are recorded where events or changes in circumstances indicate that the carrying cost of inventories will not be fully realised. The quantification of allowance for inventories requires the use of estimates and judgements. Where the outcomes are different from the original estimates, such differences will impact the carrying value of inventories and allowance for inventory in the years in which such estimates have been changed.

3.1.4 Provisions

By their nature, the measurement of provisions depends upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows.

3.1.5 Defined employee benefit plans

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

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.1 Estimates and assumptions (continued)

3.1.5 Defined employee benefit plans (continued)

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

3.2 Critical judgements in applying accounting standards

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

3.2.1 Component parts of property, plant and equipment

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

3.2.2 Determining the lease term of contracts with renewal and terminations options

The Company 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 Company has certain lease contracts that include extension and termination clauses. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in the circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the contract.

4 CHANGES IN ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS

4.1 Amendments to IFRS

The following amendments to IFRS that have to be mandatorily applied as per 1 January 2020 by the Company, which are relevant to the Company:

4.1.1 Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. This amendment has no impact nor is expected to have any future impact on the financial statements of the Company.

4 CHANGES IN ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS (continued)

4.1 Amendments to IFRS (continued)

4.1.2 Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment has no impact on the financial statements of the Company.

The following amendments to IFRS that have to be mandatorily applied as per 1 January 2020 by which the Company are not affected:

Conceptual Framework for Financial Reporting issued on 29 March 2018
Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

5.1 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 2023 and must be applied retrospectively. Early application permitted.

The amendment does not have any impact on the Company's financial statements.

5.2 Amendments to IAS 16 – Property, Plant and Equipment

The amendment prohibits entities from deduction from the costs of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in the statement of income.

The amendment must be applied retrospectively only to items of property, plant and equipment made available for the use of on or after the beginning of the earliest period presented when the entity first applies the amendment. The effective date is 1 January 2022 with earlier application permitted. The Company will apply it once it becomes effective and is assessing the impact on the financial statements.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company in preparing these financial statements are applied consistently as follows:

Current versus non-current classification

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

- It is expected to be realised or intended to sold or consumed in normal operating cycle;
- It is expected to be realised within twelve months after the reporting period; or
- It is cash or a 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 Company classifies all other liabilities as non-current.

Property, plant and equipment

<u>Owned assets</u>

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs 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. Where such assets are constructed in-house, their cost includes all amounts necessary to bring the asset to the present condition and location to be ready for intended use by management and excludes all costs such as general and administrative expenses and training costs. Any feasibility study costs are expensed as incurred unless they relate to specifically identifiable asset being constructed in-house and are directly attributable to it. Pre-operating costs during start up period net of proceeds from sale of trial production, are included as part of cost of the relevant item of property, plant and equipment, provided it is a directly attributable cost which meets the recognition criteria, and only up to the point the asset is in a condition ready for intended use.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/components have a useful life different than other parts and are required to be replaced at different intervals, the Company shall recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection (turnaround/shutdown, planned) is performed, its directly attributable cost is recognized in the carrying amount of the property, plant and equipment if the recognition criteria are satisfied. This is recorded as a separate component with a useful life generally equal to the time period up to the next scheduled major inspection (turnaround).

If the next turnaround occurs prior to the planned date, any existing book value of the previous turnaround is expensed immediately. All other repair and maintenance costs are recognized in the statement of income and other comprehensive income as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. The Company will periodically assess the expectation and estimation for the decommissioning liability.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Owned assets (continued)

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

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

Assets	Useful life
Building and leasehold improvements	13-40 years
Plant and equipment	4-50 years
Furnitures and fixtures	3 years
Vehicles	5 years

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

Assets under construction, which are not ready for their intended use, are not depreciated.

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

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets, as follows:

	Years
Land	5 - 32
Housing	2- 10
Plant and equipment	2
Vehicles	2-5
Gas pipeline	15

Leases

The Company 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.

Company as lessee

Leases are recognised as right-of-use assets along with their corresponding liabilities at the date of which the leased assets are available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is recognised in the statement of income over the lease term. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are initially measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs; if applicable.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Company as lessee (continued)

Lease liabilities include, if applicable, the net present value of fixed payments including in-substance fixed payments, less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Short-term and low value assets' leases

Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items that do not meet the Company's capitalisation threshold and are considered to be insignificant for the statement of financial position of the Company as a whole. Payments for short-term leases and leases of low-value assets are recognised on a straight-line basis in the statement of income.

Variable lease payments

Some leases contain variable payments that are linked to the usage or performance of the leased asset. Such payments are recognised in the statement of income.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indicator that the intangible asset may be impaired. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category that is consistent with the function of the intangible asset.

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

Assets	**Useful life**
Software and license	7 years

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in the statement of income.

Investment in an associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor joint venture. 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 investment in an associate is accounted for using the equity method. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post acquisition profits or losses and other comprehensive income of the associate in the statement of income and other comprehensive income, and the Company's share of movements in other comprehensive income (OCI) of the associate in other comprehensive income.

Dividends received or receivable from associate are recognized as a reduction in the carrying amount of the investment.

When the Company's share of losses in an associate equals or exceeds its interest in that associate, including any other unsecured long-term receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The aggregate of the Company's share in net result of an associate is shown on the face of the statement of income and other comprehensive income.

The financial statements of the associate should be for the same reporting period as the Company. If not, then adjustments are made to bring the balances and transactions to be at / for the reporting period similar to the Company. Adjustments shall also be made to bring the balances and transactions in line with the accounting policies of the Company, in case the accounting policies of such associate differ from those of the Company.

On acquisition of the investment in an associate, any excess of cost of the investment over the Company's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the statement of income in the period in which the investment is acquired.

At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value in the books of the Company, then recognizes the loss as 'Share in net result of an associate' in the statement of income and other comprehensive income.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate (continued)

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income and other comprehensive income.

Impairment of non-current assets

The Company 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 Company estimates the assets recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Company. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

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

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

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

For assets other than goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, The Company’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 recognized. This reversal is limited such that the recoverable amount does not 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 recognized in the statement of income.

Financial assets

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

- Financial assets measured at amortised cost, or
- Financial assets measured at fair value through income statement or through other comprehensive income statement.

Gains or losses of assets measured at fair value will be recognised either through the statement of income and other Comprehensive Income (“OCI”).

Trade receivables and other current assets, which are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interests, are measured at amortised cost.

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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through income statement, irrespective of the business model.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Initial recognition and measurement

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

Subsequent measurement

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

a) Financial assets at amortised cost (Debt Instruments)

b) Financial assets at ‘Fair Value through Other Comprehensive Income’ (“FVOCI”) with recycling of cumulative gains and losses (Debt Instruments)

c) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (Equity Instruments)

d) Financial assets at Fair Value through Income Statement (“FVIS”)

a) Financial assets at amortised cost (debt instruments):

Financial assets at amortised cost are subsequently measured using the Effective Interest Rate (“EIR”) method and are subject to impairment. Gains and losses are recognised in statement of income when the asset is derecognised, modified or impaired.

b) Financial assets at ‘Fair Value through Other Comprehensive Income’ (“FVOCI”) with recycling of cumulative gains and losses (Debt Instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of income 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 the statement of income.

c) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (Equity Instruments)

The Company measures all equity investments at fair value and presents changes in fair value of equity investments in OCI. Dividends from such investments continue to be recognised in the statement of income as other income when the Company’s right to receive payments is established. Gains and losses on these financial assets are never recycled to the statement of income.

d) Financial assets at Fair Value through Income Statement (“FVIS”)

Financial assets that do not meet the criteria for subsequent recognition at amortised cost or FVOCI are measured at FVIS. A gain or loss on a debt investment that is subsequently measured at fair value through the income statement and which is not part of a hedging relationship is recognised and presented net in the statement of income in the period in which it arises.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition
A financial asset or a part of a financial asset is de-recognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or
    b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments as part of its financial assets, which are carried at amortised cost and FVOCI.

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 , the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified under either of the below two classes:

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

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

a) *Designated:* A financial liability that is designated by the entity as a liability at FVIS upon initial recognition; and

b) *Held for trading:* A financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in statement of income 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 method. The EIR amortisation is included as finance costs in the statement of income.

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

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

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

De-recognition
A financial liability is derecognised when the obligation under the liability is discharged, 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 recognised in the statement of income.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the separate 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 or realise the assets and settle the liabilities simultaneously.

Inventories
Inventories including raw materials, finished goods and consumable(spares) are valued at the lower of cost i.e historical purchase prices based on the weightage average principle plus directly attributable costs(primarily duty and transportation) or net realisable value.

Inventories of work in progress and finished goods include cost of materials, labour and an appropriate proportion of direct overheads.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)
Inventories of finished goods include cost of materials, labor and an appropriate proportion of variable and fixed direct overheads.

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

Abnormal inventory losses due to quality or other issues and overheads incurred during unplanned maintenance / shut down period are excluded from inventory cost. The allocation of overheads at period end for the purpose of inventory valuation are based on the higher of normal capacity or actual production for the period. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

Scrap inventory, co-product and by product

Production process in the Company sometimes results in the production of co-product simultaneously, or may result in some by-products or scrap (either non-usable or recyclable). When the costs of conversion of such co/by-product and/or scrap are not separately identifiable from the main product cost, they are allocated on a rational and consistent basis to such products and co/by-product and scrap. The allocation is based on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.

Where by-products and scrap are immaterial and where costs cannot be allocated to them or it is inefficient to do so, these items are measured under inventory at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product inventory is not materially different from its cost.

In the statement of income, the net realisable value for the by-products and scrap reduces the cost of sales for the period. Upon subsequent sale of such by-product, the proceeds are recorded as revenue with the corresponding cost of sales being recorded based on the earlier recorded net realisable value. For scrap, the proceeds, net of cost, is recorded as other income.

Consumable spare parts

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

Capital spare parts

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)

Capital spare parts (continued)

- Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalized as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the plant and equipment in which it is installed. These do not form part of inventory.

- General capital spares and other consumables items which are not of a critical nature and are of a general nature, i.e., not plant specific and can be used in multiple plants or production lines and any other items which may be required at any time for facilitating plant operations. They are generally classified as 'consumables and spare parts` under inventory, unless they exceed the threshold and have a useful life of more than one year, under which case they are recorded under property, plant and equipment. items recorded under inventory are subject to assessment for obsolescence provision and are charged to the statement of income upon their installation or use.

Short term investments

Short term investments represent Murabaha commodity deposits with original maturity more three months and less than a year upon acquisition are presented under current assets. These deposits are maintained with local and foreign commercial banks in Saudi Riyals and US dollars and carry profit at commercial rates.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise bank balances, short-term deposits, demand deposits and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above held with banks all of which are available for use by the Company unless otherwise stated.

Dividend

The Company recognises a liability to make cash distribution to equity holders of the Company when the distribution is authorised by approval of the shareholders of the Company and the distribution is no longer at the discretion of the Company. Interim dividends, if any, are recorded when approved by the Board of Directors. A corresponding amount is recognised directly in equity.

Employee benefits

Short term employee benefits

Liabilities for wages and salaries, including accumulating, leaves, air fare, child education allowance, furniture allowance that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' service up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligation in the statement of the financial position.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Long-term employee benefit obligations

Long-term employee benefit obligations are measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method and recorded as non-current liabilities. Consideration is given to expected future salary increase and historic attrition rates and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate or government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of changes in actuarial assumptions are recognised in the statement of other comprehensive income.

The obligations are presented as current liabilities in the statement of financial position if the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur

Post-employment obligation

The Company offers various post-employment schemes, including both defined contribution and defined benefit plans, and post-employment medical and life insurance plans for eligible employees and their dependents.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and has no other legal or constructive obligation. The contributions are recognised as employee benefit expense in the statement of income when they are due. The Company, offers a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Company’s normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance, and for the purpose of presentation in the financial statements, it is offset with the related liability under the savings plan and the net liability to employees is reported under the employee benefits liability.

Defined benefit plans

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

a) End of service pension award

For the liability for employees’ end of service benefits, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labour and Workmen Law as well as the Company's policy.

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plans (continued)

a) End of service pension award (continued)

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

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

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

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

b) Post retirement medical care

The Company provides post-retirement healthcare and life insurance benefits to its eligible retirees and their dependents for 5 years. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit plans. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited as other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

The accounting for these plans requires that management makes certain assumptions relating to discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trend rates, mortality and other assumptions. These estimates are highly susceptible to change from period to period based on the performance of plan assets (if any), actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends and future estimates based on economic and market conditions at the time of valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions used.

Termination benefits (early retirement program)

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Employee Home Ownership Program (“HOP”)

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

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

Employee Home Loan Program (“HLP”)

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

HLP is recognised as a non-current financial asset at fair value and measured at amortised cost using the EIR method. The difference between the fair value and the actual amount of cash given to the employee is recognised as a “non-current prepaid employee benefit” and is amortised as an expense equally over the period of service. The same amount is also amortised as finance income against the receivable from employees.

Executive vehicles

The Company grants eligible employees a Company owned vehicle up to a specific value. The benefit is provided to employees against their services for a fixed period of years. The employee also has an option to opt for a higher value vehicle and the difference in value is contributed by the employee. The vehicle shall remain the property of the Company. The Company’s Human Resource policy governs the arrangement with the employee and may define conditions under which such vehicle can be transferred to employee.

Provisions

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

Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (”GAZT”) in the Kingdom of Saudi Arabia. The provision is charged to the statement of income and other comprehensive income.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Sales revenue

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

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

Substantially all the sales made to SABIC. Sales to SABIC are made under the marketing and offtake agreements, and upon the delivery of products to the Marketer, sales are recorded at provisional selling prices which are later adjusted based upon actual selling prices received by the Marketer from third parties, after deducting costs of shipping, distribution and marketing. Adjustments are recorded as they become known to the Company.

No refund liability is raised as the Company's historical experience indicates that the level of returns are insignificant.

Expenses

All expenses are recognized on an accrual basis.

Cost of sales

Operating costs are recognized on a historical cost basis. Production costs and direct manufacturing expenses are classified as cost of sales. This includes raw material, direct labor and other attributable overhead costs. Other costs such as selling costs are recorded as selling and distribution expenses while all remaining other costs are presented as general and administrative expenses.

Selling and distribution expenses

These include any costs incurred to carry out or facilitate all selling activities at the Company. These costs typically include distribution and logistics expenses as well as allocations of certain general overheads.

General and administration expenses

These pertain to operation expenses which are not directly related to the production or selling of any goods or services. These also include allocations of general overheads which are not specifically attributed to cost of sales or selling and distribution expenses.

Allocation of overheads between cost of sales, selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis based on predetermined rates as appropriate by the Company.

Finance income

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The Company's financial statements are presented in Saudi Riyals (SR), which is the functional currency of the Company.

Transactions in foreign currencies are initially recorded by Company at their respective functional currency spot rates at transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the statement of income.

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

Earnings per share

The Company presents basic, and diluted, if any, earning per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing net income for the year of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held, if any. Diluted EPS, if any is determined by adjusting the net income for the year of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held, for the effects of all dilutive protentional ordinary shares.

7 PROPERTY, PLANT AND EQUIPMENT

	As at 31 December 2020					
	Building and leasehold improvements	***Plant and equipment***	***Furniture and fixtures***	***Vehicles***	***Assets under construction***	***Total***
	SR '000	***SR '000***	***SR '000***	***SR '000***	***SR '000***	***SR '000***
Cost:						
At the beginning of the year	270,092	10,549,512	8,883	17,342	403,444	11,249,273
Additions	204	29,189	118	-	206,238	235,749
Transfers	15,524	2,758	-	-	(18,282)	-
At the end of the year	**285,820**	**10,581,459**	**9,001**	**17,342**	**591,400**	**11,485,022**
Accumulated depreciation:						
At the beginning of the year	160,607	5,175,038	5,656	9,982	-	5,351,283
Charge for the year	7,406	533,476	549	2,375	-	543,806
At the end of the year	**168,013**	**5,708,514**	**6,205**	**12,357**	**-**	**5,895,089**
Net book value:						
At 31 December 2020	**117,807**	**4,872,945**	**2,796**	**4,985**	**591,400**	**5,589,933**

7 PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 31 December 2019						
	Building and leasehold improvements SR '000	*Plant and equipment SR '000*	*Furniture and fixtures SR '000*	*Vehicles SR '000*	*Assets under finance lease SR '000*	*Assets under construction SR '000*	*Total SR '000*
Cost:							
At the beginning of the year	267,539	9,542,148	8,883	17,342	13,238	878,101	10,727,251
Additions	762	585,665	-	-	-	135,657	722,084
Transfers	1,791	607,796	-	-	-	(609,587)	-
Transfer to right-of-use assets (note 8)	-	-	-	-	(13,238)	-	(13,238)
Transfer to intangible assets (note 9)	-	-	-	-	-	(727)	(727)
Disposals	-	(186,097)	-	-	-	-	(186,097)
At the end of the year	270,092	10,549,512	8,883	17,342	-	403,444	11,249,273
Accumulated depreciation:							
At the beginning of the year	153,934	4,822,338	5,023	7,509	4,369	-	4,993,173
Charge for the year	6,673	538,059	633	2,473	-	-	547,838
Transfer to right-of-use assets (note 8)	-	-	-	-	(4,369)	-	(4,369)
Disposals	-	(185,359)	-	-	-	-	(185,359)
At the end of the year	160,607	5,175,038	5,656	9,982	-	-	5,351,283
Net book value:							
At 31 December 2019	109,485	5,374,474	3,227	7,360	-	403,444	5,897,990

7 PROPERTY, PLANT AND EQUIPMENT (continued)

7.1 Allocation of depreciation charge for the year

	2020	*2019*
	SR '000	*SR '000*
Total depreciation	**543,806**	547,838
Charge (to) from affiliates	**(476)**	558
	543,330	548,396
Allocation as follows:		
Cost of sales (note 25)	**532,934**	537,750
General and administrative expenses (note 27)	**9,322**	9,753
Selling and distribution expenses (note 26)	**1,074**	893
	543,330	548,396

Land and building

The land on which plant and related facilities of the Company in the Kingdom of Saudi Arabia are constructed are leased from the Royal Commission for Jubail and Yanbu under renewable lease agreements for a period up to 30 years, which commenced on 1 Dhul Al-Qa'da 1411H (corresponding to 15 May 1991).The lease is renewable by mutual agreement of both parties. The lease agreement is under renewal process.

Assets under construction

Construction work in progress mainly relates to various projects undertaken by the Company. The related capital commitments are reported in note 37.

Assets under finance lease

As at 1 January 2019, the mandatory adoption date of IFRS 16 "Leases", all finance lease assets for gas supply pipeline contracts having total cost and accumulated depreciation of SR 13.2 million and SR 4.3 million respectively have been transferred to right-of-use assets.

8 RIGHT OF USE ASSETS

	As at 31 December 2020						
	Land	***Housing***	***Equipment***	***Vehicles***	***Gas pipelines***	***Others***	***Total***
	SR '000	***SR '000***	***SR '000***	***SR '000***	***SR '000***	***SR '000***	***SR '000***
Cost:							
At the beginning of the year	36,868	84,024	881	12,623	13,238	430	148,064
Additions (note 21)	10,953	16,777	-	-	-	-	27,730
At the end of the year	**47,821**	**100,801**	**881**	**12,623**	**13,238**	**430**	**175,794**
Accumulated depreciation:							
At the beginning of the year	1,137	13,047	550	4,144	5,263	142	24,283
Charge for the year	2,420	15,853	331	4,099	893	142	23,738
At the end of the year	**3,557**	**28,900**	**881**	**8,243**	**6,156**	**284**	**48,021**
Net book value:							
At 31 December 2020	**44,264**	**71,901**	**-**	**4,380**	**7,082**	**146**	**127,773**

8 RIGHT OF USE ASSETS (continued)

	As at 31 December 2019						
	Land *SR '000*	*Housing* *SR '000*	*Equipment* *SR '000*	*Vehicles* *SR '000*	*Gas pipelines* *SR '000*	*Others* *SR '000*	*Total* *SR '000*
Cost:							
Recognition based on IFRS 16 adoption	36,868	74,274	-	12,623	-	430	124,195
Additions (note 21)	-	9,750	881	-	-	-	10,631
Transfers from property, plant and equipment (note 7)	-	-	-	-	13,238	-	13,238
At the end of the year	36,868	84,024	881	12,623	13,238	430	148,064
Accumulated depreciation:							
Charge for the year	1,137	13,047	550	4,144	894	142	19,914
Transfers from property, plant and equipment (note 7)	-	-	-	-	4,369	-	4,369
At the end of the year	1,137	13,047	550	4,144	5,263	142	24,283
Net book value:							
At 31 December 2019	35,731	70,977	331	8,479	7,975	288	123,781

8 RIGHT OF USE ASSETS (continued)

8.1 The following are the amounts recognised in statement of income and other comprehensive income:

	2020	*2019*
	SR '000	*SR '000*
Depreciation of right-of-use assets	**23,738**	19,914
Less: charged back to an affiliate	**(5,230)**	(3,052)
	18,508	16,862
General and administrative expenses (note 27)	**14,868**	14,245
Cost of sales (note 25)	**2,204**	2,482
Selling and distribution expenses (note 26)	**1,436**	135
	18,508	16,862
Expenses related to short-term leases	**7,320**	2,703
Interest expenses on lease liabilities (note 21)	**7,154**	7,409
Total amount recognised in the statement of income	**32,982**	26,974

The Company leases various housing units, equipment, vehicles, land and other assets. Rental contracts are typically made for fixed periods from 1 to 10 years except for the land that is negotiated for 30 years and has renewable option with mutual agreement by both parties. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenant, but lease assets may not be used as security for borrowing purposes.

9 INTANGIBLE ASSETS

	As at 31 December 2020		
	Software and licenses	***Intangible assets under development***	***Total***
	SR '000	***SR '000***	***SR '000***
Cost:			
At the beginning of the year	56,764	22,943	79,707
Additions	-	7,098	7,098
Transfers	4,274	(4,274)	-
At the end of the year	**61,038**	**25,767**	**86,805**
Accumulated Amortization:			
At the beginning of the year	16,006	-	16,006
Charge for the year	8,063	-	8,063
At the end of the year	**24,069**	**-**	**24,069**
Net book value:			
At 31 December 2020	**36,969**	**25,767**	**62,736**

9 INTANGIBLE ASSETS (continued)

	As at 31 December 2019		
	Software and licenses	*Intangible assets under development*	*Total*
	SR '000	*SR '000*	*SR '000*
Cost:			
At the beginning of the year	48,834	11,853	60,687
Additions	7,203	11,090	18,293
Transfer from property, plant and equipment (note 7)	727	-	727
At the end of the year	56,764	22,943	79,707
Accumulated Amortization:			
At the beginning of the year	8,838	-	8,838
Charge for the year	7,168	-	7,168
At the end of the year	16,006	-	16,006
Net book value:			
At 31 December 2019	40,758	22,943	63,701

Allocation of amortisation charge for the year

	2020	*2019*
	SR '000	*SR '000*
Total amortisation	**8,063**	7,168
Charge to affiliates	**(691)**	(2,313)
	7,372	4,855
General and administrative expenses (note 27)	**5,982**	3,762
Cost of sales (note 25)	**1,390**	1,093
	7,372	4,855

10 INVESTMENT IN AN ASSOCIATE

The table below outlines Company's investment in an associate :

	Ownership %	***2020***	*2019*
		SR '000	*SR '000*
National Chemical Fertilizer Company (Ibn Al Baytar)	50%	**792,271**	744,176

Ibn Al Baytar is incorporated in the Kingdom of Saudi Arabia engaged in the production of ammonia, urea, phosphate and compound fertilizers, various types of chemical fertilizers and marketing of its production inside and outside the Kingdom.

Investment in associate is accounted for using the equity method.

The Company does not exercise control over the associate.

During the year the company received dividend amounting to SR nil (2019: SR 75 million). Dividends from associate represent the actual amounts attributable and hence received by the company.

The movement of investments in associate is as follows:

	2020	*2019*
	SR '000	*SR '000*
Balance at the beginning of the year	**744,176**	692,641
Share in profits for the year	**48,095**	126,535
Dividends received	**-**	(75,000)
Balance at the end of the year	**792,271**	744,176

Summarised financial information

The tables below provide summarised financial information of Ibn Al Baytar. The information disclosed reflects the amounts presented in the financial statements of the relevant associate and not Company's share of those amounts:

Summarised statement of financial position of Ibn Al Baytar :

	2020	*2019*
	SR '000	*SR '000*
Current assets	**391,214**	494,958
Non-current assets	**1,490,229**	1,211,921
Current liabilities	**(268,891)**	(189,034)
Non-current liabilities	**(28,010)**	(29,493)
Net assets of Ibn Al Baytar	**1,584,542**	1,488,352

10 INVESTMENT IN AN ASSOCIATE (continued)

Reconciliation of the above summarized financial information to the carrying amount of the interest in Ibn Al Baytar recognized in the financial statements is presented below:

	2020	*2019*
	SR '000	*SR '000*
Net assets of Ibn Al Baytar	**1,584,542**	1,488,352
Ownership percentage	**50%**	50%
Carrying amount of the Company's interest in Ibn Al Baytar	**792,271**	744,176

Summarised statement of income and other comprehensive income of Ibn Al Baytar :

	2020	*2019*
	SR '000	*SR '000*
Revenue	**700,307**	978,306
Net income for the year	**96,189**	253,069
Total comprehensive income	**96,189**	253,069
Company's share in total comprehensive income– 50% (2019: 50%)	**48,095**	126,535

The associate requires the Company's consent to distribute its profits. The Company does not foresee giving such consent at the reporting date.

The Company's commitment for capital expenditures at year end amounted to SR 97 million (2019: SR 149 million), in relation to the projects related to the plant.

The Company issued a bank guarantee of amounting to SR 16 million (2019: SR 7.3 million) in favour of suppliers.

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Local-Quoted	*Local-Unquoted*	***2020***	*2019*
	SR '000	*SR '000*	***SR '000***	*SR '000*
Cost:				
At 31 December	94,905	77,363	**172,268**	172,268
Fair value reserve of financial assets at FVOCI:				
At 1 January	435,614	(77,363)	**358,251**	433,226
Change in fair value reserve during the year	75,924	-	**75,924**	(74,975)
At 31 December	**511,538**	**(77,363)**	**434,175**	358,251
Carrying amounts	**606,443**	**-**	**606,443**	530,519

Quoted investments represents 1.69% (2019: 1.69%) shares held in Yanbu National Petrochemical Company (Yansab), a listed entity in Tadawul.

Unquoted investments represents 3.87% (2019: 3.87%) shares held in Ibn Rushd, an affiliated company of SABIC.

12 OTHER NON-CURRENT ASSETS

	2020	*2019*
	SR '000	*SR '000*
Employees' loans and advances	**79,156**	104,632
HOP site development costs	**22,212**	29,616
Others	**694**	129
	102,062	134,377

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31 December 2020

	Financial assets		
	Total	*At amortised cost*	*At FVOCI*
	SR '000	*SR '000*	*SR '000*
Cash and cash equivalents	**465,461**	**465,461**	**-**
Short term investments - bank deposits	**1,250,000**	**1,250,000**	**-**
Financial assets at fair value through other comprehensive income	**606,443**	**-**	**606,443**
Trade receivables	**475,318**	**475,318**	**-**
Other financial assets	**5,451**	**5,451**	**-**
Total	**2,802,673**	**2,196,230**	**606,443**

	Financial liabilities		
	Total	*At amortised cost*	*At FVIS*
	SR '000	*SR '000*	*SR '000*
Trade payables	**114,423**	**114,423**	**-**
Dividends payable	**117,936**	**117,936**	**-**
Lease liabilities	**123,211**	**123,211**	**-**
Other financial liabilities	**67,167**	**67,167**	**-**
Total	**422,737**	**422,737**	**-**

31 December 2019

	Financial assets		
	Total	*At amortised cost*	*At FVOCI*
	SR '000	*SR '000*	*SR '000*
Cash and cash equivalents	753,743	753,743	-
Short term investments - bank deposits	150,000	150,000	-
Financial assets at fair value through other comprehensive income	530,519	-	530,519
Trade receivables	630,421	630,421	-
Other financial assets	41,865	41,865	-
Total	2,106,548	1,576,029	530,519

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

31 December 2019 (continued)

	Financial liabilities		
	Total	*At amortised cost*	*At FVIS*
	SR '000	*SR '000*	*SR '000*
Trade payables	186,703	186,703	-
Dividends payable	137,412	137,412	-
Lease liabilities	119,527	119,527	-
Other financial liabilities	68,296	68,296	-
Total	511,938	511,938	-

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 35.

14 INVENTORIES

	2020	*2019*
	SR '000	*SR '000*
Spare parts	**432,509**	421,847
Finished goods	**26,739**	43,552
Goods in transit	**11,442**	6,463
Raw materials	**2,898**	2,697
	473,588	474,559
Less: provision for slow moving and obsolete items	**(70,540)**	(40,540)
	403,048	434,019

Movements in the provision for slow moving and obsolete inventories were as follows:

	2020	*2019*
	SR '000	*SR '000*
Balance at 1 January	**40,540**	27,046
Charge for the year	**30,000**	13,494
Balance at 31 December	**70,540**	40,540

15 TRADE RECEIVABLES

	2020	*2019*
	SR '000	*SR '000*
Due from related parties (note 34)	**473,732**	628,710
Trade receivables	**1,586**	1,711
	475,318	630,421

Trade receivables are non-interest bearing, unsecured and are generally on 30 – 120 days terms.

15 TRADE RECEIVABLES (continued)

As of 31 December the ageing analysis of trade receivable with third parties is as follows:

	Total	*Neither past due nor impaired*	*Less than 60 days*	*61-90 days*	*91-180 days*	*181-365 days*	*> 365 days*
		SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
31 December 2020	**475,318**	**359,015**	**100,841**	**13,905**	**16**	**1,541**	**-**
31 December 2019	630,421	629,448	973	-	-	-	-

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has not recognized any allowances as impact of ECL was immaterial as at reporting date.

16 PREPAYMENTS AND OTHER CURRENT ASSETS

	2020	*2019*
	SR '000	*SR '000*
Prepaid expenses	**54,300**	50,300
Advanced to related parties (note 34)	**46,527**	105,222
Other receivables	**18,905**	44,293
	119,732	199,815

17 SHORT TERM INVESTMENTS - BANK DEPOSITS

Short term investments represent Murabaha commodity deposits with original maturity of more than three months and less than a year upon acquisition and are presented under current assets. These deposits are maintained with local commercial banks in Saudi Riyals and carry interest ranging from 0.73% to 2.65% (2019: 2.4% to 2.7%) per annum.

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

	2020	*2019*
	SR '000	*SR '000*
Saudi Riyals	**1,250,000**	150,000

18 CASH AND CASH EQUIVALENTS

	2020	*2019*
	SR '000	*SR '000*
Time deposits	**313,250**	612,520
Bank balances	**152,211**	141,223
	465,461	753,743

18 CASH AND CASH EQUIVALENTS (continued)

Bank balances include restricted cash maintained by the Company amounting to SR 118 million (2019: SR 137 million) for dividend payable (note 38) and this balance is not available for general use of the Company.

The time deposits represent Islamic Murabaha deposits with banks of original maturities of less than three months. These carry interest ranging from 0.01% to 2.5% (2019: 1% to 2.5%) per annum.

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

	2020	*2019*
	SR '000	*SR '000*
Saudi Riyals	**260,000**	308,770
US dollars	**53,250**	303,750
	313,250	612,520

19 SHARE CAPITAL

The share capital amounting to SR 4,166,666,660 is divided into 416,666,666 shares of SR 10 each as at 31 December 2020 and 2019.

20 STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of net income in each year until it has built up a reserve equal to 30% of the share capital. This reserve is not available for distribution.

21 LEASE LIABILITIES

	2020	*2019*
	SR '000	*SR '000*
As at 1 January	**119,527**	121,455
Additions (note 8)	**27,730**	10,631
Accretion of interest	**7,154**	7,409
Payment	**(31,200)**	(19,968)
As at 31 December	**123,211**	119,527
Current	**20,298**	13,878
Non Current	**102,913**	105,649
	123,211	119,527

Maturity analysis of lease liabilities disclosed under note 35.

22 EMPLOYEES' BENEFITS

The provision for employees' benefits is broken down as follows:

	2020	*2019*
	SR '000	*SR '000*
Defined employees' benefits obligations	**1,055,860**	840,375
Other employees' benefits	**36,288**	38,842
	1,092,148	879,217

Defined benefits obligation

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2020 and 31 December 2019 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements.

The following table represents the movement of the defined benefits obligations:

	2020	*2019*
	SR '000	*SR '000*
At the beginning of the year	**840,375**	699,005
Current service cost	**62,151**	51,617
Interest cost	**25,017**	29,375
Paid during the year	**(31,506)**	(28,719)
Transfer of benefit obligations (to) from related parties	**(4,490)**	30,395
Re-measurement losses on defined benefit plans	**164,313**	58,702
At end of the year	**1,055,860**	840,375

Net benefit expense for the year

	2020	*2019*
	SR '000	*SR '000*
Current service cost	**62,151**	51,617
Finance cost on benefit obligation	**25,017**	29,375
Net benefit expense	**87,168**	80,992

Major economic and actuarial assumptions used in benefits liabilities computation:

	2020	*2019*
Discount rate	**2.4%**	3.1%
Average salary increase		
- Executive	**4.5%**	4.5%
- Non-Executive	**6.0%**	6.0%
Healthcare cost increase rate	**9.0%**	9.0%

22 EMPLOYEES' BENEFITS (continued)

The following table represents the components of the defined benefits obligations of the Company:

	31 December 2020			
	End of service SR '000	***Continuous service awards SR '000***	***Post-retirement medical SR '000***	***Total SR '000***
At the beginning of the year	**776,215**	**4,817**	**59,343**	**840,375**
Current service cost	**58,379**	**477**	**3,295**	**62,151**
Finance cost	**23,139**	**141**	**1,737**	**25,017**
Actuarial changes arising due to:				
- financial assumptions	**57,388**	**833**	**40,754**	**98,975**
- demographic changes	**75,083**	**285**	**(10,198)**	**65,170**
- experience adjustments	**(868)**	**154**	**882**	**168**
Payments during the year	**(27,264)**	**(401)**	**(3,841)**	**(31,506)**
Transfer to a related party (note 34)	**(4,421)**	**(39)**	**(30)**	**(4,490)**
At the end of the year	**957,651**	**6,267**	**91,942**	**1,055,860**

	31 December 2019			
	End of service SR '000	*Continuous service awards SR '000*	*Post-retirement medical SR '000*	*Total SR '000*
At the beginning of the year	643,460	4,144	51,401	699,005
Current service cost	48,706	437	2,474	51,617
Finance cost	27,072	172	2,131	29,375
Actuarial changes arising due to:				
- financial assumptions	54,656	349	8,487	63,492
- demographic changes	-	-	194	194
- experience adjustments	(6,016)	85	947	(4,984)
Payments during the year	(22,144)	(371)	(6,204)	(28,719)
Transfer from a related party (note 34)	30,481	1	(87)	30,395
At the end of the year	776,215	4,817	59,343	840,375

Sensitivity analysis

The table below illustrates the approximate impact on the DBO if the Company were to change one key assumption, while the other actuarial assumptions remain unchanged. The sensitivity analysis is intended to illustrate the inherent uncertainty in the valuation of the DBO under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in key actuarial assumptions may have on the total DBO. The sensitivities only apply to the DBO and not to the net amounts recognised in the statement of financial position. The present value of defined benefits liabilities has been calculated using the project unit credit method.

22 EMPLOYEES' BENEFITS (continued)

	2020	2019
	SR '000	*SR '000*
Increase		
Discount rate (+25 bps)	**(31,354)**	(19,489)
Salary (+25 bps)	**28,149**	18,088
Health Care costs (+25 bps)	**3,648**	1,707
Decrease		
Discount rate (-25 bps)	**32,862**	20,322
Salary (-25 bps)	**(27,054)**	(17,462)
Health Care costs (-25 bps)	**(3,468)**	(1,631)

Expected total benefit payments

	2020	2019
	SR '000	*SR '000*
Within one year	**38,124**	61,072
1 – 2 years	**49,882**	62,741
2 – 3 years	**45,687**	71,090
3 – 4 years	**51,161**	64,970
4 – 5 years	**62,014**	66,561
5 years and more	**402,554**	338,238
Total	**649,422**	664,672

The weighted average duration of the defined benefit obligation is 12.3 years (31 December 2019: 11.8 years).

23 TRADE PAYABLES

	2020	2019
	SR '000	*SR '000*
Amounts due to related parties (note 34)	**112,133**	137,668
Trade payables	**2,290**	49,035
	114,423	186,703

Trade payables are non-interest bearing and are normally settled on 60-day terms.

The Company's exposure to currency and liquidity risk related to accounts payables is disclosed in note 35.

24 ACCRUALS AND OTHER CURRENT LIABILITIES

	2020	2019
	SR '000	*SR '000*
Accrued liabilities	**308,965**	268,784
Employees related liabilities	**13,991**	34,930
Others	**746**	384
	323,702	304,098

25 COST OF SALES

	2020	*2019*
	SR '000	*SR '000*
Raw materials and consumables	**871,669**	817,232
Change in finished products	**(812,541)**	(771,818)
Utilities	**604,384**	566,656
Depreciation of property, plant and equipment (note 7)	**532,934**	537,750
Employees' costs	**291,909**	278,194
Depreciation of right-of-use assets (note 8)	**2,204**	2,482
Amortisation of intangibles assets (note 9)	**1,390**	1,093
Others	**170,405**	161,968
	1,662,354	1,593,557

26 SELLING AND DISTRIBUTION EXPENSES

	2020	*2019*
	SR '000	*SR '000*
Freight and storage	**113,377**	84,504
Depreciation of right-of-use assets (note 8)	**1,436**	135
Depreciation of property, plant and equipment (note 7)	**1,074**	893
Others	**3,914**	3,903
	119,801	89,435

27 GENERAL AND ADMINISTRATIVE EXPENSES

	2020	*2019*
	SR '000	*SR '000*
Employees' costs	**76,579**	84,702
Technology and innovation cost (note 34)	**49,573**	48,973
Shared services charges	**39,889**	39,209
Depreciation of right-of-use assets (note 8)	**14,868**	14,245
Maintenance and man power supply	**14,012**	9,876
Depreciation of property, plant and equipment (note 7)	**9,322**	9,753
Amortisation of intangibles assets (note 9)	**5,982**	3,762
Leases	**4,569**	2,703
Amortisation of site development cost	**4,320**	7,868
Board members allowances	**3,106**	3,079
Others	**15,199**	52,150
	237,419	276,320

28 FINANCE INCOME

	2020	*2019*
	SR '000	*SR '000*
Interest from conventional deposits	**11,464**	15,765
Interest from murabaha investments	**1,989**	3,983
	13,453	19,748

29 OTHER INCOME, NET

	2020	2019
	SR '000	SR '000
Dividends income	**28,472**	35,589
Donations	**(17,000)**	(17,000)
Others	**1,316**	8,384
	12,788	26,973

30 FINANCE COSTS

	2020	2019
	SR '000	SR '000
Interest expenses related to employees' benefit plans	**14,929**	17,592
Interest expenses on lease liabilities (note 21)	**7,154**	7,409
Bank charges and others	**6,004**	1,704
	28,087	26,705

31 ZAKAT

Zakat charge for the year consists of the following:

	2020	2019
	SR '000	SR '000
Charge for the year	**54,413**	36,362
Adjustment related to prior years	**5,403**	1,540
	59,816	37,902

The zakat is based on the financial statements of the Company. The movement in Company's zakat provisions is as follows:

	2020	2019
	SR '000	SR '000
At the beginning of the year	**39,294**	68,248
Provided during the year	**59,816**	37,902
Reversed during the year	**-**	(37,000)
Paid during the year	**(36,362)**	(29,856)
At end of the year	**62,748**	39,294

The zakat is based on the financial statements of the Company. The zakat base is as follows:

	2020	2019
	SR '000	SR '000
Equity	**7,996,291**	6,924,736
Opening provision and other adjustments	**1,216,087**	974,537
Book value of long term assets	**(8,453,340)**	(7,916,391)
	759,038	(17,118)
Adjusted income	**1,393,885**	1,454,491
Zakat base	**2,152,923**	1,437,373

31 ZAKAT (continued)

Status of assessments

Zakat assessments have been agreed with the General Authority for Zakat and Tax ("GAZT") up to 2017. Zakat returns for 2018 and 2019 have been submitted to the GAZT. However, the returns are still under the GAZT's review.

In 2019, the Company received Zakat assessments for the years 2016 and 2017 with additional Zakat liability amounting to SR 43.58 million. The Company filed an objection with the GAZT against these assessments. GAZT approved the objections and issued revised Zakat assessments for the years 2016 and 2017 with Zakat liability amounting to SR 5.9 million and the same was paid by the Company during 2019. The excess provision amounting to SR 37 million was reversed during 2019.

During the year, the Company has received Zakat assessment for the year 2018 with additional Zakat liability amounting to SR 18.3 million for which the Company has recognised additional provision amounting to SR 8.3 million and shall appeal for the remaining portion. Management believes that the result will be in favour of the Company.

Zakat has been computed based on the Company's understanding and interpretation of the zakat regulations enforced in the Kingdom of Saudi Arabia. The Zakat regulations in the Kingdom of Saudi Arabia are subject to different interpretations. The zakat liability as computed by the Company could be different from zakat liability as assessed by the GAZT for years for which assessments have not yet been raised by the GAZT.

32 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

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

	2020	*2019*
	SR ‘000	*SR ‘000*
Income from operations for the year	**1,307,968**	1,328,270
Net income attributable to equity holders of the Company	**1,294,401**	1,473,919
Weighted average number of ordinary shares	**416,667**	416,667
Basic and diluted earnings per share form income from operations attributable to equity holders of the Company	**3.14**	3.19
Basic and diluted earnings per share from net income attributable to equity holders of the Company	**3.11**	3.54

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

33 FAIR VALUE MEASUREMENT

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 Company measures financial assets at fair value thorough other comprehensive income at each statement of financial position 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.

33 FAIR VALUE MEASUREMENT (continued)

The principal or the most advantageous market must be accessible by the Company. 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 from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Set out below is a comparison, by class, of the carrying amounts and fair value of the Company’s financial assets, other than those with carrying amounts that are reasonable approximations of fair values:

	31 December 2020				
	Carrying amount	***Fair Value***	***Level 1***	***Level 2***	***Level 3***
	SR ‘000	***SR ‘000***	***SR ‘000***	***SR ‘000***	***SR ‘000***
Financial assets at FVOCI	**606,443**	**606,443**	**606,443**	**-**	**-**

	31 December 2019				
	Carrying amount	*Fair Value*	*Level 1*	*Level 2*	*Level 3*
	SR ‘000	*SR ‘000*	*SR ‘000*	*SR ‘000*	*SR ‘000*
Financial assets at FVOCI	530,519	530,519	530,519	-	-

34 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the ultimate parent company, parent company, associated companies, key personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. Following is the list of the major related parties of the Company:

Name of related party	**Nature of relationship**
Saudi Arabian Oil Company ("Saudi Aramco")	Ultimate parent
Saudi Basic Industries Corporation (“SABIC”)	Shareholder (parent company)
National Chemical Fertilizers Company ("Ibn Al Baytar")	Associate
Al Jubail Fertilizer Company (“Al Bayroni”)	Affiliate

The following table provides the total amount of transactions that have been entered into with related parties during the year ended 31 December 2020 and 2019, as well as balances with related parties as at 31 December 2020 and 31 December 2019:

`	Sales to related parties	Purchases from related parties	Advance payment	Technology and innovation charged	Shared services charged	Management and services charges to related parties	Other services	Amounts owed by related parties (note 15)	Amounts owed to related parties (note 23) *
	SR ‘000	*SR ‘000*	*SR ‘000*	*SR ‘000*	*SR ‘000*	*SR ‘000*	*SR ‘000*	*SR ‘000*	*SR ‘000*
2020									
SABIC	**3,310,122**	**615,559**	**46,527**	**49,573**	**39,889**	**-**	**68,441**	**383,270**	**88,647**
Ibn Al-Baytar	**11,421**	**3,457**	**-**	**-**	**-**	**170,864**	**70,084**	**52,549**	**9,286**
Al-Bayroni	**5,999**	**1,165**	**-**	**-**	**-**	**201,393**	**1,158**	**35,378**	**10,565**
Saudi Aramco	**-**	**248,243**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
SABIC affiliates	**-**	**58,824**	**-**	**-**	**-**	**-**	**2,357**	**2,535**	**3,635**
								473,732	**112,133**
2019									
SABIC	3,266,158	832,289	105,222	48,973	39,209	-	128,437	561,843	93,525
Ibn Al-Baytar	12,399	15,851	-	-	-	124,955	89,921	35,742	12,712
Al-Bayroni	9,025	1,094	-	-	-	187,070	60,729	29,538	17,114
SABIC affiliates	-	5,084	-	-	-	-	53,621	1,587	14,317
								628,710	137,668

* Accruals to related parties are reported under accrued liabilities in note 24.

34 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant transaction with related parties

- Effective 16 June 2020, Saudi Arabian Oil Company ("Saudi Aramco") acquired 70% ownership over SABIC.
- The Company has a service level agreement with SABIC (Shared Services Organization – SSO) for the provision of accounting, human resources, information technology (ERP/SAP), engineering, procurement and related services.
- Advances to SABIC represent the amount paid by the Company according to shared service agreement to finance the purchase of the Company's materials and services.
- The Company's annual contribution to SABIC for technology and innovation is 1.5 % of total sales which is charged currently to the statement of income and other comprehensive income.
- Substantially, all of the Company's sales are made to SABIC under marketing and off take agreements.
- The management and operational activities of the Company and Ibn Al Baytar were consolidated in 1994 and this has no impact on the legal structure of either Company. All of the employees and their related balances were transferred to the Company.
- The Company had entered into an Operation and Maintenance Agreement in 2018 with Al- Bayroni. This agreement covers miscellaneous costs such as cleaning and maintenance, employees' related costs, health and safety, quality control, production and engineering services, accounting and finance services, HR and IT services, warehousing services, total quality management services, administrative and custodial services. The costs for these above services are allocated as per the agreement.
- Prices and terms of payments for the above transactions are approved by the management.

Terms and conditions of transactions with related parties

- The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year ended 31 December 2020 and the year ended 31 December 2019 are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2020, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Key management personnel compensation

In addition to their remunerations to key management personnel, the Company also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. Remuneration for the year ended 31 December 2020 and 2019 of key management can be detailed as follows:

	2020	*2019*
	SR '000	*SR '000*
Short-term employee benefits	**8,635**	7,886
Post-employment benefits - long term	**2,625**	2,460
	11,260	10,346

35 FINANCIAL RISK MANAGEMENT

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of Company’s risk management framework.

The Company’s risk management policies are established to identify and analyse the risks faced by the Company, 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 Company’s activities. The Company, 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 Company’s Audit Committee oversees how management monitors compliance with the Company’s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by Company. 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 and other receivable, investments in securities, loans and advances, trade payables, lease liabilities, accrued expenses, and other liabilities.

Credit risk

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

Trade receivables

Virtually all of the Company's sales made through related parties, therefore any credit risk on trade receivables does not rise.

Investments

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

Credit risk quality

				As at 31 December 2020				
External rating	**AA+**	**AA**	**AA-**	**A**	**A-**	**BBB+**	**Other**	**Carrying value**
	SR ‘000	***SR ‘000***	***SR ‘000***	***SR ‘000***	***SR ‘000***	***SR ‘000***	***SR ‘000***	***SR ‘000***
Cash and cash equivalents	-	-	-	-	118,023	347,378	60	465,461
Short term investments	-	-	-	150,000	450,000	650,000	-	1,250,000
Trade receivables	-	-	-	-	383,270	-	92,048	475,318
Financial asset at FVTOCI	-	-	-	-	-	-	606,443	606,443
	-	**-**	**- -**	**150,000**	**951,293**	**997,378**	**698,551**	**2,797,222**

35 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Investments (continued)

	As at 31 December 2019							
External rating	AA+	AA	AA-	A	A-	BBB+	Other	Carrying value
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Cash and cash equivalents	-	-	205,000	-	137,526	321,271	89,946	753,743
Short term investments	-	-	-	-	10,000	140,000	-	150,000
Trade receivables	-	-	-	-	128,437	-	501,984	630,421
Financial asset at FVTOCI	-	-	-	-	-	-	530,519	530,519
	-	-	205,000	-	275,963	461,271	1,122,449	2,064,683

* Source: Fitch ratings

Liquidity risk

Liquidity risk is the risk that Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

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

The Company continues to maintain suitable levels of cash and cash equivalents and short-term investments, amounting to SR 1.7 billion (31 December 2019: SR 0.9 billion), primarily invested in banks with solid credit ratings.

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 Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company'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 Company to manage risk concentrations at both the relationship and industry levels. The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	2020			
	Within 1 year	***1-5 years***	***More than 5 years***	***Total***
	SR '000	***SR '000***	***SR '000***	***SR '000***
Trade payables	**114,423**	**-**	**-**	**114,423**
Lease liabilities	**28,084**	**79,116**	**97,113**	**204,313**
Dividends payable	**117,936**	**-**	**-**	**117,936**
Other liabilities	**67,167**	**-**	**-**	**67,167**
	327,610	**79,116**	**97,113**	**503,839**

35 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

	2019			
	Within 1 year	*1-5 years*	*More than 5 years*	*Total*
	SR '000	*SR '000*	*SR '000*	*SR '000*
Trade payables	186,703	-	-	186,703
Lease liabilities	22,451	76,465	106,294	205,210
Dividends payable	137,412	-	-	137,412
Other liabilities	68,296	-	-	68,296
	414,862	76,465	106,294	597,621

Equity price risks

The Company's exposure to equity securities price risk arises from investments held by the Company and classified as financial assets at FVOCI.

The effect on financial assets at FVTOCI due to change in price, with all other variables held consistent, is as follows:

	As at 31 December 2020	
	Impact on net income	**Impact on other components of equity**
	SR '000	***SR '000***
Increase in prices (10%)	**-**	**60,644**

	As at 31 December 2019	
	Impact on net income	Impact on other components of equity
	SR '000	*SR '000*
Increase in prices (10%)	-	53,052

Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as financial assets at fair value through other comprehensive income.

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 Company'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. There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

35 FINANCIAL RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency).

The Company is not significantly subject to fluctuations in foreign exchange rates in the normal course of it's business as the Company did not undertake significant transactions during the year in currencies other than Saudi Riyals and US Dollars which are pegged.

Commodity risk

The Company is exposed to the impact of market fluctuations of the price of various inputs to production including natural gas, sulphuric acid and phosphoric acid. From time to time, Company manages some elements of commodity price risk through the use of fixed price contracts .

Capital management

Capital is equity attributable to the equity holders of the Company. The primary objective to Company's capital management is to support its business and maximise shareholder value.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it, in light of change in economic conditions. The Board of Directors monitors the return on capital, which the Company defines as result from operating activities divided by total shareholders' equity. There were no changes in the Company's approach to capital management during the year. The Board of Directors also monitors the level of dividends to ordinary shareholders and capital management. The Company is not subject to externally imposed capital requirements.

	2020	*2019*
	SR '000	*SR '000*
Total liabilities	**1,834,168**	1,666,251
Less: cash and cash equivalents	**(465,461)**	(753,743)
Net debt	**1,368,707**	912,508
Total equity	**8,160,609**	7,996,291
Less: amount directly accumulated in equity relating to fair value adjustments	**(434,175)**	(358,251)
Adjusted capital	**7,726,434**	7,638,040
Debt to adjusted capital ratio as of 31 December	**17.7%**	12%

36 SEGMENT INFORMATION

All of the Company's operations are related to one operating segment which is fertilizers and it sell its products mainly to one customer, the parent company. Accordingly, segmental analysis by operating and geographic segment has not been presented.

37 COMMITMENTS AND CONTINGENCIES

Capital commitments

The Board of directors approved in their meeting held on 6 Rabi Alawwal 1438H (corresponding to 5 December 2016) a reliability project for SAFCO III at the Company's complex in Al-Jubail Industrial City with an estimated procurement and construction cost of SR 461 million. Additional funds were approved by the Board of directors amounting to SR 51 million in the meeting held on 4 October 2017.Total expenditure incurred up till December 2020 SR 494 million (2019: SR 448 million) in relation to this project. The project is mechanically completed.

The Board of Directors approved future capital expenditures amounting to SR 133 million (2019: SR 359.9 million).

Letter of guarantee

The Company issued bank guarantees of amounting to SR 6.8 million (2019: SR 5.5 million) in favour of Customs authorities.

38 APPROPRIATION OF NET INCOME AND DIVIDENDS DISTRIBUTIONS

On 29 Rabia II 1442H (corresponding to 14 December 2020), the Board of Directors recommended to distribute an interim cash dividend amounting to SR 1.0 per share (SR 476 million in total) for the second half of 2020. The proposed dividends are subject to approval and have not been included as liability in these financial statements.

On 21 Ramadan 1441H (corresponding to 14 May 2020), the Board of Directors approved to distribute an interim cash dividend amounting to SR 1.0 per share (SR 416 million in total) for the first half of 2020. Dividends were available for distribution to shareholders on 14 Dhu al-Qa’dah 1441H (corresponding to 5 July 2020).

On 18 Rabi' II 1441H (corresponding to 15 December 2019), the Board of Directors proposed to distribute cash dividends amounting SR 1.5 per share (SR 625 million in total) for the second half of 2019. This was approved by the General Assembly in their extraordinary meeting held on 5 Sha'ban 1441H (corresponding to 29 March 2020). Dividends were available for distribution to shareholders on 19 Sha'ban 1441H (corresponding to 12 April 2020).

On 14 Ramadan 1440H (corresponding to 19 May 2019), the Board of Directors approved to distribute interim cash dividends amounting SR 1.5 per share (SR 625 million in total) for the first half of 2019. Dividends were available for distribution to shareholders on 27 Dhu-Al-Qa’dah 1440H (corresponding to 30 July 2019).

On 9 Rabi' II 1440H (corresponding to 16 December 2018), the Board of Directors proposed to distribute cash dividends amounting SR 1.5 per share (SR 625 million in total) for the second half of 2018. This was approved by the General Assembly meeting held on 2 Sha'ban 1440H (corresponding to 7 April 2019). Dividends were available for distribution to shareholders on 16 Sha'ban 1440H (corresponding to 21 April 2019).

Restricted cash amounting to SR 118 million (2019: SR 137 million) is maintained in separate bank accounts for unclaimed dividends and not available for general use of the Company (note 18).

39 OTHER INFORMATION

In 2018, the management signed a non-binding Memorandum of Understanding with SABIC for the purchase of share capital of SABIC Agri-Nutrients Investment Company, which will own 50% of the issued share capital of both the National Chemical Fertilizers Company ("Ibn Al Baytar") and Al Jubail Fertilizer Company ("Al Bayroni") and 33.33% of the issued share capital of Gulf Petrochemical Industries Company ("GPIC").

On 28 Rabi' II 1441H (corresponding to 25 December 2019), the management announced the signing of a binding Share Purchase Agreement ("SPA") with SABIC, pursuant to which the Company would acquire a 100% shareholding in SABIC Agri-Nutrients Investment Company (the "investee") by increasing its share capital and issuance of new shares to SABIC. The total value of shares in SABIC Agri-Nutrients Investment Company would be SR 4,592 million and the considerations would be paid for by issuing 59,368,738 ordinary new shares in SABIC Agri-Nutrients Company to SABIC valued at SR 77.35 per share. SABIC's ownership in the Company post transaction would increase from 42.99% to 50.1%.

On 12 Sha'ban 1441H (corresponding to 5 April 2020), the General Authority for Competition sent the Company a no objection notice of the acquisition transaction.

On 18 Safar 1442H (corresponding to 5 October 2020), the Capital Market Authority approved the Company's request for increase in share capital from SR 4,166,666,660 to SR 4,760,354,040 through the issuance of 59,368,738 additional shares to SABIC.

On 3 Jumada' I 1442H (corresponding to 18 December 2020), the Extraordinary General Assembly approved the increase in share capital of the Company. Subsequent to the period ended 31 December 2020, on 19 Jumada' I 1442H (corresponding to 3 January 2021) the share capital of the Company has been increased and ownership of the shares of SABIC Agri-Nutrients Investment Company transferred to the Company.

Pursuant to SOCPA cirular dated 26 Safar 1436 H (corresponding to 18 December 2014) on the accounting treatment of business combination of the entities under common control before the business combination, the net assets acquired are accounted for at their book values at the date of the acquisition, and goodwill may not be recognized in such cases. Any difference between this value and the consideration paid is accounted for in the retained earnings. Accordingly and subsequent to year end, the difference between the consideration provided and the book value of the net assets of the investee will be accountd for in the retained earnings of the Company.

40 COVID-19 ASSESSMENT

The outbreak of novel coronavirus ("COVID-19") since early 2020 and its spread across mainland China and then globally caused disruptions to businesses and economic activities including the KSA. The World Health Organisation qualified COVID-19 as a pandemic, with governments issuing strict regulations and guidance for its populations and companies. It necessitated the Company to re-assess its judgments and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2020.

During the year ended 31 December 2020, management has assessed the overall impact on the Company's operations and business aspects, and considered factors like effects on supply chain, impact of decreased oil prices, operating rates of its plants and lost volume, additional cost in supply chain, margin squeeze, and product demand. Majority of the planned shutdowns and turnarounds, which drive some part of the fixed costs have been rescheduled. Based on this assessment, no significant adjustments were required in the financial statements for the year ended 31 December 2020. However, in view of the ongoing uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and/or liabilities in future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

41 SUBSEQUENT EVENTS

In addition to note 39, there have been no events subsequent to the reporting date that would significantly affect the amounts reported in the financial statements as at and for the year ended 31 December 2020.