

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

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2021

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

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT

As at 31 December 2021

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INDEPENDENT AUDITOR'S REPORT

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

Qualified Opinion

We have audited the accompanying consolidated financial statements of National Gas and Industrialization Company (A Saudi Joint Stock Company) (the "Company") and its subsidiary (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

Basis for Qualified Opinion

Included in the accrued expenses and other current liabilities is an unapplied collection account ("the unapplied account") of SR 27.4 million (2020: SR 27.4 million). As detailed in note 22(c) to the consolidated financial statements; the Group discovered in 2020 that certain transactions totaling SR 25.7 million related to embezzlement transactions committed by a former employee, were routed through this account. These transactions were reversed as at 31 December 2020. Other transactions in this account could not be completely traced and the closing balance could not be reconciled as at 31 December 2021 due to lack of audit trail. We were unable to satisfy ourselves with respect to the existence and completeness of this account. Accordingly, we are unable to determine if any adjustments are required to this account and the related impact on these consolidated financial statements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

INDEPENDENT AUDITOR'S REPORT

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

Key Audit Matters - (continued)

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
<p>For the year ended 31 December 2021 the Group revenue is SR 1,901 million (2020: SR 1,963 million).</p> <p>Revenue recognition is considered a key audit matter in view of the risk that Group management focuses on revenue as one of key performance measures of their performance which could create an incentive for revenue to be recognised before the risks and rewards have been transferred.</p> <p><i>Refer to note 2 for the accounting policy related to revenue recognition and note 24 for the relevant disclosures.</i></p>	<p>Our audit procedures for revenue testing, among other audit procedures, included the following:</p> <ul style="list-style-type: none"> • Inspected a sample of sales transactions recoded before and after the year-end to assess whether revenue was recorded in the correct accounting period. • Tested on sample basis journal entries posted to the revenue accounts to identify unusual or irregular postings. • Obtained an understanding of the nature of revenue contracts with customers and distributors to determine significant revenue streams, inspected a sample of sales contracts and sales transactions to confirm our understanding if revenue recognition is compliant with IFRS 15 requirements. • Considered the adequacy of the disclosure in the Group's consolidated financial statements in accordance with IFRS 15.

INDEPENDENT AUDITOR'S REPORT

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

Key Audit Matters - (continued)

Key audit matter	How our audit addressed the key audit matter
Classification and valuation of financial assets at FVOCI	
<p>As at 31 December 2021, the Group has an investment in unquoted equity instrument amounted to SR 579.8 million (2020: SR 601.4 million) which was classified as investment at fair value through other comprehensive income (FVTOCI).</p> <p>We considered this a key audit matter due to the significance of the individual investment balance and due to complexity of the valuation of this investment.</p> <p><i>Refer to note 2 for the accounting policy and note 12(a) for the relevant disclosures.</i></p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • Evaluated the management's independent professional valuer's competence, capabilities and objectivity. • Tested, on a sample basis, the accuracy and reasonableness of the input data provided by management to the independent professional valuer, to supporting evidence. • Obtained and reviewed ownership documents for unquoted investment. • Assessed the valuation methodology used by the independent professional valuer to estimate the fair value of the Investment. • Assessed the related disclosures included in the consolidated financial statements.

Other information included in The Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2021 annual report is expected to be made available to us after the date of this auditor's report.

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

INDEPENDENT AUDITOR'S REPORT

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

Other information included in The Group's 2021 Annual Report - (continued)

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

for Ernst & Young Professional Services



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

Riyadh: 28 Sha'aban 1443H
(31 March 2022G)



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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 SR	2020 SR
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	715,388,140	633,521,175
Intangible assets	8	30,726,987	32,895,035
Investment properties	9	34,342,174	34,353,174
Right-of-use assets	10	1,494,980	3,401,454
Investments in associates	11	87,898,531	80,270,034
Financial assets held at FVTOCI	12-a	645,042,180	665,659,035
Financial assets held at amortised cost	12-c	146,500,000	30,000,000
TOTAL NON-CURRENT ASSETS		1,661,392,992	1,480,099,907
CURRENT ASSETS			
Financial assets held at FVTPL	12-b	299,154,133	279,498,455
Inventories	13	160,232,756	157,748,632
Trade receivables	14	31,149,091	45,481,461
Prepayments and other current assets	15	60,693,765	49,077,895
Cash and cash equivalents	16	61,905,920	276,610,269
TOTAL CURRENT ASSETS		613,135,665	808,416,712
TOTAL ASSETS		2,274,528,657	2,288,516,619
EQUITY AND LIABILITIES			
EQUITY			
Share capital	17	750,000,000	750,000,000
Statutory reserve	18	225,000,000	225,000,000
Retained earnings		151,964,481	44,448,445
Unrealized gains from investments at FVTOCI	12-a	524,380,156	545,958,651
TOTAL EQUITY		1,651,344,637	1,565,407,096
LIABILITIES			
NON-CURRENT LIABILITIES			
Term loan	20	112,344,168	143,641,682
Lease liabilities	10	659,453	2,241,877
Employees defined benefits liabilities	21	140,600,642	156,481,393
TOTAL NON-CURRENT LIABILITIES		253,604,263	302,364,952
CURRENT LIABILITIES			
Trade payables		128,204,639	111,055,415
Lease liabilities - current portion	10	1,781,367	2,308,953
Accrued expenses and other current liabilities	22	152,355,874	190,077,960
Term loan – current portion	20	-	32,000,000
Zakat payable	23	87,237,877	85,302,243
TOTAL CURRENT LIABILITIES		369,579,757	420,744,571
TOTAL LIABILITIES		623,184,020	723,109,523
TOTAL EQUITY AND LIABILITIES		2,274,528,657	2,288,516,619



Mr. Majed Ahmed Qwaidar

Chief Financial Officer



Eng. Abdulrahman Bin Abdulazziz Bin
Sulaiman

Chief Executive Officer and Board Member



Eng. Abdulaziz Bin Fahad Al-Khayyal

Chairman of Board of Directors

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	2021 SR	2020 SR
Revenues	24	1,901,496,279	1,963,041,600
Cost of revenues	25	(1,644,670,014)	(1,740,533,721)
GROSS PROFIT		256,826,265	222,507,879
OPERATING EXPENSES			
Selling and distribution	26	(92,879,177)	(87,527,926)
General and administrative	27	(91,699,666)	(95,127,082)
TOTAL OPERATING EXPENSES		(184,578,843)	(182,655,008)
OPERATING INCOME		72,247,422	39,852,871
Share in results of associates, net	11	13,430,069	6,516,288
Income from investments, net	28	128,516,808	92,176,840
Finance charges	29	(9,034,136)	(6,044,502)
Other income, net	30	10,841,352	17,090,582
Impairment of investment properties	9	(11,000)	(141,001)
INCOME BEFORE ZAKAT		215,990,515	149,451,078
Zakat	23	(14,252,395)	(12,558,797)
NET INCOME FOR THE YEAR		201,738,120	136,892,281
OTHER COMPREHENSIVE LOSS			
<i>Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:</i>			
Actuarial losses on employees defined benefits liabilities	21	(472,081)	(13,779,392)
Loss in fair value of investments in financial assets through other comprehensive income	12-a	(21,578,495)	(122,380,026)
TOTAL OTHER COMPREHENSIVE LOSS		(22,050,576)	(136,159,418)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		179,687,544	732,863
Earnings per share			
Basic and diluted earnings per share	31	2.69	1.83
Weighted average number of outstanding shares		75,000,000	75,000,000



Mr. Majed Ahmed Qwaider
Chief Financial Officer



Eng. Abdulrahman Bin Abdulazziz Bin Sulaiman
Chief Executive Officer and Board Member



Eng. Abdulaziz Bin Fahad Al-Khayyal
Chairman of Board of Directors

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National Gas and Industrialization Company
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2021

	Note	Share capital SR	Statutory reserve SR	Retained Earnings / (accumulated losses) SR	Unrealized gains from investments at FVTOCI SR	Total SR
Balance at 1 January 2021		750,000,000	225,000,000	44,448,445	545,958,651	1,565,407,096
Net income for the year		-	-	201,738,120	-	201,738,120
Other comprehensive loss						
Actuarial losses on employees defined benefits liabilities		-	-	(472,081)	-	(472,081)
Loss in fair value of investments in financial assets through other comprehensive loss		-	-	-	(21,578,495)	(21,578,495)
		-	-	(472,081)	(21,578,495)	(22,050,576)
Total comprehensive income for the year		-	-	201,266,039	(21,578,495)	179,687,544
Dividends	32	-	-	(93,750,003)	-	(93,750,003)
Balance as at 31 December 2021		750,000,000	225,000,000	151,964,481	524,380,156	1,651,344,637
Balance at 1 January 2020 - (As previously reported)		750,000,000	270,551,265	(103,895,567)	679,453,239	1,596,108,937
Prior periods adjustments		-	-	(20,320,142)	(11,114,562)	(31,434,704)
Balance at 1 January 2020 - (Restated)		750,000,000	270,551,265	(124,215,709)	668,338,677	1,564,674,233
Net income for the year		-	-	136,892,281	-	136,892,281
Other comprehensive loss						
Actuarial losses on employees defined benefits liabilities		-	-	(13,779,392)	-	(13,779,392)
Loss in fair value of investments in financial assets through other comprehensive loss		-	-	-	(122,380,026)	(122,380,026)
		-	-	(13,779,392)	(122,380,026)	(136,159,418)
Total comprehensive income for the year		-	-	123,112,889	(122,380,026)	732,863
Transfer of statutory reserve to accumulated losses	18	-	(45,551,265)	45,551,265	-	-
Balance as at 31 December 2020		750,000,000	225,000,000	44,448,445	545,958,651	1,565,407,096



Mr. Majed Ahmed Qwaidar
Chief Financial Officer



Eng. Abdulrahman Bin Abdulaziz Bin Sulaiman
Chief Executive Officer and Board Member



Eng. Abdulaziz Bin Fahad Al-Khayyat
Chairman of Board of Directors

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 SR	2020 SR
OPERATING ACTIVITIES			
Income before zakat		215,990,515	149,451,078
<i>Adjustments to reconcile income before zakat to net cash flows:</i>			
Depreciation of property, plant and equipment	7	84,112,793	84,949,468
Amortization of intangible assets	8	9,599,576	6,778,712
Depreciation of right to use assets	10	1,906,474	2,060,027
Interest of lease liabilities	29	201,260	338,620
Share of results of associates	11	(13,430,069)	(6,516,288)
Gain on disposal of property, plant and equipment	30	(511,907)	(7,133,985)
(Reversal) / provision for expected credit losses	14	(1,337,985)	2,108,423
Provision for employees defined benefits liabilities	21	15,228,640	17,536,765
Amortization of upfront fees	29	5,702,486	3,841,682
Follow up fees on term loan	29	3,130,390	1,864,200
Provision for gas cylinder inventory	13	978,443	4,569,072
Reversal of provision for slow moving inventory	13	-	(1,465,131)
Impairment on investments properties	9	11,000	141,001
Change in fair value of investments at FVTPL	12-b	(23,692,705)	(10,383,892)
Dividends received from investments at FVTOCI	28	(88,667,197)	(63,000,000)
Income from investment at amortized cost	28	(1,619,051)	-
Rent income from investment properties	28	(13,730,772)	(14,027,819)
Income from Short-term Murabaha time deposits	28	(807,083)	(1,812,928)
Changes in working capital:			
Inventories	13	(3,462,567)	5,844,026
Trade receivables	14	15,670,355	(8,995,764)
Prepayments and other current assets	15	(11,615,870)	(8,111,074)
Trade payables		15,316,454	14,823,005
Accrued expenses and other current liabilities	22	(46,868,659)	(11,714,145)
		<u>162,104,521</u>	<u>161,145,053</u>
Zakat paid	23	(12,316,761)	(10,237,250)
Employees defined benefits liabilities paid	21	(23,744,766)	(39,511,203)
Net cash flows from operating activities		<u>126,042,994</u>	<u>111,396,600</u>

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2021

	Note	2021 SR	2020 SR
INVESTING ACTIVITIES			
Additions of property, plant and equipment	7	(168,069,658)	(115,416,964)
Additions of intangible assets	8	(7,431,528)	(7,384,027)
Purchase of investments at FVTOCI	12-a	(961,640)	(500,890)
Purchase of investments held at amortized cost	12-c	(116,500,000)	(30,000,000)
Purchase of investments held at FVTPL	12-b	(962,973)	(100,000,000)
Proceeds from sale of investments at FVTPL	12-b	5,000,000	-
Proceeds from disposal of property, plant and equipment		2,601,807	9,351,001
Dividends received from associates	11	5,775,000	5,535,491
Dividends received from investments at FVTOCI	28	88,667,197	63,000,000
Income from investment at amortized cost	28	1,619,051	-
Rent income from investment properties	28	13,730,772	14,027,819
Income from short-term Murabaha time deposits	28	807,083	1,812,928
Net cash used in investing activities		(175,724,889)	(159,574,642)
FINANCING ACTIVITIES			
Dividends paid	32	(92,413,564)	-
Lease liabilities paid	10	(478,500)	(2,757,299)
Loan proceeds	20	-	186,800,000
Loan repayment	20	(69,000,000)	(15,000,000)
Follow up fees on term loan	29	(3,130,390)	(1,864,200)
Net cash (used) in / from financing activities		(165,022,454)	167,178,501
Net (decrease) / increase in cash and cash equivalents		(214,704,349)	119,000,459
Cash and cash equivalents at the 1 January		276,610,269	157,609,810
Cash and cash equivalents at 31 December	16	61,905,920	276,610,269
SIGNIFICANT NON-CASH TRANSACTIONS:			
Change in fair value of investments in financial assets at fair value through other comprehensive income	12-a	(21,578,495)	(122,380,026)
Actuarial losses from remeasurement of employees defined benefit liabilities	21	(472,081)	(13,779,392)
Employees defined benefits liabilities transferred to accrued expenses	21	(7,836,706)	38,925,314
Lease liabilities transferred to trade payables	10	(1,832,770)	-
Current service cost charge to work in progress	21	87,234	-



Mr. Majed Ahmed
Qwaider
Chief Financial Officer



Eng. Abdulrahman Bin Abdulazziz Bin
Sulaiman
Chief Executive Officer and Board Member



Eng. Abdulaziz Bin Fahad Al-
Khayyal
Chairman of Board of Directors

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE INFORMATION

a) ESTABLISHMENT OF THE COMPANY

National Gas and Industrialization Company (GASCO) (the “Company”) is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010002664 dated 22 Rajab 1383H (corresponding to 9 December 1963). The share capital of the Company amounts to SR 750,000,000 and is divided into 75,000,000 shares of SR 10 each. As at 31 December 2021, the Public Investment Fund owns 10.91% (2020: 10.91%) of the total Company shares, Mr. Abdulaziz Abdulrahman Al-Mohsen owns 6.66% (2020: 6.66%) and the remaining shares are publicly traded.

The Company was established in accordance with the Royal Decree No. 713 dated 03/12/1380 H to merge the Saudi Gas and Manufacturing Company and National Gas Company with the approval of the General Assembly of both companies, and under the letter of H.H. the Minister of Commerce No. 2843/H dated 01/01/1381H, and the actual merge commenced in 1383H. Later to this date on 13/06/1384H, the Council of Ministers Decree No. 820 was issued by merging all the entities involved in gas activities in the Kingdom of Saudi Arabia into the National Gas and Industrialization Company. The Council of Ministers resolution No. 1615 dated 14/11/1395H determined the Company’s share capital and the commencement of its activities on 01/01/1396H under the industrial license issued by the Ministry of Industry and Electricity No. 659/S dated 09/07/1417H (corresponding to 20 November 1996).

b) GROUP ACTIVITIES

The activities of the Company and its subsidiary (the “Group”) include carrying out all work related to the exploitation, manufacture and marketing of gas of all kinds and its derivatives and industrial gases inside the Kingdom of Saudi Arabia, selling, manufacturing and maintaining cages, cylinders, tanks and accessories, maintenance of gas networks and accessories, carrying out all work related to the manufacture, transport and marketing of petroleum, chemical, petrochemical and glass products, establishment or participation in the production of energy, water treatment and environmental services, in addition to the acquisition of real estate and purchase of land for the construction of buildings thereon and investing it through sale or lease in favor of the Group. The registered address of the Group is P.O. Box 564, Riyadh 11421, Kingdom of Saudi Arabia.

The Group has the following branches:

<i>Branch</i>	<i>Commercial registration number</i>	<i>Issuing date</i>
1- Riyadh	1010429687	23/03/1436 H
2- Riyadh	1010672639	23/04/1442 H
3- Riyadh	1010672640	23/04/1442 H
4- Riyadh	1010672641	23/04/1442 H
5- Riyadh	1010681388	04/06/1442 H
6- Dammam	2050001551	07/08/1383 H
7- Buraidah	1131004089	06/04/1402 H
8- Al-Madinah Al-Munawwarah	4650006707	18/03/1402 H
9- Jeddah	4030032503	19/02/1402 H
10- Yanbu	4700003177	07/08/1409 H
11- Khamis Mushait	5855004366	25/12/1402 H
12- Taif	4032007367	20/09/1402 H

The assets, liabilities and results of operations of these branches are included in these consolidated financial statements.

During the first quarter of 2021, the Company established a new subsidiary which is 100% owned under the name of Gas Solutions Company (Owned by One Person) (a limited liability Company), the comparative figures represent the company’s only financial statements. The below represents the details of the subsidiary:

<i>Subsidiary</i>	<i>Commercial registration number</i>	<i>Country of incorporation</i>	<i>Effective shareholding percentage</i>
Gas Solutions Company	1010693275	Kingdom of Saudi Arabia	100%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

i) Statement of compliance

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

ii) Historical cost convention

The consolidated financial statements are prepared under the historical cost convention, except for financial instruments, which are measured at fair value at the end of each reporting period and employees defined benefit liability, which has been actuarially valued. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services at the time of the transaction.

iii) Basis of measurement

These consolidated financial statements are presented in Saudi Riyal ("SR"), which is the Group's functional and presentation currency, and all values are rounded to the nearest SR, except when otherwise indicated.

iv) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiary as at 31 December 2021. The financial year of the Subsidiary Company is from January to December which is same as from the Parent Company's, however, financial information is for a period of less than one year i.e. 09 March 2021 to 31 December 2021 which have been drawn up and were audited to facilitate the preparation of consolidated financial statement for the year ended 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies

i) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

National Gas and Industrialization Company
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2) SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

ii) Current versus non-current classification

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

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized 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.

A liability is current when:

- It is expected to be settled in the 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 Group classifies all other liabilities as non-current.

iii) Fair value measurement

The Group measures financial instruments such as investments at FVTOCI and investments at FVTPL, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is based on the presumption that the transaction takes place either in the principle market or, in its absence, the most advantageous market for the asset and liability to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and maximizing the use of unobservable inputs.

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

iii) Fair value measurement (continued)

For assets and liabilities that are recognised in these consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted financial assets. Involvement of external valuers is determined annually by the Audit and Risk Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated regularly. The investment team verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions (Note 5)
- Quantitative disclosures of fair value measurement hierarchy (Note 36)
- Investment properties (Note 9)
- Financial instruments (including those carried at amortised cost) (Note 35)

iv) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Projects in progress are stated at cost. When commissioned, projects in progress are transferred to the appropriate property, plant and equipment asset category and depreciated in accordance with the Group's policies. Spare parts and capitalized machines, meeting the definition of property, plant and equipment, are accounted as per the principles of IAS 16 with respect to property, plant and equipment.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss 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 cost less estimated residual value of remaining property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, effective from the date when it was available for use, as follows:

<i>Category of property, plant and equipment</i>	<i>Useful lives</i>
Buildings	20
Motor vehicles and trucks	5-10
Machines and equipment	10
Furnitures and fixtures	10
Devices and equipment	5
Cages	5-15
Tools and equipment	10

An item of property, plant and equipment and any significant part initially recognized are derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognized. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

v) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles are not capitalized, and the related expenditure is reflected in statement of profit or loss in the year in which the expenditure is incurred. The estimated useful lives of intangible assets are as follows:

<i>Category of intangible assets</i>	<i>Useful life</i>
Software	5 years

Intangible assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary. Gains or losses arising from derecognition of 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 profit or loss when the asset is derecognised.

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis

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

vi) Investment properties

Investment properties are initially measured at cost, including transaction cost. Subsequent to initial recognition, these are carried at cost less any accumulated depreciation and accumulated impairment losses.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the year of derecognition. Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment's properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets less their residual values for the properties, except lands, over their useful lives, using the straight-line method based on the following depreciation years:

<i>Category of investment properties</i>	<i>Useful life</i>
Buildings	20

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

vi) Investment properties (continued)

Any gain or loss arising from sale or disposal of the investment properties which represents the difference between the net disposal proceeds and the carrying amount of the asset are recognized in the profit or loss in the year where the sale or disposal occurs. The rent revenue from the operating lease contracts for the investment properties is recognized in the profit or loss using the straight-line method over the contract year. The fair value for the investment properties is disclosed in note (9) of notes to the consolidated financial statements.

vii) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an assets 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 group 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. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group'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.

Impairment losses of continuing operations are recognized in the profit and loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the assets or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the profit and loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

viii) Financial instruments

Trade receivables issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes party to the contractual provisions of the instrument. A financial asset (unless it is an trade receivables without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component is initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

viii) Financial instruments (continued)

In order for a financial asset to be 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 the instrument level.

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

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

The Group has implemented following classifications for its financial assets:

<i>Financial statement line item</i>	<i>IFRS 9 classification</i>
Trade receivables	Amortised cost
Cash and cash equivalents	Amortised cost
Financial assets held at amortised cost (bonds receivable)	Amortised cost
Financial assets at fair value through other comprehensive income	Fair value
Financial assets at fair value through profit or loss account	Fair value

Subsequent measurement

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

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

Financial assets at amortised cost (debt instrument)

The Group measures financial assets at amortised cost if both of the following conditions are met:

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

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

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

Financial assets designated at fair value through OCI

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

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

National Gas and Industrialization Company
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

viii) Financial instruments (continued)

The Group elected to classify irrevocably its investment in equity instruments and under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes units of mutual funds. Dividends from mutual funds are also recognised as income in statement of profit or loss when the right of payment has been established.

Reclassifications

Financial assets are not reclassified after their initial recognition, except in the year after the Group changes its business model for managing financial assets.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flow from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Impairment of financial assets

The Group assesses all information available, including a forward-looking basis the expected credit loss associated with its assets carried at amortised cost and debt instruments measured at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring at the asset as at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. The Group considers a financial asset in default when contractual payments are 90 days past due.

For debt instruments measured at FVOCI, impairment gains or losses are recognised in the statement of profit or loss.

Expected credit loss assessment for trade receivables

For trade receivables only, the Group recognises expected credit losses on simplified approach under IFRS 9. The simplified approach to the recognition of expected credit losses does not require the Group to track the changes in credit risk; rather, the Group recognises a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivables.

The expected loss rates are based on the payment profiles of receivables over a year of 24 months before each reported year and corresponding historical credit losses experienced within this year. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified GDP of Kingdom of Saudi Arabia (the country in which it renders the services) to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Write-off and control

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

National Gas and Industrialization Company
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

viii) Financial instruments (continued)

Classification of financial liabilities

The Group classifies its financial liabilities including long term borrowings, and trade and other payables, all financial liabilities are recognized initially at fair value and in the cost of loans and borrowings and payables net of transactions cost.

Accounts and other payables represent liabilities for goods or services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured. These are recognised initially at fair value.

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 profit or loss.

Modifications of financial assets and financial liabilities

Financial assets

If the terms of the financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount adjusting the gross carrying amount as modification gain or loss in the statement of profit or loss.

Financial liability

The Group derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and short term Murabaha with a maturity of three months year or less, which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at banks and short term Murabaha, as defined above, net of outstanding bank overdrafts (if any) as they are considered an integral part of the Group's cash management.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

ix) Leases

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

(a) Group as a lessee

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

Right-of-use assets

The Group recognizes 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 recognized, 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. The right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the year on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

(b) Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the year in which they are earned.

x) Investment in associates

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

x) Investment in associates

The Group's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after Zakat.

The financial statements of the associate are prepared for the same reporting year as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate carrying value, and then recognizes the loss within "Share in results of associates" in profit or loss.

xi) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost is determined on a weighted average cost method. The cost includes the expenditures incurred in the acquisition of inventory and the expenditures incurred to deliver the inventory to the related place and current status. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

xii) Dividends distribution

The Group establishes the obligations related to paying the cash dividends to the Group's shareholders when approving the distribution. According to the Regulations for Companies, dividends are approved upon approval by the Shareholders at the Annual General Assembly. The corresponding amount is directly recognized in equity.

xiii) Employees' benefits

Employee defined benefit liabilities

The Group operates a defined benefit scheme for its employees in accordance with labor regulations applicable in the Kingdom of Saudi Arabia. Employee's end of service benefits provision is calculated annually by actuaries in accordance with the projected unit credit method as per (IAS 19) Employee Benefits. Actuarial gains and losses are recognized in full in the year in which they occur in other comprehensive income. Re-measurements are not reclassified to profit and loss in subsequent years.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date on which the Group recognizes related restructuring costs

Interest expense is calculated by applying the discount rate to the net defined benefit liability. The Group recognizes the following changes in the net defined benefit obligation under 'cost of revenue, 'general and administrative expenses' and 'selling and distribution expenses' in the statement of comprehensive income (by function).

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net interest expense or income

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

xiii) Employees' benefits (continued)

Other short and long -term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave in the year in which the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Early retirement plan

During 2020, the Group adopted new short term employee's early retirement plan, the plan costs are provided for in accordance with the Group's employee benefit policies which is based mainly on the current salary, years of service and the years of service until the normal retirement age. As the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting year in which the termination benefit is recognized, the Group apply the requirements for short-term employee benefits. The provision is accounted for once the approval is made by the employee for the plan.

xiv) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost. If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract. An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

xv) Contingent assets and liabilities

Contingent assets are not recognised in these consolidated financial statements but are disclosed when an inflow of economic benefits is probable. An assessment is made at each reporting date to recognize contingent liabilities which are probable obligations arising from past events whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the control of the Group. Financial guarantee given against a loan on behalf of an associate will be recorded in case of liquidation of the associate or whenever there are any indicators of default from the associate.

xvi) Borrowing costs

Borrowing costs that are directly attributed to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial year to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the year in which they occur. Borrowing costs consist of finance and other costs that an entity incurs in connection with the borrowing of funds.

Transaction cost is an upfront fee relating to the arrangements and administrative fees for obtaining of banks borrowings to be used for the Group's capital expenditures. The amounts are deducted from the total facilities upfront. These fees are amortised over the year of the loan agreement, borrowing cost incurred during the year of the construction is capitalised over the capital work on progress, and charged to profit and loss once these assets start its operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

xvii) Revenue recognition

The Group is in the business of carrying out all work related to the exploitation, manufacture and marketing of gas of all kinds and its derivatives and industrial gases. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The Group satisfies a performance obligation and recognises revenue over time, if the following criteria is met:

- a. The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.
- b. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- c. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

For the performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised services it creates a contract-based asset on the amount of the consideration earned by the performance. Where the amount consideration received from a customer exceeds the amounts of services recognised, this gives rise to the contract liabilities.

Specific recognition criteria

Specific recognition criteria described below must also be met before revenue is recognised.

Interest Income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified at FVOCI, interest income is recognised using the effective interest rate (EIR) method.

Dividends

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

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating lease.

Sale of gas, cylinders and tanks and extensions

Revenue from sale of gas, cylinders and tanks and extensions are recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment at the customer's location. Normally there are no credit terms. However selected customers are given 30 to 90 days credit terms upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of gas, cylinders and tanks and extensions, the Group considers the effects of variable consideration, existence of a significant financing component, noncash consideration, and consideration payable to the customer (if any).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

xvii) Revenue recognition (continued)

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of gas provide customers with a right to return the goods within a specified period. The rights of return give rise to variable consideration.

Right of return

The Group uses the expected value method to estimate the variable consideration given the large number of contracts that have similar characteristics. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the goods that are expected to be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover the goods from the customer.

Significant financing component

The Group applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less.

Installation services

The Group provides installation services that are either sold separately or bundled together with the sale of tanks to a customer. The installation services do not significantly customise or modify the gas tanks.

Contracts for bundled sales of tank and installation services are comprised of two performance obligations because the tank and installation services are both sold on a stand-alone basis and are distinct within the context of the contract. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the tank and installation services.

The Group recognises revenue from installation services over time i.e. in the accounting period when the service is rendered.

Contract assets

A contract asset is initially recognised for revenue earned from installation services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognised as contract assets is reclassified to trade receivables.

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is recognised if a payment is received, or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Summary of significant accounting policies (continued)

xviii) Zakat and tax

Zakat

The Group is subject to zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Provision for zakat for the Group is charged to the statement of profit or loss. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Withholding taxes

The Group withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Value added tax "VAT"

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value of added tax incurred on a purchase of assets or services is not recoverable from the ZATCA, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the ZATCA is included as part of receivables or payables in the consolidated statement of financial position.

xix) Foreign currencies

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 these consolidated financial statements reporting date for the Group. All differences arising on settlement or translation of monetary items are taken to the statement of comprehensive income

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently Restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or statement of comprehensive income, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

xx) Selling and distribution, general and administrative expenses

Selling and distribution, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between cost of revenues and selling and distribution, general and administrative expenses, when required, are made on a consistent basis.

3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS (continued)

a) Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

b) Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

However, the Group has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

4. 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 issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

a) IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

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4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

c) Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

d) Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

e) Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

f) IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

g) IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

h) IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Group.

i) Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

j) Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (continued)

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make judgements, 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 assets or liabilities affected in future periods.

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

- Capital management Note 35
- Financial instruments risk management and policies Note 35
- Sensitivity analyses disclosures Notes 35

a) Judgements

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

Determining the lease term of contracts with renewal and termination options – Group 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 years after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated 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 Group. Such changes are reflected in the assumptions when they occur.

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type and customer type). The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in specific sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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

b) Estimates and assumptions (continued)

Fair valuation of investment properties

The Group carries its investment properties at cost less accumulated depreciation and impairment. For investment properties, a valuation methodology based on a discounted cash flow (DCF) model was used, where there is a lack of Comparable market data because of the nature of the properties. Further where comparable market data is available, the Group revalue the property by relevance to transaction involving the properties of similar nature location and conditions. The Group engaged an independent valuation specialist to assess the fair values as at 31 December 2021.

Impairment of non-financial assets

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

Estimate of useful lives and residual values

The useful life used to amortise or depreciate intangible assets or property, plant and equipment or right-of-assets respectively relates to the expected future performance of the assets acquired and management's judgement based on technical evaluation of the year including the lease term over which economic benefit will be derived from the asset. The charge in respect of year depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. An asset's expected life residual value has a direct effect on the depreciation charged in the statement of profit or loss. The useful lives and residual values of Group's assets are determined by management based on technical evaluation at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology.

Impairment of inventories

Inventories are measured at lower of cost and net realizable value. Net realizable value signifies the estimated selling price in the ordinary course of business less estimated cost of necessary to make the sale. Adjustments to reduce the cost of inventories to net realizable value, if required, are made at the product level for estimated excess, obsolescence or damages. Factors influencing these adjustments include change in demand, product pricing, physical deterioration and quality issues.

Actuarial estimate

Provision for employees' end of service benefits is made in accordance with the projected unit credit method as per IAS 19 taking into consideration the labor law of the respective country in which the Group operates. The provision is recognized based on the present value of the defined benefit liabilities. The present value of the defined benefit liabilities is calculated using assumptions on the average annual rate of increase in salaries, average year of employment and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each year and reflect management's best estimate. The discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference Saudi Arabia interest rate swap curve or other basis, if applicable.

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

b) Estimates and assumptions (continued)

Provisions and contingencies

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Group; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; assessed at each statement of financial position date and disclosed in these consolidated financial statements under contingent liabilities.

Revenue from contract with customers

The Group is required to assess each of its contract with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method for recognizing revenue. In making the assessment, the Group considered the terms of the contracts entered into with customers. Revenue is recognised at a point in time when goods are delivered to the customer and all criteria for acceptance have been satisfied. Invoice is raised, and payment is due when goods are delivered to the customers. Where the Group determine that revenue to be recognize over time, judgement is needed to determine which input measure is most indicative of performance, as well as which inputs should be included or excluded. In using an input measure management include only those inputs that depict the Group's performance toward satisfying a performance obligation. Inputs that do not reflect performance is excluded from the measure of progress.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the Discounted Cash Flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Leases - Estimating the incremental borrowing rate

The Group 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 Group 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 Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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6. GROUP INFORMATION

The Company established a 100% owned subsidiary under the name of Gas Solutions Company on 9th March 2021 with an initial share capital of SR 5,000,000. The subsidiary is specialized in establishing, building and maintenance of liquefied petroleum gas (LPG) networks and tanks, developing LPG products and solution. The subsidiary started its operation during the second quarter of 2021. Following are the key financial items in the subsidiary financial statements:

Summarized statements of financial positions as at 31 December 2021:

	<i>2021</i> <i>SR</i>
Current assets	<u>5,669,666</u>
Non-current assets	<u>1,554,365</u>
Current liabilities	<u>(2,792,830)</u>
Non-current liabilities	<u>(75,404)</u>
Equity	<u>(4,355,797)</u>

Summarized statements of comprehensive income for the period ended 31 December 2021:

	<i>2021</i> <i>SR</i>
Revenue	2,975,659
Gross profit	1,636,089
Loss before Zakat	(582,358)
Zakat expense	<u>(61,845)</u>
Loss after Zakat	(644,203)
Other comprehensive income	-
Total comprehensive income	<u>(644,203)</u>

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7. PROPERTY, PLANT AND EQUIPMENT

	<i>Land SR</i>	<i>Buildings SR</i>	<i>Motor vehicles and trucks SR</i>	<i>Machines and equipment SR</i>	<i>Furnitures and fixtures SR</i>	<i>Devices and equipment SR</i>	<i>Cages SR</i>	<i>Tools and equipment SR</i>	<i>Capital work in progress SR</i>	<i>Total SR</i>
Cost:										
At 1 January 2021	24,834,454	459,253,619	524,716,264	554,812,383	16,037,214	22,673,992	98,158,303	5,720,929	191,682,820	1,897,889,978
Additions	828,729	7,747,260	59,126,169	26,174,293	1,470,153	3,961,723	807,840	331,569	66,054,536	166,502,272
Transfer	-	13,805,354	-	50,723,195	-	199,674	-	-	(64,728,223)	-
Disposals	-	(7,504,543)	(1,482,943)	(219,940)	(39,270)	(95,138)	-	(71,644)	(1,658,060)	(11,071,538)
Incorporation of a subsidiary	-	-	-	-	-	52,751	907,592	18,603	588,440	1,567,386
At 31 December 2021	25,663,183	473,301,690	582,359,490	631,489,931	17,468,097	26,793,002	99,873,735	5,999,457	191,939,513	2,054,888,098
Accumulated depreciation:										
At 1 January 2021	-	320,737,346	429,292,625	393,764,353	9,931,082	17,414,320	89,195,191	4,033,886	-	1,264,368,803
Charge for the year	-	13,863,020	29,975,004	33,019,007	967,092	2,594,366	3,386,167	295,117	-	84,099,773
Disposals	-	(7,508,440)	(1,119,665)	(219,936)	(38,098)	(26,058)	-	(69,441)	-	(8,981,638)
Incorporation of a subsidiary	-	-	-	-	-	2,179	10,084	-	-	-
	757		13,020							
At 31 December 2021	-	327,091,926	458,147,964	426,563,424	10,860,076	19,984,807	92,591,442	4,260,319	-	1,339,499,958
Net book value:										
At 31 December 2021	25,663,183	146,209,764	124,211,526	204,926,507	6,608,021	6,808,195	7,282,293	1,739,138	191,939,513	715,388,140

- a) Land includes two plots of land with value of SR 2.7 million (2020: SR 2.7 million) are pledged to the Saudi Industrial Development Fund (SIDF) and the process of pledging the remaining five lands as per terms of the loan is in under process. (note 20).
- b) Capital work in progress mainly represents projects to develop the Group's stations and its capacity and the development of the production lines in accordance with the Group's needs and the public safety standards.

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7. PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Land SR</i>	<i>Buildings SR</i>	<i>Motor vehicles and trucks SR</i>	<i>Machines and equipment SR</i>	<i>Furnitures and fixtures SR</i>	<i>Devices and equipment SR</i>	<i>Cages SR</i>	<i>Tools and equipment SR</i>	<i>Capital work in progress SR</i>	<i>Total SR</i>
Cost:										
At 1 January 2020	24,834,454	450,297,086	553,816,569	552,312,901	13,101,419	27,618,522	106,165,905	5,262,310	124,910,415	1,858,319,581
Additions	-	9,872,621	28,027,046	2,905,619	3,014,423	1,492,396	1,716,660	458,619	67,929,580	115,416,964
Transfer	-	36,435	-	-	-	-	-	-	(36,435)	-
Disposals	-	(952,523)	(57,127,351)	(406,137)	(78,628)	(6,436,926)	(9,724,262)	-	(1,120,740)	(75,846,567)
At 31 December 2020	24,834,454	459,253,619	524,716,264	554,812,383	16,037,214	22,673,992	98,158,303	5,720,929	191,682,820	1,897,889,978
Accumulated depreciation:										
At 1 January 2020										
(Restated)	-	306,312,785	456,808,951	359,771,921	9,243,474	21,709,171	95,444,199	3,758,387	-	1,253,048,888
Charge for the year	-	14,560,496	29,355,384	34,398,546	749,126	2,135,212	3,475,205	275,499	-	84,949,468
Disposals	-	(135,935)	(56,871,710)	(406,114)	(61,518)	(6,430,063)	(9,724,213)	-	-	(73,629,553)
At 31 December 2020	-	320,737,346	429,292,625	393,764,353	9,931,082	17,414,320	89,195,191	4,033,886	-	1,264,368,803
Net book value:										
At 31 December 2020	<u>24,834,454</u>	<u>138,516,273</u>	<u>95,423,639</u>	<u>161,048,030</u>	<u>6,106,132</u>	<u>5,259,672</u>	<u>8,963,112</u>	<u>1,687,043</u>	<u>191,682,820</u>	<u>633,521,175</u>

Depreciation charge for the year ended 31 December was allocated as follows:

	2021 SR	2020 SR
Cost of revenues (note 25)	71,627,235	71,613,163
Selling and distribution expenses (note 26)	9,742,983	11,037,657
General and administrative expenses (note 27)	2,742,575	2,298,648
	<u>84,112,793</u>	<u>84,949,468</u>

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8. INTANGIBLE ASSETS

	<i>Software SR</i>	<i>Projects in progress SR</i>	<i>Total SR</i>
Cost			
At 1 January 2021	41,174,561	3,162,556	44,337,117
Additions	6,006,501	1,425,027	7,431,528
Transfer	3,162,556	(3,162,556)	-
At 31 December 2021	50,343,618	1,425,027	51,768,645
Accumulated amortization			
1 January 2021	11,442,082	-	11,442,082
Charge for the year	9,599,576	-	9,599,576
31 December 2021	21,041,658	-	21,041,658
Net book value			
At 31 December 2021	29,301,960	1,425,027	30,726,987
	<i>Software SR</i>	<i>Projects in progress SR</i>	<i>Total SR</i>
Cost			
1 January 2020	32,333,374	4,619,716	36,953,090
Additions	7,384,027	-	7,384,027
Transfer	1,457,160	(1,457,160)	-
At 31 December 2020	41,174,561	3,162,556	44,337,117
Accumulated amortization			
1 January 2020	4,663,370	-	4,663,370
Charge for the year	6,778,712	-	6,778,712
31 December 2020	11,442,082	-	11,442,082
Net book value			
At 31 December 2020	29,732,479	3,162,556	32,895,035

a) As at 31 December 2021, projects in progress amounting to SR 1.4 million represent the expenditure on software. The projects are expected to be completed in the year 2022.

b) Amortization charged for the year was allocated as follows:

	<i>2021 SR</i>	<i>2020 SR</i>
Cost of revenues (note 25)	4,312,332	3,077,859
Selling and distribution expenses (note 26)	3,024,219	2,154,502
General and administrative expenses (note 27)	2,263,025	1,546,351
	9,599,576	6,778,712

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9. INVESTMENT PROPERTIES

Investment properties represent land and buildings, some of these properties are leased to external parties on an operating lease contracts, and they comprise of the following:

	<i>Land SR</i>	<i>Buildings SR</i>	<i>Total SR</i>
Cost:			
At the beginning of the year	34,494,172	13,676,164	48,170,336
Accumulated depreciation and impairment:			
1 January 2021	141,001	13,676,161	13,817,162
Impairment	11,000	-	11,000
31 December 2021	152,001	13,676,161	13,828,162
Net book value			
At 31 December 2021	34,342,171	3	34,342,174
At 31 December 2020	34,353,171	3	34,353,174

On 10 June 2018, the Group signed a contract to lease one plot of land owned by the Group. The total lease value of the contract amounts to SR 242.5 million for 20 years, in addition to a grace year of 27 months. On 29 May 2019, the Group finalized all legal formalities related to the contract, as such, the contract was effective starting on that date. During the year ended 31 December 2021, the Group recognized SR 11,279,069 (2020: SR 11,279,069) as income from the land lease. The total income from the investment properties lease amounted to SR 13,730,772 (2020: SR 14,027,819) (note 28).

Fair value measurement for the Group's Investment properties

The valuation for investment properties which has been performed by a real estate valuer Doha Al nma'a office for Real Estate valuation (License number 1210000930) accredited by the Saudi Authority for Accredited Valuers (TAQEEM) by using accredited valuation techniques such as Market Method (Comparison Approach), the cost appraisal method (Replacement Method), the income appraisal method (Residual Value Method) and the Market Method (Indicative Approach) amounted to SR 266 million (2020: SR 265 million).

Description of significant observable inputs to valuation

The significant unobservable inputs used in the fair value measurements of investment properties categorised within Level 3 of the fair value hierarchy as at 31 December 2021 and 31 December 2020 are as follows:

<i>Investment property</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>	<i>Description of valuation technique</i>
Land	Comparable market approach	Plot size Land area Utility facilities	Using this method, the market survey is done by valuer for similar land plots founded in the surrounding area and similar to targeted land by area size and in the same district.
	Income method- residual value	Discount rate Capitalization factor	The income capitalization approach is a method by which real estate investors attempt to determine the fair market value of real estate based on the amount of net operating income the property generates.

The investment properties fair value is classified within level 3 of the fair value hierarchy.

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10. RIGHT OF -USE- ASSETS AND LEASE LIABILITIES

Group as a lessee

The Group has lease contracts for various of plots of lands. Leases of land generally have lease terms between 3 and 75 years. The Group's obligations under its leases are secured by the lessor's title to the leased lands. Generally, the Group is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

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

10.1 Right of use assets

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

	2021	2020
	SR	SR
1 January	3,401,454	5,461,481
Depreciation charge for the year	(1,906,474)	(2,060,027)
31 December	<u>1,494,980</u>	<u>3,401,454</u>

10.2 Lease liabilities

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

	2021	2020
	SR	SR
1 January	4,550,830	6,969,509
Paid during the year	(478,500)	(2,757,299)
Finance charges for the year (note 29)	201,260	338,620
Transfer to trade payable*	(1,832,770)	-
31 December	<u>2,440,820</u>	<u>4,550,830</u>
Current portion	<u>1,781,367</u>	<u>2,308,953</u>
Non-current portion	<u>659,453</u>	<u>2,241,877</u>

*The amount represents amounts overdue to lessor but not yet paid, therefore reclassified to payables.

The following are the amounts recognised in profit or loss:

	2021	2020
	SR	SR
Depreciation expense of right-of-use assets (note 25)	1,906,474	2,060,027
Finance charges on lease liabilities (note 29)	201,260	338,620
Expense relating to short-term leases	821,296	393,806
Total amount recognised in profit or loss	<u>2,929,030</u>	<u>2,792,453</u>

The maturity analysis of the undiscounted cashflows in respect of lease liability is disclosed in note 35.

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31 December 2021

10. RIGHT OF -USE- ASSETS AND LEASE LIABILITIES (continued)

The Group had total cash outflows for leases of SR 1,299,796 in 2021 (2020: SR 3,151,105).

Group as a lessor

The Group has entered into operating leases on lands. These are long term leases. Rental income recognised by the Group during the year is SR 13,730,772 (2020: SR 14,027,819).

The Group has lease contracts that include extension options. This option is negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether this extension option is reasonably certain to be exercised.

11. INVESTMENTS IN ASSOCIATES

		2021	2020
	<i>Ownership percentage</i>	SR	SR
Saudi Gas Cylinder Factory Company	37.565%	38,602,581	30,587,628
Natural Gas Distribution Company	35%	19,804,311	19,700,076
East Gas Company Limited	35%	29,491,639	29,982,330
		87,898,531	80,270,034

Movement of investments in associates is as follows:

	2021	2020
	SR	SR
1 January	80,270,034	79,289,237
Prior year adjustment	(26,572)	-
Share of results	13,430,069	6,516,288
Dividends received	(5,775,000)	(5,535,491)
31 December	87,898,531	80,270,034

Share of results of associates comprise the following:

	2021	2020
	SR	SR
Saudi Gas Cylinders Factory Company	8,041,525	170,786
Natural Gas Distribution Company	979,235	1,600,046
East Gas Company Limited	4,409,309	4,745,456
	13,430,069	6,516,288

Dividend received from associates comprise the following:

	2021	2020
	SR	SR
Saudi Gas Cylinders Factory Company	-	285,491
Natural Gas Distribution Company	875,000	1,750,000
East Gas Company Limited	4,900,000	3,500,000
	5,775,000	5,535,491

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11. INVESTMENTS IN ASSOCIATES (continued)

Saudi Gas Cylinders Factory Company

The principal activities are to undertake the manufacturing of gas cylinders, tanks and dry powder fire extinguishers. Below is summarized financial information represents interest in Saudi Gas Cylinders Factory Company:

	2021 SR	2020 SR
Non-Current Assets	44,315,169	35,273,722
Current Assets	81,253,635	69,135,484
Non-Current Liabilities	9,767,352	9,752,914
Current Liabilities	13,039,358	13,208,421
Equity	102,762,094	81,425,870
	2021 SR	2020 SR
Revenue	111,768,627	57,820,392
Gross profit	23,891,168	6,209,918
Zakat expense	2,281,079	1,318,578
Net Profit for the year	13,602,709	703,926
Other comprehensive income / (loss)	7,804,252	(249,285)
Groups' share of total comprehensive income for the year	8,041,525	170,786

Reconciliation of the above summarized financial information to the carrying amount of the interest in associate recognized in these consolidated financial statements is presented below:

	2021 SR	2020 SR
Net assets of the associate	102,762,094	81,425,870
Proportion of the Group's ownership interest	37.565%	37.565%
Carrying amount of the Group's interest	38,602,581	30,587,628

Natural Gas Distribution Company

The principal activities comprise purchasing of natural gas from Saudi Aramco and establishing a distribution network to deliver the gas to current and future industries in the Second Industrial City of Riyadh. The Group operates and maintains the gas pipeline distribution network to customers. Below is summarized financial information represents interest in Natural Gas Distribution Company:

	2021 SR	2020 SR
Non-Current Assets	59,157,691	56,801,728
Current Assets	20,173,513	19,727,619
Non-Current Liabilities	9,997,999	7,447,291
Current Liabilities	12,749,462	12,796,126
Equity	56,583,743	56,285,930

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11. INVESTMENTS IN ASSOCIATES (continued)

Natural Gas Distribution Company (continued)

	<i>2021</i>	<i>2020</i>
	<i>SR</i>	<i>SR</i>
Revenue	<u>89,591,285</u>	<u>89,250,430</u>
Gross profit	<u>8,801,120</u>	<u>7,036,399</u>
Zakat expense	<u>317,313</u>	<u>221,337</u>
Net Profit for the year	<u>2,878,434</u>	<u>4,423,662</u>
Other comprehensive (loss) / income	<u>(80,621)</u>	<u>147,899</u>
Groups' share of total comprehensive income for the year	<u>979,235</u>	<u>1,600,046</u>

Reconciliation of the above summarized financial information to the carrying amount of the interest in associate recognized in these consolidated financial statements is presented below:

	<i>2021</i>	<i>2020</i>
	<i>SR</i>	<i>SR</i>
Net assets of the associate	<u>56,583,743</u>	<u>56,285,930</u>
Proportion of the Group's ownership interest	<u>35%</u>	<u>35%</u>
Carrying amount of the Group's interest	<u>19,804,311</u>	<u>19,700,076</u>

East Gas Company Limited

The principal activities is operating and maintaining industrial facilities, developing, owning, and maintaining gas pipeline distribution network in the Second Industrial City of Dammam, procuring natural gas from Saudi Aramco or any other suppliers, wholesale trading of gas related tools and equipment, supply of natural gas in the Second Industrial City of Dammam and the operations and maintenance of the Gas Transfer Counter Facility. Below is summarized financial information represents interest in East Gas Company Limited:

	<i>2021</i>	<i>2020</i>
	<i>SR</i>	<i>SR</i>
Non-Current Assets	<u>67,126,042</u>	<u>64,762,958</u>
Current Assets	<u>34,690,975</u>	<u>35,591,521</u>
Non-Current Liabilities	<u>2,471,444</u>	<u>1,333,879</u>
Current Liabilities	<u>15,083,746</u>	<u>13,356,799</u>
Equity	<u>84,261,827</u>	<u>85,663,801</u>

	<i>2021</i>	<i>2020</i>
	<i>SR</i>	<i>SR</i>
Revenue	<u>96,131,251</u>	<u>88,746,139</u>
Gross profit	<u>18,159,349</u>	<u>18,416,722</u>
Zakat expense	<u>560,599</u>	<u>599,545</u>
Net Profit for the year	<u>12,854,484</u>	<u>13,574,239</u>
Other comprehensive loss	<u>(256,458)</u>	<u>(15,793)</u>
Groups' share of total comprehensive income for the year	<u>4,409,309</u>	<u>4,745,456</u>

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11. INVESTMENTS IN ASSOCIATES (continued)

East Gas Company Limited (continued)

Reconciliation of the above summarized financial information to the carrying amount of the interest in associate recognized in these consolidated financial statements is presented below:

	2021	2020
	SR	SR
Net assets of the associate	84,261,827	85,663,801
Proportion of the Group's ownership interest	35%	35%
Carrying amount of the Group's interest	29,491,639	29,982,330

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

12.1 FINANCIAL ASSETS

	2021	2020
	SR	SR
Financial assets at fair value through other comprehensive income (A)	645,042,180	665,659,035
Financial assets at fair value through profit and loss (B)	299,154,133	279,498,455
Financial assets held at amortized cost (C)	146,500,000	30,000,000
	1,090,696,313	975,157,490

A. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprises the following:

	2021	2020
	SR	SR
Investment in equity instruments – unquoted (notes a, b and c)	579,801,000	601,382,000
Closed REITs	44,190,000	44,574,238
Investments in equity instruments – quoted	17,002,846	16,023,914
Public traded REITs	4,048,334	3,678,883
	645,042,180	665,659,035

- a) The above investments in equity instruments which are unquoted have been evaluated through an independent expert valuer from the Saudi Authority for Valuers “TAQEEM” Value Hub For Business Valuation & Partner Co for the economic entities’ evaluation, who’s issued a report on the valuations of investments in the National Industrial Gases Company as of 31 December 2021, and he used the similar companies’ method (Market Method) to evaluate the investment in National Industrial Gases Company.

During 2019 and based on the information available with the management, fair value of the investment in Arabian United Float Glass Company is nil (2020: nil). Initial cost of this investment was SR 15,935,100.

- b) On 21 March 2021, 24 June 2021, 19 December 2021, the general assembly of National Industrial Gases Company, approved distribution of dividends to the partners amounting to SR 925 million. The Group’s share is 9%, these distributions is SR 83.25 million (2020: SR 63 million).

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12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

12.1 FINANCIAL ASSETS (continued)

A. Financial assets at fair value through other comprehensive income (continued)

- c) The significant unobservable inputs used in the fair value measurement of equity instruments categorised within Level 3 of the fair value hierarchy as at 31 December 2021 and 31 December 2020 are as follows:

<i>Unquoted Equity investment</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>	<i>Description of valuation technique</i>
National Industrial Gases Company	Relative Valuation approach	Comparable entities Historical financial information Discount factor	This approach establishes value by comparison to recent sales of comparable assets or other multiple such as P/E, P/BV and EV/EBITDA. The market approach is a general way of determining the value of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

The movement in investments in equity instruments at fair value through other comprehensive is as follows:

	<i>2021 SR</i>	<i>2020 SR</i>
1 January	665,659,035	787,538,171
Additions during the year	961,640	500,890
Changes in fair value	(21,578,495)	(122,380,026)
31 December	<u>645,042,180</u>	<u>665,659,035</u>

The movement in unrealized gain from investments in equity instruments at fair value through other comprehensive income is as follows:

	<i>2021 SR</i>	<i>2020 SR</i>
1 January	545,958,651	668,338,677
Change in fair value	(21,578,495)	(122,380,026)
31 December	<u>524,380,156</u>	<u>545,958,651</u>

B. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss comprises the following:

	<i>2021 SR</i>	<i>2020 SR</i>
Portfolio of traded securities	95,247,213	70,035,912
Fixed income debt instruments	77,922,326	78,785,989
Jadwa Saudi Riyal Murabaha Fund	25,984,594	30,676,554
Investment in closed debt funds - Sukuk	<u>100,000,000</u>	<u>100,000,000</u>
	<u>299,154,133</u>	<u>279,498,455</u>

The movement in carrying amount were as follows:

	<i>2021 SR</i>	<i>2020 SR</i>
1 January	279,498,455	169,114,562
Additions during the year	962,973	100,000,000
Disposals during the year	(5,000,000)	-
Changes in fair value	<u>23,692,705</u>	<u>10,383,893</u>
31 December	<u>299,154,133</u>	<u>279,498,455</u>

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12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

12.1 FINANCIAL ASSETS (continued)

C. Financial assets held at amortized cost

Financial assets held at amortized cost comprises the following:

	2021 SR	2020 SR
Investments at amortized cost		
Sukuk (note a)	30,000,000	30,000,000
Murabaha fund (note b)	116,500,000	-
	146,500,000	30,000,000
Other financial assets at amortized cost		
Trade receivables (note 14)	31,149,091	45,481,461
Prepayments and other current assets (note 15)	40,908,462	32,733,783
Cash and cash equivalents (note 16)	61,905,920	276,610,269
	133,963,473	354,825,513

- a) The above represents investments in Sukuk issued by a local bank in Saudi Arabia with maturity date of 30 November 2025.
- b) The above represents the investments in two of the local Murabaha funds having a term of 1 and 3 years and having a profit rate of 4.25% and 6.5% per annum respectively.

12.2 FINANCIAL LIABILITIES

Financial liabilities held at amortized cost

	Effective Interest rate	Maturity	2021 SR	2020 SR
Current interest free liabilities				
Trade payables	Interest free	Less than 1 year	128,204,639	111,055,415
Accrued expenses and other current liabilities	Interest free	Less than 1 year	93,355,939	126,961,781
Current interest-bearing liabilities				
Lease liabilities	5.8%	Less than 1 year	1,781,367	2,308,953
Term loan	Upfront fee + follow-up charges	Less than 1 year	-	32,000,000
Non-current interest-bearing liabilities				
Lease liabilities	5.8%	More than 1 year	659,453	2,241,877
Term loan	Upfront fee + follow-up charges	2022-2025	112,344,168	143,641,682
Employee defined benefits liabilities	2.8%	More than 1 year	140,600,642	156,481,393

Changes in liabilities arising from financing activities:

	1 January 2021 SR	Cash flows SR	Dividends Declared SR	Finance cost SR	Transfer SR	31 December 2021 SR
Dividends payable	39,161,121	(92,413,564)	93,750,003	-	-	40,497,560
Term loans, net	175,641,682	(69,000,000)	-	5,702,486	-	112,344,168
Lease liabilities	4,550,830	(478,500)	-	201,260	(1,832,770)	2,440,820
Total	219,353,633	(161,892,064)	93,750,003	5,903,746	(1,832,770)	155,282,548

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13. INVENTORIES

	2021 SR	2020 SR
Gas	23,980,459	22,900,392
Gas cylinders	94,880,078	92,661,506
Tanks	7,589,851	8,617,019
Spare parts and other materials	65,649,307	66,550,750
	<u>192,099,695</u>	<u>190,729,667</u>
Provision for slow moving and obsolete items	(30,214,926)	(30,214,926)
Provision for replacing cylinders and others	(1,652,013)	(2,766,109)
	<u>160,232,756</u>	<u>157,748,632</u>

a) The cost of revenues in the statement of comprehensive income for the year ended 31 December 2021 includes an inventory cost amounted to SR 1,268,044,717 (2020: SR 1,314,499,279).

b) The movement in provision for slow moving and obsolete inventories during the year is as follows:

	2021 SR	2020 SR
At the beginning of the year	30,214,926	31,680,057
Reversal	-	(1,465,131)
At the end of the year	<u>30,214,926</u>	<u>30,214,926</u>

c) The movement in provision for cylinders replacement and others during the year is as follows:

	2021 SR	2020 SR
1 January	2,766,109	8,187,512
Charge for the year (note 25)	978,443	6,041,144
Reversal (note 25)	-	(1,472,072)
Write off	(2,092,539)	(9,990,475)
31 December	<u>1,652,013</u>	<u>2,766,109</u>

14. TRADE RECEIVABLES

	2021 SR	2020 SR
Trade receivables	41,432,193	51,618,322
Non-trade receivables	4,500,647	9,984,873
	<u>45,932,840</u>	<u>61,603,195</u>
Provision for expected credit loss	(14,783,749)	(16,121,734)
	<u>31,149,091</u>	<u>45,481,461</u>

The incorporation of a subsidiary resulted an increase in trade receivables of SR 1,219,143 in 2021 (2020: SR Nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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14. TRADE RECEIVABLES (continued)

Terms and conditions of the above financial assets:

Trade receivables are non-interest bearing and are generally on terms of 15 days from the end of the month. The Group obtained collateral over certain receivables amounted to SR 18,700,200 (2020: SR 17,783,499).

a) *The movement in provision for expected credit loss on trade receivables is as follows:*

	2021	2020
	SR	SR
1 January	16,121,734	14,013,311
Charge for the year	-	2,108,423
Reversal	(1,337,985)	-
31 December	14,783,749	16,121,734

The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses (“ECL”). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor’s current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

b) *The ageing analysis of gross trade receivables is, as follows:*

	<i>Not past due</i>		<i>Days past due</i>			
	<i>SR</i>	<i>1-90 day</i>	<i>91-180 day</i>	<i>181-365 day</i>	<i>Above 365 day</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
At 31 December						
2021						
Trade receivables	17,062,589	5,443,874	3,312,008	5,570,292	14,544,077	45,932,840
Expected loss rate % (rounded)	0.2%	10%	12%	35%	82%	
Expected credit loss	37,691	540,975	393,309	1,944,518	11,867,256	14,783,749
At 31 December						
2020						
Trade receivables	13,517,971	21,167,959	5,270,250	5,397,866	16,249,149	61,603,195
Expected loss rate % (rounded)	2%	2%	7%	26%	85%	
Expected credit loss	238,236	375,592	365,021	1,391,834	13,751,051	16,121,734

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15. PREPAYMENTS AND OTHER CURRENT ASSETS:

	<i>2021</i> <i>SR</i>	<i>2020</i> <i>SR</i>
Value added tax receivable	19,799,416	16,344,112
Accrued rent and Murabaha income	22,640,558	11,243,900
Employees' receivable	4,982,480	7,101,459
Advances to suppliers and contractors	5,433,729	5,073,961
Prepaid expenses	3,669,861	4,987,051
Insurance claims	187,077	103,981
Others	3,980,644	4,223,431
	<u>60,693,765</u>	<u>49,077,895</u>

16. CASH AND CASH EQUIVALENTS

	<i>2021</i> <i>SR</i>	<i>2020</i> <i>SR</i>
Bank balances	61,905,920	176,610,269
Short-term Murabaha time deposits (note (b) below)	-	100,000,000
	<u>61,905,920</u>	<u>276,610,269</u>

a) Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn income ranging from 0.3% to 0.92%.

b) At 31 December 2021, the Group has available SR 98.5 million (2020: SR 93.3 million) of unused bank facilities.

17. SHARE CAPITAL

As at 31 December 2021 and 2020, authorized, issued and fully paid capital comprises 75 million shares (31 December 2020: 75 million shares) of SR 10 each.

18. STATUTORY RESERVE

As required by Saudi Arabian Regulations for Companies and Group's articles of association, the Group must set aside 10% of its net income, the Group may resolve to discontinue such transfer when it has built up a reserve equal to 30% (previously 50%) of the capital. This having been achieved, the Group has resolved to discontinue such transfer. The reserve is not available for distribution.

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19. OPERATING SEGMENT

For management purposes, the Group is organised into business units based on its geographical regions within Kingdom of Saudi Arabia, as follows:

	<i>Central region SR</i>	<i>Western region SR</i>	<i>Eastern region SR</i>	<i>Southern region SR</i>	<i>Gas Solutions Company SR</i>	<i>Eliminations SR</i>	<i>Total SR</i>
2021							
Revenues-external	685,794,745	680,146,082	299,560,517	233,900,743	2,975,658	(881,466)	1,901,496,279
Cost of revenues	(551,199,058)	(571,495,679)	(243,644,882)	(199,815,216)	(1,339,570)	670,432	(1,566,823,973)
Asset depreciation and amortization	(35,929,711)	(39,404,821)	(10,106,016)	(8,258,801)	(13,020)	-	(93,712,369)
Depreciation of right-of-use assets	(202,916)	(1,703,558)	-	-	-	-	(1,906,474)
Selling and distribution	(49,147,892)	(18,460,631)	(6,871,662)	(5,124,675)	(507,115)	-	(80,111,975)
General and administrative	(84,995,755)	-	-	-	(1,698,311)	-	(86,694,066)
Operating income	(35,680,587)	49,081,393	38,937,957	20,702,051	(582,358)	(211,034)	72,247,422
Total assets	636,530,816	251,254,954	78,835,693	89,033,783	7,224,032	(1,287,639)	1,061,591,639
Total liabilities	(311,102,369)	(70,075,370)	(22,529,607)	(18,102,999)	(2,868,235)	1,076,605	(423,601,975)
	<i>Central region SR</i>	<i>Western region SR</i>	<i>Eastern region SR</i>	<i>Southern region SR</i>	<i>Gas Solutions Company SR</i>	<i>Eliminations SR</i>	<i>Total SR</i>
2020							
Revenues-external	704,786,251	691,567,563	322,636,053	244,051,733	-	-	1,963,041,600
Cost of revenues	(579,480,323)	(601,019,468)	(267,605,882)	(215,676,999)	-	-	-(1,663,782,672)
Asset depreciation and amortization	(34,183,189)	(39,193,893)	(10,517,067)	(7,834,031)	-	-	(91,728,180)
Depreciation of right-of-use assets	(470,346)	(1,589,681)	-	-	-	-	(2,060,027)
Selling and distribution	(44,138,567)	(18,478,943)	(6,972,327)	(4,745,930)	-	-	(74,335,767)
General and administrative	(91,282,083)	-	-	-	-	-	(91,282,083)
Operating income	(44,768,257)	31,285,578	37,540,777	15,794,773	-	-	39,852,871
Total assets	772,775,894	278,493,056	77,532,347	69,934,624	-	-	1,198,735,921
Total liabilities	(283,787,272)	(123,181,999)	(29,879,335)	(25,316,992)	-	-	(462,165,598)

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19. OPERATING SEGMENT (continued)

The top Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and is measured consistently with operating profit in the consolidated financial statements. Also, the Group's financing including finance costs, salaries and benefits of the management, directors, finance and IT departments, legal and HR departments, administrative and support department, other expenses and other income) and Zakat are managed on a Group basis and are not allocated to operating segments.

The revenue information above is based on the regional location of the customers. Segment revenue reported above represents revenue generated from external customers. There were SR 211,032 for the year ended 31 December 2021 (2020: SR Nil) adjustments (between the group and subsidiary company) which were eliminated at consolidation. No single customer contributed 10% or more to the Group's revenues. Zakat Payable, term loan and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Inter-company revenues are eliminated upon consolidation and reflected in the elimination's column. All other adjustments and eliminations are part of detailed reconciliations presented further below:

Reconciliation of profit

	<i>2021</i> <i>SR</i>	<i>2020</i> <i>SR</i>
Segment profit	72,247,422	39,852,871
Share in results of associates, net	13,430,069	6,516,288
Income from investments, net	128,516,808	92,176,840
Finance charges	(9,034,136)	(6,044,502)
Other income, net	10,841,352	17,090,582
Impairment of investment properties	(11,000)	(141,001)
Zakat	(14,252,395)	(12,558,797)
Profit after zakat	201,738,120	136,892,281

Reconciliation of assets

	<i>2021</i> <i>SR</i>	<i>2020</i> <i>SR</i>
Segment operating assets	1,061,591,639	1,198,735,921
Investments in associates	87,898,531	80,270,034
Financial assets held at FVTOCI	645,042,180	665,659,035
Financial assets held at amortised cost	146,500,000	30,000,000
Financial assets held at FVTPL	299,154,133	279,498,455
Investment properties	34,342,174	34,353,174
Total assets	2,274,528,657	2,288,516,619

Reconciliation of liabilities

	<i>2021</i> <i>SR</i>	<i>2020</i> <i>SR</i>
Segment operating liabilities	423,601,975	462,165,598
Term loan	112,344,168	175,641,682
Zakat provision	87,237,877	85,302,243
Total liabilities	623,184,020	723,109,523

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20. TERM LOAN

	2021	2020
	SR	SR
Principal amount at 1 January	188,000,000	-
Add: proceeds	-	203,000,000
Less: repayment	(69,000,000)	(15,000,000)
Principal amount at 31 December	119,000,000	188,000,000
Less: Un-amortized portion of transaction cost	(6,655,832)	(12,358,318)
Net amount	112,344,168	175,641,682
Less: current portion	-	(32,000,000)
The non-current portion	112,344,168	143,641,682

On 17 Muharram 1440 H (corresponding to 27 September 2018), the Group signed an agreement to obtain a loan from Saudi Industrial Development Fund (SIDF) amounting to SR 203 million. The loan is for the purpose of developing the filling plans and distribution of gas in all regions with a production capacity of 1,648 thousand tons in all branches of the Group. The terms of the loan span over a tenure of 5 years. The loan is non-interest-bearing but carry an upfront fee amount of SR 16.2 million paid at the start of the loan. In addition to a transaction cost relating to follow-up charges are paid on an semi-annual basis year over the term of the loan. Further, the loan carry certain conditions / covenants such as maintain required current asset ratios during the term of the loan, maintain a specific ratio of liabilities to net tangible value and amount spent yearly on capital expenditures. The agreement also contains undertakings pledges of seven plots of land with cost of SR 17.6 million (note 7).

During 2020, the Group received the full of financing in the amount of SR 186.8 million, after deduction of upfront fees amount of SR 16.2 million in advance according to the contract agreement. The repayment of the financing has been scheduled in ten semi-annual unequal installments starting from 15 Safar 1442H (corresponding to 2 October 2020). Also, during 2020, the Group completed the pledge of two lands to the SIDF (note 7), and the process of pledging the remaining five lands is in under process.

21. EMPLOYEES DEFINED BENEFITS LIABILITIES

The Group grants employee defined benefit liabilities ("benefit plan") to its employees taking into consideration the local labor law requirements in the Kingdom of Saudi Arabia. The benefits provided by this benefit plan is a lump sum based on the employees' final salaries and allowances and their cumulative years of service at the date of termination of employment.

The benefit liability recognized in the consolidated statement of financial position in respect of the employee defined benefit liabilities is the present value of the defined benefit obligation at the reporting date. The most recent actuarial valuation was performed by an independent, qualified actuary using the projected unit credit method.

a) *The movement of employee defined benefit liabilities for the two years ended 31 December is as follows:*

	2021	2020
	SR	SR
1 January	156,481,393	203,601,753
Current service cost	11,500,923	11,774,419
Finance charge	3,640,483	5,762,346
Current service cost charge to work in progress	87,234	-
Paid during the period	(23,744,766)	(39,511,203)
Re-measurements loss on employees defined benefit liabilities	472,081	13,779,392
Transfer to accrued employees' benefits	(7,836,706)	(38,925,314)
31 December	140,600,642	156,481,393

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21. EMPLOYEE DEFINED BENEFIT LAIBILITIES (continued)

b) *The principal assumptions used for the purposes of the actuarial valuation were as follows:*

	2021 SR	2020 SR
Discount rate	2.8%	2.1%
Future salary increases	3.75%	4.50%
Retirement age	60	60

c) *All movements in the employee defined benefit liabilities are recognized in profit or loss except for the actuarial gain which is recognized in other comprehensive income are as follows:*

	2021 SR	2020 SR
Actuarial losses on employees defined benefits liabilities		
(Gain) / loss due to change in financial assumptions	(12,624,689)	20,072,707
Loss due to change in demographic assumptions	1,867,000	-
Loss / (gain) due to change in experience adjustment	11,229,770	(6,293,315)
	<u>472,081</u>	<u>13,779,392</u>

d) *Sensitivity analysis*

The sensitivity analyses presented below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting year, while holding all other assumptions constant. A positive amount represents an increase in the liability whilst a negative amount represents a decrease in the liability:

	2021 SR	2020 SR
Discount rate		
Increase 1%	(126,843,000)	(146,054,000)
Decrease 1 %	158,952,000	169,732,000
The future increase in the salaries		
Increase 1%	157,599,000	169,256,000
Decrease 1%	(125,837,000)	(146,256,000)

e) *The following are the expected payments or contributions to the employees in future years:*

	2021 SR	2020 SR
Within the next 12 months	10,448,642	7,475,790
Between 2 and 5 years	27,836,000	37,378,950
Beyond 5 years	102,316,000	111,626,653
	<u>140,600,642</u>	<u>156,481,393</u>

The average duration of the defined benefit plan obligation at the end of the reporting period is 11 years (2020: 9 years).

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22. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2021 SR	2020 SR
Accrued employees' benefits (note (a) below)	19,624,100	53,049,848
Dividends payable	40,497,560	39,161,121
Advance from customers (contract liability note 24) (note (b) below)	31,610,467	35,726,711
Unapplied cash receipts (note (c) below)	27,389,468	27,389,468
Accrued expenses	26,330,554	25,107,716
Board of Directors and committees' remunerations	3,403,846	3,275,000
Cash deposits from customers	3,106,520	3,164,700
Others	393,359	3,203,396
	<u>152,355,874</u>	<u>190,077,960</u>

- a) The above balance included balance related to Early Retirement Plan of SR 1.07 million (2020: SR 12.1 million), established by the Group's Board of Directors during 2020. The plan costs are provided for in accordance with the Group's employee benefit policies which is based mainly on the current salary, years of service and the years of service until retirement age. As the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting year in which the termination benefit is recognized, the Group apply the requirements for short-term employee benefits. The provision is accounted for once the approval is made by the employee for the plan.
- b) The above account represents cash received from various customers, mainly collections from customers for purchases of gas tanks, other products and other transactions. This account consists of amounts that have been outstanding for several years, which have not been claimed by respective customers. The Group has adopted a policy in 2020 that any outstanding amounts for 3 years and above to be taken to income, if not been claimed.
- c) On 1 Dhul-Hijjah 1441H (corresponding to 22 July 2020), the Group's management discovered an embezzlement conducted by a former employee, who has since been terminated by the Group, and took place over a number of years. The total value of the identified transactions is SR 34.2 million, out of which, an amount of SR 2.9 million and SR 4 million were recorded in 2017 and 2020 statement of comprehensive income, respectively.

23. ZAKAT PAYABLE

- a) *The charge for the year is calculated based on the following:*

	2021 SR	2020 SR
Equity	1,499,380,156	1,566,509,916
Opening provisions and other adjustments	427,522,230	553,901,899
Book value of long-term assets	<u>(1,608,620,371)</u>	<u>(1,567,298,464)</u>
	318,282,015	553,113,351
Adjusted income for the year	<u>233,430,328</u>	<u>162,580,004</u>
Zakat base	<u>551,712,343</u>	<u>715,693,355</u>

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23. ZAKAT PAYABLE (continued)

The differences between the financial and zakatable results are mainly due to provisions, which are not allowed in the calculation of adjusted income for the year.

b) *The movement in zakat provision comprises the following:*

	2021	2020
	SR	SR
At the beginning of the year	85,302,243	82,980,696
Charge for the year	14,252,395	12,558,797
Paid during the year	(12,316,761)	(10,237,250)
At the end of the year	87,237,877	85,302,243

c) *Details of the zakat charge for the year:*

	2021	2020
	SR	SR
Current year provision	14,252,395	12,558,797
Total zakat expense for the year	14,252,395	12,558,797

Status of assessments

The Group obtained final assessment for zakat status until the end of the year 2004.

2005 to 2007 status

Zakat, Tax and Customs Authority ("ZATCA") issued the final zakat assessments to the Group for the years from 2005 to 2007, which resulted in an additional amount of SR 39 million. The Group has objected on the assessments with the relevant appeal committee. There is no outcome of the result of this objection as of 31 December 2021, also, the Group submitted a bank guarantee to the ZATCA of SR 39 million in this respect. Furthermore, the Group submitted an appeal against the decision of the First Circuit to settle income tax violations and disputes in the city of Riyadh No. (IFR-2021-1949) issued in Case No. (2020-19143-Z) related to the zakat assessments for the years 2005 to 2007, which amounted SR 38.9 million and it is currently pending for a hearing and discussion session to be set at the Appeals Chamber.

2008 and 2010 status

During 2019, the Group reached a settlement and paid to the ZATCA, for the assessments of the years 2008 to 2010 amount of SR 27 million.

2011 to 2013 status

The Group did not receive the zakat assessments for the years 2011 until 2013.

2014 to 2018 status

During 2020, the Group received Zakat assessments for the years from 2014 to 2018, which resulted in an additional amount of SR 40 million. The Group has objected on the assessments with the relevant appeal committee. During the year 2021, this case has been separated into two different cases. Case No. 38736-2021-z is related to 2014-2016 till 2018 is in the separation stage. A date for hearing to consider the case has been set at 4th April 2022. Case No. 58673-2021-z related to 2015 is at the separation stage. The status of the technical study of the case is currently under the General Secretariat of the Tax Committees.

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23. ZAKAT PAYABLE (continued)

2019 and 2020 status

ZATCA issued the zakat assessment to the Group for the years 2019 and 2020, which resulted in an additional amount of SR 11.5 million. The Group has not finalized the objection on the assessment with the relevant appeal committee and submitted a bank guarantee to the ZATCA of 50% of the total amount in this regard.

2021 status

No zakat assessment has yet been raised by ZATCA for 2021.

24. REVENUES

Type of goods or services

	2021	2020
	SR	SR
Gas sales	1,774,810,189	1,811,346,758
Gas cylinders and tanks, and extension parts' sales	105,133,339	135,061,142
Service, transportation and installation revenue	16,872,377	15,568,289
Other commercial projects	4,680,374	1,065,411
	<u>1,901,496,279</u>	<u>1,963,041,600</u>

Geographical markets

The Group has revenues from a single geographical market, The Kingdom of Saudi Arabia.

Timing of revenue recognition

	2021	2020
	SR	SR
Goods and services transferred at a point in time	1,896,815,905	1,961,976,189
Services transferred over time	4,680,374	1,065,411
	<u>1,901,496,279</u>	<u>1,963,041,600</u>

Contract balances

	2021	2020
	SR	SR
Trade receivables (note 14)	41,432,193	51,618,322
Contract liabilities (note 22)	31,610,467	35,726,711

Contract liabilities include short-term advances received to supply gases in tanks and filled gas cylinders to commercial and industrial customers.

Performance obligations

Information about the Group's performance obligations are summarised below:

Gas, cylinders, tanks and installation services

The performance obligation is satisfied upon delivery of the related goods / service and payment is generally due upon delivery.

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24. REVENUES (continued)

Commercial projects

The performance obligation is satisfied over-time and payment is generally due upon completion of installation and acceptance of the customer. In some contracts, short-term advances are required before the installation service is provided.

25. COST OF REVENUES

	2021 SR	2020 SR
Cost of gas sold	1,170,910,823	1,193,974,454
Employee costs	205,642,093	240,359,499
Cost of gas cylinders and tanks, and extension parts	97,133,894	120,524,825
Depreciation of property, plant and equipment (note 7)	71,627,235	71,613,163
Spare parts	39,276,198	44,615,768
Operating expenses	43,988,314	50,535,044
Insurance expenses	6,628,154	7,760,148
Provision for cylinders replacement, net (note 13)	978,443	4,569,072
Amortization of intangible assets (note 8)	4,312,332	3,077,859
Deprecation of right of use assets (note 10.1)	1,906,474	2,060,027
Cost of other commercial projects	2,082,835	950,401
External repairs	183,219	493,461
	<u>1,644,670,014</u>	<u>1,740,533,721</u>

26. SELLING AND DISTRIBUTION EXPENSES

	2021 SR	2020 SR
Employee costs	60,298,994	57,325,815
Depreciation of property, plant and equipment (note 7)	9,742,983	11,037,657
Amortization of intangible assets (note 8)	3,024,219	2,154,502
Advertising	5,598,914	2,721,228
Insurance	1,197,703	1,453,244
Others	13,016,364	12,835,480
	<u>92,879,177</u>	<u>87,527,926</u>

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2021 SR	2020 SR
Employee costs	57,968,174	51,190,824
Technical support and computer application licenses	4,302,588	5,589,709
Professional fees	5,956,119	6,243,616
Remuneration of the Board of Directors and committees	5,179,600	5,156,507
Utilities	1,136,746	2,933,053
Depreciation of property, plant and equipment (note 7)	2,742,575	2,298,648
Expected credit loss provision (note 14)	-	2,108,423
Employees legal claims	358,495	1,742,456
Amortization of intangible assets (note 8)	2,263,025	1,546,351
Visas and licenses fees	568,140	1,073,809
Bank charges	1,756,632	792,985
Insurance	705,471	289,300
Repair and maintenance	113,071	215,344
Others	8,649,030	13,946,057
	<u>91,699,666</u>	<u>95,127,082</u>

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28. INCOME FROM INVESTMENTS

	2021 SR	2020 SR
Dividends income from investment at FVOCI	88,667,197	65,952,201
Income from investment at amortized cost	1,619,051	-
Rent income from investment properties (note 9)	13,730,772	14,027,819
Change in fair value of investments at FVTPL	23,692,705	10,383,892
Income from Short-term Murabaha time deposits	807,083	1,812,928
	<u>128,516,808</u>	<u>92,176,840</u>

29. FINANCE CHARGES

	2021 SR	2020 SR
Unwinding of transaction costs on loans (note (a) below and note 20)	5,702,486	3,841,682
Follow up fees on term loan	3,130,390	1,864,200
Finance charges on lease liabilities (note 10.2)	201,260	338,620
	<u>9,034,136</u>	<u>6,044,502</u>

a) *The movements of unmortised transaction costs including the effects of unwinding of the transaction cost during the year were as follows:*

	2021 SR	2020 SR
At 1 January	12,358,318	-
Add: Transaction cost for new loans obtained	-	16,200,000
Less: Unwinding of transaction costs on loans and borrowings	(5,702,486)	(3,841,682)
At 31 December	<u>6,655,832</u>	<u>12,358,318</u>

30. OTHER INCOME, NET

	2021 SR	2020 SR
Gain on disposal of property, plant and equipment	511,907	7,133,985
Scrap sales	932,752	8,819,464
Foreign currency exchange differences	563,695	(252,684)
Others	8,832,998	1,389,817
	<u>10,841,352</u>	<u>17,090,582</u>

31. EARNINGS PER SHARE

Earnings per share was calculated based on the weighted average number of shares outstanding. The diluted earnings per share is the same as the basic earnings per share, as the Group has not issued any discounted instruments as at 31 December:

	2021 SR	2020 SR
Net income for the year	<u>201,738,120</u>	<u>136,892,281</u>
Weighted average number of outstanding shares	<u>75,000,000</u>	<u>75,000,000</u>
Basic and diluted earnings per share	<u>2.69</u>	<u>1.83</u>

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32. DIVIDENDS

In its ordinary meeting held on 12 Dhu Qi'dah 1442H (corresponding to 22 June 2021), the General Assembly has approved to distribute cash dividends to shareholders for the year ended 31 December 2020 of SR 0.50 per share, amounting to SR 37.5 million. The dividends were distributed to the shareholders in July 2021.

On 30 Muharram 1443H (corresponding to 7 September 2021) the board of directors approved, in accordance to the authorization of the Group's general assembly, to distribute interim cash dividends to shareholders for the first half of 2021 amount of SR 0.75 per share, amounting to SR 56.25 million. The dividends were distributed to the shareholders in September 2021.

33. COMMITMENTS AND CONTINGENCIES

Legal claim contingencies

On 7 August 2018, the Ministry of Transportation filed lawsuit against the Group regarding an explosion of the Group's tanker in Riyadh during 2012. On 3 December 2020, the Group received a preliminary ruling from the Second Traffic Department at the General Court in Riyadh, stating that the case against the Group is dismissed. On 22 March 2021, the Seventh Legal Department in the Court of Appeal issued the final ruling which includes the confirmation of the ruling issued by the Second Traffic Department at the General Court in Riyadh to dismiss the case against the Group.

Also, there was another lawsuit filed by the Public Prosecutor against the Group and other five parties, regarding the same accident mentioned above. On 9 January 2020, the Seventh Legal Department in the Court of Appeal issued the final ruling which includes the confirmation of the ruling issued by the Second Traffic Department at the General Court in Riyadh to dismiss the case against the Group. This decision is related to the general right not the private right.

Guarantees

The Group has submitted a bank guarantee to ZATCA amounting to SR 39 million (2020: SR 39 million) relating to the Group's zakat assessments for the years from 2005 to 2007. During 2021, the Group has further submitted a bank guarantee to ZATCA for 50% of the total amount relating to the Group's zakat assessments for the years from 2019 to 2020 (note 23).

The Group has submitted a bank guarantee to Saudi Arabian Oil Company "Saudi Aramco" amounting to SR 280 million (2020: SR 280 million) relating to the supply of petroleum products.

The Group has outstanding letters of credit as at 31 December 2021 amounting to SR 34.1 million (2020: SR 15.6 million).

Guarantees related to an investee

The Group also has an outstanding guarantee against a loan granted by the Saudi Industrial Development Fund in the favor of the Arabian United Float Glass Group (an investee) amounting to SR 49 million as at 31 December 2021 (2020: SR 49 million).

Commitments

At 31 December 2021, the Group had commitments of SR 130.4 million (2020: SR 156.2 million) related to capital work in progress under property, plant and equipment and intangible assets.

The Group has various lease contracts as at 31 December 2021. The future lease payments for these non-cancellable lease contracts are SR 1,781,367 within one year, SR 160,835 within five years and SR 498,618 thereafter.

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34. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, Partners, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

a) *Transactions with related parties included in the statement comprehensive income are as follows:*

<i>Name</i>	<i>Relationship</i>
Gas Solutions Company	Subsidiary
Saudi Gas Cylinder Factory Company	Associate

b) *The significant transactions and related balances for the years ended 31 December are as follows:*

	2021	2020
	SR	SR
Purchases of gas cylinders and tanks	72,071,799	81,616,117

c) *Amounts due from related parties*

	2021	2020
	SR	SR
Saudi Gas Cylinder Factory Company	3,000,357	11,271,802

The above balances are unsecured, interest free and have no fixed repayment. The management estimate the allowance on due from related party balance at the reporting date at an amount equal to lifetime ECL. No receivable balance from related parties at the reporting date are past due, taking into account the historical default experience and the future prospects of the industries in which the related parties operate, the management considers that related party balances are not impaired. There has been no change in estimation techniques or significant assumptions made during the current reporting period in assessing the allowances for balances due from related parties.

d) Key management personnel compensation

Key management personnel of the Group comprise of key members of the management having authority and responsibility for planning, directing and controlling the activities of the Group. The compensation to key management is shown below:

	2021	2020
	SR	SR
Key management personnel salaries and benefits- short term	11,593,889	6,671,258
Board of directors' members remunerations	5,100,253	5,156,507
Post-retirement benefits	767,395	276,577
Total	17,461,537	12,104,342

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

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35. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, lease liabilities and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds investments in debt and equity instruments and enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt and equity investments.

Currency risk

Currency risk is the risk that the value of a financial instruments will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, US Dollars and Euros. Management monitors the fluctuations in currency exchange rates on a regular basis. The Group's exposure to foreign currency changes for U.S. dollars is not material due to the fact that the Saudi Riyals is pegged with U.S. dollars, and the Group does not have any material assets or liabilities in U.S. dollars as at 31 December 2021.

The Group has the following significant financial liability exposures, denominated in foreign currency:

	2021	2020
EURO	<u>4,283,516</u>	<u>2,501,913</u>

currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in EURO currency exchange rate. With all other variables held constant, the Group's profit before zakat is affected through the impact on change in EURO currency exchange rate, as follows:

	1% increase SR	1% decrease SR
2021	<u>(189,232)</u>	<u>189,232</u>
2020	<u>(111,632)</u>	<u>111,632</u>

Equity price risk

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

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35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Equity price risk (continued)

At the reporting date, the exposure to non-listed equity investments at fair value is SR 579,801,000 (2020: SR 601,382,000). An increase/(decrease) by 1% (2020: 1%) in the inputs to the fair valuation of the non-listed equity investments would result in an increase/(decrease) in fair value by SR 5,798,010 (2020: SR 6,013,820).

At the reporting date, the exposure to equity investments at fair value listed on the Tadawul was SR 111,125,122 (2020: SR 85,559,007). Given that the changes in fair values of the equity investments held are strongly positively correlated with changes of the Tadawul market index, the Group has determined that an increase/(decrease) of 1% on the Tadawul market index could have an impact of approximately SR 1,111,251 (2020: 855,590) increase/(decrease) on the income and equity attributable to the Group.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's short-term loans have a short tenure and carry a floating rate of interest and is carried at amortized cost. Accordingly, management believes that the Group is not subject to any significant interest rate risk because it is a practice of the Group to settle all short-term debt obligations at the time of maturity which is generally one months.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Group's profit before zakat is affected through the impact on floating rate borrowings, as follows:

	<i>45 basis points increase SR</i>	<i>45 basis points decrease SR</i>
2021	(409,349)	409,349
2020	(760,912)	760,912

Liquidity risk

The Group monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. These forecasts are taken into the consideration in the Group's financing plans.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment years. The tables have been compiled based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	<i>Within one year SR</i>	<i>1-5 years SR</i>	<i>Over 5 years SR</i>	<i>Total SR</i>
At 31 December 2021				
Trade payables	128,204,639	-	-	128,204,639
Accrued expenses and other current liabilities	93,355,939	-	-	93,355,939
Lease liabilities	1,832,770	170,680	2,048,160	4,051,610
Term loan	-	119,000,000	-	119,000,000
Employee defined benefits liabilities	10,448,642	27,836,000	102,316,000	140,600,642
Financial guarantee	10,000,000	21,368,000	-	31,368,000
	243,841,990	168,374,680	104,364,160	516,580,830

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35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Liquidity risk

	<i>Within one year SR</i>	<i>1-5 years SR</i>	<i>Over 5 years SR</i>	<i>Total SR</i>
<i>At 31 December 2020</i>				
Trade payables	111,055,415	-	-	111,055,415
Accrued expenses and other current liabilities	126,961,781	-	-	126,961,781
Lease liabilities	2,308,953	11,766	2,230,111	4,550,830
Term loan	32,000,000	103,000,000	53,000,000	188,000,000
Employee defined benefits liabilities	7,475,790	37,378,950	111,626,653	156,481,393
Financial guarantee	7,000,000	31,368,000	-	38,368,000
	<u>286,801,939</u>	<u>171,758,716</u>	<u>166,856,764</u>	<u>625,417,419</u>

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance obtained from reputable banks and other financial institutions. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as disclosed in Note 12-C, 14 and 16. The Group holds collateral as security. The cash deposits and other forms of collaterals are considered integral part of trade receivables and considered in the calculation of impairment. At 31 December 2021, SR 18,700,200 (2020: SR 17,783,499) of the total Groups trade receivables are covered by cash deposits and other forms of collaterals. These collaterals obtained by the Group resulted in a decrease in the ECL SR 1.1 million as at 31 December 2021 (2020: SR Nil). The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Financial instruments and cash deposits

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

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35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Credit risk (continued)

Debt securities

The Group invests in both quoted and unquoted debt securities with very low credit risk. The Group's debt instruments at fair value through OCI comprised solely of unquoted bonds that are graded in the top investment category (Very Good and Good) by the Good Credit Rating Agency and, therefore, are considered to be low credit risk investments. As at 31 December 2021, the Group calculated the provision for expected credit losses on its debt instruments at amortized cost of SR 143,014 (2020: SR Nil) which is immaterial for the management.

Financial guarantees

The financial guarantee is given against a loan on behalf of an associate and management believes that the guarantee will not be liquidated, the fair value of the liability arising from the guarantee is zero at the time of giving such guarantee. Based on the management's assessment of the associate results and the liquidity of the associate, they believe that this guarantee will not be liquidated against them. The Management reviews the associate results on quarterly basis and whenever there are any indicators of default from the associate, they will record the liability as required. As at 31 December 2021, the Group calculated the provision for expected credit losses of SR 34,607 (2020: SR Nil) which is immaterial for the management.

Employee receivables

The employees' receivables are advances given to employees which is SR 4,974,845 and at the date of paying such amounts to the employee a schedule for the payments on monthly basis should be signed by the employee, and as per the Group new policy all amounts should be recovered in less than one year from the date of paying the advance and should be guaranteed against employee end of service provision of the same employee. All the balances are guaranteed against the employee end of service. As at 31 December 2021, the Group calculated the provision for expected credit losses of SR 5,180 (SR: SR Nil) which is immaterial for the management.

Accrued rent

Accrued rent comprises of rental income receivable from investment properties. As per the Group's policy, surplus funds are invested in reliable investment opportunities such as real estate, amongst others, only with the approval of the Investment Committee. The Management minimizes the risks of any financial loss through the counterparty's failure to make payments through obtaining promissory notes from the counterparty which covers the counterparty's first year rent amount. As at 31 Dec 2021, the Group calculated the provision for expected credit losses on its accrued rent of SR 44,830 (2020: SR 20,917) which is immaterial for the Management.

Capital management

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

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. The Group informally monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Group includes within net debt, short term loans, lease liabilities, employees' defined benefit liabilities, zakat payable, less cash and bank balances.

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35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Capital management (continued)

	<i>2021</i> <i>SR</i>	<i>2020</i> <i>SR</i>
Term loan	119,000,000	188,000,000
Lease liabilities	2,440,820	4,550,830
Employees' defined benefits liabilities	140,600,642	156,481,393
Zakat provision	87,237,877	85,302,243
Less: Cash and cash equivalents	(61,905,920)	(277,111,159)
Net debt	287,373,419	157,223,307
Equity	1,651,344,637	1,565,407,096
Equity and net debt	1,938,718,056	1,722,630,403
Gearing ratio	14.8%	9.1%

36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The table below shows the carrying values and fair values of financial assets and liabilities, including their levels in the fair value hierarchy, and does not include fair value information of financial assets and liabilities which are not measured at fair value if the carrying value reasonably approximates the fair value:

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36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2021							
	Carrying value			Fair value			
	Fair value	Amortized cost	Total	Level 1	Level 2	Level 3	Total
	SR	SR	SR	SR	SR	SR	SR
Financial assets							
Financial assets held at FVOCI	645,042,180	-	645,042,180	21,051,180	44,190,000	579,801,000	645,042,180
Financial assets held at amortized cost	-	146,500,000	146,500,000	-	-	-	-
Financial assets held at FVTPL	299,154,133	-	299,154,133	95,247,213	203,906,920	-	299,154,133
Trade receivables at amortized cost	-	31,149,091	31,149,091	-	-	-	-
Prepayments and other current assets at amortized cost	-	40,894,349	40,894,349	-	-	-	-
Cash and cash equivalents at amortized cost	-	61,905,920	61,905,920	-	-	-	-
Total	944,196,313	280,449,360	1,224,645,673	116,298,393	248,096,920	579,801,000	944,196,313
Financial liabilities at amortized cost							
Lease liabilities	-	2,440,820	2,440,820	-	-	-	-
Term loan	-	112,344,168	112,344,168	-	-	-	-
Trade payables	-	128,204,639	128,204,639	-	-	-	-
Accrued expenses and others	-	93,355,939	93,355,939	-	-	-	-
Total	- 336,345,566	336,345,566		-	-	-	-
31 December 2020							
	Carrying value			Fair value			
	Fair value	Amortized cost	Total	Level 1	Level 2	Level 3	Total
	SR	SR	SR	SR	SR	SR	SR
Financial assets							
Financial assets held at FVOCI	665,659,035	-	665,659,035	19,702,797	44,574,238	601,382,000	665,659,035
Financial assets held at amortized cost	-	30,000,000	30,000,000	-	-	-	-
Financial assets held at FVTPL	279,498,455	-	279,498,455	70,035,912	209,462,543	-	279,498,455
Trade receivables at amortized cost	-	45,481,461	45,481,461	-	-	-	-
Prepayments and other current assets at amortized cost	-	32,733,783	32,733,783	-	-	-	-
Cash and cash equivalents at amortized cost	-	276,610,269	276,610,269	-	-	-	-
Total	945,157,490	384,825,513	1,329,983,003	89,738,709	254,036,781	601,382,000	945,157,490

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36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

	<i>Carrying value</i>			<i>Fair value</i>			
	<i>Amortized</i>	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	
<i>Fair value</i>	<i>cost</i>						
<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Financial liabilities at amortized cost							
Lease liabilities	- 4,550,830	4,550,830	-	-	-	-	-
Term loan	- 175,641,682	175,641,682	-	-	-	-	-
Trade payables	- 111,055,415	111,055,415	-	-	-	-	-
Accrued expenses and others	- 126,961,781	126,961,781	-	-	-	-	-
Total	- 418,209,708	418,209,708	-	-	-	-	-

37. IMPACT OF COVID-19

A novel strain of coronavirus (COVID-19) ("the virus") was first identified at the end of December 2019, subsequently in March 2020 it was declared as a pandemic by the World Health Organization (WHO). The virus continued to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia, which resulted in a slowdown of economic and social activities and shutdowns of many sectors at global and local levels.

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities, the Group has assessed its impact on its current and future operational activities and has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families.

At the end of the second quarter of 2020, the government of the Kingdom of Saudi Arabia has allowed the return of all economic and commercial activities, while observing the implementation of all preventive measures adopted, and commitment to social distancing. During the fourth quarter of 2020, several vaccines which passed the testing phase effectively and began to be manufactured and distributed globally to many countries, including the Kingdom of Saudi Arabia. Furthermore, during the year 2021, booster doses were already started to be given globally including the Kingdom of Saudi Arabia therefore allowing all the economic and commercial activities to be carried in normal course. As of the date of preparing these financial statements, the Group's operations and financial results have not incurred significant impact from the virus outbreak.

The impact of the pandemic on the Group's operations and financial results was assessed using some judgments, estimates and assumptions that contain sources of uncertainty as it depends on several future factors and developments that cannot be reliably forecasted.

38. EVENTS SUBSEQUENT TO THE REPORTING DATE

No events have occurred subsequent to the reporting date and before the issuance of these consolidated financial statements which require adjustment or disclosure in these consolidated financial statements.

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39. COMPARATIVE FIGURES

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements.

As a result, certain line items have been amended in the statement of profit or loss and other comprehensive income and the related notes to the financial statements. The reclassification represents allocation of shared service cost to different cost centres.

The items were reclassified as follows:

	<i>As previously stated SR</i>	<i>Reclassification SR</i>	<i>After reclassification SR</i>
Cost of Revenue	1,724,256,538	16,277,183	1,740,533,721
Selling and distribution expenses	81,972,171	5,555,755	87,527,926
General and administrative expenses	116,960,020	(21,832,938)	95,127,082

40. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors on 20 Sha'ban 1443H (corresponding to 23 March 2022).