

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)

(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 WITH
INDEPENDENT AUDITOR'S REPORT

Annual financial statements

For the year ended 31 December 2023

Index	Pages
Independent auditor’s report	-
Statement of financial position	1
Statement of profit or loss and other comprehensive income	2
Statement of changes in equity	3
Statement of cash flows	4 – 5
Notes to the financial statements	6 – 53



Independent auditor's report to the shareholders of Saudi Kayan Petrochemical Company (Saudi Kayan)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saudi Kayan Petrochemical Company (Saudi Kayan) (the "Company") as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements.

Our audit approach

Overview

Key audit matter	Impairment assessment of non-current assets
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.



Independent auditor's report to the shareholders of Saudi Kayan Petrochemical Company (Saudi Kayan) (continued)

Our audit approach (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment assessment of non-current assets</i></p> <p>As at 31 December 2023, the Company has property, plant and equipment, of Saudi Riyals 21.6 billion, intangible assets of Saudi Riyals 190.2 million and right-of-use assets of Saudi Riyals 281.3 million (collectively referred to as "non-current assets").</p> <p>At each reporting date, management assesses whether there are any events or changes in circumstances ("impairment indicators") which may indicate that the carrying amount of the non-current assets may not be recoverable. If any impairment indicators are identified, management performs a detailed impairment assessment. This entails (i) identifying cash generating units (CGUs) where a CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets; and (ii) calculating the recoverable amounts of the CGUs and comparing them against their carrying amounts.</p> <p>The decrease in the actual prices of the Company's products achieved in 2023, that are forecasted to persist in the short-term, along with the loss before zakat of Saudi Riyals 2.1 billion for the year ended 31 December 2023, were considered by the management as impairment indicators. Accordingly, management performed a detailed impairment assessment.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Assessed, with the assistance of our IFRS experts, the reasonableness of management's identification of the Company's non-current assets as a single CGU. • Evaluated management's assessment of the identification of impairment indicators, including the conclusions reached. • Evaluated the design and implementation of key manual controls over the impairment assessment process comprising of identification of the CGU, identification of impairment indicators and estimation of the CGU's recoverable amount. • Evaluated the reasonableness of management's assumptions used in the value-in-use calculations to determine the recoverable amount of the Company's CGU. This included: <ul style="list-style-type: none"> (i) Assessing the appropriateness of the methodology used by management to estimate the value-in-use of the CGU and checking the accuracy and appropriateness of the input data used by management in the discounted cash flow model by tracing to supporting documentation, such as the approved business plans. We tested the reasonableness of the business plans by, for example, comparing them to historical results;



Independent auditor's report to the shareholders of Saudi Kayan Petrochemical Company (Saudi Kayan) (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
<p>Management concluded that the Company's non-current assets constitute a single CGU. In determining the recoverable amount of the CGU, management estimated the value-in-use of the CGU based on the business plans as approved by the Company's Board of Directors which reflect management's view of the external market conditions and certain key internal variables including the estimation of appropriate growth and discount rates.</p> <p>Management has concluded that the recoverable amount of the Company's CGU was higher than its carrying amount, and accordingly, there was no impairment loss in the year ended 31 December 2023.</p> <p>We considered this as a key audit matter as the CGU determination was complex requiring management to consider a range of factors that are specific to the Company's circumstances. Further, the assessment of the recoverable amount of the CGU requires significant estimates and judgments including product pricing, future economic and market conditions, growth and discount rates.</p> <p>Refer to Note 6.10 to the accompanying financial statements for the accounting policy relating to the impairment of non-current assets and Note 7 to the accompanying financial statements for the disclosure of critical accounting estimates and judgments related to the impairment assessment of non-current assets.</p>	<p>(ii) In addition to assisting us with a number of the above procedures, we engaged our internal valuation experts to also:</p> <ul style="list-style-type: none"> a) assess the reasonableness of margin forecasts; b) assess the reasonableness of discount and growth rates; and c) test the mathematical accuracy of the underlying calculations used in the discounted cash flow model. <ul style="list-style-type: none"> • Assessed the potential impact of a range of possible outcomes by performing sensitivity analyses over key assumptions in the discounted cash flow model. • Assessed the adequacy and appropriateness of the related disclosures in the accompanying financial statements.



Independent auditor's report to the shareholders of Saudi Kayan Petrochemical Company (Saudi Kayan) (continued)

Other information

The directors are responsible for the other information. The other information comprises the Company's annual report but does not include the financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 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 issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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, i.e. the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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



Independent auditor's report to the shareholders of Saudi Kayan Petrochemical Company (Saudi Kayan) (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

PricewaterhouseCoopers

Bader I. Benmohareb
License Number 471

20 February 2024

Statement of financial position

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	As at 31 December 2023	As at 31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	7	21,595,124	23,304,124
Right-of-use assets	8	281,302	281,064
Intangible assets	9	190,158	219,654
Other assets and receivables	10	58,736	47,293
Total non-current assets		22,125,320	23,852,135
Current assets			
Inventories	12	1,225,662	1,381,467
Trade receivables	13	2,304,654	2,241,066
Prepayments		97,334	100,173
Other assets and receivables	10	373,213	283,559
Cash and cash equivalents	14	554,611	414,837
Total current assets	1	4,555,474	4,421,102
TOTAL ASSETS		26,680,794	28,273,237
EQUITY AND LIABILITIES			
Equity			
Share capital	15	15,000,000	15,000,000
Statutory reserve	16	288,470	288,470
Other components of equity	17	620,874	620,874
Actuarial reserve		86,637	143,373
Accumulated losses		(2,711,905)	(575,431)
TOTAL EQUITY		13,284,076	15,477,286
LIABILITIES			
Non-current liabilities			
Debt	18	6,091,164	7,460,655
Lease liabilities	19	258,182	270,512
Employees' benefits	20	725,807	620,933
Other non-current liability	21	-	140,000
Total non-current liabilities		7,075,153	8,492,100
Current liabilities			
Current portion of debt	18	3,799,714	2,303,976
Current portion of lease liabilities	19	21,313	36,618
Current portion of employees' benefits	20	97,928	83,226
Trade payables	21	1,580,949	1,029,393
Accruals and other current liabilities	22	786,190	794,563
Zakat provision	23	35,471	56,075
Total current liabilities	1	6,321,565	4,303,851
TOTAL LIABILITIES		13,396,718	12,795,951
TOTAL EQUITY AND LIABILITIES		26,680,794	28,273,237



Aiman Fouad Khayat
(Finance and Planning Director)



Sameeh Suliman Al-Sahafi
(Company's President)



Waleed Ahmed Al-Shalfan
(Designate Member)



Ahmed Trais Al-Shaikh
(Chairman of the Board of Directors)

The accompanying notes from 1 to 35 form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	For the year ended 31 December 2023	For the year ended 31 December 2022
Revenue	24	8,170,642	11,157,015
Cost of sales	25	(9,017,085)	(11,253,855)
Gross loss		(846,443)	(96,840)
General and administrative expenses	25	(428,994)	(512,059)
Selling and distribution expenses	25	(194,693)	(227,166)
Other operating income and expenses	27	24,283	(21,239)
Operating loss		(1,445,847)	(857,304)
Finance income	26	23,261	22,579
Finance cost	26	(707,138)	(382,853)
Loss before zakat		(2,129,724)	(1,217,578)
Zakat expense	23	(6,750)	(26,312)
Loss for the year		(2,136,474)	(1,243,890)
Other comprehensive (loss) / income			
<i>Items that will not be reclassified to the statement of profit or loss:</i>			
- Re-measurement (loss) / gain on defined benefit plans	20	(56,736)	251,904
Other comprehensive (loss) / income		(56,736)	251,904
Total comprehensive loss for the year		(2,193,210)	(991,986)
Loss per share (Saudi Riyals):			
- Basic and diluted loss for the year attributable to the equity holders of the Company	28	(1.42)	(0.83)



Aiman Fouad Khayat
(Finance and Planning Director)



Sameeh Suliman Al-Sahafi
(Company's President)



Waleed Ahmed Al-Shalfan
(Designate Member)







Ahmed Trais Al-Shaikh
(Chairman of the Board of Directors)

The accompanying notes from 1 to 35 form an integral part of these financial statements.

Statement of changes in equity

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Share capital	Statutory reserve	Other components of equity	Actuarial reserve	Retained earnings / (accumulated losses)	Total equity
Balance as at 1 January 2022	15,000,000	288,470	620,874	(108,531)	668,459	16,469,272
Loss for the year	-	-	-	-	(1,243,890)	(1,243,890)
Other comprehensive income for the year	-	-	-	251,904	-	251,904
Total comprehensive loss for the year	-	-	-	251,904	(1,243,890)	(991,986)
Balance as at 31 December 2022	15,000,000	288,470	620,874	143,373	(575,431)	15,477,286
Balance as at 1 January 2023	15,000,000	288,470	620,874	143,373	(575,431)	15,477,286
Loss for the year	-	-	-	-	(2,136,474)	(2,136,474)
Other comprehensive loss for the year	-	-	-	(56,736)	-	(56,736)
Total comprehensive loss for the year	-	-	-	(56,736)	(2,136,474)	(2,193,210)
Balance as at 31 December 2023	15,000,000	288,470	620,874	86,637	(2,711,905)	13,284,076

			
Aiman Fouad Khayat (Finance and Planning Director)	Sameeh Suliman Al-Sahafi (Company's President)	Waleed Ahmed Al-Shalfan (Designate Member)	Ahmed Trais Al-Shaikh (Chairman of the Board of Directors)

The accompanying notes from 1 to 35 form an integral part of these financial statements.

Statement of cash flows

(All amounts in Saudi Riyals '000 unless otherwise stated)

		For the year ended 31 December 2023	For the year ended 31 December 2022
	Notes		
Cash flows from operating activities:			
Loss before zakat		(2,129,724)	(1,217,578)
<i>Adjustment for:</i>			
- Depreciation of property, plant and equipment	7	2,390,482	2,325,983
- Depreciation of right-of-use assets	8	44,533	49,538
- Amortisation of intangible assets	9	24,811	24,528
- Write-off of property, plant and equipment	27	5,161	24,974
- Write-off of intangible assets	9	-	4,640
- Provision for write-off of property, plant and equipment	7	87,690	-
- Employees' benefits	20	83,708	95,174
- Finance cost	26	707,138	382,853
- Gain on derecognition of right of use assets and lease liabilities		(16,967)	-
- Finance income	26	(23,261)	(22,579)
		<u>1,173,571</u>	<u>1,667,533</u>
<i>Changes in:</i>			
Inventories		155,801	376,849
Trade receivables		(63,588)	1,598,978
Prepayments		2,839	(5,398)
Other current assets		(89,386)	48,722
Other non-current assets		6,555	20,948
Trade payables		411,556	332,919
Accruals and other current liabilities		(4,507)	(432,121)
Cash generated from operations		<u>1,592,841</u>	<u>3,608,430</u>
Employees' benefits paid	20	(31,430)	(20,758)
Finance income received	26	22,994	22,740
Finance cost paid	26	(672,534)	(316,300)
Zakat paid	23	(27,354)	(113,706)
Net cash generated from operating activities		<u>884,517</u>	<u>3,180,406</u>
Cash flows from investing activities:			
Additions to property, plant and equipment	7	(781,056)	(354,465)
Additions to intangible assets	9	(6,589)	-
Net cash used in investing activities		<u>(787,645)</u>	<u>(354,465)</u>



The accompanying notes from 1 to 35 form an integral part of these financial statements.

Statement of cash flows (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	For the year ended 31 December 2023	For the year ended 31 December 2022
Cash flows from financing activities:			
Repayment of debt	18	(1,407,674)	(4,224,090)
Proceeds from debt	18	1,500,000	900,000
Payment of lease liabilities	19	(49,424)	(47,784)
Net cash generated from / (used in) financing activities		42,902	(3,371,874)
 Net change in cash and cash equivalents		 139,774	 (545,933)
Cash and cash equivalents at the beginning of the year	14	414,837	960,770
Cash and cash equivalents at the end of the year	14	554,611	414,837
 Non-cash transactions			
Additions to right-of-use assets and lease liabilities	8	47,571	14,934
Derecognition of right-of-use assets	8	12,399	35,061
Derecognition of lease liabilities	19	29,366	35,061
Impact of reassessment of lease terms	8	(9,599)	58,126
Transfer from property, plant and equipment to other non current assets	7	6,723	-
Employees transferred to related parties	20	21,364	90,454



Aiman Fouad Khayat
(Finance and Planning
Director)



Sameeh Suliman Al-Sahafi
(Company's President)



Waleed Ahmed Al-Shalfan
(Designate Member)



Ahmed Trais Al-Shaikh
(Chairman of the Board of
Directors)

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

1. Corporate information

Saudi Kayan Petrochemical Company (Saudi Kayan) ("the Company") is a Saudi Joint Stock Company registered under Commercial Registration No. 2055008450 issued in Al Jubail on 26 Jumada'l 1428 H (12 June 2007G). The registered address of the Company is P.O. Box 10302, Al Jubail Industrial City, the Kingdom of Saudi Arabia. 35% of the Company's shares are owned by Saudi Basic Industries Corporation ("SABIC") and the remaining are held by the general public.

The Company is engaged in production of polypropylene, propylene, acetone, polyethylene, ethoxylate, ethylene, ethylene glycol, bisphenol, ethanolamine, industrial fatty alcohol, polycarbonate and other petrochemical products under an industrial license No. (218) dated 14 Shawwal 1443H (corresponding to 16 May 2022G) and ending on 14 Shawwal 1446H (corresponding to 13 April 2025G) issued by the Ministry of Energy, Industry and Mineral Resources.

The Company has 33.33% interest in Saudi Butanol Company (Sabuco), a Saudi Arabian Mixed Limited Liability Company. Sabuco's principal activities comprise of a Butanol plant in Jubail for the production of N-Butanol and Iso-Butanol. All of the N-Butanol and Iso-Butanol produced by Sabuco is sold to the parties to the joint arrangement (i.e. the Company and its partners). Based on these facts and circumstances, it was assessed that the Company has rights to the assets and obligations for the liabilities relating to Sabuco. It has therefore been classified as a joint operation. The Company has accounted for its share of assets, liabilities, income and expenses based on its 33.33% shareholding interest.

Starting in the second half of 2022, there was a significant decline in the sales prices of the Company's products in the global markets which resulted in a significant decrease in revenue, margin and profitability for the years ended 31 December 2022 and 2023. Management believes that such decrease in sales prices is short-term and the sales prices are expected to improve in the foreseeable future. Also see Note 7.

As at 31 December 2023, the Company's current liabilities exceeded its current assets by SR 1.77 billion primarily due to expected scheduled debt repayments of SR 3.8 billion over the next twelve months which includes SR 2.4 billion due against a revolving credit facility. The master facility agreement for this revolving credit facility is valid until 16 November 2027. Based on the terms of the agreement, a cash settlement cannot be enforced by the lender except in the case of non-compliance with the underlying covenants, a situation that management considers to be an unlikely event given the nature of these covenants. Accordingly, management believes that the repayment date of amounts due under the revolving credit facility will continue to be rolled over until the expiry of the agreement, as was the case in the past. Furthermore, as at 31 December 2023, the Company has access to undrawn borrowing facilities amounting to SR 0.6 billion under the same revolving credit facility.

These financial statements were approved by the Board of Directors and authorised for issue on 15 February 2024G (corresponding to 5 Shaban 1445H).

2. Basis of preparation

2.1 Statement of compliance

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

2.2 Basis of measurement

The financial statements are prepared under the historical cost convention using accrual basis of accounting, except for employees' end-of-service benefits obligation which is measured at the present value of the obligations using the projected unit credit method and certain trade receivables, which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services at the time of the transaction.

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, regardless of whether that price is directly observable or estimated using another technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16 'Leases', and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 'Inventories' or value in use in IAS 36 'Impairment of Assets'.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

2. Basis of preparation (continued)

2.2 Basis of measurement (continued)

The Company has categorized its financial assets and liabilities into a three-level fair value hierarchy, based on the degree to which the inputs to fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

2.3 Functional and presentation currency

These financial statements are presented in Saudi Riyals (SR), which is the functional currency of the Company. All financial information presented in these financial statements has been rounded off to the nearest thousands Saudi Riyals, unless otherwise stated.

Transactions and balances

Transactions in foreign currencies are initially recorded by the 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 recognized in the statement of profit or loss.

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.

	31 December 2023		31 December 2022	
	Closing rates	Average rates	Closing rates	Average rates
- USD	3.75	3.75	3.75	3.75
- Euro	4.06	4.19	4.03	3.96

3. Significant accounting estimates, assumptions and judgements

The preparation of these 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.

Other disclosures relating to the exposure to risks and uncertainties include:

- Capital management, financial instrument risk management and policies (Note 33)
- Sensitivity analyses disclosures (Notes 20 and 33)

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

3. Significant accounting estimates, assumptions and judgements (continued)

3.1 Critical judgements in applying accounting standards

In addition to the application of the judgement in the above-mentioned estimates and assumptions, including the matters set out in Note 1 above, the following critical judgements have the most significant effect on the amounts recognised in the financial statements:

3.1.1 Determination of single cash generating unit

The management believes that all constructed plants were pre-conditioned with the gas allocation agreement, and the Company does not have the option to curtail/discontinue any one of these plants without approvals from the regulator. Accordingly the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or group of assets are the cash inflows generated by all plants together. Therefore, the Company as a whole is considered as a single cash generating unit for the purpose of impairment testing.

3.1.2. Component parts of plant and equipment

The Company's plant and equipment are broken down into significant components and depreciated 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 quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to related asset.

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

The Company determines the lease term as 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 several 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 the Company and for the lessor 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. Also see note 8.

3.2 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.

3.2.1. Impairment of non-financial assets

Impairment of non-financial assets occur 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 has 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 selling prices. Also see Note 7.

3.2.2. Incremental borrowing rate for lease agreements

The Company cannot readily determine the interest rate implicit in the lease agreement, 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. The Company estimates the IBR using observable inputs, such as market interest rates when available and is required to make certain entity-specific estimates.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

3. Significant accounting estimates, assumptions and judgements (continued)

3.2.3. 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. Provisions for termination benefits and exit costs, if any, also involve management's judgment in estimating the expected cash outflows for severance payments and site closures or other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

3.2.4. 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. Periodically, management of the Company consults with external actuaries regarding these assumptions. 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.

3.2.5. Useful lives of property, plant and equipment

Management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

3.2.6. Useful lives of intangible assets

Management reviews the amortization period and the amortization method at each reporting date. If the expected useful life of the asset is different from previous estimates, the Company changes the amortization period accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the Company changes the amortization method to reflect the changed pattern.

3.2.7. Zakat

The Company is subject to Zakat in accordance with the Zakat, Tax and Custom Authority ("ZATCA") regulations. Zakat computation involves relevant knowledge and judgement of the Zakat rules and regulations to assess the impact of Zakat liability at a particular period end. This liability is considered an estimate until the final assessment by ZATCA is carried out until which the Company retains exposure to additional Zakat liability.

3.2.8. Provisional price

The Company markets and sells its petrochemical products primarily through the distribution platform of SABIC (the marketer). The sales are initially recorded at provisional prices agreed with the marketer at the time of shipment, which requires estimation. These prices are subsequently adjusted based on actual selling prices received by the marketer from their customers deducting shipping, distribution and selling cost, and a marketing fee to cover all other marketing expenses.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

4. Changes in accounting policies

The amendments to IFRS, which are relevant to the Company and that have been applied on 1 January 2023 by the Company are described below:

4.1 IAS 8 'Accounting Policies Changes in Accounting Estimates and Errors': Definition of Accounting Estimates

Amendments to IAS 8 'Definition of accounting estimates' clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments also clarify how measurement techniques and inputs to develop accounting estimates should be used..

4.2 Amendments to IAS 1 and IFRS Practice Statement 2'

The IASB amended IAS 1 Presentation of Financial Statements to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information if disclosed, should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

5. IFRS issued but not yet effective

The IFRS standards and interpretations that are issued and relevant for the Company, but not yet effective, 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

The amendment published in 2020 and 2022 respectively, clarify that the classification of liabilities as current or non-current is based solely on a company's right to defer settlement for at least 12 months at the reporting date. The right needs to exist at the reporting date and must have substance. Only covenants with which a company must comply on or before the reporting date may affect this right. Covenants to be complied with after the reporting date do not affect the classification of a liability as current or noncurrent at the reporting date. The amendments are not expected to have a material impact on the Company in the current or future reporting periods.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies

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

6.1 Investments in joint arrangements

Investments in joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

- Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control on the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Company recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses for its joint operations.

- Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the statement of financial position.

Under the equity method of accounting, the investments in an associate or a joint venture are initially recognised at cost and adjusted thereafter to recognise the Company's share of the post-acquisition results in the statement of profit or loss, and the Company's share of movements in OCI in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognise further losses, unless it is liable due to constructive or legal obligations on behalf of the other entity.

Unrealised gains on transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

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

All other assets are classified as non-current.

A liability is current when:

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

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as non-current.

6.3 Zakat

Zakat

Zakat is levied based on adjusted income subject to zakat or the zakat base in accordance with the Regulations of the Zakat, Tax and Customs Authority ("ZATCA") in KSA whatever is higher. The Company computes its zakat by using the zakat base. The zakat provision is charged to the statement of profit or loss. Differences, if any, resulting from the final assessments are adjusted in the period of their finalisation.

Uncertain zakat and tax positions

Uncertain positions relate to risk or uncertainty over complex zakat and tax treatments. Such uncertain zakat and tax positions are measured using the single most likely amount or the expected value method, depending on which method is expected to better predict the resolution of the uncertainty.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.4 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include 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 inhouse, 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 inhouse and are directly attributable to it.

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 profit or loss 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 and the amounts are material. The Company will periodically assess the expectation and estimation for the decommissioning liability.

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:

Plant and equipment	4 – 50 years
Buildings	13 – 40 years
Furniture, fixtures and office equipment	3 – 10 years
Vehicles	4 – 20 years
Catalysts	1.5 – 20 years

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each reporting date.

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 recognized is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition 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 profit or loss.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The assets' residual values, useful lives and methods of depreciation are periodically reviewed, and adjusted prospectively in case of a significant change in the assets technological capabilities or estimated planned use.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.5 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 and the estimated useful lives of the assets, as follows:

Lands	3 – 99 years
Tanks	11 years
Housing	2 – 10 years
Vehicles	4 years
Pipelines	20 years

6.6 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.

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 profit or loss 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.

Lease liabilities include, if applicable, the net present value of fixed payments including in-substance fixed payments, less any lease incentives receivable, variable lease payment 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 for 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 profit or loss.

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 profit or loss.

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 control.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.7 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand 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.

6.8 Short term investments

Short term investments represent Murabaha commodity deposits with maturity over 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. These are measured at amortized cost.

6.9 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. 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 profit or loss in the expense category that is consistent with the function of the intangible asset.

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

Amortization of the intangible asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortization is recorded in the statement of profit or loss. During the period of development, the asset is tested for impairment annually.

Technology and innovation expense related to product development is recorded in the statement of profit or loss in general and administrative expenses and expense related to process improvement is recorded in cost of sales.

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

Licenses	3 – 20 years
Softwares and IT development	5 years

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.10 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 or group of assets. 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. 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 using a terminal value.

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

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 estimates the asset's or CGU's recoverable amount. A previously recognized 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 recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

6.11 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 statement of profit or loss or through other comprehensive income.

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 profit or loss, irrespective of the business model.

Revenue contracts provide for provisional pricing at the time of shipment to the marketer with the final pricing based on the final price realised by the marketer from the final customer after deducting certain expenses and marketing fee. Such trade receivables are measured at fair value because the contractual cash flows are not solely payments of principal and interest. Other trade receivables meet the criteria for amortized cost under IFRS 9.

Initial measurement

Financial assets are initially measured at their fair value plus transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are recognised in the statement of profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows meet the requirements as solely payment of principal and interest.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.11 Financial assets (continued)

Subsequent measurement

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

- *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 profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes cash and cash equivalents, short-term investments and trade and other receivables, other than those subsequently measured at FVTPL.

- *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 profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

- *Financial assets designated at fair value through OCI 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 profit or loss 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 profit or loss.

- *Financial assets at Fair Value Through Profit or Loss ("FVTPL")*

Financial assets that do not meet the criteria for subsequent recognition at amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and which is not part of a hedging relationship is recognised and presented net in the statement of profit or loss in the period in which it arises. Trade receivables related to contracts with provisional pricing arrangements are subsequently measured at FVTPL.

De-recognition

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.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.11 Financial assets (continued)

Impairment

The Company assesses on a forward-looking basis the Expected Credit Loss ("ECL") associated with its debt instruments as part of its financial assets, which are carried at amortised cost and FVOCI. The ECL is based on a 12-month ECL or a lifetime ECL. The 12-month ECL results from default events on a financial instrument that are possible within 12 months after the reporting date. When there has been a significant increase in credit risk since initial recognition, the allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (the lifetime ECL).

For accounts receivables, other than those subsequently measured at FVTPL, the Company applies the simplified approach in calculating ECL's. Therefore, the Company does not track changes in credit risk, but instead recognized a loss allowance base on lifetime ECL's 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.

6.12 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified under either of the below two classes:

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

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

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

Subsequent measurement

Financial liabilities at FVTPL continue to be recorded at fair value with changes being recorded in the statement of profit or loss.

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 profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR method. The EIR amortisation is included as finance costs in the statement of profit or loss.

Trade and other payables

These amounts represent liabilities for goods and services provided to the 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. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.12 Financial liabilities (continued)

De-recognition

A financial liability is derecognised when the obligation under the liability is settled or discharged. 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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

6.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is disclosed in the statement of financial position if there is a currently enforceable legal right to offset recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

6.14 Provisions

General

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.

De-commissioning liability

The Company records a provision for de-commissioning costs of manufacturing facilities when an obligation exists and the amounts are material. De-commissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the de-commissioning liability. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss as a finance cost. The estimated future cost of de-commissioning is reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

6.15 Inventories

Inventories, including raw materials, work in progress, finished goods, and consumables and spare parts are measured at the lower of cost i.e. historical purchase prices based on the weighted average principle plus directly attributable costs or the net realisable value.

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

Abnormal inventory losses due to quality or other issues and overheads incurred during unplanned maintenance / shut down period are excluded from inventory costs. 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. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.15 Inventories (continued)

Scrap inventory, co-product and by-product

Production process in the Company sometimes results in production of co-product simultaneously, or may result in some by-products or scraps (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 realizable 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 profit or loss, the net realizable value for the by-products and scrap reduces the cost of sales for the period. Upon subsequent sale of such by-product, the proceeds is recorded as revenue with a corresponding cost of sale being recorded based on earlier recorded net realizable value, while 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

Spare parts are the interchangeable parts of property, 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 standby 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.
- 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 related property, plant and equipment in which it is installed. These do not form part of inventory.
- General 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 capitalisation 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 profit or loss and other comprehensive upon their installation or use. Where such items meet criteria for capitalization, their depreciation method is similar to repairable items as noted above.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.16 Employee benefits

Long-term employee benefits 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. 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 other comprehensive income. 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 to a separate entity and will have no legal or constructive obligation to pay amounts. The contributions are recognised as employee benefit expense when these are due.

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.

Savings plan

The Company offers a savings 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).

End of service benefits

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 policy.

The liability is 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") 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.

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.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.16 Employee benefits (continued)

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 profit or loss 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 profit or loss. To the extent that benefits vest immediately, the expense or income, if applicable is recognised immediately in the statement of profit or loss.

Current and past service costs related to post-employment benefits are recognised immediately in the statement of profit or loss 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.

Employee Home Ownership Program ("HOP")

The Company has established employee's HOP that offer eligible employees the opportunity to buy residential units constructed by the Company 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.

Medical insurance

The Company provides post-retirement healthcare benefits to its eligible retirees and certain family members 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, 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.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

6. Summary of material accounting policies (continued)

6.17 Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

6.18 Revenue recognition

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.

All the product sales made to SABIC (referred to as the 'Marketer') 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.

Provisional pricing

Revenue contracts with the marketer provide for provisional pricing at the time of shipment, with final pricing based on price realised by the marketer from the final customer after deducting certain expenses and marketing fee. Revenue on these contracts is recorded at the provisional price at the time control is transferred to the marketer. Any difference between the provisional and the final price is recorded as a change in fair value of the related receivable, as part of revenue, in the statement of profit or loss.

6.19 Expenses

Cost of sales

All expenses are recognized on an accrual basis. 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 administrative 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.

6.20 Finance income

For all financial instruments measured at amortised cost and interest-bearing financial assets, finance income is recorded using the EIR, which 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.

6.21 Finance cost

Finance cost is recognised for the interest due to the lender of all financial liabilities measured at amortised cost, using the 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 liability. These include bonds, conventional notes, Murabaha, etc. Additionally, the finance cost also includes time value of money for all the lease liabilities recognised. Finance cost is also recognised due to passage of time whenever a provision or liability has been discounted to its present value.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

7. Property, plant and equipment

	For the year ended 31 December 2023						
	Plant and equipment	Buildings	Furniture, fixtures and office equipment	Vehicles	Catalyst	Assets under construction	Total
Cost:							
At the beginning of the year	44,568,517	2,571,897	346,835	10,206	606,802	363,623	48,467,880
Additions	610,195	2,120	1,828	-	23,957	142,956	781,056
Transfers	150,777	896	2,774	-	50,172	(204,619)	-
Transfers to HOP	-	-	-	-	-	(6,723)	(6,723)
Write offs	(7,906)	-	-	-	-	(1,246)	(9,152)
At the end of the year	45,321,583	2,574,913	351,437	10,206	680,931	293,991	49,233,061
Accumulated depreciation:							
At the beginning of the year	23,463,506	851,400	326,431	9,775	512,644	-	25,163,756
Charge for the year	2,253,002	78,683	6,635	133	52,029	-	2,390,482
Provision for write-off*	87,690	-	-	-	-	-	87,690
Related to write offs	(3,991)	-	-	-	-	-	(3,991)
At the end of the year	25,800,207	930,083	333,066	9,908	564,673	-	27,637,937
Net book value:							
As at 31 December 2023	19,521,376	1,644,830	18,371	298	116,258	293,991	21,595,124
As at 31 December 2022	21,105,011	1,720,497	20,404	431	94,158	363,623	23,304,124

The asset under construction mainly relates to turnaround costs, site projects and other support facilities with a total cost of SR 294.0 million (2022: SR 363.6 million).

During 2023, the Company has conducted major inspections (turnarounds / shutdown plans) in certain plants.

Property, plant and equipment of the Company are pledged as security for its debt (note 18).

Depreciation charge for 2023 of SR 2,382.6 million (2022: SR 2,317.8 million) and SR 7.8 million (2022: SR 8.2 million) has been allocated to cost of sales and general and administrative expenses, respectively.

* On 13 September 2023, one of the two trains in the operating units of the Bisphenol Plant was damaged by a limited fire which was fully controlled, without any human injuries or impact on the other operating units. Based on management's assessment, the current estimates for loss due to this event amount to approximately SR 443.0 million, which include business interruption losses and loss due to damaged assets of SR 87.7 million. Accordingly, management has recorded a provision for write-off amounting to SR 87.7 million against such assets for the year ended 31 December 2023. The business interruption losses amount to SR 355.3 million and are due to the Bisphenol plant operating at a partial production capacity of approximately 50%. It is expected that the effect of the event will continue until the end of the first half of 2024 as the work is underway to restore the plant's full production capacity which is expected to be completed by the end of the first half of 2024.

The Company's plants and facilities are subject to comprehensive insurance coverage which the management believes will cover the abovementioned losses arising from this incident. Subsequent to year end, the insurance claim has been filed by the Company.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

7. Property, plant and equipment (continued)

	For the year ended 31 December 2022						
	Plant and equipment	Buildings	Furniture, fixtures and office equipment	Vehicles	Catalyst	Assets under construction	Total
Cost:							
At the beginning of the year	44,385,129	2,571,225	337,326	11,001	566,300	268,316	48,139,297
Additions	86,395	381	3,261	532	878	263,018	354,465
Write offs	(535)	-	-	(1,327)	-	(24,020)	(25,882)
Transfers	97,528	291	6,248	-	39,624	(143,691)	-
At the end of the year	44,568,517	2,571,897	346,835	10,206	606,802	363,623	48,467,880
Accumulated depreciation:							
At the beginning of the year	21,255,435	772,799	319,846	10,329	480,272	-	22,838,681
Charge for the year	2,208,307	78,601	6,585	118	32,372	-	2,325,983
Related to write offs	(236)	-	-	(672)	-	-	(908)
At the end of the year	23,463,506	851,400	326,431	9,775	512,644	-	25,163,756
Net book value:							
As at 31 December 2022	21,105,011	1,720,497	20,404	431	94,158	363,623	23,304,124
As at 31 December 2021	23,129,694	1,798,426	17,480	672	86,028	268,316	25,300,616

Impairment indicators and assessment

As explained in Note 1, management identified the significant decrease in the market prices of the Company's products along with a current-period operating loss as an impairment indicator. Accordingly, the management performed a detailed impairment assessment of its non-current assets and determined the recoverable amount based on the value-in-use calculation using the approved business plan. As a result of such assessment, as at 31 December 2023, the recoverable amount of the non-current assets was higher than the carrying amount.

Management has performed a sensitivity analysis around the key assumptions used in the value-in-use calculation and believes that the recoverable amount of non-current assets would equal their carrying amount if the following key assumptions were to change as follows:

- Forecasted sales prices decreased by 6.2%; or
- Discount rate increased by 295 bps.

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

8. Right-of-use assets

	For the year ended 31 December 2023					
	Lands	Tanks	Housing	Vehicles	Pipelines	Total
Cost:						
At the beginning of the year	171,187	105,423	91,154	24,784	14,329	406,877
Additions	-	-	47,571	-	-	47,571
Derecognition	-	-	(30,797)	-	-	(30,797)
Modification	1,445	-	-	-	-	1,445
At the end of the year	172,632	105,423	107,928	24,784	14,329	425,096
Accumulated depreciation:						
At the beginning of the year	20,744	39,985	34,509	19,830	10,745	125,813
Charge for the year	6,283	9,689	22,891	4,954	716	44,533
Derecognition	-	-	(18,398)	-	-	(18,398)
Modification	(8,154)	-	-	-	-	(8,154)
At the end of the year	18,873	49,674	39,002	24,784	11,461	143,794
Net book value:						
As at 31 December 2023	153,759	55,749	68,926	-	2,868	281,302
As at 31 December 2022	150,443	65,438	56,645	4,954	3,584	281,064

The Company leases lands, tanks, housing for employees, vehicles and pipelines for expected lease terms ranging from 2 to 99 years, based on original lease term and extension options available under the lease contracts. Lease payments are agreed at the time of inception of the lease which may change based on mutual consent of both the parties.

Depreciation charge for 2023 of SR 28.7 million (2022: SR 33.4 million), SR 10.7 million (2022: SR 11.0 million) and SR 5.1 million (2022: SR 5.2 million) has been allocated to cost of sales, selling and distribution expenses and general and administrative expenses, respectively.

The land on which plant and related facilities are constructed are leased from the Royal Commission for Jubail and Yanbu under renewable lease agreements for a period up to 99 years.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

8. Right-of-use assets (continued)

	For the year ended 31 December 2022					
	Land	Tank	Housing	Vehicles	Pipelines	Total
Cost:						
At the beginning of the year	113,267	93,039	188,590	26,537	14,329	435,762
Additions	750	12,384	1,800	-	-	14,934
Re-measurement*	58,126	-	-	-	-	58,126
Derecognition	(956)	-	(99,236)	(1,753)	-	(101,945)
At the end of the year	171,187	105,423	91,154	24,784	14,329	406,877
Accumulated depreciation:						
At the beginning of the year	14,595	30,034	71,962	16,539	10,029	143,159
Charge for the year	7,104	9,951	26,723	5,044	716	49,538
Derecognition	(955)	-	(64,176)	(1,753)	-	(66,884)
At the end of the year	20,744	39,985	34,509	19,830	10,745	125,813
Net book value:						
As at 31 December 2022	150,443	65,438	56,645	4,954	3,584	281,064
As at 31 December 2021	98,672	63,005	116,628	9,998	4,300	292,603

* During 2022, certain estimates in the assessment of land lease contracts with the Royal Commission were reassessed and accordingly for the computation of the lease liabilities, the lease terms applied were extended to reflect Company's reasonable expectations of the period during which the underlying asset will be used. Considering the broader economics of these contracts and recent developments, the Company is reasonably certain that both parties will exercise extension options given in the land lease agreements. As a consequence of this change in assessment as at 31 December 2022 an additional SR 58.1 million was recorded in right-of-use assets and lease liabilities.

9. Intangible assets

	For the year ended 31 December 2023			
	Licenses	Software and IT development	Intangibles under development	Total
Cost:				
At the beginning of the year	375,678	55,538	10,951	442,167
Addition	260	-	6,329	6,589
Transfer to other non-current assets	-	-	(11,274)	(11,274)
At the end of the year	375,938	55,538	6,006	437,482
Accumulated amortisation:				
At the beginning of the year	186,475	36,038	-	222,513
Charge for the year	17,953	6,858	-	24,811
At the end of the year	204,428	42,896	-	247,324
Net book amount:				
As at 31 December 2023	171,510	12,642	6,006	190,158
As at 31 December 2022	189,203	19,500	10,951	219,654

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

9. Intangible assets (continued)

	For the year ended 31 December 2022			Total
	Licenses	Software and IT development	Intangibles under development	
<i>Cost:</i>				
At the beginning of the year	375,678	51,459	19,684	446,821
Transfers	-	4,093	(4,093)	-
Write offs	-	(14)	(4,640)	(4,654)
At the end of the year	375,678	55,538	10,951	442,167
<i>Accumulated amortisation:</i>				
At the beginning of the year	168,503	29,496	-	197,999
Charge for the year	17,972	6,556	-	24,528
Related to write offs	-	(14)	-	(14)
At the end of the year	186,475	36,038	-	222,513
<i>Net book amount:</i>				
As at 31 December 2022	189,203	19,500	10,951	219,654
As at 31 December 2021	207,175	21,963	19,684	248,822

Transfers for intangibles under development in 2023 represent the advances previously given to the parent company for the implementation of certain IT projects. During 2023, the implementation of these IT projects was rolled back and the balances are to be refunded to the Company by the parent company. Accordingly, such balances have been transferred to other non-current assets and receivable.

Amortisation charge for 2023 of SR 18.1 million (2022: SR 17.4 million) and SR 6.7 million (2022: SR 7.1 million) has been allocated to cost of sales and general and administrative expenses, respectively.

10. Other assets and receivables

	31 December 2023	31 December 2022
<i>Non-current:</i>		
Employees' loans and other advances (i)	36,494	42,896
Inter Company Advances	18,921	-
HOP site development costs	3,321	4,397
	58,736	47,293
<i>Current:</i>		
Advances and other receivable due from related parties (note 29)	219,058	127,846
Value added tax (VAT) receivable, net	123,574	116,502
Employees' loans and advances	18,143	18,520
Others	12,438	20,691
	373,213	283,559
	431,949	330,852

(i) Employee advances represents receivables from employees related to Housing Ownership Program ("HOP") and other benefits.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

11. Financial assets and financial liabilities

	31 December 2023	31 December 2022
<i>Financial assets at fair value through profit or loss</i>		
Trade receivables	2,293,999	2,225,610
<i>Financial assets at amortised cost</i>		
Trade receivables	10,655	15,456
Cash and cash equivalents	554,611	414,837
Other financial assets	67,073	82,107
	2,926,338	2,738,010
	31 December 2023	31 December 2022
<i>Financial liabilities at amortized cost</i>		
Debt	9,890,878	9,764,631
Lease liabilities	279,495	307,130
Trade payables	1,580,949	1,169,393
Other financial liabilities	786,190	794,563
	12,537,512	12,035,717

- The Company has assessed the fair value of cash and cash equivalents, lease liabilities, trade payables and other financial assets and liabilities to approximate their carrying amounts largely due to the short-term maturities of these instruments or because the balances carry markup at market rates.
- Other financial assets include other receivables, employee housing loans and interest receivables, net of expected credit losses, where applicable. Other financial liabilities include payables related to utilities, feedstock, employees and other payables.
- Lease liabilities are recognised according to IFRS 16.

12. Inventories

	31 December 2023	31 December 2022
Spare parts	626,379	694,219
Less: provision for slow moving, obsolete and dormant spare parts	(197,219)	(269,765)
	429,160	424,454
Raw materials	115,573	120,307
Goods in transit	12,050	48,848
Finished goods, net	668,879	787,858
	1,225,662	1,381,467

During 2023, SR 23.8 million was recognised as a provision for inventories carried at net realisable value (2022: SR 97.1 million). This is recognised in cost of sales.

The movement in provision for slow moving, obsolete and dormant spare parts inventory is as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
At the beginning of the year	269,765	253,693
(Reversal) charge for the year	(6,777)	16,072
Write offs	(65,769)	-
At the end of the year	197,219	269,765

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

13. Trade receivables

	31 December 2023	31 December 2022
Trade receivables - due from related parties (note 29)	2,304,656	2,240,177
Trade receivables - due from third parties	5,549	6,440
	2,310,205	2,246,617
Less: allowance for expected credit losses	(5,551)	(5,551)
	2,304,654	2,241,066

The credit term is 90 to 105 days and other terms and conditions for related party transactions and balances are disclosed under note 33 of these financial statements. Trade receivables relating to contracts with provisional pricing arrangements are measured at fair value. These trade receivables are classified as level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including specific terms of the contract. For trade receivables carried at amortised cost, the carrying amount as at December 31, 2023 and 2022 approximates their fair value due to their short-term nature.

Movement in the allowance for expected credit losses is as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
At the beginning of the year	5,551	5,551
Charge for the year	-	-
At the end of the year	5,551	5,551

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Less than 30 days	31-60 days	61-90 days	More than 90 days
31 December 2023	2,304,654	2,176,992	120,754	360	74	6,474
31 December 2022	2,246,617	2,240,347	231	494	-	5,545

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

13. Trade receivables (continued)

The aging analysis of trade receivable with third parties is as follows:

	Total	Neither past due nor impaired	Less than 30 days	31-60 days	61-90 days	More than 90 days
31 December 2023						
Expected credit loss rate						100%
Gross carrying amount	5,551	-	-	-	-	5,551
Expected credit loss	5,551	-	-	-	-	5,551
31 December 2022						
Expected credit loss rate		0.01%	0.02%	0.81%	3.0%	100%
Gross carrying amount	6,440	170	231	494	-	5,545
Expected credit loss	5,551	1	1	4	-	5,545

Trade receivables are non-interest bearing and the Company's credit period is 90 - 105 days after which trade receivables are considered to be past due. Unimpaired trade receivables are unsecured and are expected, on the basis of past experience, to be fully recoverable.

14. Cash and cash equivalents

	31 December 2023	31 December 2022
Current accounts	77,641	56,347
Current murabaha (including fixed time deposits)	476,970	358,490
Cash and cash equivalents	554,611	414,837

Term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. These placements yield finance income at commission rates ranging from 4.08% to 6.02% (2022: 0.10% to 4.75%)

At 31 December 2023, the Company has funds amounting to SAR 53.7 million (2022: SAR 49.8 million) (note 20) that are held in separate bank accounts and are not used as part of normal business operations.

The table below provides details of amounts of cash and cash equivalents placed in various currencies:

	31 December 2023	31 December 2022
USD	463,009	293,475
SAR	91,602	121,362
	554,611	414,837

15. Share capital

The authorised, issued and paid up share capital is SR 15,000 million, which is divided into 1,500 million shares (2022: 1,500 million shares) of SR 10 each.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

16. Statutory reserve

In accordance with the Company's Bylaw's, the Company is required to maintain a statutory reserve equal to maximum of 30% of its share capital. According to the latest update in the Regulations for Companies in the Kingdom of Saudi Arabia, the mandatory statutory reserve requirement has been abolished. In pursuant to this change, the Company is in the process of amending its Bylaws.

17. Other components of equity

Other components of equity of SR 620.87 million represent contribution of a surplus for the fair value differential in respect of subordinated loans provided from a shareholder in prior years and fully settled in 2019.

18. Debt

	Effective Interest rate (%)	Maturity	31 December 2023	31 December 2022
Long term debt				
Saudi Industrial Development Fund (SIDF)	Follow up Cost	13 February 2025	148,440	277,418
Murabaha long term loans	SAIBOR + 0.85 & SOFR+1.3	2023 to 2027	7,331,471	8,591,570
Short term debt				
Revolving Credit Facility	SAIBOR + 0.40& SOFR+ 0.55		2,410,967	895,643
Total			9,890,878	9,764,631
Total non-current			6,091,164	7,460,655
Total current			3,799,714	2,303,976

The above loans are secured either by mortgage of the assets or letter of credit. In accordance with the loan agreement, SABIC will maintain 35% ownership in the Company during the repayment period of these borrowings.

Movement in debt is as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
At the beginning of the year	9,764,631	13,068,714
Additions	1,500,000	900,000
Repayments during the year	(1,407,674)	(4,224,090)
Amortisation of transaction cost	33,921	20,007
At the end of the year	9,890,878	9,764,631

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

18. Debt (continued)

Saudi Industrial Development Fund

The loan agreements with SIDF provided for loans of SR 479 million to finance construction of the Company's production facilities. Up-front and annual administrative fees are charged by SIDF under the loan agreements. The loans are payable in 12 un-equal semi-annual instalments which commenced in October 2019. The covenants of the borrowing facility with SIDF require the Company to maintain certain level of financial conditions. The Company has obtained a waiver from SIDF for the current ratio covenant for the years 2023 and 2024 and accordingly, as at 31 December 2023, the Company was in compliance with the covenants of the borrowing facility.

The Company's joint operation, Saudi Butanol Company (Sabuco), obtained a debt facility from Saudi Industrial Development Fund ("SIDF") with total amount of SR 865 million (SR 288.33 million share of Saudi Kayan). The loan is fully utilized by Sabuco. The loan is secured by a mortgage over Sabuco's property, plant and equipment and by promissory notes. The loan is payable in 15 un-equal semi-annual instalments starting from 15 Shaa'ban 1438H corresponding to 12 May 2017. The covenants of the borrowing facility with SIDF require the Company to maintain certain level of financial conditions. As at 31 December 2023, Sabuco was in compliance with such covenants.

Up-front and annual administrative fees are charged by SIDF under the loan agreements. The loans are commission free but carry fees which have been amortized as finance cost using the effective interest rate.

Murabaha long term loans

During 2019, the Company entered into murabaha long term loan agreements with a local commercial bank amounting to US dollars 2 billion (SR 7.5 billion) to settle a portion of the Company's subordinated loans and to finance working capital requirements. The loan bears financial charges on SOFR plus an agreed margin. This loan is payable in instalments ending on 30 June 2026.

In addition, the Company has also entered into Murabaha long term loan agreement with another local commercial bank amounting to SR 1.5 billion to settle a portion of the Company's subordinated loans. The loan bears financial charges on SIBOR plus an agreed margin. This loan is payable on 30 December 2027.

The agreements for murabaha long term loans include cross default clauses linked to other borrowings of the Company. As at 31 December 2023, the Company was in compliance with such covenants.

Revolving Credit Facility

During 2022, the Company entered into a Multicurrency Murabaha Revolving Credit Facility agreement with a local commercial bank amounting to US dollars 800.0 million (SR 3.0 billion) to finance working capital requirements. The loan bears financial charges on SIBOR / SOFR plus an agreed margin. Each murabaha period for a transaction shall be one, three or six months, with a maximum extension option for the same term as the initial Murabaha transaction, up to a maximum of 12 months tenor for each transaction. The Revolving Credit Master Facility maturity date is 16 November 2027.

The aggregate repayment schedule of debt is as follows:

	31 December 2023	31 December 2022
2023	-	2,303,976
2024	3,799,714	1,375,131
2025	1,308,898	1,310,728
2026	3,289,780	3,274,796
2027	1,492,486	1,500,000
	9,890,878	9,764,631

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

19. Lease liabilities

The Company leases several lands, tanks, housing for employees, vehicles and pipelines for a period ranging from 2 to 99 years, with an option to renew the lease after that date. Lease payments are agreed at the time of inception of the lease which may change based on mutual consent of both the parties.

Property, plant and equipment are constructed on a land leased by the Company from Royal Commission for Jubail and Yanbu under a long-term renewable lease agreement with an initial term of 30 years effective from 21 Rabi'l 1428H (corresponding to 9 April 2007).

The Company has leases approximately amounting to SR 2.6 million (2022: SR 6.0 million) with contract terms of less than 12 months. These leases are short term or leases of low-value items. The Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

	31 December 2023	31 December 2022
Non-current	258,182	270,512
Current	21,313	36,618
	279,495	307,130

These leases are discounted using interest rates ranging from 2.23% to 8.00% based on the terms in the agreement.

Movement in lease liabilities is as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
At the beginning of the year	307,130	309,299
Additions to lease liabilities	47,571	14,934
Modification	(9,599)	58,126
Payment of lease liabilities	(49,424)	(47,784)
Derecognition of lease liabilities*	(29,366)	(35,061)
Finance cost	13,183	7,616
At the end of the year	279,495	307,130

* During the year, the Company decided not to exercise extension options under certain lease arrangement due to which leases related to certain houses were derecognized as these were no longer required by the Company.

Amount recognised in statement of profit or loss

	For the year ended 31 December 2023	For the year ended 31 December 2022
Finance cost on lease liabilities	13,183	7,616
Depreciation	44,533	49,538
Expenses relating to short-term or low value leases	2,633	5,879
	60,349	63,033

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

19. Lease liabilities (continued)

	31 December 2023		
	Third party	Related party	Total
Less than 1 year	31,587	1,438	33,025
Later than one year to five years	128,797	4,315	133,112
More than five years	802,683	-	802,683
	<u>963,067</u>	<u>5,753</u>	<u>968,820</u>
Total minimum lease payments	963,067	5,753	968,820
Less amounts representing finance charges	(688,482)	(843)	(689,325)
Present value of minimum lease payments	<u>274,585</u>	<u>4,910</u>	<u>279,495</u>
	31 December 2022		
	Third party	Related party	Total
Less than 1 year	55,032	554	55,586
Later than one year to five years	181,485	6,559	188,044
More than five years	802,242	-	802,242
	<u>1,038,759</u>	<u>7,113</u>	<u>1,045,872</u>
Total minimum lease payments	1,038,759	7,113	1,045,872
Less amounts representing finance charges	(737,462)	(1,280)	(738,742)
Present value of minimum lease payments	<u>301,297</u>	<u>5,833</u>	<u>307,130</u>

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

20. Employees' benefits

	31 December 2023	31 December 2022
Defined employees' benefits obligation – non-current liability	725,807	620,933
Other employees' benefits – current liability	97,928	83,226
	823,735	704,159

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 2023 and 31 December 2022 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements.

The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
Discount rate	5.00%	5.20%
Expected rate of salary increase		
Executive	4.50%	4.50%
Non-Executive	6.00%	6.00%

The following table represents the components of the defined benefits liability as at 31 December:

	For the year ended 31 December 2023			
	End of Service Benefit Plan	Continuous Service Awards	Post-retirement medical benefits	Total
At the beginning of the year	561,293	5,402	54,238	620,933
Charge recognised in statement of profit or loss:				
- Current service cost	50,218	503	4,952	55,673
- Finance cost	28,871	267	2,789	31,927
Actuarial changes arising due to:				
- demographic assumptions	-	-	(38)	(38)
- financial assumptions	16,786	70	4,437	21,293
- experience adjustments	32,709	(366)	3,138	35,481
	49,495	(296)	7,537	56,736
Payments during the year	(13,291)	(520)	(4,287)	(18,098)
Transfers during the year	(20,017)	(116)	(1,231)	(21,364)
At the end of the year	656,569	5,240	63,998	725,807

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

20. Employees' benefits (continued)

	For the year ended 31 December 2022			
	End of Service Benefit Plan	Continuous Service Awards	Post-retirement medical benefits	Total
At the beginning of the year	790,304	6,581	75,418	872,303
Charge recognised in statement of profit or loss:				
- Current service cost	76,276	584	7,396	84,256
- Finance cost	21,187	172	2,009	23,368
Actuarial changes arising due to:				
- financial assumptions	-	-	(38)	(38)
	(240,160)	(989)	(20,933)	(262,082)
- experience adjustments	8,253	988	975	10,216
	(231,907)	(1)	(19,996)	(251,904)
Payments during the year	(12,358)	(1,260)	(3,018)	(16,636)
Adjustments / transfers during the year	(82,209)	(674)	(7,571)	(90,454)
At the end of the year	561,293	5,402	54,238	620,933

Sensitivity analysis

The table below illustrates the approximate impact on the defined benefit liability 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 defined benefit liability 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 defined benefit liability. The sensitivities only apply to the defined benefit liability and not to the amounts recognised in the statement of financial position.

The balances based on sensitivity analysis would be:

	31 December 2023		
	End of Service Benefit Plan	Continuous Service Awards	Post-retirement medical benefits
Increase			
Discount rate (+25 bps)	635,676	5,152	61,310
Salary (+25 bps)	678,126	-	-
Health care cost (+25 bps)	-	-	66,975
Decrease			
Discount rate (-25 bps)	678,382	5,330	66,829
Salary (-25 bps)	635,815	-	-
Health care cost (-25 bps)	-	-	61,164
Weighted average duration (in years)			
Discount rate (+25 bps)	12.94	6.74	17.16
Discount rate (-25 bps)	13.07	6.82	17.31

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

20. Employees' benefits (continued)

Sensitivity analysis (continued)

	31 December 2022		
	End of Service Benefit Plan	Continuous Service Awards	Post-retirement medical benefits
<i>Increase</i>			
Discount rate (+25 bps)	542,752	5,319	51,896
Salary (+25 bps)	580,489	-	-
Health care cost (+25 bps)	-	-	56,837
<i>Decrease</i>			
Discount rate (-25 bps)	580,679	5,487	56,709
Salary (-25 bps)	542,841	-	-
Health care cost (-25 bps)	-	-	51,768
<i>Weighted average duration (in years)</i>			
Discount rate (+25 bps)	13.44	6.19	17.66
Discount rate (-25 bps)	13.58	6.24	17.82

Expected total benefits payments

	For the year ended 31 December 2023			
	End of Service Benefit Plan	Continuous Service Awards	Post-retirement medical benefits	Total
Year 1	12,803	320	737	13,860
Year 2	14,592	339	564	15,495
Year 3	16,978	300	413	17,691
Year 4	23,667	1,575	214	25,456
Year 5	27,296	630	463	28,389
After 5 years	231,059	3,584	10,411	245,054
Total	326,395	6,748	12,802	345,945

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

20. Employees' benefits (continued)

	For the year ended 31 December 2022			
	End of Service Benefit Plan	Continuous Service Awards	Post-retirement medical benefits	Total
Year 1	11,694	537	1,238	13,469
Year 2	12,874	1,215	404	14,493
Year 3	14,961	365	184	15,510
Year 4	17,263	247	6	17,516
Year 5	23,699	477	194	24,370
After 5 years	194,698	3,383	7,499	205,580
Total	275,189	6,224	9,525	290,938

20.1 Employee savings plan

	31 December 2023	31 December 2022
Opening balance	83,226	76,430
Contribution for the year	28,034	10,918
Withdrawals during the year	(13,332)	(4,122)
Closing balance	97,928	83,226

21. Trade payables

	31 December 2023	31 December 2022
Trade payables due to related parties (note 29)	1,580,941	1,168,899
Less: non-current portion presented as other non-current liability in the statement of financial position	-	(140,000)
	1,580,941	1,028,899
Trade payables due to third parties	8	494
	1,580,949	1,029,393

22. Accruals and other current liabilities

	31 December 2023	31 December 2022
Accrued expenses – related parties (note 29)	722,654	453,299
Accrued expenses – third parties	20,602	246,778
Interest payable	-	25,230
Retentions payable	2,063	2,063
Employees' payable	22,437	47,778
Royalties payable	1,384	268
Others	17,050	19,147
	786,190	794,563

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

23. Zakat

The zakat charge consists of the following:

	For the year ended 31 December 2023	For the year ended 31 December 2021
Charge for the year	3,673	26,917
Adjustments related to prior years	3,077	(605)
	6,750	26,312

The movement in zakat payable is as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
At the beginning of the year	56,075	143,469
Charge for the year	6,750	26,312
Payments during the year	(27,354)	(113,706)
At the end of the year	35,471	56,075

The Company has finalized its zakat status with the Zakat, Tax and Customs Authority ("ZATCA") for all years up to 2015. During 2020, ZATCA issued assessments for the years from 2016 to 2018 with an additional liability of SR 22.5 million. The has filed an appeal against the additional liability which was has partially accepted by ZATCA. However, the Company has opted to raise the appeal to the General Secretariat of Zakat, Tax and Customs Committees ("GSTC") to seek a more favorable decision which is still under study. The Company has booked a provision against such assessment amounting to SR 15.5 million.

During 2021, ZATCA issued assessments for the years 2019 and 2020 with an additional liability of SR 5.5 million and SR 3.7 million, respectively. The Company has filed an appeal against the additional liability and ZATCA's response is still awaited in this regard. The Company has booked a provision against such assessments amounting to SR 8.3 million. The Company has issued bank guarantees in favor of ZATCA amounting to SR 2.7 million and SR 1.8 million, respectively against these assessments.

These cases are still pending at the Tax Violation and Dispute Appellate Committee ("TVDAC" or the second level of GSTC).

24. Revenue

	For the year ended 31 December 2023	For the year ended 31 December 2022
Sales of goods	7,734,763	11,519,449
Movement between provisional and final price	435,879	(362,434)
	8,170,642	11,157,015

The Company generates revenue primarily from the sale of petrochemical products. All of the product sales are made to SABIC (the parent company) which is based in the Kingdom of Saudi Arabia and is recognised at a point in time. Accordingly, disaggregation of revenue from contracts with customers is not applicable by primary geographical market, major products and service lines and timing of revenue recognition.

Contract balances

Information about trade receivables is provided in note 13 to these financial statements. There were no material returns, refunds, or advances and, therefore, no contract balances for the year ended 31 December 2023 (31 December 2022: nil).

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

25. Expenses

Based on the nature of expense, cost of sales, selling and distribution expenses and general and administrative expenses are broken down as follows:

25.1 Cost of sales

	For the year ended 31 December 2023	For the year ended 31 December 2022
Raw materials and consumables	4,993,744	7,301,251
Depreciation of property, plant and equipment	2,382,633	2,317,795
Provision for write-off (note 7)	87,690	-
Employees' costs	534,642	543,904
Utilities	577,630	583,002
Depreciation of right of use assets	28,716	33,355
Amortisation of intangible assets	18,092	17,388
(Reversal) / charge for slow moving and obsolete inventories	(8,001)	16,072
Shared services charges (note 29)	35,087	-
Others	366,852	441,088
	9,017,085	11,253,855

25.2 General and administrative expenses

	For the year ended 31 December 2023	For the year ended 31 December 2022
Research and technology (note 29)	163,499	223,093
Employees' costs	107,471	104,781
Shared services charges (note 29)	73,372	69,563
Amortisation of intangible assets	6,719	7,139
Maintenance and manpower supply	36,781	45,601
Depreciation of property, plant and equipment	7,849	8,188
Depreciation of right of use assets	5,099	5,204
Board members allowances	3,877	4,273
Others	24,327	44,217
	428,994	512,059

25.3 Selling and distribution expenses

	For the year ended 31 December 2023	For the year ended 31 December 2022
Freight and storage	183,975	216,169
Depreciation of right of use assets	10,718	10,980
Others	-	17
	194,693	227,166

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

26 Finance income and cost

Finance income can be broken down as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
Murabaha (including fixed term deposits)	17,142	19,464
Interest income	6,119	3,115
	23,261	22,579

Finance cost can be broken down as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
Finance cost on debt	647,112	330,161
Amortisation of transaction cost	14,262	20,007
Lease finance cost	13,183	7,616
Finance cost related to defined benefit plans	31,926	23,368
Bank charges	655	1,701
	707,138	382,853

Conventional and non-conventional break-up of finance income and finance cost is as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
<i>Finance income</i>		
- Current Murabaha (including fixed term deposits)	17,142	19,464
- Conventional call account	6,119	3,115
Total finance income	23,261	22,579
<i>Finance cost</i>		
- Conventional loans	1,944	3,119
- Lease liabilities	13,183	7,616
- Net interest on employee benefits	31,926	23,368
- Others	655	1,864
Total conventional finance cost	47,708	35,967
- SIDF	6,582	13,838
- Murabaha	574,238	322,111
- Ijarah facilities and others	78,610	10,937
Total non-conventional finance cost	659,430	346,886
Total finance cost	707,138	382,853
Conventional financial result	(41,589)	(32,852)
Non-conventional financial result	(642,288)	(327,422)
Financial result	(683,877)	(360,274)

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

27 Other operating income and expenses

Other operating income can be broken down as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
Gain from termination of lease contracts	16,967	-
Proceeds from sale of scrap	5,527	1,223
Rental income	6,038	2,964
Others	7,635	1,803
	36,167	5,990

Other operating expenses can be broken down as follows:

Write-off of property, plant and equipment	5,161	24,974
Foreign currency exchange losses , net	1,440	192
Others	5,283	2,063
	11,884	27,229
	(24,283)	21,239

28 Loss per share

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

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

	For the year ended 31 December 2023	For the year ended 31 December 2022
Net loss attributable to equity holders	(2,136,474)	(1,243,890)
Number of shares outstanding (in thousands)	1,500,000	1,500,000
Loss per share (Saudi Riyals)	(1.42)	(0.83)

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

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

29 Related party transactions and balances

The immediate controlling party of the Company is SABIC. Saudi Arabian Oil Company ("Saudi Aramco") owns 70% of SABIC through one of its subsidiaries, "Aramco Chemicals Company". The Saudi Arabian Government is the largest shareholder of Saudi Aramco by 90.186% direct shareholding. Related parties comprise the shareholders, directors, associated companies (representing entities directly or indirectly controlled by or under the significant influence of the Company's shareholders or ultimate controlling party) and key management personnel of the Company. %

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 company
Saudi Basic Industries Corporation ("SABIC")	Parent company
SABIC affiliates	Associated companies
Power and Water Utility Company for Jubail and Yanbu ("Marafiq")	Associate of ultimate parent company
Saudi Butanol Company	Joint operation

The following table provides the total amount of significant transactions that have been entered into with related parties during the years ended 31 December 2023 and 31 December 2022:

	Nature of Transaction	For the year ended 31 December 2023	For the year ended 31 December 2022
SABIC	Sales	8,169,658	11,149,894
	Marketing fee	323,518	441,535
	Purchases and other services	576,054	989,168
	Shared services charges	108,459	69,563
	Technology and innovation cost	163,499	223,093
	Purchase of insurance policies through the Parent company	34,947	30,248
	Supply chain services	94,335	125,085
Saudi Aramco	Purchases and other services	3,998,116	5,261,719
Marafiq	Purchases and other services	62,606	59,752
SABIC affiliates	Sales	983	7,121
	Purchase of inventory, capital goods and services	78,763	68,301
Entities controlled by the Saudi government	Purchases of goods and services	366,471	393,217

The following table provides the related party balances as at 31 December 2023 and 31 December 2022:

Trade receivables (due from related parties)

	31 December 2023	31 December 2022
SABIC	2,293,999	2,225,610
SABIC affiliates and others	10,657	14,567
	2,304,656	2,240,177

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

29. Related party transactions and balances (continued)

Advances and other receivables (due from related parties)

	<u>31 December 2023</u>	<u>31 December 2022</u>
SABIC	192,580	125,935
SABIC affiliates and others	26,478	1,911
	<u>219,058</u>	<u>127,846</u>

Trade payables (due to related parties)

	<u>31 December 2023</u>	<u>31 December 2022</u>
SABIC	1,075,312	642,836
Saudi Aramco	386,201	344,090
SABIC affiliates and others	84,007	144,563
Entities controlled by the Saudi government	35,421	37,410
	<u>1,580,941</u>	<u>1,168,899</u>

Accruals and other current liabilities (due to related parties)

	<u>31 December 2023</u>	<u>31 December 2022</u>
SABIC	214,694	228,960
Saudi Aramco	379,434	186,425
Marafiq	4,636	5,001
SABIC affiliates and others	92,847	-
Entities controlled by the Saudi government	31,043	32,913
	<u>722,654</u>	<u>453,299</u>

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

29 Related party transactions and balances (continued)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms mutually agreed between the management and the related parties. Outstanding balances as at 31 December 2023 and 31 December 2022 are unsecured, interest free and payable in cash. For the years ended 31 December 2023 and 31 December 2022, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken by examining the financial position of the related party and the market in which the related party operates.

Significant transactions with related parties are described as follows:

- i) The Company has a service level agreement with SABIC (Shared Services Organization – SSO) for the provision of accounting, warehousing, human resources, information technology (ERP/SAP), transporting and arranging for delivery of materials related to the Company's spare parts, engineering, procurement and related services and other general services to the Company. The Company also has a logistic service agreement with SABIC.
- ii) Advances to SABIC represent the amount paid by the Company according to shared service agreement to finance the purchase of the materials and services from SABIC and its affiliates.
- iii) The Company's annual contribution to SABIC for research and technology is computed as 2% of total sales, which is charged to general and administrative expenses in the statement of profit or loss and other comprehensive income.
- iv) All of Company's products are sold to SABIC ("the Marketer") under a marketing and off-take agreement. Upon delivery of the product, sales are recorded at net provisional price which are subsequently adjusted to actual selling prices received by SABIC from its customers after deducting shipping, distribution and selling cost, and 4% of marketing fee to cover all other marketing expenses.
- v) The Company has a gas allocation agreement, for which the Company can purchase a pre-set amount of gas from Saudi Aramco on a yearly basis.
- vi) The Company has issued a guarantee amounting to USD 1.1 million (SR 4.1 million) in favor of Saudi Aramco.

Prices and terms of payments for the above transactions are approved by the Company's Board.

Key management compensation

The Company provides certain remunerations and compensation to key management personnel. Remuneration for the years ended 31 December 2023 and 2022 of key management personnel is detailed as follows:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Short-term employee benefits	7,495	7,900
Defined employees' benefits obligation	3,384	3,220
	<u>10,879</u>	<u>11,120</u>

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

30 Fair value measurement

The Company's principal financial assets include cash and cash equivalents, trade receivables and certain other receivables that arise directly from its operations. The Company's principal financial liabilities comprise debt, lease liabilities, trade payables, due to related parties and other payables.

Fair values hierarchy

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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

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

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

The fair value of trade receivables carried at FVTPL are valued using valuation techniques, which employ the use of market observable inputs. The valuation techniques are based on marked-to-market observable inputs of the underlying commodities.

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

There were no changes in the Company's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the year.

As at the reporting date all financial assets and financial liabilities are measured at amortized cost except trade receivables which are carried at FVTPL. The carrying value of the financial assets and financial liabilities of the Company approximate their fair value.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value. The fair value is determined using prevailing market rates at the reporting date. The following table presents the Company's assets and liabilities measured and recognized at fair value at 31 December 2023 and 31 December 2022, based on the prescribed fair value measurement hierarchy on a recurring basis. The Company did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at 31 December 2023 and 31 December 2022.

Fair value of trade receivables related to contracts with provisional pricing arrangements is disclosed below.

	Fair value – Level 3	Fair value – Level 3
	31 December 2023	31 December 2022
Trade receivables related to contracts with provisional pricing arrangements	2,293,999	2,225,610

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

31 Contingencies and commitments

Guarantees

The Company is contingently liable for bank guarantees issued on behalf of the Company in the normal course of business amounting to SR 29 million (2022: SR 26.08 million).

Commitments

The capital expenditure contracted by the Company but not incurred till year end was approximately SR 659 million (2022: SR 276.5 million).

32 Segment information

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

The Board of Directors of the Company monitor the results of the Company's operations and have been identified as the Chief Operating Decision Maker (CODM). The net results of the Company are reported to the Board of Directors, for the Company as a whole. The various expenses which are included in the measurement of the net result for the Company are disclosed in the respective notes to the financial statements.

The Company operates a fully integrated petrochemical facility that was pre-conditioned with the gas allocation agreement (refer to Note 3.1.1). The Company analyzes the financial information of its operations as a whole. Accordingly, segmental analysis of the statement profit or loss and other comprehensive income and statement of financial position is not carried out. The CODM considers the Company to be a single operating segment based on the nature of its operations and products as substantial portion of the Company's sales are made to one customer and all of the Company's operations are related to one operating segment which is petrochemicals.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

33 Financial risk management objectives and policies

The Company's principal financial liabilities comprise loans and borrowings, lease liabilities and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include trade and other receivables, short term investments and cash and cash equivalents that derive directly from its operations. The Company's management reviews and agrees policies for managing each of these risks which are summarized below.

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk and currency risk. Financial instruments affected by market risk include loans.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

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

	31 December 2023	31 December 2022
Total SAR denominated floating rate loan (+50 bps)	(5,193)	(23,100)
Total USD denominated floating rate loan (+50 bps)	(27,075)	(125,134)
Total SAR denominated floating rate loan (-50 bps)	5,193	23,100
Total USD denominated floating rate loan (-50 bps)	27,075	125,134

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Company, primarily the Euro (EUR), but also US Dollars (USD). The currencies in which these transactions are primarily denominated are EUR, USD, British Pounds, Swiss Franc, AED and Japanese Yen.

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the fluctuations of the SAR towards the EUR. Foreign currency risk mainly arises from commercial transactions. The Company's policy requires to conduct a regular review of currency exposures.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

33. Financial risk management objectives and policies (continued)

Currency risk (continued)

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The following table demonstrates the sensitivity of the Company to a reasonably possible change in the Saudi Riyals - EUR exchange rate, with all other variables held constant, of the Company's monetary assets and liabilities:

	31 December 2023	31 December 2022
EURO (+/- 10%)	6,099	1,653

Exposure to foreign currency risk at the end of the reporting year, expressed in SAR '000, was as follows:

	31 December 2023				Total
	USD	SAR	EUR	Others	
Cash and cash equivalents	463,009	91,602	-	-	554,611
Trade receivables	2,170,143	149,975	-	-	2,320,118
Other financial assets	50,690	16,383	-	-	67,073
Debt	(5,838,405)	(4,052,473)	-	-	(9,890,878)
Lease liabilities	-	(279,495)	-	-	(279,495)
Trade payables	(657,015)	(859,157)	(60,994)	(3,783)	(1,580,949)
Other financial liabilities	(2,067)	(784,098)	-	(25)	(786,190)

	31 December 2022				Total
	USD	SAR	EUR	Others	
Cash and cash equivalents	293,475	121,362	-	-	414,837
Trade receivables	2,054,932	191,685	-	-	2,246,617
Other financial assets	-	82,107	-	-	82,107
Debt	(8,000,520)	(1,764,111)	-	-	(9,764,631)
Lease liabilities	-	(307,130)	-	-	(307,130)
Trade payables	(606,011)	(543,532)	(16,527)	(3,323)	(1,169,393)
Other financial liabilities	(11,236)	(783,327)	-	-	(794,563)

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

33. Financial risk management objectives and policies (continued)

Commodity risk

The Company is exposed to the impact of market fluctuations of the price of various inputs to production, mainly butane, ethane, natural gas and utilities. From time to time, the Company manages some elements of commodity price risk through the use of fixed price contracts which are regulated by government. Butane price is relatively correlated to sales price of the final products.

The following table shows the effect of price changes for commodities:

	Increase/ decrease in basis points	Effect on profit before zakat
31 December 2023:		
Raw material and utilities	+10%	(593,706)
Raw material and utilities	-10%	593,706
31 December 2022:		
Raw material and utilities	+10%	(815,327)
Raw material and utilities	-10%	815,327

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company is not significantly exposed to credit risk.

Cash and cash equivalents are generally placed with banks with sound credit ratings and, in general, all of the Company's sales are made to SABIC, which is a shareholder and has a sound credit rating.

31 December 2023						
External rating	A+	A	A -	BBB +	Others	Total
Cash and cash equivalents	15,032	39,658	499,921	-	-	554,611
Trade receivables	-	2,304,656	-	-	5,549	2,310,205
Other financial assets	-	-	-	-	67,073	67,073
31 December 2022						
External rating	A	A -	AA -	BBB +	Others	Total
Cash and cash equivalents	-	49,777	975	364,085	-	414,837
Trade receivables	2,240,177	-	-	-	6,440	2,246,617
Other financial assets	-	-	-	-	82,107	82,107

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

33. Financial risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages its liquidity risk by ensuring that sufficient cash flows are available. Moreover, the Company also has an undrawn facility of Multicurrency Murabaha Revolving Credit Facility agreement amounting to US dollars 160 million (SR 600 million). The Company's sales invoices are usually settled within 90 to 105 days of the date of the invoices and payables are normally settled within 30 to 60 days of the date of the invoices.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at 31 December 2023 and 31 December 2022, based on contractual payment dates and current market interest rates.

	31 December 2023			
	Within 1 year	1 to 5 years	> 5 years	Total
Trade payable	1,572,225	6,672	-	1,578,897
Other financial liabilities	786,190	-	-	786,190
Lease liabilities	33,025	133,112	802,683	968,820
Debt	3,755,000	6,116,000	-	9,871,000
Total	6,146,440	6,255,784	802,683	13,204,907

	31 December 2022			
	Within 1 year	1 to 5 years	> 5 years	Total
Trade payable	1,029,393	140,000	-	1,169,393
Other financial liabilities	794,563	-	-	794,563
Lease liabilities	55,586	188,044	802,242	1,045,872
Debt	2,628,300	8,332,415	-	10,960,715
Total	4,507,842	8,660,459	802,242	13,970,543

Management believes that the balances due under the revolving credit facility may be rolled over, if required, until 2027 to manage liquidity. Also refer to Note 1 and Note 18.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry. All of the product sales are made to SABIC and being a parent company the Company does not foresee risks arising from excessive concentration.

Capital management

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

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

Notes to the financial statements (continued)

(All amounts in Saudi Riyals '000 unless otherwise stated)

33. Financial risk management objectives and policies (continued)

Capital management (continued)

	31 December 2023	31 December 2022
Total liabilities	13,396,718	12,795,951
Less: cash and cash equivalents	(554,611)	(414,837)
Net debt	12,842,107	12,381,114
Equity	13,284,076	15,477,286
Less: amount directly accumulated in equity relating to fair value adjustments	(620,874)	(620,874)
Adjusted equity	12,663,202	14,856,412
Capital and Net debt	25,505,309	27,237,526
Gearing ratio	50%	45%

34 Conventional and non-conventional financing and investments

The table below outlines the breakdown of the Company's financing and investments into conventional and nonconventional:

	31 December 2023	31 December 2022
Cash and cash equivalents		
- Current account	77,641	56,347
- Current murabaha (including fixed term deposits)	476,970	358,490
Non-conventional cash and cash equivalents	554,611	414,837
	31 December 2023	31 December 2022
Debt		
- Conventional loans	-	-
- Leases	279,495	307,130
Conventional long-term debt	279,495	307,130
- Murabaha	7,331,471	8,608,987
- SIDF	148,440	279,321
- Other non-conventional facilities	2,410,967	901,553
Non-conventional long-term debt	9,890,878	9,789,861
Total debt	10,170,373	10,096,991

35 Subsequent events

No subsequent event occurred between 31 December 2023 and the date of authorization of these financial statements by the Board of Directors, which may have a material impact on these financial statements.