

**YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)**  
**(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**31 DECEMBER 2019**

**YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)**  
**(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
**31 DECEMBER 2019**

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**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)  
(A SAUDI JOINT STOCK COMPANY)**

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the financial statements of Yanbu National Petrochemical Company (YANSAB) (A Saudi Joint Stock Company) ("the Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"), (collectively referred to as "IFRSs endorsed in KSA").

**Basis for Opinion**

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

**Key Audit Matters**

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

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

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)  
(A SAUDI JOINT STOCK COMPANY) (continued)**

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

**Key Audit Matters (continued)**

Key audit matter	How the matter was addressed in our audit
<p><b>Employees' benefits</b></p> <p>As at 31 December 2019, the Company has employee benefits including defined benefit obligation amounting SR 620.7 million.</p> <p>Accounting for employee benefits and the present value of the defined benefit obligation is dependent on significant assumptions, including an assessment of the discount rate, inflation rate, salary increments and key demographic figures including employees turnover and mortality rates. Small change in any of these assumptions could have a material impact on the present value of the defined benefit obligation on the Company's statement of financial position.</p> <p>These accounting judgements are inherently complex, require a high level of management judgement and specialist actuarial input.</p> <p>Refer to note 4.11 to the financial statements for the significant accounting policy, note 3.2.4 for the critical accounting estimates and judgements and note 18 which details the disclosure of employee benefits.</p>	<p>We engaged our internal actuarial specialists to assess the appropriateness of the methodology and assumptions used by the Company's actuary to account for the defined benefit obligations. This included comparison of key data with market benchmarks and to assess the methodology used by the actuary of the Company. We considered whether each of the key assumptions was reasonable in isolation and collectively in determining the defined benefit obligation at the date of statement of financial position.</p> <p>We performed procedures to assess accuracy and completeness of the underlying data provided to the Company's actuary in determining the underlying value of the liabilities.</p> <p>We validated the appropriateness and completeness of the related disclosure in note 18 to the financial statements.</p>
<p><b>Impairment of inventories</b></p> <p>As at 31 December 2019, the Company had inventories amounting to SR 814.64 million and related provision for slow moving and obsolete inventories amounting to SR 78.70 million. These inventories comprise raw materials, finished goods, spare parts and goods-in-transit.</p>	<p>Among other audit procedures in this area, we tested the inventory provision calculations against the Company's policy for obsolete and slow-moving inventories. We attended stock counts at the year-end to observe and understand the Company's procedures for identifying obsolete inventory and we observed such inventories at the count.</p>

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)  
(A SAUDI JOINT STOCK COMPANY) (continued)**

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

**Key Audit Matters (continued)**

Key audit matter	How the matter was addressed in our audit
<p><b>Impairment of inventories (continued)</b></p> <p>For raw material and finished goods, the Company adopts a policy of providing for inventories when there are specific quality/net realisable value concerns.</p> <p>For spares, including supplies and other items, management considers them to be impaired when there is evidence of deterioration in the physical condition and/or no movements in the specific period.</p> <p>Establishing a provision for slow-moving, obsolete and damaged inventories involves significant management judgement in respect of factors such as identifying those slow moving, dormant and obsolete spare parts, and assessing their future use and respective allowance. The gross inventories and related provision are material to the financial statements; hence, we considered this as a key audit matter.</p> <p>Refer to note 4.8 to the financial statements for the accounting policy relating to the inventories, note 3.2.6 for the critical accounting estimates and judgements and note 11 for the disclosures of movement in provision for slow moving and obsolete inventories.</p>	<p>We evaluated the assumptions and reasonableness of judgements used by management for provision assessment.</p> <p>For raw material and finished goods, we traced on a sample basis inventories to sales subsequent to the year end and ensured that they were sold at more than net book value.</p> <p>For spares, including supplies and other items, which are assessed for impairment as per policy, on a sample basis, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>▪ We obtained an understanding of how the Company's management identifies the slow-moving and obsolete spare parts and assessed the amount of allowance for inventories;</li> <li>▪ We obtained an understanding and evaluated the appropriateness of the basis of identification of the slow-moving, dormant and obsolete inventories; and</li> <li>▪ We have tested the accuracy of the aging analysis of inventories, on a sample basis.</li> </ul>

**Other information included in the Company's 2019 Annual Report**

Other information consists of the information included in the Company's 2019 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Company's 2019 annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Company's 2019 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)  
(A SAUDI JOINT STOCK COMPANY) (continued)**

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

**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 IFRSs endorsed in KSA and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with ISA that are endorsed in KSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)  
(A SAUDI JOINT STOCK COMPANY) (continued)**

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

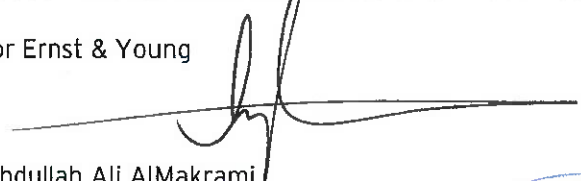
**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

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

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

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

for Ernst & Young

  
Abdullah Ali AlMakrami  
Certified Public Accountant  
Licence No. 476

18 Jumada II 1441H  
12 February 2020

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# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

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

	<i>Note</i>	<i>2019</i>	<i>2018</i>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	<b>11,848,879</b>	12,617,436
Right-of-use assets	8	<b>170,935</b>	-
Intangible assets	9	<b>27,291</b>	33,088
Other non-current assets	10	<b>180,599</b>	194,010
<b>TOTAL NON-CURRENT ASSETS</b>		<b>12,227,704</b>	12,844,534
<b>CURRENT ASSETS</b>			
Inventories	11	<b>735,943</b>	769,838
Trade receivables	12	<b>1,753,273</b>	2,105,139
Prepayments and other current assets	13	<b>166,417</b>	236,360
Short-term investments	14	<b>3,050,800</b>	3,089,988
Cash and cash equivalents	15	<b>136,270</b>	26,200
<b>TOTAL CURRENT ASSETS</b>		<b>5,842,703</b>	6,227,525
<b>TOTAL ASSETS</b>		<b>18,070,407</b>	19,072,059
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	16	<b>5,625,000</b>	5,625,000
Statutory reserve	17	<b>1,687,500</b>	1,687,500
Actuarial reserve		<b>(7,994)</b>	85,286
Retained earnings		<b>8,838,306</b>	9,857,909
<b>TOTAL EQUITY</b>		<b>16,142,812</b>	17,255,695
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	8	<b>154,186</b>	-
Employee benefits	18	<b>620,651</b>	471,817
Other non-current liabilities		<b>-</b>	682
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>774,837</b>	472,499
<b>CURRENT LIABILITIES</b>			
Lease liabilities – current portion	8	<b>14,058</b>	-
Trade payables	19	<b>457,346</b>	410,146
Accruals and other current liabilities	20	<b>555,418</b>	814,448
Zakat payable	24	<b>125,936</b>	119,271
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,152,758</b>	1,343,865
<b>TOTAL LIABILITIES</b>		<b>1,927,595</b>	1,816,364
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18,070,407</b>	19,072,059

The attached notes from 1 to 34 form an integral part of these financial statements.



# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## STATEMENT OF INCOME

For the year ended 31 December 2019

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

	<i>Note</i>	<b>2019</b>	<b>2018</b>
Revenue from contracts with customers		<b>6,064,834</b>	7,628,470
Cost of revenue		<b>(4,566,563)</b>	(4,763,033)
<b>GROSS PROFIT</b>		<b>1,498,271</b>	2,865,437
Selling and distribution expenses		<b>(65,971)</b>	(84,872)
General and administrative expenses	21	<b>(336,150)</b>	(419,027)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>1,096,150</b>	2,361,538
Finance income		<b>90,718</b>	78,339
Finance costs, net	22	<b>(26,082)</b>	(30,806)
Other income, net	23	<b>64,446</b>	103,177
<b>INCOME BEFORE ZAKAT</b>		<b>1,225,232</b>	2,512,248
Zakat	24	<b>(135,460)</b>	(98,270)
<b>NET INCOME FOR THE YEAR</b>		<b>1,089,772</b>	2,413,978
<b>Earnings per share</b>			
Weighted average number of ordinary shares ('000)	25	<b>562,500</b>	562,500
Basic and diluted earnings per share attributable to ordinary equity holders of the Company (Saudi Riyals)	25	<b>1.94</b>	4.29

The attached notes from 1 to 34 form an integral part of these financial statements.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

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

	<i>Note</i>	<b>2019</b>	<b>2018</b>
Net income for the year		<b>1,089,772</b>	2,413,978
<b>Other comprehensive income</b>			
<i>Items not to be reclassified to statement of income in subsequent periods:</i>			
Re-measurement (loss)/gain on defined benefit plans	18.1	<b>(93,280)</b>	73,037
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>996,492</b>	2,487,015

The attached notes from 1 to 34 form an integral part of these financial statements.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Actuarial reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
Balance as at 1 January 2018	5,625,000	1,687,500	12,249	9,412,681	16,737,430
Net income for the year	-	-	-	2,413,978	2,413,978
Other comprehensive income for the year	-	-	73,037	-	73,037
Total comprehensive income for the year	-	-	73,037	2,413,978	2,487,015
Dividends (note 33)	-	-	-	(1,968,750)	(1,968,750)
Balance as at 31 December 2018	5,625,000	1,687,500	85,286	9,857,909	17,255,695
Net income for the year	-	-	-	1,089,772	1,089,772
Other comprehensive loss for the year	-	-	(93,280)	-	(93,280)
Total comprehensive income for the year	-	-	(93,280)	1,089,772	996,492
Dividends (note 33)	-	-	-	(2,109,375)	(2,109,375)
<b>Balance as at 31 December 2019</b>	<b>5,625,000</b>	<b>1,687,500</b>	<b>(7,994)</b>	<b>8,838,306</b>	<b>16,142,812</b>

The attached notes from 1 to 34 form an integral part of these financial statements.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

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

	Note	2019	2018
<b>OPERATING ACTIVITIES</b>			
Income before zakat		1,225,232	2,512,248
<i>Adjustment to reconcile income before zakat to net cash inflow from operating activities:</i>			
Depreciation and impairment of property, plant and equipment	7	1,215,492	1,085,394
Depreciation of right-of-use assets	8	19,575	-
Amortisation of intangible assets	9	4,540	5,133
Reversal of provision for slow moving and obsolete inventories	11	-	(43,323)
Provision for employee benefits	18	44,599	51,005
Fair value adjustment of derivatives		-	16,236
Loss on disposal of property, plant and equipment		-	1,859
Finance costs	22	26,082	30,806
Finance income		(90,718)	(78,339)
		<b>2,444,802</b>	<b>3,581,019</b>
<i>Working capital adjustments:</i>			
Inventories		33,895	(50,764)
Trade receivables		351,866	517,282
Prepayments and other current assets		64,148	8,705
Other non-current assets		13,411	(155)
Trade payables		47,200	(170,840)
Accruals and other current liabilities		(259,712)	164,140
Cash from operations		<b>2,695,610</b>	<b>4,049,387</b>
Finance costs paid		(7,971)	(29,964)
Employees' benefits paid	18	(6,351)	(20,079)
Zakat paid	24	(128,795)	(149,522)
Net cash flows from operating activities		<b>2,552,493</b>	<b>3,849,822</b>
<b>INVESTING ACTIVITIES</b>			
Short-term investments made		(6,039,100)	(5,880,337)
Proceeds from maturity of short-term investments		6,078,288	4,777,849
Purchase of property, plant and equipment	7	(447,521)	(750,758)
Purchase of intangible assets	9	-	(4,468)
Finance income received		90,718	78,339
Net cash flows used in investing activities		<b>(317,615)</b>	<b>(1,779,375)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of long-term loans		-	(1,130,177)
Payment of principal portion of lease liabilities	8	(12,352)	-
Dividends paid	33	(2,112,456)	(1,966,324)
Net cash flows used in financing activities		<b>(2,124,808)</b>	<b>(3,096,501)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>110,070</b>	<b>(1,026,054)</b>
Cash and cash equivalents at the beginning of the year		<b>26,200</b>	<b>1,052,254</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>136,270</b>	<b>26,200</b>
<b>SUPPLEMENTARY NON-CASH INFORMATION</b>			
Right-of-use assets and lease liabilities	5.1	171,107	-
Prepayments transferred to right of use asset	5.1	7,638	-

The attached notes from 1 to 34 form an integral part of these financial statements.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

### 1 COMPANY INFORMATION

Yanbu National Petrochemical Company (YANSAB) (the "Company") is a Saudi Joint Stock Company registered in Yanbu, Kingdom of Saudi Arabia under Commercial Registration number 4700009432 dated 14 Muharram 1427H (corresponding to 13 February 2006) in accordance with the Ministerial Resolution No. 49 dated 12 Muharram 1427H (corresponding to 11 February 2006) for the incorporation of the Company. The Company obtained its Industrial License number S/1367 on 18 Rajab 1426H (corresponding to 23 August 2005) and is engaged in the manufacturing of petrochemical products in accordance with the Company's by-laws and other Saudi Arabian applicable regulations. The Company commenced commercial operations on 1 March 2010. The registered office is located at Yanbu, P.O. Box 31396, Yanbu industrial city 41912.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

Certain prior year's figures have been reclassified conform to the current period's presentation.

#### 2.2 Basis of measurement

These financial statements are prepared under the historical cost convention, except for the measurement at fair value of derivative financial instruments. For employee post-employment defined benefits plans, actuarial present value calculations are used.

#### 2.3 Functional and presentation currency

These financial statements are presented in Saudi Riyals (SR), which is the functional currency of the Company. All values are rounded off to nearest thousands (SR '000), except when otherwise indicated.

### 3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Sensitivity analyses disclosures (notes 18 and 27)
- Financial instruments risk management (note 27)
- Capital management (note 28)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**3.1 Judgements**

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

**3.1.1 Revenue from contracts with customers - Principal versus agent considerations**

The Company enters into tolling arrangement with a related party where feedstock or other semi-finished inventory (work in progress) owned by related party is provided for further processing. Under this arrangement, the Company receive feedstock from the related party and after processing the feedstock, these are provided to the customer. The Company determined that it does not control the goods before they are transferred to the tollee, and it does not have the ability to direct the use of the feedstock or obtain benefits from the feedstock. The following factors indicate that the Company does not control the goods before they are being transferred to the tollee:

- The Company is not primarily responsible for fulfilling the promise to provide the specified petrochemical products.
- The Company does not have inventory risk before or after the specified petrochemicals has been transferred to the tollee as the feedstock is provided by the tollee and transferred to the tollee after further processing.

Therefore, the Company determined that it is an agent in these arrangements. In addition, the Company has no discretion in establishing the price for the specified petrochemical products. The Company's consideration in these contracts is toll service charges only based on agreed formula as per the tolling agreement.

**3.1.2 Component parts of property, plant and equipment**

The Company's assets, classified within property, plant and equipment, are depreciated on a straight-line basis over their economic useful lives. When determining the economic useful life of an asset, it is broken down into significant component parts such that each significant component part is depreciated separately. Judgement is required in ascertaining the significant components of a larger asset, and while 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 mother asset, its pattern of consumption, and its replacement cycle/maintenance schedule.

**3.1.3 Leases - extension and termination options – Company as lessee**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not 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.

**3.2 Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, 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 exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

**3.2.2 Measurement of financial instruments**

The Company is required to make judgements about the regional and business related risk profiles of the Company's customers to assess the expected credit losses on trade receivables.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2019

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

**3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**3.2 Estimates and assumptions (continued)**

**3.2.3 Provisions**

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Management's estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination, as well as on the technology required for clean-up. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's 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 Long-term assumptions for employee benefits**

Post-employment defined benefits, end-of-service benefits and indemnity payment represent obligations that will be settled in the future and require assumptions to project obligations. The accounting requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Company consults with external actuary regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

**3.2.5 Estimating variable consideration for market price adjustments**

The Company estimates variable considerations to be included in the transaction price for the sale of petrochemicals. The Company developed a statistical model for forecasting the provisional selling price of the products. The model uses the historical market price trends to estimate the provisional selling price. Any significant changes in experience as compared to historical price pattern will impact the provisional selling price estimated by the Company.

**3.2.6 Allowance for inventory losses**

The Company recognizes an allowance for inventory losses due to factors such as obsolescence, physical damage, etc. The estimation of such losses includes the consideration of factors including but not limited to introduction of new models or technology by the manufacturer, past trends and both existing and emerging market conditions.

**3.2.7 Leases - Estimating the incremental borrowing rate**

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently, except for the adoption of new standard, interpretations and amendments as mentioned in note 5 in the preparation of these financial statements.

**4.1 Foreign currency transactions and balances**

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

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

**4.2 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;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting year; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting year.

All other assets are classified as non-current.



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.2 Current versus non-current classification (continued)**

A liability is current when:

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

The Company classifies all other liabilities as non-current.

**4.3 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 is met. Where such assets are constructed in-house, their costs include all amounts necessary to bring the asset to the present condition and location to be ready for intended use by management and exclude all other costs not directly attributable to, such as general and administrative expenses and training costs. Any feasibility study costs are expensed as incurred unless they relate to specifically identifiable asset being constructed in-house and are directly attributable to it. Pre-operating costs during startup period net of proceeds from sale of trial production, are included as part of cost of the relevant item of property, plant and equipment, provided it is a directly attributable cost which meets the recognition criteria, and only up to the point the asset is in a condition ready for intended use.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/components have a useful life different than other parts and are required to be replaced at different intervals, the Company recognise such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection (turnaround/shutdown, planned or unplanned) is performed, its directly attributable cost is recognised in the carrying amount of the 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 recognised in the statement of income as incurred.

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

Environment, health, safety and security (EHS&S) related expenditures, including contamination treatment costs, are capitalised if they meet the recognition criteria, mainly, that such costs are required by prevailing applicable legislation and are required to continue the license to operate or is imposed by the Company's own mandatory requirements relating to EHS&S. These are capitalised together with the cost of the relevant item of property, plant and equipment to which they relate.

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

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

Buildings and leasehold improvements	13 - 40 years
Plant, machinery and heavy equipment	4 - 50 years
Furniture, vehicles and computers	3 - 10 years
Laboratory and safety equipment	4 - 50 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 financial year-end.

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 income when the asset is derecognised.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.4 Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

***Company as a lessee***

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

***Right-of-use assets***

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. 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:

- Leasehold land 30 to 50 years;
- Housing 5 to 11 years;
- Motor vehicles 5 years; and
- Pipeline 5 years

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

***Lease liabilities***

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

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

***Short-term leases and leases of low-value assets***

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.5 Intangible assets**

Intangible assets acquired separately are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in statement of income in the expense category consistent with the function of the intangible asset.

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

Software and others                      3 - 15 years

The useful life of an intangible asset with a definite life is reviewed regularly to determine whether there is any indication that its current life assessment continues to be supportable. If not, the change in useful life assessment is made on a prospective basis. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the aggregated CGU level.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of income when the asset is derecognised.

**Software**

Costs associated with maintaining software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attribute costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Company bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.6 Impairment of non-financial assets (continued)**

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Intangible assets, excluding goodwill, with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

**4.7 Financial instruments**

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

**i) Financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, or fair value through other comprehensive income (OCI) or fair value through income statement (FVIS).

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

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.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

***Subsequent measurement***

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.7 Financial instruments (continued)**

**i) Financial assets (continued)**

Financial assets at amortised cost (debt instruments)

This category is relevant to the Company. 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 income statement 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.

Financial assets at fair value through OCI (debt instruments)

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

Currently, the Company does not have any financial assets at fair value through OCI.

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

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to statement of income. Dividends are recognised as other operating income in the statement of income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Currently, the Company does not have any financial assets designated at fair value through OCI.

Financial assets at fair value through income statement

Financial assets at fair value through income statement are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of income.

Currently, the Company does not have any financial assets designated at fair value through income statement.

**Derecognition**

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.7 Financial instruments (continued)**

**i) Financial assets (continued)**

***Impairment***

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through income statement. For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**ii) Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through income statement, borrowings, payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of borrowings, net of directly attributable transaction costs. The Company's financial liabilities include trade payable, lease liabilities and other liabilities.

***Subsequent measurement***

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through income statement; and
- Financial liabilities at amortised cost (lease liabilities and trade and other payables).

***Financial liabilities at fair value through income statement***

Financial liabilities at fair value through income statement include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through income statement. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

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

***Financial liabilities at amortised cost (lease liabilities and trade and other payables)***

This category is relevant to the Company. After initial recognition, lease liabilities and trade and other payables are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses as a result of unwinding of interest cost through EIR amortization process and on de-recognition of financial liabilities are recognized in the statement of income.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of income.

***Derecognition***

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.7 Financial instruments (continued)**

**iii) Offsetting of financial instruments**

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

**4.8 Inventories**

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

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

Abnormal inventory losses due to quality or other issues and overheads incurred during unplanned maintenance / shut down period are excluded from inventory cost. The allocation of overheads at year end for the purpose of inventory valuation are based on the higher of normal capacity or actual production for the year. 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 realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.

***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, these are allocated on a rational and consistent basis to such products and co/by-product and scrap. The allocation is based on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.

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

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.8 Inventories**

***Consumable spare parts***

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

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

- Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalised 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 utilised. 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 capitalised as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the plant and equipment in which it is installed. These do not form part of inventory.

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

***Inventory swaps***

The Company has various types of inventory swap transactions, which are qualified as either location or time swaps.

***Location swap***

Where the inventory swap transactions represent exchange of similar items within a limited short period of time, these transactions do not generally carry commercial substance. Revenue can only be recognised for exchange of goods if they are dissimilar in nature or the exchange results in a significant change in the configuration of cash flows of the transferor. Where this is not the case, these transactions are recorded as stock transfers at cost and the corresponding effect is recorded as receivables and payables.

***Time swaps***

Where the swaps are for longer period of time during which prices fluctuate significantly, or where swaps include sending finished goods to third party customers (of any company), these generally indicate commercial substance and are recorded as sales and purchase based on agreed transfer pricing.

***Toll manufacturing***

In the toll manufacturing arrangement, the Company established that it is agent and ownership of the inventory is with tollee, the Company records toll service charges only based on agreed formula as per the tolling agreement as 'other income' in its statement of income (note 4.15).

**4.9 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank balances, short-term deposits, demand deposits and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.10 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 amount of the obligation. Where management of the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance costs.

***Onerous contracts***

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

**4.11 Employee benefits**

***Short-term obligations***

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

***Long-term employee benefit obligations***

Long-term employee benefit obligations (including continuous service awards, long service leave and annual leave which are not expected to be settled wholly within twelve months after the end of the year in which the employees render the related service), 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 year using the projected unit credit method and recorded as non-current liabilities. Consideration is given to expected future wage and salary levels, experience of employee departures, historic attrition rates and years of service. Expected future payments are discounted using market yields at the end of the reporting year of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognised in the statement of other comprehensive income.

***Post-employment obligation***

The Company operates various post-employment schemes, including both defined benefit and defined contribution 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 in to a separate entity and will have no legal or constructive obligation to pay amounts. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Eligible employees who participate in defined contribution plan may also invest a portion of their earnings in various program funds.

The Company operates a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Company's normal operating bank accounts. This cash is a restricted balance and for purpose of presentation in the financial statement, it is offset with the related liability under the savings plan and net liability to employees is reported under the employee benefits liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.11 Employee benefits (continued)**

***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, post-retirement medical and life insurance plans which qualify as defined benefit plans.

***End of services benefits***

The net pension asset or liability recognised in the statement of financial position in respect of defined benefit post-employment plans is the fair value of plan assets, if any, less the present value of the projected defined benefit obligation (DBO) at the reporting date. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method. The present value of the defined benefit obligation 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. If there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur in OCI.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the statement of income as past service costs.

The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

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

The actuarial valuation process takes into account the provisions of the Saudi Arabian Labor and Workmen law as well as Company policy.

***Medical and life insurance***

The Company provides post-retirement healthcare and life insurance benefits to their eligible retirees and their dependents. 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 to OCI in the year in which they arise. These obligations are valued annually by independent qualified actuary.

***Short-term and long-term incentive plans***

The Company recognises a liability and an expense for bonuses and incentive plans based on a formula that takes into consideration the estimated expected payable amount given the performance of the Company. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation, and where the amount is accrued over the period based on the target expectation and a reliable estimate of the obligation can be made.

***Termination benefits (early retirement program)***

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.11 Employee benefits (continued)**

***Employee Home Ownership Program (HOP)***

The Company has established HOP that offer eligible employees the opportunity to buy residential units constructed 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 one time only during the period of the service for purposes related to purchase or building of a house or apartment. The loan is repaid on monthly instalment by deduction of employee's housing allowances.

HLP is initially 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 benefits" and is amortised as an expense equally over the period of service. The same amount is also amortised as interest income against the receivable from employees.

***Executive vehicles***

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

**4.12 Earnings per share**

Basic earnings per share is calculated by dividing:

- the 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 year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- by the weighted average number of ordinary shares outstanding during the financial year, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**4.13 Zakat and taxes**

***Zakat***

Zakat is levied at the higher of adjusted income subject to zakat or the zakat base in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in KSA. The Company computes its zakat by using the zakat base, which makes this a levy not based on income subject to zakat. The zakat provision is charged to the statement of income.

***Withholding tax***

Withholding tax related to dividends, royalties, interest and service fees are recorded as liabilities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)**

**4.14 Cash dividend and non-cash distribution to equity holders**

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

Non-cash distributions, if any, shall be measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of income.

**4.15 Revenue from contracts with customers**

***Sales revenue***

The Company recognises revenue when control of the products sold, transfers to the customer, after 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.

***Variable pricing – preliminary pricing***

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

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

All other updates to the preliminary price is recorded against revenue with the additional receivable amount recorded under a trade receivable.

***Tolling arrangements***

The Company act as principal in all arrangements except toll manufacturing arrangements. The Company's consideration in these toll manufacturing contracts is toll service charges only based on agreed formula as per the tolling agreement as 'other income' in statement of income.

**4.16 Finance income**

For all financial instruments measured at amortised cost, interest income is recorded using the EIR method. EIR is the rate that exactly 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. Interest income is included in finance income in the statement of income. Earnings on time deposits are recognised on an accrual basis.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

#### 4.17 Costs and expenses

##### *Cost of revenue*

Production costs and direct manufacturing expenses are classified as cost of revenue. This includes raw material, direct labor and other attributable overhead costs.

##### *Selling and distribution expenses*

These include any costs incurred to carry out or facilitate selling activities of the Company. These costs typically include salaries of the sales staff, marketing and distribution and logistics expenses as well as sale commissions and such fees. These also include allocations of certain general overheads.

##### *General and administrative expenses*

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

Allocation of overheads among cost of revenue, selling and distribution expenses, and general and administrative expenses, where required, is made on a consistent basis.

### 5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

During the year, the Company has adopted for the first time IFRS 16 Leases, the nature and effect of this change is described below:

#### 5.1 IFRS 16

The Company applies, for the first time, IFRS 16 Leases. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Company has adopted IFRS 16 from its mandatory adoption date 1 January 2019 using the modified retrospective approach as permitted under the specific transition provisions in the standard. As a result, comparatives of the year ended 31 December 2018 are not restated.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	<i>1 January 2019</i>
<b>Assets</b>	
Right-of-use assets	<b>179,331</b>
Property, plant and equipment	<b>(586)</b>
Prepayments	<b>(7,638)</b>
<b>Total assets</b>	<b>171,107</b>
<b>Liabilities</b>	
Lease liabilities	<b>(171,789)</b>
Other non-current liabilities	<b>682</b>
	<b>171,107</b>
<b>Total adjustments on equity</b>	<b>-</b>

Based on the above, as at 1 January 2019:

- Right-of-use assets of SR 179,331 thousand were recognised and presented separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of SR 586 thousand that were reclassified from property, plant and equipment.
- Additional lease liabilities of SR 171,789 thousand were recognised.
- Prepayments of SR 7,638 thousand and other non-current liabilities amounting to SR 682 thousand related to previous operating leases were derecognised.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

#### 5.1 IFRS 16 (continued)

Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

The Company has not used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 and IFRIC 4. In adopting IFRS 16, the Company has applied the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases in accordance with IAS 17 as short-term leases with a remaining lease term of less than 12 months as at 1 January 2019;
- exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

On adoption of IFRS 16, the Company has recognised lease liabilities and associated right-of-use assets in relation to contracts that have been concluded as leases under the principles of IFRS 16. The liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The associated right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of prepayments relating to that lease recognised in the statement of financial position as at 31 December 2018. The weighted average lessee's incremental borrowing rate applied to the lease liabilities as at 1 January 2019 was 4.04% per annum.

The following table shows reconciliation of operating lease commitments under IAS 17 to lease liability under IFRS 16 as on 1 January 2019:

	<i>1 January 2019</i>
Operating lease commitments as at 31 December 2018	<b>258,664</b>
Weighted average incremental borrowing rate as at 1 January 2019	<b>4.04%</b>
<b>Discounted operating lease commitments as at 1 January 2019</b>	<b>180,571</b>
Less: Commitments relating to short term leases	<b>(9,464)</b>
<b>Lease liabilities as at 1 January 2019</b>	<b>171,107</b>

#### 5.2 Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

**5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**5.3 Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement***

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the year.

**6 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

**6.1 Amendments to IAS 1 and IAS 8: *Definition of Material***

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020, with early application permitted. The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

**6.2 Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest Rate Benchmark Reform***

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR).

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Company.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 7 PROPERTY, PLANT AND EQUIPMENT

	<i>31 December 2019</i>									
	<i>Buildings &amp; leasehold improvements</i>	<i>Plant, machinery &amp; heavy equipment</i>	<i>Furniture</i>	<i>Vehicles</i>	<i>Computers</i>	<i>Laboratory &amp; safety equipment</i>	<i>Catalyst</i>	<i>Capital leases - pipeline</i>	<i>Capital work in progress</i>	<i>Total</i>
Cost:										
At the beginning of the year	179,773	19,861,805	13,574	31,922	99,731	48,624	117,916	2,083	1,281,978	<b>21,637,406</b>
Additions	2,075	88,934	-	-	2,191	-	-	-	354,321	<b>447,521</b>
Transfers	22,782	827,685	-	-	2,793	-	18,760	(2,083)	(872,020)	<b>(2,083)</b>
Disposals	-	(53,719)	-	-	-	-	-	-	-	<b>(53,719)</b>
At the end of the year	204,630	20,724,705	13,574	31,922	104,715	48,624	136,676	-	764,279	<b>22,029,125</b>
Depreciation and impairment:										
At the beginning of the year	64,088	8,673,989	11,362	26,451	88,446	47,646	106,491	1,497	-	<b>9,019,970</b>
Charge for the year	8,595	1,123,249	1,357	3,148	4,681	581	2,489	-	-	<b>1,144,100</b>
Impairment for the year (see note (d))	-	-	-	-	-	-	-	-	71,392	<b>71,392</b>
Disposal	-	(53,719)	-	-	-	-	-	-	-	<b>(53,719)</b>
Transfer	-	-	-	-	-	-	-	(1,497)	-	<b>(1,497)</b>
At the end of the year	72,683	9,743,519	12,719	29,599	93,127	48,227	108,980	-	71,392	<b>10,180,246</b>
Net book amounts:										
<b>At 31 December 2019</b>	<b>131,947</b>	<b>10,981,186</b>	<b>855</b>	<b>2,323</b>	<b>11,588</b>	<b>397</b>	<b>27,696</b>	<b>-</b>	<b>692,887</b>	<b>11,848,879</b>

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 7 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>31 December 2018</i>									
	<i>Buildings &amp; leasehold improvements</i>	<i>Plant, machinery &amp; heavy equipment</i>	<i>Furniture</i>	<i>Vehicles</i>	<i>Computers</i>	<i>Laboratory &amp; safety equipment</i>	<i>Catalyst</i>	<i>Capital leases - pipeline</i>	<i>Capital work in progress</i>	<i>Total</i>
Cost:										
At the beginning of the year	177,201	19,634,163	13,574	31,922	99,506	48,624	109,731	2,083	772,279	20,889,083
Additions	199	35,805	-	-	225	-	6,125	-	708,404	750,758
Transfers	2,373	193,537	-	-	-	-	2,060	-	(197,970)	-
Disposals	-	(1,700)	-	-	-	-	-	-	(735)	(2,435)
At the end of the year	179,773	19,861,805	13,574	31,922	99,731	48,624	117,916	2,083	1,281,978	21,637,406
Depreciation:										
At the beginning of the year	56,782	7,611,146	10,005	23,303	83,505	47,034	102,021	1,356	-	7,935,152
Charge for the year	7,306	1,063,419	1,357	3,148	4,941	612	4,470	141	-	1,085,394
Disposals	-	(576)	-	-	-	-	-	-	-	(576)
At the end of the year	64,088	8,673,989	11,362	26,451	88,446	47,646	106,491	1,497	-	9,019,970
Net book amounts:										
At 31 December 2018	115,685	11,187,816	2,212	5,471	11,285	978	11,425	586	1,281,978	12,617,436

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 7 PROPERTY, PLANT AND EQUIPMENT (continued)

- a) The plants are situated on land leased from the Royal Commission of Jubail and Yanbu.
- b) Capital work in progress include ongoing projects in addition to cost being incurred on existing plants regarding ongoing turnaround and equipment renovation.
- c) Plant includes costs incurred to capture the planned turnaround cost. This cost will be depreciated over the period until the date of next planned turnaround. The net book value of such costs as at 31 December 2019 amounted to SR 162.4 million (2018: SR 173 million).
- d) During the year, the management recorded an impairment against capital work in progress due to uncertainty of using certain costs with an amount of SR 71.4 million. It was recognised in the statement of income as part of cost of revenue.
- e) Property, plant and equipment of gross carrying amount of SR 117.2 million (2018: SR 31.2 million) are fully depreciated but are still in use.
- f) Allocation of depreciation charge for the year:

	<i>2019</i>	<i>2018</i>
Cost of revenue	<b>1,106,128</b>	1,065,039
General and administrative expenses (note 21)	<b>37,972</b>	20,355
	<b><u>1,144,100</u></b>	<u>1,085,394</u>

### 8 LEASES

The Company has lease contracts for various land, housing, motor vehicles and pipeline used in its operations. Leases of land generally have lease terms between 30 and 50 years, housing 5 to 11 years, motor vehicles 5 years and pipeline 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets.

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

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	<i>Leasehold lands</i>	<i>Housing</i>	<i>Motor vehicles</i>	<i>Pipeline</i>	<i>Total</i>
As at 1 January 2019	<b>21,835</b>	<b>146,667</b>	<b>10,244</b>	<b>585</b>	<b>179,331</b>
Additions	<b>10,652</b>	<b>527</b>	<b>-</b>	<b>-</b>	<b>11,179</b>
Depreciation expense	<b>(3,642)</b>	<b>(13,141)</b>	<b>(2,655)</b>	<b>(137)</b>	<b>(19,575)</b>
<b>As at 31 December 2019</b>	<b><u>28,845</u></b>	<b><u>134,053</u></b>	<b><u>7,589</u></b>	<b><u>448</u></b>	<b><u>170,935</u></b>

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 8 LEASES (continued)

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	<i>2019</i>
As at 1 January	171,789
Additions	8,807
Accretion of interest (note 22)	10,014
Payments	(22,366)
<b>As at 31 December</b>	<b>168,244</b>
Less: Current portion	14,058
Non-current	154,186

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

The following are the amounts recognised in statement of income:

	<i>2019</i>
Depreciation expense of right-of-use assets	19,575
Interest expense on lease liabilities	10,014
Expense relating to short-term leases (included in cost of revenue)	377
Expense relating to leases of low-value assets (included in general and administrative expenses)	3,351
<b>Total amount recognised in statement of income</b>	<b>33,317</b>

The Company had total cash outflows for leases of SR 33,317 in 2019. The Company also had non-cash additions to right-of-use assets and lease liabilities of SR 11,179 and SR 8,807 in 2019.

### 9 INTANGIBLE ASSETS

	<i>31 December 2019</i>		
	<i>Software and IT development</i>	<i>Under development</i>	<i>Total</i>
Cost:			
At the beginning of the year	26,731	20,791	47,522
Additions	1,043	-	1,043
Transfers to property, plant and equipment	-	(2,300)	(2,300)
At the end of the year	27,774	18,491	46,265
Amortization:			
At the beginning of the year	14,434	-	14,434
Charge for the year	4,540	-	4,540
At the end of the year	18,974	-	18,974
Net book amounts			
<b>At 31 December 2019</b>	<b>8,800</b>	<b>18,491</b>	<b>27,291</b>

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 9 INTANGIBLE ASSETS (continued)

	<i>31 December 2018</i>		
	<i>Software and IT development</i>	<i>Under development</i>	<i>Total</i>
Cost:			
At the beginning of the year	26,731	16,323	43,054
Additions	-	4,468	4,468
At the end of the year	26,731	20,791	47,522
Amortization:			
At the beginning of the year	9,301	-	9,301
Charge for the year	5,133	-	5,133
At the end of the year	14,434	-	14,434
Net book amounts			
At 31 December 2018	12,297	20,791	33,088

Based on the annual impairment test performed by the Company during the year ended 31 December 2019, no impairment risk was identified.

### 10 OTHER NON-CURRENT ASSETS

	<i>2019</i>	<i>2018</i>
Home ownership receivables	<b>99,076</b>	123,327
Employee advances	<b>69,290</b>	63,183
Other	<b>12,233</b>	7,500
	<b>180,599</b>	194,010

### 11 INVENTORIES

	<i>2019</i>	<i>2018</i>
Finished goods	<b>297,530</b>	341,260
Spare parts	<b>376,406</b>	359,496
Raw materials	<b>133,476</b>	126,680
Goods in transit	<b>7,231</b>	21,102
	<b>814,643</b>	848,538
Less: Provision for slow moving and obsolete items	<b>(78,700)</b>	(78,700)
	<b>735,943</b>	769,838

During 2019, SR 2,576 million (2018: SR 2,969 million) was recognised as an expense in the cost of revenue.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 11 INVENTORIES (continued)

Movement in the provision for slow moving and obsolete inventories was as follows:

	2019	2018
Balance at 1 January	78,700	149,123
Written-off during the year	-	(27,100)
Reversal during the year	-	(43,323)
Balance at 31 December	78,700	78,700

### 12 TRADE RECEIVABLES

	2019	2018
Amounts due from related parties (note 26)	1,751,156	2,104,040
Other	2,117	1,099
	1,753,273	2,105,139

The ageing analysis of trade receivables is as follows:

	Total	current	≤ 30 days	31 - 60 days	61 - 90 days	91 - 120 days	> 120 days
2019	1,753,273	1,750,653	200	643	1	-	1,776
2018	2,105,139	2,038,618	64,480	167	7	41	1,826

See financial risk management (note 27) on credit risk of trade receivables, which explain how the Company manages and measure credit quality of trade receivables.

### 13 PREPAYMENTS AND OTHER CURRENT ASSETS

	2019	2018
Amounts due from related parties (note 26)	66,224	90,371
Value added tax (VAT) receivable from GAZT	19,309	56,087
Prepaid expenses	49,624	54,713
Employee advances and receivables	3,927	2,421
Other	27,333	32,768
	166,417	236,360

### 14 SHORT TERM INVESTMENTS

Short term investments represent Murabaha commodity placements with original maturity exceeding three months and maintained with local and foreign banks.



# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 15 CASH AND CASH EQUIVALENTS

	2019	2018
Bank balances	<u>136,270</u>	<u>26,200</u>

### 16 SHARE CAPITAL

The Company's authorized, issued and fully paid share capital is SR 5,625 million which is divided into 562.5 million shares of SR 10 par value each. The Company is 51% owned by Saudi Basic Industries Corporation ("SABIC") (the "Parent Company") and 49% owned by others or publicly traded.

### 17 STATUTORY RESERVE

In accordance with the Company's by-laws, the Company must set aside 10% of its annual net income as the statutory reserve until it reaches 30% of the share capital. This having been achieved in 2017, the Company resolved not to set aside further reserve. The reserve is not available for distribution.

### 18 EMPLOYEE BENEFITS

	2019	2018
<b>Defined benefits obligation</b>		
End of service benefits	560,444	427,509
Post-retirement medical benefits	29,422	20,074
Long-term service awards	4,394	3,471
	<u>594,260</u>	<u>451,054</u>
<b>Other long-term employee benefits and termination benefits</b>		
Saving plan	26,391	20,763
	<u>620,651</u>	<u>471,817</u>

#### **Defined benefits obligation**

The Company's management monitors the risks of all defined benefit plans of the Company and issues guidelines regarding the governance and risk management. The defined benefit plans obligations are subject to demographic and legal risks.

#### **End of service benefits**

End of service benefits are mandatory for all KSA based employees under the Saudi Arabian labour law and the Company's employment policies. End of service benefit is based on employees' compensation and accumulated period of service and is payable upon termination, resignation or retirement. The defined benefit obligation in respect of employees' end of service benefits is calculated by estimating the future benefit payment that employees have earned in return for their service in the current and prior periods. This amount is then discounted using an appropriate discount rate to determine the present value of the Company's obligation. This is an unfunded benefit. Re-measurements are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to statement of income in subsequent periods.

#### **Long-term service awards**

The Company offers a long-term service award depending on years of service. This is measured similarly to a defined benefit obligation, however, any re-measurement is recognised in the current year statement of income.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 18 EMPLOYEE BENEFITS (continued)

#### 18.1 Defined benefits obligation

The following table represents the movement of the defined benefits obligation as at 31 December:

	2019	2018
Defined benefits obligation at beginning of the year	451,054	482,460
<i>Included in statement of income</i>		
Current service cost	42,685	49,067
Interest cost on defined benefits obligation (note 22)	17,306	17,078
	59,991	66,145
<i>Included in statement of other comprehensive income</i>		
Actuarial loss/(gain) on the obligation	93,280	(73,037)
Payments during the year	(6,351)	(20,079)
Transferred (out)/in, net	(3,714)	(4,435)
Defined benefits obligation at the end of the year	594,260	451,054

Allocation of defined benefit plans charge between cost of revenue and general and administrative expenses is as follows:

	2019	2018
Cost of revenue	36,577	42,968
General and administrative expenses	6,108	6,099
	42,685	49,067

Significant assumptions used in determining defined benefits obligations for the Company are shown below:

	2019	2018
Discount rate	3.1%	4.4%
Salary increase rate – Executives	4.5%	4.5%
Salary increase rate – Non-Executives	6.0%	6.0%
Medical inflation rate	Note (a) below	Note (a) below
Average retirement age	58	58

(a) As at 31 December 2019 and 31 December 2018: 9% in 2019 decreasing to 5% in 2023 and 5% per annum onwards.

A quantitative sensitivity analysis for significant assumptions on the defined benefits obligation as at 31 December:

	Increase/(decrease) in defined benefit obligation at 31 December	
	2019	2018
Discount rate:		
+25 BPS increase	(18,791)	(13,893)
-25 BPS decrease	19,637	14,516
Salary increase rate:		
+25 BPS increase	17,714	13,493
-25 BPS decrease	(17,065)	(12,990)
Medical inflation rate:		
+25 BPS increase	1,344	954
-25 BPS decrease	(1,276)	(905)

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 18 EMPLOYEE BENEFITS (continued)

#### 18.1 Defined benefits obligation (continued)

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

The weighted average duration of the defined benefit obligation is 10.7 years (2018: 9.7 years).

The following is the breakup of the actuarial (gain)/loss:

	2019	2018
Demographic assumptions	159	778
Financial assumptions	89,708	(67,608)
Experience adjustment	3,413	(6,207)
	<u>93,280</u>	<u>(73,037)</u>

The following payments are expected to the defined benefit plans in future years:

	2019	2018
Within the next 12 months (next annual reporting period)	17,743	12,079
Between 1 and 2 years	15,455	15,979
Between 2 and 3 years	17,937	14,467
Between 3 and 4 years	25,962	16,965
Between 4 and 5 years	21,328	24,208
Between 5 and 10 years	158,083	135,602
Total expected payments	<u>256,508</u>	<u>219,300</u>

Payments made to defined contribution plan amount to SR 5.16 million (2018: SR 3.14 million) and relates primarily to employee benefit savings' plan.

### 19 TRADE PAYABLES

	2019	2018
Amounts due to related parties	274,225	409,952
Trade accounts payable	183,121	194
	<u>457,346</u>	<u>410,146</u>

Trade payables are non-interest bearing and are normally settled on 60-day terms. For explanations on the Company's liquidity risk management processes, refer to note 27.

### 20 ACCRUALS AND OTHER CURRENT LIABILITIES

	2019	2018
Accrued liabilities	434,633	717,262
Amounts due to related parties	104,903	78,223
Dividend payable	15,882	18,963
	<u>555,418</u>	<u>814,448</u>

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 21 GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Research and technology cost (note 26)	121,200	152,287
Employee related costs	88,152	122,886
Depreciation (note 7(f))	37,972	20,355
Board of directors' remuneration (note 26)	1,400	1,400
Other	87,426	122,099
	<u>336,150</u>	<u>419,027</u>

### 22 FINANCE COSTS, NET

	2019	2018
Interest cost on defined benefit plans (note 18.1)	17,306	17,078
Finance cost on lease liabilities (note 8)	10,014	-
Interest expense – Ijara financing	-	18,590
Interest expense – Conventional term loans	-	8,461
Bank charges and others	(1,238)	2,913
	<u>26,082</u>	<u>47,042</u>
Gain on change in fair value of derivate liability	-	(16,236)
	<u>26,082</u>	<u>30,806</u>

### 23 OTHER INCOME, NET

	2019	2018
Tolling income, net (note 26)	59,779	99,206
Loss on disposal of property, plant and equipment	-	(1,859)
Foreign exchange gain/(loss)	767	(28)
Other	3,900	5,858
	<u>64,446</u>	<u>103,177</u>

### 24 ZAKAT

#### Charge for the year

Zakat charge for the year consists of the following:

	2019	2018
Provided during the year	125,936	98,270
Zakat adjustment relating to previous year	9,524	-
	<u>135,460</u>	<u>98,270</u>

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 24 ZAKAT (continued)

The current year's provision was calculated based on the following zakat base:

	2019	2018
Equity	17,897,213	16,725,183
Non-current liabilities and other adjustments	566,567	398,128
Non-current assets and other deductions	(14,270,612)	(15,635,899)
	<u>4,193,168</u>	<u>1,487,412</u>
Zakatable income for the year	1,225,232	2,443,388
	<u>5,148,400</u>	<u>3,930,800</u>

The differences between the financial and the zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

### Movement in provision

The movement in the zakat provision during the year is as follows:

	2019	2018
At beginning of the year	119,271	170,523
Provided during the year	135,460	98,270
Paid during the year	(128,795)	(149,522)
	<u>125,936</u>	<u>119,271</u>

### Status of assessments

The Company has filed its zakat returns with the General Authority of Zakat and Tax ("GAZT") and received the zakat certificates up to 31 December 2018. The Company has settled the zakat dues and cleared its zakat assessments with GAZT up to the year ended 31 December 2015. The final assessments of 2016 to 2018 have not yet been raised by the GAZT.

### 25 EARNINGS PER SHARE

The earnings per share calculation is given below:

	2019	2018
Net income for the year (SR '000)	1,089,772	2,413,978
Weighted average number of ordinary shares ('000)	562,500	562,500
Earnings per share (Saudi Riyals) – Basic and diluted	1.94	4.29

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

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 26 RELATED PARTY TRANSACTIONS AND BALANCES

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

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>		<i>Balance as at 31 December</i>	
		<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
<b>a) Amounts due from related parties</b>					
Saudi Basic Industries Corporation (SABIC) – (Parent)	Sale of products	<b>6,059,989</b>	7,614,338	<b>1,739,869</b>	2,095,851
	Advances for purchase of materials, product sales and other transactions	<b>25,187</b>	81,088	<b>65,184</b>	90,371
	Long term advance for logistics	-	-	<b>7,500</b>	7,500
Other related parties	Exchange of products	<b>19,871</b>	17,396	<b>11,286</b>	8,189
	Others	<b>4,845</b>	19,279	<b>4,845</b>	-
		<u><b>6,109,892</b></u>	<u>7,732,101</u>	<u><b>1,828,684</b></u>	<u>2,201,911</u>
<b>b) Amounts due to related parties</b>					
Saudi Basic Industries Corporation (SABIC) – (Parent)	Payments on behalf of the Company and other services rendered by the Parent	<b>2,015,848</b>	2,112,121	<b>282,015</b>	449,452
	Research and technology fees	<b>144,382</b>	152,287	<b>69,270</b>	38,163
Arabian Industrial Fibers Company (IBN RUSHD) (a related party)	Propane Tolling Agreement	<b>273,234</b>	320,019	<b>91,754</b>	19,929
Other related parties	Storage services and others	<b>166,765</b>	176,181	<b>26,486</b>	28,771
Board of directors	Remuneration	<b>1,400</b>	1,400	-	-
		<u><b>2,601,629</b></u>	<u>2,762,008</u>	<u><b>469,525</b></u>	<u>536,315</u>

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 26 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### Key management compensation

Compensation for key management is as follows:

	2019	2018
Salaries and other benefits	6,121	7,481
Post-employment benefits	832	449
	<u>6,953</u>	<u>7,930</u>

Significant transactions with related parties were as follows:

- 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 has also logistic service agreement with SABIC.
- Advances to SABIC represent the amount paid by the Company according to shared service agreement to finance the purchase of the Company's materials and services.
- The majority of Company's products are sold to SABIC ("the Marketers") under marketing and off-take agreements.

#### Terms and conditions of transactions with related parties

Outstanding balances at the year ended 31 December 2019 are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related parties and the market in which the related party operates.

### 27 FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk.

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

#### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

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

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 27 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### Risk management framework (continued)

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Financial instruments principally include cash and cash equivalents, short-term investments, trade receivables, other receivables, accounts payable, lease liabilities and other liabilities.

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The Company is exposed to credit risk from its operating activities from bank balances, short-term investments and trade receivables.

	2019	2018
<b>Short term investments and bank balances</b>		
<b>Counterparties with external credit ratings (Moody's)</b>		
A1	876,154	41,474
A2	344,900	2,251,763
A3	501,816	-
Baa1	1,464,200	822,952
	<u>3,187,070</u>	<u>3,116,189</u>

#### Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. Also geographically there is no concentration of credit risk.

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

The Company sells its main products to SABIC only. At 31 December 2019, its balance accounts for 99.2% of outstanding trade receivables balance (2018: 99.6%). Trade receivables are non-interest bearing and are generally on 30 – 130 days terms. As at 31 December 2019, all trade receivables are fully recoverable and considered unimpaired by the management.

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

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The calculation reflects the probability-weighted outcome, reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. Outstanding trade receivables are regularly monitored. The credit risk exposure of the Company on trade receivables is insignificant due to no historical credit loss exposure of the Company.



# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 27 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### Credit risk (continued)

##### Guarantees

The Company monitors its risk to a shortage of funds using forecasting models to model impacts of operational activities on overall liquidity availability. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, the revolving credit facilities and other sources of liquidity.

##### Liquidity risk

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

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

##### 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.

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

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	2019			Total
	Within 1 year	Between 1-5 years	More than 5 years	
Trade payable	457,346	-	-	457,346
Lease liabilities	29,085	63,547	100,740	193,272
Other	120,785	-	-	120,785
	<u>607,216</u>	<u>63,547</u>	<u>100,740</u>	<u>771,403</u>
	2018			Total
	Within 1 year	Between 1-5 years	More than 5 years	
Trade payable	410,146	-	-	410,146
Other current liabilities	97,186	-	-	97,186
Other	682	-	-	682
	<u>508,014</u>	<u>-</u>	<u>-</u>	<u>508,014</u>

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 27 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### Market risk

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

Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, such as equity price risk and commodity risk.

#### Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, primarily the Euro (EUR). The currencies in which these transactions primarily are denominated are EUR, USD, British Pounds and Japanese Yen. Since Saudi Riyal is pegged to USD, therefore, there is no such currency risk for USD.

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 net of hedges entered into for the year ended 31 December:

	Gain (loss) through statement of income	
	2019	2018
	EURO +/- 5 %	EURO +/- 5 %
Increase in exchange rate Euro/SR	211	826

Exposure to foreign currency risk was as follows:

	2019				
	EUR	GBP	JPY	AED	Other
Trade payables	(4,209)	(94)	(153)	(6)	(6)
<b>Total net monetary exposure</b>	<b>(4,209)</b>	<b>(94)</b>	<b>(153)</b>	<b>(6)</b>	<b>(6)</b>

	2018				
	EUR	GBP	JPY	AED	Other
Trade payables	(16,528)	(84)	(442)	(44)	(3)
<b>Total net monetary exposure</b>	<b>(16,528)</b>	<b>(84)</b>	<b>(442)</b>	<b>(44)</b>	<b>(3)</b>

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 27 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

#### Commodity risk

The Company is exposed to the impact of market fluctuations of the price of various inputs to production including naphtha, benzene, natural gas and electricity. From time to time, the Company manages some elements of commodity price risk through the use of fixed price contracts and derivative instruments.

#### Financial assets and financial liabilities

The breakup of the classification of financial instruments is as follows:

	2019				2018			
	Total	Financial assets at amortised cost	Financial assets at FVIS	Financial assets at FVOCI	Total	Financial assets at amortised cost	Financial assets at FVIS	Financial assets at FVOCI
<b>Financial assets</b>								
Trade receivables	1,753,273	1,753,273	-	-	2,105,139	2,105,139	-	-
Short term investments	3,050,800	3,050,800	-	-	3,089,988	3,089,988	-	-
Cash and cash equivalents	136,270	136,270			26,200	26,200		
<b>Total</b>	<b>4,940,343</b>	<b>4,940,343</b>	<b>-</b>	<b>-</b>	<b>5,221,327</b>	<b>5,221,327</b>	<b>-</b>	<b>-</b>

	2019			2018		
	Total	Liabilities at amortised cost	Liabilities at FVIS	Total	Liabilities at amortised cost	Liabilities at FVIS
<b>Financial liabilities</b>						
Lease liabilities	168,244	168,244	-	-	-	-
Trade payables	457,346	457,346	-	410,146	410,146	-
Other payables	120,785	120,785		97,186	97,186	
<b>Total</b>	<b>746,375</b>	<b>746,375</b>	<b>-</b>	<b>507,332</b>	<b>507,332</b>	<b>-</b>

The maximum exposure to credit risk at the end of the reporting year is the carrying amount of each class of financial assets mentioned above.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 28 CAPITAL MANAGEMENT

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

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

The Company's debt to adjusted capital ratio is as follows:

	2019	2018
Total liabilities	1,927,595	1,816,364
Less: Cash and cash equivalents	(136,270)	(26,200)
Net debt	1,791,325	1,790,164
Total equity	16,142,812	17,255,695
Add/(Less): Amount directly accumulated in equity relating to actuarial valuation adjustments	7,994	(85,286)
Adjusted capital	16,150,806	17,170,409
Debt to adjusted capital ratio	11%	10%

### 29 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

# Yanbu National Petrochemical Company (YANSAB) - A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

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

### 29 FAIR VALUE MEASUREMENT (continued)

The management assessed that cash and cash equivalents, short-term investments, trade and other receivables, trade payables, lease liabilities and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

Long-term fixed-rate and variable-rate receivables are evaluated by the Company based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2019, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

### 30 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities:

	<i>1 January 2019</i>	<i>Additions</i>	<i>Cash flows</i>	<i>Others</i>	<i>31 December 2019</i>
Non-current portion of lease liabilities	<b>160,290</b>	<b>7,954</b>	-	<b>(14,058)</b>	<b>154,186</b>
Current portion of lease liabilities	<b>11,499</b>	<b>14,911</b>	<b>(22,366)</b>	<b>10,014</b>	<b>14,058</b>
Dividends payable (note 20)	<b>18,963</b>	<b>2,109,375</b>	<b>(2,112,456)</b>	-	<b>15,882</b>
Total liabilities from financing activities	<b>190,752</b>	<b>2,132,240</b>	<b>(2,134,822)</b>	<b>(4,044)</b>	<b>184,126</b>

	<i>1 January 2018</i>	<i>Cash flows</i>	<i>Others</i>	<i>31 December 2018</i>
Current portion of long-term loans	930,346	(930,346)	-	-
Long term loan	199,831	(199,831)	-	-
Dividends payable (note 20)	16,537	(1,966,324)	1,968,750	18,963
Total liabilities from financing activities	1,146,714	(3,096,501)	1,968,750	18,963

The 'Other' column includes the effect of reclassification of non-current portion of lease liabilities to current portion of lease liabilities and dividend declared and accrued during the year that were not yet paid at the year-end. The Company classifies interest paid as cash flows from operating activities.

### 31 SEGMENT INFORMATION

The Company's President and Board of Directors monitor the results of the Company's operations for the purpose of making decisions about resource allocation and performance assessment. They are collectively the chief operating decision makers (CODM) for the Company. The CODM review the results of the Company as a whole, as they believe that decision making cannot be done effectively in isolation for single products of the Company due to complex nature of the business, integrated facility where multiple products including downstream product movement are simultaneous and the nature of the products market. Hence, the whole Company is treated as a single operating segment, the results and financial position of which has been presented already.

The key evaluation criteria for segment performance is the net profit and this is evaluated and measured consistently from period to period.

The non-current assets of the Company are based in KSA and petrochemical product sales by the Company are made primarily to Parent Company (SABIC) (note 26) which is also based in Kingdom of Saudi Arabia.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 December 2019

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

**32 COMMITMENTS AND CONTINGENCIES**

**Commitments**

As at 31 December 2019, the Company has commitments of SAR 339 million (2018: SR 303 million) relating to capital expenditures.

**Guarantees**

The Company's bankers have issued, on its behalf, bank guarantees amounting to SR 0.5 million in the normal course of business as at 31 December 2019 (2018: SR 1.3 million).

**33 APPROPRIATION OF NET INCOME**

On 4 April 2019, the General Assembly approved a distribution of cash dividend amounting SR 1,125 million (SR 2 per share) for the second half of the year 2018 which represents 20% of the nominal value of the shares. The total dividends for the year ended 31 December 2018 was SR 2,109.38 million (SR 3.75 per share).

On 12 May 2019, the Board of Directors announced the distribution of SR 984.37 million as cash dividends (SR 1.75 per share) for the first half of the year 2019 which represents 17.5% of the nominal value of the shares. The date of eligibility for this dividend distribution was to shareholders listed on the Tadawul (Saudi Stock Exchange) by the end of trading on 2 July 2019.

On 25 December 2019, the Board of Directors recommended to the General Assembly a distribution of SR 984.37 million as cash dividends (SR 1.75 per share) for the second half of the year 2019 which represents 17.5% of the nominal value of the shares. Subject to the approval of the General Assembly, the eligibility for this dividend distribution will be to shareholders listed on the Tadawul by the end of trading day of the General Assembly meeting which is expected in March 2020. The total dividends for the year ended 31 December 2019 would be SR 1,968.74 million (SR 3.50 per share).

**34 APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Board of Directors on 18 Jumada II 1441H (corresponding to 12 February 2020).