SHAREHOLDERS' CIRCULAR

المجموعة السعودية للإستثمار الصناعي
Saudi Industrial Investment Group

This document has been prepared by the Saudi Industrial Investment Group (the "SIIG") in accordance with the requirements of Article (57) of the Rules on the Offer of Securities and Continuing Obligations in connection with the increase in the share capital of SIIG for its acquisition of all shares in the National Petrochemical Company ("Petrochem") that are not owned by SIIG by offering a share swap transaction to Petrochem's Shareholders in accordance with Article (26) of MARs (the "Shareholders' Circular").

SIIG has entered into an implementation agreement with Petrochem on 21/03/1443H (corresponding to 27/10/2021G) (the "**Implementation Agreement**") for the purpose of the acquisition by SIIG of all shares issued in Petrochem that are not owned by SIIG, being two hundred and forty million (240,000,000) ordinary shares with a nominal value of ten Saudi Riyals (SAR 10) per share, which represents (50%) of Petrochem's capital shares ("**Offer Shares**") through a share swap offer for all the Offer Shares ("**Acquisition Transaction**" or "**Acquisition**"), in consideration of the issuance of three hundred four million and eight hundred thousand (304,800,000) ordinary shares with a nominal value of 10 Saudi Riyals per share by SIIG to Petrochem's Selling Shareholders ("**Consideration Shares**") by way of increasing the paid-up capital of SIIG from four billion five hundred million (4,500,000,000) Saudi Riyals to seven billion five hundred forty-eight million (7,548,000,000) Saudi Riyals representing an increase in the number of shares of SIIG from four hundred fifty million (450,000,000) shares to seven hundred fifty-four million eight hundred thousand (7,548,000,000) shares which represents an increase of (67.733%) in the current share capital of SIIG. The Acquisition Transaction is subject to satisfying the conditions set out in the Implementation Agreement, as summarized under section (5.4.1) ("**Implementation Agreement**") of this Shareholders' Circular, noting that such conditions may not be amended or waived without the written and signed approval of both Companies. SIIG made an announcement on 21/3/1443H (corresponding to 27/10/2021G), confirming signing the Implementation Agreement and its firm intention to proceed with the Acquisition Transaction and making the Offer to Petrochem's Selling Shareholders in this respect.

SIIG has only one class of shares and no share carries any preferential rights. All Consideration Shares will be of the same class and will have the same rights as the existing SIIG shares. Pursuant to the Acquisition Transaction, the Offer Shares will be acquired in consideration for the issuance of the Consideration Shares by SIIG to Petrochem' Selling Shareholders, where Petrochem's Selling Shareholders who are registered in the shareholders' register of Petrochem at the end of the second trading period following the Effective Date will receive (1.27) shares in SIIG for every share they own in Petrochem (the "**Exchange Ratio**"). Upon the Completion of the Acquisition Transaction, Petrochem will become an unlisted joint stock company wholly owned by SIIG (for more details about the Completion of the Acquisition Transaction, see Section (5.6) ("**Procedures Required to Effect the Acquisition Transaction**").

The total value of the Acquisition Transaction is determined on the basis of the value of the Consideration Shares. The total nominal value of the Consideration Shares is three billion forty-eight million (SAR 3,048,000,000) Saudi Riyals. The total market value of the Consideration Shares as determined on the basis of the Exchange Ratio and the closing price of (SAR 41.1) per SIIG share on 20/03/1443H (corresponding to 26/10/2021G) (which is the last trading day prior to the execution of the Implementation Agreement) is twelve billion five hundred twenty-seven million two hundred and eighty thousand (SAR 12,527,280,000) Saudi Riyals. The total value of the Consideration Shares (as will be recorded on the financial accounts of SIIG) will be determined at a later stage on the basis of the closing price of SIIG shares on the last trading day prior to the Effective Date of the Acquisition Transaction.

The Completion of the Acquisition Transaction is conditional upon, amongst other things, obtaining the approval of SIIG EGM and Petrochem EGM. For more details of the conditions to, and process for, implementing the Acquisition Transaction, see Section (4.5.1) ("**Implementation Agreement**"), and Section (5.6) ("**Procedures Required to Effect the Acquisition Transaction**") of this Shareholders' Circular. For the avoidance of doubt, if the Acquisition Resolutions are approved by the requisite number of Petrochem's Selling Shareholders (who are entitled to vote in the Petrochem EGM) being at least three- fourth of the shares represented at the EGM, and SIIG's shareholders (who are entitled to vote in the SIIG EGM), and the other Acquisition Transaction's conditions are satisfied (which mainly includes obtaining the required approvals from the CMA and the Saudi Exchange Company, and there being no Material Adverse Event occurring or continuing or the breach of a warranty given by both parties). For more details, see section (5-4-1-1) ("**Implementation Agreement Terms and Conditions**").Petrochem will become an unlisted joint stock company wholly owned by the SIIG. Upon the Completion of the Acquisition Transaction, all of Petrochem's Selling Shareholders (including those who voted against or did not vote on the Acquisition Resolutions) will receive the Consideration Shares in SIIG in accordance with the Exchange Ratio. For more details, see section (5-4-1-1) ("**Implementation Agreement Terms and Conditions**").

If the Offer is wholly accepted by Petrochem's shareholders (through the approval of the Acquisition Transaction by Petrochem EGM) and all of the other Acquisition Transaction's conditions are satisfied, then Petrochem Shareholders will become owners of (40.38%) of SIIG's capital. The Consideration Shares' owners will be entitled to receive dividends declared by SIIG following the Effectiveness of the Acquisition Resolution. The Completion of the Acquisition Transaction will also result in the increase of SIIG's capital from four billion five hundred million (4,500,000,000) Saudi Riyals to seven billion five hundred forty-eight million (7,548,000,000) Saudi Riyals. For more details about the effects of the Acquisition Transaction on Petrochem and SIIG and its rationale, see Section (3.2) ("**Rationale of the Acquisition Transaction**") of this Shareholders' Circular.

SIIG was established pursuant to the Ministry of Commerce's Resolution No. 291 issued on 29/06/1416H (corresponding to 23/11/1995G), and it is a joint stock company holding commercial registration number 1010139946 dated 10/08/1416H (corresponding to 01/01/1996G) issued in Riyadh, and has a share capital of four billion five hundred million (4,500,000,000) Saudi Riyals consisting of four hundred and fifty million (450,000,000) ordinary shares with a nominal value of SAR 10 (ten Saudi Riyals) per share, all of which are fully paid and listed on Tadawul.

Petrochem was established pursuant to the Ministry of Commerce's Resolution No. R/53 issued on 16/02/1429H (corresponding to 23/02/2008G), and it is a joint stock company holding commercial registration number 1010246363 dated 08/03/1429H (corresponding to 16/03/2008G) issued in Riyadh and has a share capital of four billion and eight hundred million (4,800,000,000) (Saudi Riyals consisting of four hundred and eighty million (480,000,000) ordinary shares with a nominal value of SAR 10 (ten Saudi Riyals) per share, all of which are fully paid and listed on Tadawul.

As of the date of this Shareholders' Circular, there are no Substantial Shareholder in SIIG.[1] The Substantial Shareholders of Petrochem are as follows: SIIG owning 50%, and GOSI owning 19.35%

The Acquisition Transaction involves Related Parties, as GOSI is a shareholder in SIIG and a Substantial Shareholder in Petrochem, and it has representatives on the boards of both SIIG and Petrochem. SIIG is also a Related Party because it owns (50%) of Petrochem, in addition to its interest in its capacity as the Offeror in the Acquisition Transaction, which is above its ordinary interest as a shareholder. Pursuant to Article 3 (n) of the MARs, a shareholder that holds shares in both Petrochem and SIIG, including shareholders that are Related Parties, can only vote on the Acquisition Resolutions in the EGM of one of the Companies.

A number of the members SIIG's board of directors have an interest in the Acquisition Transaction, as Mr. Khalil I. Alwatban and Mr. Thamer A. Alhumud (in their capacity as the representatives of GOSI in SIIG's board of directors) have declared their interest to SIIG's board' of directors and did not vote on SIIG's board of directors' resolution to approve the entry into the Implementation Agreement.

A number of the members of Petrochem's board of directors have an interest in the Acquisition Transaction, as His Excellency Mr. Hamad S. AlSayari (due to his direct ownership in SIIG), Mr. Suliman M. Al-Mandeel (due to his direct and indirect ownership in SIIG), Mr. Abdulrahman S.Alismail (in his capacity as a senior executive in SIIG and due to his direct ownership in SIIG) and Dr. Rasheed R. Bin Owain (due to his indirect ownership in SIIG), and Mr. Khalid M. Alaraifi and Mr. Eyad A. Alhusain (in their capacity as the representatives of GOSI in Petrochem's board of directors) have declared their interest to Petrochem's board of directors and did not vote on Petrochem's board of directors' resolution to approve the entry into the Implementation Agreement. For further information, see Section (3.7) ("**Related Parties and Conflicted Board Members**") of this Shareholders' Circular.

The following table sets out the names and shareholdings of the Related Parties and Conflicted members of the board of directors in relation to the Acquisition Transaction as of 7/8/1443H (corresponding to 10/3/2022G):

Name	Nature of the Conflict of Interest	Direct Ownership in SIIG		Direct Ownership in Petrochem	
		No. of Shares	Shareholding %	No. of Shares	Shareholding %
Substantial Shareholders in both Companies					
GOSI	A Shareholder in SIIG and a Substantial Shareholder in Petrochem and has a representative on the board of directors of both Companies	22,275,000	4,95%[2]	92,902,232[3]	19,35%
SIIG	Substantial Shareholder in Petrochem and has an interest in its capacity as the Offeror in the Acquisition Transaction, which is above its ordinary interest as a shareholder.	N/A		240,000,000	50%
Conflicted members of SIIG's board of directors					
Mr. Khalil Ibrahim I. Alwatban	a representative of GOSI on the board of directors of SIIG	N/A		N/A	
Mr. Thamer A. Alhumud	a representative of GOSI on the board of directors of SIIG	17,500	0,004%	N/A	
Conflicted members of Petrochem's board of directors					
His Excellency Mr. Hamad S. AlSayari	has direct ownership in SIIG	200,000	0.044%	100,000	0,002%
Mr. Suliman M. Al-Mandeel	has direct and indirect ownership in SIIG (for more information on his indirect ownership, please review Section 3.5.3 (Petrochem Board).	300,000	0.007%	1000	0,00002%
Mr. Abdulrahman S. Alismail	Senior Executive in SIIG and has direct ownership in SIIG	1000	0.0002%	1000	0.0002%
Dr. Rasheed R. Bin Owain	Has an indirect ownership in SIIG (for more information on his indirect ownership, please review Section 3.5.3 (Petrochem Board).	N/A	N/A	4,000,000	0,83%
Mr. Khalid Mohammed M. Alaraifi	a representative of GOSI on the board of directors of Petrochem	N/A		N/A	
Mr. Eyad bin Abdulrahman A. Alhusain	a representative of GOSI on the board of directors of Petrochem	N/A		N/A	

1 Note: GOSI transferred part of its direct ownership in SIIG to some of its subsidiaries. The percentage of direct ownership of GOSI in SIIG fell from (13.14%) to (4.95%) as of 13/01/2022G according to the data published on Tadawul. Noting that GOSI's total direct and in direct ownership in SIIG Pre-Completion of the Acquisition Transaction is (18.93%) of SIIG's share capital. Furthermore, GOSI's total direct and in direct ownership in SIIG Post-Completion of the Acquisition Transaction will be (38.91%) of SIIG's share capital. Noting that GOSI will not own any shares in Petrochem Post-Completion, due to Petrochem becoming a delisted joint stock company wholly owned by SIIG.

2 Note: In addition to its direct ownership in SIIG, GOSI indirectly owns, through its subsidiaries, (62,926,190) shares in SIIG, which accounts for (13.98%) of the shares issued by SIIG. Noting that GOSI's total direct and in direct ownership in SIIG prior to Completion of the Acquisition Transaction is (18.93%) of SIIG's share capital. Furthermore, GOSI's total direct and in direct ownership in SIIG Post-Completion of the Acquisition Transaction will be (38.91%) of SIIG's share capital.

3 Note: In addition to its direct ownership in Petrochem, GOSI indirectly owns, through its subsidiaries, (71,280,000) shares in Petrochem, which accounts for (24.85%) of the shares issued by Petrochem. Noting that GOSI will not own any shares in Petrochem Post-Completion, due to Petrochem becoming a delisted joint stock company wholly owned by SIIG.

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This document has been prepared by the Saudi Industrial Investment Group (the "SIIG") in accordance with the requirements of Article (57) of the Rules on the Offer of Securities and Continuing Obligations in connection with the increase in the share capital of SIIG for its acquisition of all shares in the National Petrochemical Company ("Petrochem") that are not owned by SIIG by offering a share swap transaction in accordance with Article (26) of MARs (the "Shareholders' Circular").

Since there are no Substantial Shareholders in SIIG, the following table shows details of ownership in SIIG of each of SIIG's board of directors, its Senior Executives and the public, in addition to GOSI's direct and indirect ownership, prior to and following the Completion of the Acquisition Transaction as of 7/8/1443H (corresponding to 10/3/2022G):[4]

Shareholder	Pre- Completion of the Acquisition		Post- Completion of the Acquisition	
	No. of Shares	Shareholding %	No. of Shares	Shareholding %
SIIG's Board of Directors*	100,708	0.02%	100,708	0.01%
SIIG's Senior Executives**	1,000	0.0002%	1,000	0.0001%
GOSI***	22,275,000	4.95%[5]	140,260,834	18.58%
The Public	449,898,292	99.97%	614,437,458	81.4%
Total	450,000,000	100%	754,800,000	100%

* Pursuant to the shares owned by SIIG's board of directors in SIIG only, which include the shares they own directly and the shares in which they have an indirect interest.

** Pursuant to the shares owned directly by SIIG senior executives in SIIG only.

*** GOSI has indirect ownership in SIIG, as described below:

(1) Pre- Completion of the Acquisition Transaction: GOSI indirectly owns, through its subsidiaries, (62,926,190) shares in SIIG, which accounts for (13.98%) of SIIG's capital.

(2) Post- Completion of the Acquisition Transaction: GOSI will indirectly own, through its subsidiaries, (135,451,790) shares, which will account to (20.23%) of SIIG's capital.

An application has been made to the CMA for registering and offering the Consideration Shares and to the Saudi Exchange Company for listing the Consideration Shares on Tadawul. All requirements of the CMA have been satisfied and, subject to the Acquisition Resolutions being passed at the SIIG EGM and Petrochem EGM, all relevant regulatory approvals pertaining to the Acquisition Transaction and the Capital Increase have been granted (for further information, see Section (1.3.5) ("**Government Approvals**") of this Shareholders' Circular.

This Shareholders' Circular should be read in full and considered carefully, especially Section "**Important Notice**" and Section (1) ("**Risk Factors**") of this Shareholders' Circular, prior to voting on the Acquisition Resolutions.

This Shareholders' Circular includes information provided as part of the application for registration and offer of securities in compliance with the Rules on the Offer of Securities and Continuing Obligations (the "**ROSCOS**") of the Capital Market Authority of the Kingdom of Saudi Arabia (referred to as the "**CMA**") and the application for listing of securities in compliance with the Listing Rules of the Saudi Stock Exchange. The board of directors of SIIG, whose names appear on page (49), collectively and individually accept full responsibility for the accuracy of the information contained in this Shareholders' Circular. The board of directors of SIIG also confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The CMA and Saudi Stock Exchange do not take any responsibility for the contents of this Shareholders' Circular, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Shareholders' Circular.

As an exception from the above declaration with respect to the responsibility of the board of directors of SIIG for the accuracy of the information contained in this Shareholders' Circular, SIIG's board of directors will not accept any responsibility for the accuracy of the information relating to Petrochem contained in this Shareholders' Circular. All information contained in this Shareholders' Circular in relation to Petrochem and its subsidiaries has been included on the basis of the information provided by Petrochem and information obtained during the due diligence exercise conducted by SIIG -with the assistance of its advisers- on Petrochem. Petrochem has an obligation under the Implementation Agreement to provide SIIG with all information required to prepare this Shareholders' Circular. Petrochem has also provided a customary warranty in favor of SIIG under the Implementation Agreement that information (in all material aspects) in connection with the Acquisition Transaction provided to SIIG as of the date thereof, including information that was provided during the course of the due diligence process and during the preparation of the acquisition documents, including this Shareholders' Circular, was not misleading in all material aspects. Petrochem has also warranted under the Implementation Agreement that it has not knowingly withheld any material information in connection with the Acquisition Transaction from SIIG.

Following careful and thorough consideration of the terms of the Implementation Agreement, the members of the board of directors of SIIG (other than the conflicted members of the board of directors), have approved the entry into the Implementation Agreement, and the Implementation Agreement was signed on 21/03/1443H (corresponding to 27/10/2021G).

The members of the board of directors of SIIG (other than the conflicted members of the board of directors) believe that the Acquisition Transaction is fair and reasonable, having conducted appropriate due diligence -with the support of its advisors- they deemed sufficient under the current circumstances, and considered the market position prevailing at the time of the publication of this Shareholders' Circular in addition to the future growth prospects of the SIIG, including potential synergies, and the opinion of HSBC Saudi Arabia (SIIG's Financial Advisor in connection with the Acquisition Transaction) dated 26/10/2021G to SIIG's board of directors, which opinion is attached to this Shareholders' Circular as Annex 2, to the effect that, as of that date and based upon and subject to the factors and assumptions set forth therein, the Exchange Ratio pursuant to the Implementation Agreement was fair from a financial point of view to SIIG.

The members of the board of directors of SIIG (other than the conflicted members of the board of directors) further believe that the Acquisition Transaction is in the best interests of SIIG and its shareholders and therefore unanimously recommend that SIIG's shareholders approve the Acquisition Transaction and the Capital Increase.

In arriving at their recommendation, the members of the board of directors of SIIG (other than the conflicted members of the board of directors) have also received and considered external advice on legal, financial, accounting, strategic and other matters relating to the Acquisition Transaction.

In giving its recommendation, the board of directors of SIIG (other than the conflicted members of the board of directors) has not had regard to specific investment objectives, financial situation, tax or Zakat positions or the individual circumstances of any individual SIIG shareholder, as different SIIG shareholders have different investment objectives and portfolios. Accordingly, the board of directors of SIIG (other than the conflicted members of the board of directors) recommends that each individual SIIG shareholder reads and carefully considers all information contained in this Shareholders' Circular, and when in doubt as to the action such a shareholder should take at the EGM, the board of directors of SIIG (other than the conflicted members of the board of directors) recommends that such a shareholder consults an independent financial advisor licensed by the CMA in relation to the Acquisition Transaction and relies on its own examination of the Acquisition Transaction and the information herein with regard to such SIIG shareholder's investment objectives and financial situation.

All board members of SIIG who will vote on the Acquisition Resolutions at SIIG EGM will vote in favor of the Acquisition Resolutions.

SIIG has appointed HSBC Saudi Arabia as its financial advisor in connection with the Acquisition Transaction.

4 Note: GOSI transferred part of its direct ownership in SIIG to some of its subsidiaries. The percentage of direct ownership of GOSI in SIIG fell from (13.14%) to (4.95%) as of 13/01/2022G according to the data published on Tadawul. Noting that GOSI's total direct and in direct ownership in SIIG Pre-Completion of the Acquisition Transaction is (18.93%) of SIIG's share capital. Furthermore, GOSI's total direct and in direct ownership in SIIG Post-Completion of the Acquisition Transaction will be (38.91%) of SIIG's share capital. Noting that GOSI will not own any shares in Petrochem Post-Completion, due to Petrochem becoming a delisted joint stock company wholly owned by SIIG.

5 Note: GOSI's direct ownership in SIIG Pre-Completion of the Acquisition Transaction has been included for the purpose of disclosure and for the reason that it will become a Substantial Shareholder in SIIG Post-Completion of the Acquisition Transaction. GOSI's direct ownership has also been included within the public ownership total which represents (99.97%) of SIIG's share capital Pre-Completion of the Acquisition Transaction, due to its current direct ownership being below (5%).

Financial Advisor

HSBC

This Shareholders' Circular was issued on 14/8/1443H (corresponding to 17/3/2022G) and was prepared in Arabic and English, and the Arabic language shall be the prevailing language. In case of any differences between the two, the Arabic version shall prevail.

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IMPORTANT NOTICE

This Shareholders' Circular has been prepared by SIIG pursuant to Article (57) of the Rules on the Offer of Securities and Continuing Obligations. The purpose of this Shareholders' Circular is to provide SIIG Shareholders with information on the Acquisition Transaction in order to assist them in deciding whether or not to vote at the SIIG EGM in favor of the recommendation of SIIG's Board to increase its capital for the purpose of acquiring all the Offer Shares, which is a necessary step to complete the Acquisition Transaction, by submitting a securities exchange offer to purchase all the Offer Shares through increasing SIIG capital from four billion five hundred million (4,500,000,000) Saudi Riyals to seven billion five hundred and forty-eight million (7,548,000,000) Saudi Riyals by issuing three hundred and four million eight hundred thousand (304,800,000) new shares in favor of the eligible Petrochem's Selling Shareholders, to increase the number of SIIG shares from four hundred and fifty million (450,000,000) shares to seven hundred and fifty-four million and eight hundred thousand (754,800,000) shares. The vote of the SIIG Shareholders on the Acquisition Resolutions will be made on the basis of the information contained in this Shareholders' Circular. Copies of this Shareholders' Circular can be obtained from the offices of SIIG or through SIIG's website at (www.siig.com.sa), from the Financial Advisor's website at (www.hsbcsaudi.com), from the CMA's website at (www.cma.org.sa), or from the Saudi Exchange Company's website at (www.SaudiExchange.sa).

The CMA and the Saudi Exchange Company do not take any responsibility for the contents of this Shareholders' Circular, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Shareholders' Circular.

Statements and information contained in this Shareholders' Circular are made as at the date of this Shareholders' Circular, unless some other time is specified in relation to them, and are subject to change after its publication. The information appearing in this Shareholders' Circular reflects the current point of view of the SIIG Board and its impact thereon following Completion of the Acquisition Transaction. It is however not a guarantee of the financial performance of the SIIG following Completion of the Acquisition Transaction and it should be noted that there are various factors that could impact the performance of the SIIG or the results it could achieve either positively or negatively (For further information, see Section (1) ("**Risk Factors**") of this Shareholders' Circular).

According to the requirements of the ROSCOS, SIIG will issue a supplementary circular at any time after this Shareholders' Circular has been published and before the SIIG EGM is convened if SIIG becomes aware that there has been a significant change in material information contained in this Shareholders' Circular or additional significant matters have become known which would have been required to be included in this Shareholders' Circular.

Nothing contained in this Shareholders' Circular is intended to be or shall be deemed to be a forecast, projection or estimate of the future financial performance of the Combined Bank or any members of its respective group and no statement in this Shareholders' Circular should be interpreted to mean that earnings per share for current or future financial periods of the Combined Bank post the Acquisition Transaction will necessarily match or exceed historical published earnings per share of SIIG shares.

No person has been authorized to give any information or to make any representations on behalf of the SIIG board of directors other than those contained in this Shareholders' Circular and, if given or made, such information or representations must not be relied on as having been authorized by SIIG, HSBC Saudi Arabia (the Financial Advisor) or any of the other advisers in connection with the Acquisition Transaction.

HSBC Saudi Arabia is acting exclusively as financial adviser to SIIG and for no one else in connection with the Acquisition Transaction. HSBC Saudi Arabia is acting exclusively as financial adviser to SIIG and for no one else in connection with the Acquisition Transaction and will not be responsible to any person other than SIIG for providing the protections afforded to clients of HSBC Saudi Arabia, for providing advice in relation to the Acquisition Transaction, or the contents of this Shareholders' Circular or matters referred to in this Shareholders' Circular. HSBC Saudi Arabia is licensed and regulated in Saudi Arabia by the CMA. HSBC Saudi Arabia has not verified the information contained in this Shareholders' Circular. Accordingly, no representation or warranty is made or implied by HSBC Saudi Arabia or any of its Subsidiaries and neither HSBC Saudi Arabia or any of its Subsidiaries make any representation or warranty or accept any responsibility as to the accuracy or completeness of the information contained in this Shareholders' Circular.

FORWARD-LOOKING STATEMENTS

This Shareholders' Circular contains certain forward-looking statements with respect to SIIG. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as "**anticipate**", "**target**", "**expect**", "**estimate**", "**intend**", "**plan**", "**will**", "**goal**", "**believe**", "**aim**", "**may**", "**would**", "**could**" or "**should**" or other words of similar meaning or the negative thereof. Forward-looking statements in this Shareholders' Circular include, without limitation, statements relating to the following: (i) preliminary synergy estimates, future capital expenditures, expenses, revenues, economic performance, financial conditions, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of the operations of SIIG following the Completion of the Acquisition Transaction; and (iii) the Acquisition Transaction and the dates on which events are expected to occur. Neither the forward-looking statements nor the objectives referred to in this Shareholders' Circular can be definitively ascertained. The advisors of SIIG, those whose names appear in Section "**Corporate Directory**" of this Shareholders' Circular, or any of their managers or employees shall not be liable for any direct or indirect loss or damage that any person may incur due to their reliance on any information included in the Shareholders' Circular, or the omission of any information not included in this Shareholders' Circular.

These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of any such person, industry results, strategies or events, to be materially different from any results, performance, achievements or other events or factors expressed or implied by such forward-looking statements. Many of the risks and uncertainties relating to forward-looking statements are beyond SIIG's abilities to control or estimate precisely, such as future market conditions and the behaviors of other market participants, and therefore undue reliance should not be placed on such statements. Forward-looking statements are not guarantees of future performance. They have not, unless otherwise indicated, been reviewed by the auditors of SIIG. Forward-looking statements are based on numerous assumptions, including assumptions regarding the present and future business strategies of SIIG and the environment in which it will operate in the future. All subsequent oral or written forward-looking statements made by or attributable to SIIG or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statement above. For further details about these risks and uncertainties, see Section (1) ("**Risk Factors**") of this Shareholders' Circular.

SIIG assumes no obligation to, and does not intend to, update any forward-looking statements, except as required pursuant to applicable laws and regulations.

No person should construe the contents of this Shareholders' Circular as legal, financial or tax advice. If you are in any doubt as to the action you should take, it is recommended that you seek your own independent financial advice from an independent financial advisor authorized by the Saudi Arabian Capital Market Authority.

PUBLICATION AND DISTRIBUTION RESTRICTIONS

This Shareholders' Circular is addressed to SIIG Shareholders, subject to any restriction in the rules of any Restricted Jurisdiction.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

SIIG's consolidated financial statements (audited) for the financial years ended 31 December 2018G, 31 December 2019G, 31 December 2020G are prepared in accordance with IFRS Applicable in the KSA. Pro Forma consolidated condensed financial statements (unaudited) of Petrochem for the two periods of three and six months ended on 30 June 2021G and the two periods of three and nine months ended on 30 September 2021G) prepared in accordance with IAS 34 Applicable in the KSA.

Save where expressly stated otherwise, financial information contained in this Shareholders' Circular is based on management estimates and has not been independently verified by auditors or otherwise. Save as disclosed otherwise, all financial information is set out in SAR.

This Shareholders' Circular has been prepared in accordance with applicable laws and regulations of KSA. The Consideration Shares constitute securities of a Saudi Arabian company and you should be aware that this Shareholders' Circular and any other documents relating to the Acquisition Transaction and the Consideration Shares have been or will be prepared in accordance with Saudi Arabian disclosure requirements, format and style, all of which may differ from those applicable in other jurisdictions.

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المجموعة السعودية للإستثمار الصناعي
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K&A

Independent Auditor of SIIG and Petrochem for the year ending on 31 December 2020G, the two periods of three and six months ending on 30 June 2021G, and the two periods of three and nine months ending on 30 September 2021G

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Note: The above advisors and independent auditor have given and, as at the date of this Shareholders' Circular, have not withdrawn their written consent to the publication of their names, addresses, logos and the statements attributed to each of them in the context in which they appear in this Shareholders' Circular.

Summary of the Acquisition

This summary of the Acquisition Transaction is intended to provide the SIIG shareholders with an overview of the acquisition. As such, it does not contain all of the information that may be important to the SIIG shareholders in order for them to vote on the Acquisition Resolutions to be proposed at the SIIG EGM. Accordingly, this summary must be read as an introduction to the Acquisition Transaction only, and recipients of this Shareholders' Circular are advised to read the Shareholders' Circular in its entirety and any decision to vote on the Acquisition Resolutions should be based on a consideration of this Shareholders' Circular as a whole. It is also important to consider Section ("**Important Notice**") and Section (1) ("**Risk Factor**") of this Shareholders' Circular carefully prior to deciding to vote at the SIIG EGM.

(Issuer) SIIG	Name, Description and Incorporation Information	Saudi Industrial Investment Group (SIIG), is a listed joint stock company in the Kingdom of Saudi Arabia, established pursuant to the Ministry of Commerce's Resolution No. 291 issued on 29/06/1416H (corresponding to 23/11/1995G) with its headquarters in Riyadh, registered under the Commercial Registration No. 1010139946 dated 10/08/1416H (corresponding to 01/01/1996G).
	SIIG Activities	The activities of SIIG according to its commercial certificate and bylaws are as follows: 1- Investment, development, establishment, operation, management and maintenance plants of petrochemical, gas, petroleum and other industries inside and outside the Kingdom. 2- Wholesale and retail trade in petrochemical materials and products and their derivatives, and their marketing inside and outside the Kingdom. 3- Owning land, real estate and buildings for the benefit of SIIG.
	Substantial Shareholders, their shareholdings and number of shares in SIIG Pre-Completion and Post-Completion of Acquisition Transaction	At the date of this Shareholders', SIIG has no Substantial Shareholders.[6] It should be noted that GOSI is not a Substantial Shareholder in SIIG as its direct ownership in SIIG is less than (5%) of SIIG's capital. It should be noted that the direct ownership of GOSI accounts for (22,275,000) shares in SIIG, which accounts for (4.95%) of SIIG's capital, while GOSI indirectly owns, through its subsidiaries, (62,926,190) shares in SIIG, which accounts to (13.98%) of the shares issued by SIIG.
	Capital	Four billion five hundred million (4,500,000,000) Saudi Riyals
	Total Number of SIIG Shares	Four hundred five million (450,000,000) fully paid shares
	Nominal Value of Each SIIG Share	SAR 10 per share, all of which are fully paid.
	Total Number of Consideration Shares to be Issued to Petrochem's Selling Shareholders	Three hundred four million eight hundred thousand (304,800,000) shares.
	Percentage of Consideration Shares to SIIG's current issued share capital	The Consideration Shares will represent (40,38%) of the current issued share capital of SIIG as at the date of this Shareholders' Circular.
	Issuance Value of each Consideration Share	The nominal value of each Consideration Share is SAR 10 per share. The issuance value of each Consideration Share (as will be recorded on the financial accounts of SIIG) will be determined at a later stage on the basis of the closing price of SIIG share on the last trading day prior to Completion
	Total Value of the Issuance of the Consideration Shares	The total nominal value of the Consideration Shares is three billion forty-eight million (SAR 3,048,000,000) Saudi Riyals. The total value of the issuance of the Consideration Shares (as will be recorded on the financial accounts of SIIG) will be determined at a later stage on the basis of the closing price of SIIG share on the last trading day prior to the Effective Date of the Completion.

6 Note: GOSI transferred part of its direct ownership in SIIG to some of its subsidiaries. The percentage of direct ownership of GOSI in SIIG fell from (13.14%) to (4.95%) as of 13/01/2022G according to the data published on Tadawul. Noting that GOSI's total direct and in direct ownership in SIIG Pre-Completion of the Acquisition Transaction is (18.93%) of SIIG's share capital. Furthermore, GOSI's total direct and in direct ownership in SIIG Post-Completion of the Acquisition Transaction will be (38.91%) of SIIG's share capital. Noting that GOSI will not own any shares in Petrochem Post-Completion, due to Petrochem becoming a delisted joint stock company wholly owned by SIIG.

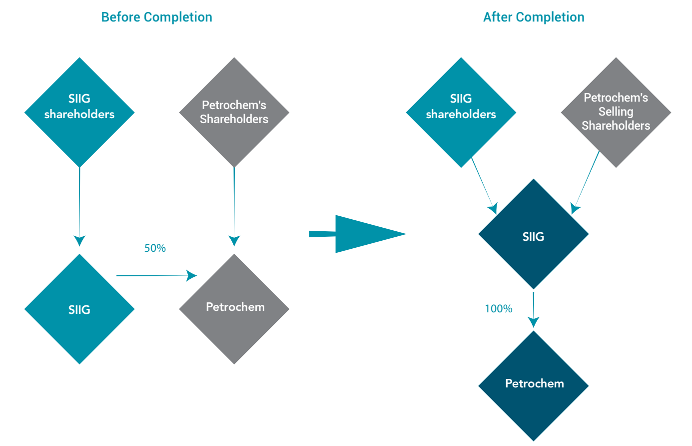
<table>
<tr><td rowspan="1">Description of the Acquisition Transaction</td><td></td><td>The Acquisition Transaction will be implemented pursuant to Article 26 of the Merger and Acquisition Regulations. SIIG will increase its capital to acquire the Offer Shares by giving Petrochem's Selling Shareholders an exchange offer to obtain the Offer Shares in consideration of new shares to be issued in SIIG as Consideration Shares for the eligible Petrochem's Selling Shareholders after obtaining the approvals required for the Completion of the Acquisition Transaction. SIIG shall issue Consideration Shares to Petrochem's Selling Shareholders by increasing its paid-up share capital from four billion five hundred million (4,500,000,000) Saudi Riyals to seven billion five hundred forty-eight million (7,548,000,000) Saudi Riyals
Once the Acquisition Resolution comes into effect, Petrochem will be a subsidiary and 100% owned by SIIG.
(For further details about the Acquisition Transaction, please see Section (3.2) ("Rationale of the Acquisition") and Section (5.2) ("Summary of the Legal Structure of the Acquisition").</td></tr>
<tr><td rowspan="7">Company to be Acquired (Petrochem)</td><td>Description and Incorporation Information</td><td>The National Petrochemical Company was established in the Kingdom of Saudi Arabia, in Riyadh, as a joint stock company registered in the Commercial Register under no. 1010246363 dated 08/03/1429H (corresponding to 16/03/2008G) issued at Riyadh City.</td></tr>
<tr><td>Activity</td><td>Petrochem's activities according to its commercial certificate and bylaws are as follows:
1- Investment, development, establishment, operation, management and maintenance plants of petrochemical, gas, petroleum and other industries inside and outside the Kingdom.
2- Wholesale and retail trade in petrochemical materials and products and their derivatives, and their marketing inside and outside the Kingdom.
3- Owning land, real estate and buildings for the benefit of Petrochem.
For more information on Petrochem's activities, please review Section (3.5) ("About Petrochem Operations").</td></tr>
<tr><td rowspan="2">Substantial Shareholders of Petrochem, their shareholdings and number of shares in Petrochem prior to and following the Completion of the Acquisition</td><td>The Substantial Shareholders of Petrochem are as follows: SIIG and GOSI.</td></tr>
<tr><td>The following table shows the number of shares owned by Petrochem Substantial Shareholders and their shareholding in Petrochem prior to and following the Completion of the Acquisition as of 7/8/1443H (corresponding to 10/3/2022 G):
<table>
<tr><th rowspan="2">Shareholder</th><th colspan="2">Pre- Completion</th><th colspan="2">Post- Completion</th></tr>
<tr><th>No. of Shares</th><th>Share-holding %</th><th>No. of Shares</th><th>Share-holding %</th></tr>
<tr><td>Saudi Industrial Investment Group (SIIG)</td><td>240,000,000</td><td>50%</td><td>480,000,000</td><td>100%</td></tr>
<tr><td>GOSI</td><td>92,902,232</td><td>19,35%</td><td>0%</td><td>0%</td></tr>
</table></td></tr>
<tr><td>Ownership of Petrochem's Selling Shareholders in SIIG upon Completion of the Acquisition Transaction</td><td>Petrochem's Selling Shareholders will own 40,38% of the share capital of SIIG following the Completion.</td></tr>
<tr><td>Petrochem Capital</td><td>Four billion eight hundred million (4,800,000,000) Saudi Riyals.</td></tr>
<tr><td>Total No. of Petrochem Shares</td><td>Four hundred eighty million (480,000,000) with a nominal value of SAR 10 per share, all of which are fully paid.</td></tr>
<tr><td>Related Parties</td><td></td><td>The Acquisition Transaction involves Related Parties as GOSI is a shareholder in SIIG and a Substantial Shareholder in Petrochem, and it has representation on the boards of both SIIG and Petrochem. SIIG is also a Related Party because it owns (50%) of Petrochem, in addition to its interest above its ordinary interest as a shareholder in its capacity as the Offeror in the Acquisition Transaction. (For further information see Section (3.7) ("Related Parties and Conflicted Directors").</td></tr>
</table>

Total Value of the Consideration

The total nominal value of the Consideration Shares is three billion forty-eight million (SAR 3,048,000,000) Saudi Riyals. The total market value of the Consideration Shares as determined on the basis of the Exchange Ratio and the closing price of SAR 41.1 per SIIG share on 26/10/2021G (which is the last trading day prior to the Implementation Agreement) is twelve billion five hundred twenty-seven million two hundred eighty thousand (SAR 12,527,280,000) Saudi Riyals. The total value of the Consideration Shares (as will be recorded on the financial accounts of SIIG) will be determined at a later stage on the basis of the closing price of SIIG share on the last trading day prior to the Effective Date of the Acquisition Resolution.

Structure of the Acquisition Transaction

The below diagram is a simplified description of the structure of the Acquisition Transaction:



Ownership Structure of SIIG pre-Completion of the Acquisition and post- Completion of the Acquisition

Since there are no Substantial Shareholders in SIIG, the following table shows the ownership structure in SIIG of each of SIIG's board of directors, its Senior Executives, and the public, in addition to GOSI's direct and indirect ownership prior to and following the Completion as of 7/8/1443H (corresponding to 10/3/2022G):[7]

Shareholder	Pre- Completion		Post- Completion	
	No. of Shares	Share-holding %	No. of Shares	Share-holding %
SIIG Directors*	100,708	0.02%	100,708	0.01%
SIIG Senior Executives**	1,000	0.0002%	1,000	0.0001%
GOSI***	22,275,000	4.95%[8]	140,260,834	18.58%
The Public	449,898,292	99.97%	614,437,458	81.4%
Total	**450,000,000**	**100%**	**754,800,000**	**100%**

* Pursuant to the shares owned by SIIG directors in SIIG only, which include the shares they own directly and the shares in which they have an indirect interest.
** Pursuant to the shares owned directly by SIIG senior executives in SIIG only.

7 Note: GOSI transferred part of its direct ownership in SIIG to some of its subsidiaries. The percentage of direct ownership of GOSI in SIIG fell from (13.14%) to (4.95%) as of 13/01/2022G according to the data published on Tadawul. Noting that GOSI's total direct and in direct ownership in SIIG Pre-Completion of the Acquisition Transaction is (18.93%) of SIIG's share capital. Furthermore, GOSI's total direct and in direct ownership in SIIG Post-Completion of the Acquisition Transaction will be (38.91%) of SIIG's share capital. Noting that GOSI will not own any shares in Petrochem Post-Completion, due to Petrochem becoming a delisted joint stock company wholly owned by SIIG.

8 Note: GOSI's direct ownership in SIIG Pre-Completion of the Acquisition Transaction has been included for the purpose of disclosure and for the reason that it will become a Substantial Shareholder in SIIG Post-Completion of the Acquisition Transaction. GOSI's direct ownership has also been included within the public ownership total which represents (99.97%) of SIIG's share capital Pre-Completion of the Acquisition Transaction, due to its current direct ownership being below (5%).

Ownership Structure of Petrochem prior to and following the Completion of the Acquisition

The following table shows the ownership structure in Petrochem prior to and following the Completion of the Acquisition as of 7/8/1443H (corresponding to 10/3/2022G):

Shareholder	Pre- Completion		Post- Completion	
	No. of Shares	Share-holding %	No. of Shares	Share-holding %
Saudi Industrial Investment Group (SIIG)	240,000,000	50%	480,000,000	100%
GOSI	92,902,232	19,35%	0%	
Petrochem Directors*	4,102,000	0.85%		
Petrochem senior executives**	N/A	N/A		
The Public	142,995,768	29,79%		
Total	**480,000,000**	**100%**	**480,000,000**	**100%**

* Directors' shares represent the shares owned by Petrochem directors directly, including shares in which they have indirect interest.
** Represents shares owned directly by Petrochem senior executives.

Dilution

Capital increase of SIIG will lead to a decrease in the shareholding of the current SIIG shareholders (other than the Selling Shareholders in both Companies) to (%59,62) of the total SIIG share capital, noting that the Capital Increase will not result in any change in the number of shares currently owned by SIIG Shareholders. (For further information and details about the risks related to the dilution effects on SIIG shareholders, please see Section (4.1.1) ("**Risks relating to the dilution of the existing SIIG shareholders and the decrease of their voting power**").

Impact on Profitability Per Share

Profitability Per Share (PPS) based on SIIG's audited financial statements as of 31 December 2020	0,20
PPS following Capital Increase (based on pro forma financial statements)	0,27

The Rationale behind the Acquisition Transaction

The Acquisition Transaction will make SIIG the fifth largest petrochemical company in the KSA and among the largest companies in the region according to the combined market value of the Companies. SIIG will be in a better position to benefit from both endogenous and exogenous growth, and will have a better and a comprehensive capacity to export raw materials such as naphtha, ethane and propane, in addition to a larger market value and shareholder base, which will lead to a better performance of the shares in terms of trading patterns, market depth, price volatility, volumes and levels of liquidity. For further information on the rationale of the acquisition, please see Section (3.2) ("**Rationale of the Acquisition**").

Summary of Key Steps to Effect the Capital Increase and Issue the Consideration Shares		The key steps required for the Completion of the Acquisition are as follows: • Publish the invitation to convene the SIIG EGM and Petrochem EGM. • Obtain the approval of the SIIG EGM and Petrochem EGM in respect of the Acquisition Resolutions. • Publish the SIIG EGM and Petrochem EGM resolutions. • Effectiveness of the Acquisition Resolution. • Delisting of Petrochem shares and listing of the Consideration Shares on Tadawul. • Satisfying all other conditions of the Implementation Agreement, which are summarized in Section (5.4.1.1) ("**Implementation Agreement Terms and Conditions**"), provided that none of the conditions to the Implementation Agreement may be amended or waived except with the consent of both Companies. For further information see Section (3) ("**The Acquisition**") and Section (5) ("**Legal Information**").
Entitlement to Profits/Dividends of the Consideration Shares		The Consideration Shares will entitle their holders to receive any dividends declared by SIIG following the Effective Date.
Required Approvals in connection with the Capital Increase		The Acquisition and the Capital Increase are conditional upon obtaining a number of approvals as follows: • CMA approval of the SIIG Capital Increase and publication of the Offer Document. • Saudi Exchange Company approval for the listing of the Consideration Shares. • MOC approval for the proposed amendments to SIIG bylaws • CMA approval of convening the SIIG EGM and Petrochem EGM in relation to the Acquisition Transaction. • Approval of SIIG Shareholders and Petrochem's Selling Shareholders of the Acquisition Resolutions passed at the EGM related to the Acquisition Transaction. For further information on other conditions of the Acquisition Transaction and on the conditions that have been satisfied, see Section (5) ("**Legal Information**") of this Shareholders' Circular.
Voting Rights of the Consideration Shares		The Consideration Shares will carry the same voting rights as all other existing SIIG shares in accordance with the Companies Law and the bylaws of SIIG.
Restrictions on the Consideration Shares		There are no restrictions imposed on the Consideration Shares

The proposed Capital Increase of SIIG is subject to the approval of the SIIG EGM and the Petrochem EGM. **SIIG shareholders are advised to read the Shareholders' Circular in its entirety (not the summary of the Acquisition Transaction only) and any decision to vote on the Acquisition Resolutions at the SIIG EGM should be based on a consideration of this Shareholders' Circular as a whole.**

Since there are no Substantial Shareholders in SIIG, the following table shows details of ownership in SIIG of each of SIIG's board of directors, its Senior Executives and the public, in addition to GOSI's direct and indirect ownership, prior to and following the Completion of the Acquisition as of 16/06/1443H (Corresponding to 19/01/2022G):[9]

Shareholder	Pre- Completion		Post- Completion	
	No. of Shares	Shareholding %	No. of Shares	Shareholding %
SIIG Directors*	100,708	0.02%	100,708	0.01%
SIIG Senior Executives**	1,000	0.0002%	1,000	0.0001%
GOSI***	22,275,000	4.95%[10]	140,260,834	18.58%
The Public	449,898,292	99.97%	614,437,458	81.4%
Total	**450,000,000**	**100%**	**754,800,000**	**100%**

* Pursuant to the shares owned by SIIG directors in SIIG only, which include the shares they own directly and the shares in which they have an indirect interest.

** Pursuant to the shares owned directly by SIIG senior executives in SIIG only.

*** GOSI has indirect ownership in SIIG, as described below:

(1) Pre- Completion the Acquisition Transaction: GOSI indirectly owns, through its subsidiaries, (62,926,190) shares in SIIG, which accounts for (13.98%) of SIIG's capital.

(2) Post- Completion the Acquisition Transaction: GOSI will indirectly own, through its subsidiaries, (135,451,790) shares, which will account to (20.23%) of SIIG's capital.

The following table shows details of the ownership structure in Petrochem before and after the Completion of the Acquisition:

Shareholder	Pre- Completion		Post- Completion	
	No. of Shares	Shareholding %	No. of Shares	Shareholding %
Saudi Industrial Investment Group (SIIG)	240,000,000	50%	480,000,000	100%
GOSI	92,902,232	19.35%	0%	0%
Petrochem Directors*	4,102,000	0.85%		
Petrochem senior executives**	N/A			
The Public	142,995,768	29.79%		
Total	**480,000,000**	**100%**	**480,000,000**	**100%**

* Represent the shares owned by Petrochem directors directly including shares in which they have indirect interest.

** Represents shares owned directly by Petrochem senior executives.

9 Note: GOSI transferred part of its direct ownership in SIIG to some of its subsidiaries. The percentage of direct ownership of GOSI in SIIG fell from (13.14%) to (4.95%) as of 13/01/2022G according to the data published on Tadawul. Noting that GOSI's total direct and in direct ownership in SIIG Pre-Completion of the Acquisition Transaction is (18.93%) of SIIG's share capital. Furthermore, GOSI's total direct and in direct ownership in SIIG Post-Completion of the Acquisition Transaction will be (38.91%) of SIIG's share capital. Noting that GOSI will not own any shares in Petrochem Post-Completion, due to Petrochem becoming a delisted joint stock company wholly owned by SIIG.

10 Note: GOSI's direct ownership in SIIG Pre-Completion of the Acquisition Transaction has been included for the purpose of disclosure and for the reason that it will become a Substantial Shareholder in SIIG Post-Completion of the Acquisition Transaction. GOSI's direct ownership has also been included within the public ownership total which represents (99.97%) of SIIG's share capital Pre-Completion of the Acquisition Transaction, due to its current direct ownership being below (5%).

KEY DATES AND MILESTONES

The below table outlines the expected timeline for the main events relating to the Acquisition Transaction. SIIG will announce any changes to the timeframe and expected dates set out in the table below on the Saudi Exchange Company website.

Event	Timeline/Date
1- Actions required in relation to EGM	
Submission of the final draft of the Offer Document to the CMA.	The final draft of the Offer document was submitted to the CMA on 12/8/1443H (corresponding to 15/3/2022G).
CMA approval of the SIIG Capital Increase and the application to publish of the Offer Document.	13/8/1443H (corresponding to 16/3/2022G).
CMA approval to convene the SIIG EGM and Petrochem EGM.	14/8/1443H (corresponding to 17/3/2022G)
Publication of the invitation to the SIIG EGM on the Saudi Exchange Company website (to refer to the possibility of holding a second meeting within an hour after the end of the first meeting if the first meeting was not quorate).	17/8/1443H (corresponding to 20/3/2022G)
Publication of the invitation to the Petrochem EGM on the Saudi Exchange Company website (to refer to the possibility of holding a second meeting within an hour after the end of the first meeting if the first meeting was not quorate)	17/8/1443H (corresponding to 20/3/2022G)
Publication of the Offer Document, the Shareholders' Circular, and the Petrochem Board Circular.	14/8/1443H (corresponding to 17/3/2022G)
Having Documents available for inspection.	14/8/1443H (corresponding to 17/3/2022G)
Electronic voting period for the SIIG EGM	5/9/1443H (corresponding to 6/4/2022G)
Electronic voting period for the Petrochem EGM	5/9/1443H (corresponding to 6/4/2022G)
SIIG EGM (first meeting) – quorum required is shareholders representing at least 50% of the share capital.	9/9/1443H (corresponding to 10/4/2022G)
SIIG EGM (second meeting) (if quorum for first meeting is not attained) – quorum required for the second meeting is shareholders representing at least 25% of the share capital.	After one hour from the end of the first inquorate SIIG meeting
Petrochem EGM (first meeting) – quorum required is shareholders representing at least 50% of the share capital.	9/9/1443H (corresponding to 10/4/2022G)
Petrochem EGM (second meeting) (if quorum for first meeting is not attained) – quorum required for the second meeting is shareholders representing at least 25% of the share capital.	After one hour from the end of the first inquorate SIIG meeting
Announcement on the Saudi Exchange Company website of the Acquisition Resolutions passed at the SIIG EGM (first or second meeting) (or, if the EGM was not quorate, the announcement of such fact).	10/9/1443H (corresponding to 11/4/2022G)
Announcement on the Saudi Exchange Company website of the Acquisition Resolutions passed at the Petrochem EGM (first or second meeting) (or, if the EGM was not quorate, the announcement of such fact).	10/9/1443H (corresponding to 11/4/2022G)

Event	Timeline/Date
2- Actions Required in the event that the first and second EGM are not quorate	
CMA approval to convene a third SIIG EGM and/or Petrochem EGM in relation to the Acquisition	12/9/1443H (corresponding to 13/4/2022G)
Publication of the invitation to the SIIG EGM (third meeting) and/or the Petrochem EGM on the Saudi Exchange Company website (third meeting).	13/9/1443H (corresponding to 14/4/2022G)
Electronic voting period for the SIIG EGM (third meeting) and/or the Petrochem EGM (third meeting).	1/10/1443H (corresponding to 2/5/2022G)
Third SIIG EGM and/or Petrochem EGM- the third meeting will be valid irrespective of the number of shares represented in the meeting.	4/10/1443H (corresponding to 5/5/2022G)
Publication and Announcement on the Saudi Exchange Company website by SIIG and/or Petrochem of the Acquisition Resolutions passed at the third EGM (as applicable)	5/10/1443H (corresponding to 6/5/2022G)
3- Effectiveness of the Acquisition Transaction	
Effective Date	9/9/1443H (corresponding to 10/4/2022G) (if approval is obtained in the first or second meeting of the SIIG EGM and the Petrochem EGM). 4/10/1443H (corresponding to 5/5/2022G) (if approval is obtained in the third meeting of the SIIG EGM and the Petrochem EGM, as applicable).
Petrochem Shares Suspension	The first trading period following the Effective Date which is expected to occur on: 10/9/1443H (corresponding to 11/4/2022G) (if approval is obtained in the first or second meeting of the SIIG EGM and the Petrochem EGM). 7/10/1443H (corresponding to 8/5/2022G) (if approval is obtained in the third meeting of the SIIG EGM and the Petrochem EGM, as applicable).
Cancellation of the listing of Petrochem shares on Tadawul	Within a period of not less than the third trading period and not exceeding the sixth trading period after the Effective Date.
Listing the Consideration shares on Tadawul and allocating such shares to the benefit of the respective Petrochem's Selling Shareholders registered in the Petrochem shareholders registry at the end of the second trading period following the Effective Date.	Within a period of not less than the third trading period and not exceeding the sixth trading period after the Effective Date.
Amendment of SIIG's commercial registration certificate.	Within thirty (30) days of the Effective Date, which is expected to occur on: 9/10/1443H (corresponding to 10/5/2022G) (if approval is obtained in the first or second meeting of the SIIG EGM and the Petrochem EGM). 6/11/1443H (corresponding to 5/6/2022G) (if approval is obtained in the third meeting of the SIIG EGM and the Petrochem EGM, as applicable).
Deadline for distribution of proceeds of fractional shares which have been sold.	Within thirty (30) days as of the Effective Date of the Acquisition Resolution, which is expected to occur on: 9/10/1443H (corresponding to 10/5/2022G) (if approval is obtained in the first or second meeting of the SIIG EGM and the Petrochem EGM). 6/11/1443H (corresponding to 5/6/2022G) (if approval is obtained in the third meeting of the SIIG EGM and the Petrochem EGM, as applicable).

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Terms and Definitions

The following definitions apply throughout this Shareholders' Circular unless the context requires otherwise:

Implementation Agreement	The agreement dated 21/03/1443H (corresponding to 27/10/2021G) between SIIG and Petrochem setting out the terms and conditions of, and the parties' rights and obligations in connection with, the implementation of the Acquisition Transaction.
Completion of the Acquisition	After listing the Consideration Shares on Tadawul and allocating such shares to the benefit of the respective Petrochem's Selling Shareholders registered in the Petrochem shareholders registry at the end of the second trading period following the Effective Date.
EGM	extraordinary general assembly meeting of the shareholders of the relevant Company convened in accordance with the provisions of the bylaws of the relevant Company.
Consideration Shares	the new SIIG shares to be issued to Petrochem's Selling Shareholders pursuant to the Acquisition Transaction. The Consideration Shares nominal value is ten (10) Riyals per share, with a total number of three hundred four million eight hundred thousand (304,800,000) shares.
Offer Shares	Shares issued in Petrochem and not owned by SIIG. The Offer Shares nominal value is ten (10) Riyals per share, with a total number of two hundred forty million (240,000,000) shares; representing (50%) of Petrochem's share capital.
Affiliate	a person who Controls another person or is Controlled by that other person, or who is under common Control with that person by a third person. In any of the preceding, Control could be direct or indirect.
GOSI	General Organization for Social Insurance.
Firm Intention Announcement	The announcement published by SIIG on Tadawul website on 21/03/1443H (corresponding to 27/10/2021G) regarding its confirmed intention to submit an offer to acquire all the issued shares in Petrochem through a share swap transaction, in accordance with Article 17(e) of the MARs.
Conflict of Interests	A conflict of interest situation of a member of the board of directors arises when any of the following occurs: 1- the member of the board of directors has a direct or an indirect interest in the offer. 2- the member of the board of directors is a shareholder in Petrochem and at the same time a director of the SIIG board, or vice versa 3- the member of the board of directors is a member of the board of directors of the SIIG board of directors and at the same time he/she is a board member of, or serves in an executive position in Petrochem, or vice versa 4- The member of the board of directors is a representative of a shareholder owning shares at SIIG and Petrochem at the same time An interest of a person who is a Relative or an Affiliate of a member of the board of directors shall be treated as an interest of the member of the board of directors
Shareholders' Circular	This Shareholders' Circular issued by SIIG in line with the requirements of Article 57 of the ROSCOS
Petrochem Board Circular	The circular prepared by Petrochem's board of directors according to Article (39) of MARs in relation to the SIIG offer relating to the Acquisition Transaction which provides the views of the Petrochem's board of directors on the offer to Petrochem's Selling Shareholders, and SIIG's plans for Petrochem and its employees

Material Adverse Event	means, pursuant to the definition agreed upon in the Implementation Agreement, any event, occurrence or change in circumstances which individually, or when aggregated with all such other events, occurrences or changes, has or could reasonably be expected to have a material adverse effect on the business, assets, liabilities, financial position, profitability or prospects of either of SIIG (or any of its subsidiaries) or Petrochem (or any of its subsidiaries) or on the Acquisition Transaction or its implementation; provided that the following shall not be considered in determining whether a Material Adverse Event has occurred: a- any deterioration of the economic, political or market conditions or securities, credit, financial or other capital markets conditions in the financial services industry globally, in the Middle East, in the KSA or in general except to the extent that such effect adversely affects SIIG (or any of its subsidiaries) or Petrochem (or any of its subsidiaries) (as the case may be) in a materially disproportionate manner compared to each other or to other businesses in the industry in which SIIG (or any of its subsidiaries) or Petrochem (or any of its subsidiaries) (as the case may be) operates. b- any change, event or development to the extent resulting from the execution and delivery of the Implementation Agreement or the public announcement, pendency or consummation of the Acquisition Transaction or any of the other transactions contemplated by the Implementation Agreement, including the impact of such changes or developments on the relationships, contractual or otherwise, of either Company (or any of its subsidiaries) or any of its employees, clients, suppliers or partners; c- any change, event or development to the extent resulting from any failure of SIIG (or any of its subsidiaries) or Petrochem (or any of its subsidiaries) (as the case may be) to meet any internal or published projections, forecasts, estimates or predictions in respect of revenues, earnings or other financial or operating metrics for any period (it being understood that the facts and circumstances giving rise to such failure may be deemed to constitute, and may be taken into account in determining whether there has been, a Material Adverse Event if such facts and circumstances are not otherwise described in paragraphs (a) or (d) through (h) of this definition); d- any change, in and of itself, in the market price, credit rating (with respect to SIIG or Petrochem or its securities) or trading volume of SIIG's or Petrochem's securities (it being understood that the facts and circumstances giving rise to such change may be deemed to constitute, and may be taken into account in determining whether there has been, a Material Adverse Event if such facts and circumstances are not otherwise described in paragraphs (a), (c) or (e) through (h) of this definition); e- any change or proposed change, in applicable law (or, in each case, an authoritative interpretation thereof), except where the change in applicable law has an adverse effect on SIIG (or any of its subsidiaries) or Petrochem (or any of its subsidiaries) (as the case may be) in a materially disproportionate manner compared to each other or to other businesses or participants in the industry in which SIIG (or any of its subsidiaries) or Petrochem (or any of its subsidiaries), (as the case may be), operates.

Material Adverse Event	f- geopolitical conditions, the outbreak or escalation of hostilities, any acts of war, sabotage or terrorism, or any escalation or worsening of any such acts of war, sabotage or terrorism threatened or underway as of the date of the Implementation Agreement, except to the extent that such change, event or development affects SIIG (or any of its subsidiaries) or Petrochem (or any of its subsidiaries), (as the case may be), in a materially disproportionate manner compared to each other or other businesses or participants in the industry in which the two Companies (as the case may be), operates g- any flood, earthquake or other natural disaster, except to the extent that such change, event or development affects SIIG (or any of its subsidiaries) or Petrochem (or any of its subsidiaries), (as the case may be), in a materially disproportionate manner compared to each other or other businesses or participants in the industry in which the Companies, (as the case may be), operates. h- any change, event or development to the extent resulting from any action by SIIG (or any of its subsidiaries) or Petrochem (or any of its subsidiaries), (as the case may be), that is expressly required to be taken by the Acquisition.
Petrochem EGM	the extraordinary general assembly meeting of Petrochem convened for the purpose of the Acquisition Resolutions.
SIIG EGM	the extraordinary general assembly meeting of SIIG convened for the purpose of the Acquisition Resolutions
Public	means in the Rules on the Offer of Securities and Continuing Obligations persons other than the following: 1- affiliates of the issuer; 2- substantial shareholders of the issuer; 3- directors and senior executives of the issuer; 4- directors and senior executives of affiliates of the issuer; 5- directors and senior executives of substantial shareholders of the issuer; 6- any relative of persons described at (1), (2), (3), (4) or (5) above; 7- any company controlled by any persons described at (1), (2), (3), (4), (5) or (6) above; or persons acting in concert, with a collective shareholding of (5%) or more of the class of shares to be listed.
Restricted Jurisdiction	any jurisdiction where the offer of the Consideration Shares would violate the law of, or regulation applicable to, that jurisdiction
"SAR" or "Saudi Riyals"	Saudi Arabian Riyals, the official currency of KSA
Capital Increase	the proposed increase in SIIG's share capital by issuing three hundred four million eight hundred thousand (304,800,000) shares in favor of Petrochem's Selling Shareholders, so as to increase SIIG's share capital from four billion five hundred million (4,500,000,000) Saudi Riyals to seven billion, five hundred and forty-eight million (7,548,000,000) Saudi Riyals.
Chevron Phillips Chemical International Sales Inc. (CPCIS)	Chevron Phillips Chemical International Sales Inc. (CPCIS), an incorporated and existing corporation headquartered at 50 Shirley Street, Nassau, Commonwealth of the Bahamas.
Control	the ability to influence the actions or decisions of another person, whether directly or indirectly, (except for indirect ownership through the exchange agreement or a hedge fund where the owner does not have the right to make the fund investment decisions) alone or with collaborating person(s) through holding (directly or indirectly) 30% or more of the voting rights in a company, and the term "**Controller**" shall be interpreted accordingly.
Closing Price	Last trading price for the shares, according to the mechanism set by Saudi Exchange Company.
"Exchange" or "Tadawul"	The market operated by the Saudi Exchange where securities are traded. Any reference to the market shall mean a reference to Exchange.

Saudization	The requirements under the laws and regulations applicable in the Kingdom of Saudi Arabia imposed on companies operating in it to employ a certain percentage of Saudi nationals.
Companies	SIIG and Petrochem
Subsidiary	in relation to a company, another company which it Controls
"National Petrochemical Company" or "Petrochem"	The National Petrochemical Company, a joint stock company registered in the Commercial Register under no. 1010246363 dated 08/03/1429H (16/03/2008G) and based in Riyadh City with a capital of four billion eight hundred million (4,800,000,000) Saudi Riyals.
Chevron Phillips Chemical International (CPCIS)	Chevron Phillips Chemical International (CPCIS), an established and organized company, with headquarters in 50 Shirley Street, Nassau, The Bahamas.
Person	Any natural or legal person recognized as such under the laws of the Kingdom.
Acquisition Transaction	The SIIG acquisition of all Offer Shares according to Article (26) of the MARs in return for issuing Consideration Shares to Petrochem's Selling Shareholders by increasing the SIIG capital from four billion and five hundred million (4,500,000,000) Saudi Riyals) to seven billion, five hundred and forty-eight million (7,548,000,000) Saudi Riyals)
VAT	An indirect tax imposed on all commodities and services, whether purchased or sold, by entities. VAT is currently imposed at the rate of 15%.
"Issuer" or "SIIG"	Saudi Industrial Investment Group (SIIG), is a listed joint stock company in the Kingdom of Saudi Arabia established pursuant to the Ministry of Commerce's Resolution No. 291 dated 29/06/1416H (corresponding to 23/11/1995G), registered under the Commercial Registration No. 1010139946 dated 10/08/1416H (corresponding to 01/01/1996G) issued in Riyadh. and has a share capital of four billion and five hundred million (4,500,000,000) Saudi Riyals) consisting of four hundred and fifty million (450,000,000) ordinary shares with a nominal value of SAR 10 (ten Saudi Riyals) per share paid in full.
Offer	The offer from SIIG to Petrochem's Selling Shareholders for the purpose of acquisition of all Offer Shares in consideration of Consideration Shares to be issued to Petrochem Shareholders in SIIG pursuant to Article (26) of the MARs.
Offer Period	The period from SIIG's firm intention announcement to make an Offer to Petrochem's Selling Shareholders until the date of SIIG EGM and Petrochem EGM's resolutions or until the Implementation Agreement is terminated in accordance with its provisions (whichever comes first). (For more details on the termination of the Implementation Agreement, see Section (2.3.1.4) ("**Termination of Implementation Agreement**") of this Shareholders' Circular.

Acquisition Resolutions	Resolutions in relation to the Acquisition, which will be presented to SIIG and Petrochem shareholders, as follows: with respect to SIIG: Approval of the acquisition of all the Offer Shares pursuant to Article (26) of the MARs through the issuance of three hundred four million eight hundred thousand (304,800,000) new SIIG shares to Petrochem's Selling Shareholders in accordance with the Implementation Agreement, including the approval of the following matters relating to the Acquisition Transaction: a- Approval of the increase in the share capital of SIIG from four billion and five hundred million (4,500,000,000) Saudi Riyals to seven billion, five hundred and forty-eight million (7,548,000,000) Saudi Riyals pursuant to the terms and conditions of the Implementation Agreement, for the purpose of Acquisition of all the Offer Shares, with a total number of two hundred forty million (240,000,000) shares; representing (50%) of Petrochem's share capital. b- Approval of the provisions of the Implementation Agreement between SIIG and Petrochem dated 21/03/1443H (corresponding to 27/10/2021G) c- Approval of the amendments to SIIG's bylaws in the form set out in Annex (1) with effect from the Effective Date. d- The authorisation of the SIIG's board of directors, or any person authorised by the doard of directors, to adopt any resolution or take any action as may be necessary to implement any of the above resolutions. with respect to Petrochem: Approval of the Offer provided by SIIG to acquire all the Offer Shares pursuant to Article (26) of the MARs through the issuance of three hundred four million eight hundred thousand (304,800,000) shares to Petrochem's Selling Shareholders in accordance with the Implementation Agreement, including the approval of the following matters relating to the Acquisition Transaction: a- Approval of the provisions of the Implementation Agreement between Petrochem and SIIG dated 21/03/1443H (corresponding to 27/10/2021G) b- The authorization of the Petrochem's board of directors, or any person authorised by the Board of Directors, to adopt any resolution or take any action as may be necessary to implement any of the above resolutions.
Relative	Means in the ROSCOS, husband, wife and children. Means in the MARs, husband, wife, children and parents.
Petrochem Financial Statements:	Financial statements of the years 2018G, 2019G and 2020G and the primary financial statements for the six months period ended on 30 June 2021G for Petrochem.
Petrochem's Financial Statements for 2018G:	The consolidated audited financial statements of Petrochem for the year ended on 31 December 2018G (compared to statements for the year ended on 31 December 2017G) prepared in accordance with the IFRS Applicable in the KSA.
Petrochem's Financial Statements for 2019G:	The consolidated audited financial statements of Petrochem for the year ended on 31 December 2019G (compared to statements for the year ended on 31 December 2018G) prepared in accordance with the IFRS Applicable in the KSA.
Petrochem's Financial Statements for 2020G:	The consolidated audited financial statements of Petrochem for the year ended on 31 December 2020G (compared to statements for the year ended on 31 December 2019G) prepared in accordance with the IFRS Applicable in the KSA.
Primary financial statements of Petrochem for the period of six months ended on 30 June 2021G:	Consolidated condensed financial statements (unaudited) of Petrochem for the two periods of three and six months ended on 30 June 2021G (compared to statements of the two periods of three and six months ended on 30 June 2020G) prepared in accordance with IAS 34 Applicable in the KSA.
IAS 34 Applicable in the KSA:	IAS 34 "Interim Financial Reporting" that is endorsed in the KSA.
SOCPA	Saudi Organization for Chartered and Professional Accountants (formerly known as Saudi Organization for Certified Public Accountants).
ROSCOs	The Rules on the Offer of Securities and Continuing Obligations issued by the board of the CMA pursuant to its resolution no. 3.123.2017, dated 9/4/1439H (corresponding to 27/12/2017G) as amended by the board of the CMA pursuant to its resolution no. 5-5-2022, dated 2/6/1443H (corresponding to 5/1/2022G)

Listing Rules	The Listing Rules approved by the board of the CMA pursuant to its resolution number 3.123.2017 dated 09/04/1439H (corresponding to 27 December 2017G) as amended by the board of the CMA pursuant to its resolution number 1-19-2022 dated 12/07/1443H (corresponding to 13/02/2022G).
MARs	The Merger and Acquisition Regulations issued by the board of the CMA pursuant to its resolution no. 1.50.2007, dated 21/9/1428H (corresponding to 3/10/2007G), amended by resolution no. 3-45-2018, dated 7/8/1439H (corresponding to 23/4/2018G).
Feedstock	A raw material used to produce other materials through fracking, chemical reactions or polymerization, and it is used to produce ethylene, propylene, gasoline and other material.
GCC	the Gulf Cooperation Council
MoU	Memorandum of Understanding signed by and between SIIG and Petrochem on 20/2/1443H (corresponding to 27/9/2021G), whereby the Companies reached a non-binding agreement on the Exchange Ratio and the structure of implementation of the Acquisition Transaction.
Financial Advisor	HSBC Saudi Arabia
Exchange Ratio	It is the basis on which the number of Consideration Shares owed to Petrochem's Selling Shareholders will be determined in relation to the Acquisition Transaction, which will result in 1,27 SIIG shares for every Petrochem share
IFRS Applicable in the KSA	The International Financial Reporting Standards applicable in the KSA and other standards and publications of SCOPA.
KSA or the Kingdom or Saudi Arabia	The Kingdom of Saudi Arabia
Substantial Shareholder	a shareholder owning five per cent (5%) or more of the shares in SIIG or in Petrochem (as applicable).
Petrochem' Selling Shareholders	All shareholders of Petrochem except for SIIG
Offer Document	The offer document prepared by SIIG pursuant to Article (38) of the MARs in relation to the Offer made by SIIG to Petrochem's Selling Shareholders
Related Party	Means in the ROSCOS the following: 1- Affiliates of the Issuer; 2- Substantial Shareholders of the Issuer; 3- members of board of directors and senior executives of the issuer; 4- members of board of directors and senior executives of Affiliates of the Issuer; 5- members of board of directors and senior executives of Substantial Shareholders of the Issuer; 6- Any Relatives of the persons referred to in (1,2,3,4, or 5) above; 7- Any company controlled by a person referred to in (1,2,3,4,5, or 6) above. Means in the MARs the following: a person who, whether acting in concert with SIIG or Petrochem or any of their Subsidiaries, owns or deals directly or indirectly with shares of SIIG or Petrochem either through a special sale or purchase transaction or offer, or any person (in excess of its normal interests as a shareholder) has interest or potential interest - whether personal, financial or business - arising from the Acquisition Transaction or a related party with both SIIG and Petrochem. The definition includes, but is not limited to, the following: 1- any person(s) who has/have provided financial assistance to SIIG or Petrochem; 2- the members of the board of directors of SIIG and Petrochem (or any of their subsidiaries); 3- any person owning 20% of SIIG and Petrochem (weather individually or by acting in concert with other(s)); 4- Substantial Shareholder in SIIG who at the same time is a member of the board of directors of Petrochem, or vice versa.

Effectiveness of the Acquisition Resolution or Effective Date	After the approval of the SIIG EGM and Petrochem EGM in respect of the Acquisition Transaction.
Companies Law	the Saudi Arabian Companies Law issued pursuant to Royal Decree No. M/3 dated 28/01/1437H (corresponding to 11/11/2015G) as amended pursuant to the Royal Decree No. M/79 dated 25/07/1439H (corresponding to 11/4/2018G).
Labour Law	The Labour Law issued pursuant to Royal Decree No. M/51 dated 23/08/1426H (corresponding to 27/09/2005G) as amended pursuant to the Royal Decree No. M/5 dated 7/1/1442H (corresponding to 26/8/2020G)
CMA	the Capital Market Authority of Saudi Arabia
GAC	the General Authority for Competition in Saudi Arabia
MISA	the Ministry of Investment of Saudi Arabia
MOC	the Ministry of Commerce of Saudi Arabia
MHRSD	the Ministry of Human Resources and Social Development of Saudi Arabia.
Acting in Concert	Means, at CMA's discretion, actively cooperating, pursuant to an agreement or understanding (whether formal or informal) between persons to acquire interest in or exercise voting right in the shares or in the convertible debt instruments of SIIG.
Business Day	any day, other than a Friday, Saturday or a public holiday in KSA

1. RISK FACTORS

In deciding whether to vote for or against the Acquisition Resolutions, SIIG shareholders should carefully read the risk factors contained in this section, in addition to all the other sections of this Shareholders' Circular and the information set out herein. Additional risks, other than those provided herein, and uncertainties not presently known to the SIIG board, or which the SIIG board currently considers to be immaterial, may also have an adverse effect on the SIIG and Petrochem.

The members of the board of directors of SIIG confirm, to their best knowledge and belief, that there are no other material risks, up to the date of this Shareholders' Circular, the omission of which would influence the shareholders votes on the Acquisition Resolutions, other than what has been disclosed under this section.

The activity, financial position, results of operations, cash flows, future prospects and profitability of SIIG and its subsidiaries after Completion of the Acquisition, will be adversely affected should any of the risks referred to herein materialize. Further, if any other risk materializes (i.e. other than the risks described below, which have not been provided herein either because the SIIG board is not aware of such risks, or because the SIIG board did not classify them as material risks but otherwise turned to be material) then such risk will adversely impact the activities, financial position, results of operations, cash flows, future prospects and profitability of SIIG and its Subsidiaries.

Any SIIG shareholder in doubt about the content of this Shareholders' Circular or in relation to voting in favour of or against the Acquisition Resolutions should consult an independent financial adviser authorised by the CMA in this regard.

The order in which the risks are listed under this section below is not intended to reflect their significance or likely eventuality.

1.1 Risks Relating to the Acquisition Transaction and Siig Business Following Completion

1.1.1 Risks related to satisfying the Completion of the Acquisition conditions

The Completion of the Acquisition is conditional on a number of conditions as summarized in section (3.1) ("**Overview of the Acquisition Transaction**") of this Shareholders' Circular. Failure to satisfy any of the conditions or the delay in satisfying such conditions will result in the Completion of the Acquisition not being completed or being delayed. The most important conditions which have not yet been satisfied are the material terms and conditions of the Implementation Agreement which the Companies shall comply with until the Effective Date and which was summarized in Section (5.4.1) ("**Implementation Agreement**") of this Shareholders' Circular including not breaching any of the warranties provided or the conduct of business requirements and other conditions set out in the said section.

Any delay to Completion of the Acquisition due to a failure of satisfying the Completion of the Acquisition conditions may diminish and/or delay the anticipated benefits or may result in additional transaction costs, loss of revenue or other unquantifiable effects associated with the delay of the Completion of the Acquisition.

1.1.2 Risks relating to realizing the anticipated synergies such as cost savings, growth opportunities and other benefits anticipated from the Acquisition Transaction

After Completion of the Acquisition, SIIG's ability to realize anticipated synergies financial benefits and growth opportunities or the timing of this realization may be affected by a variety of factors, including but not limited to:

- difficulties or delays in obtaining any approvals that may be required to implement certain actions that aim to realize any of the benefits of the Acquisition Transaction.
- unforeseeable events, including major changes in the markets and operating environment in which both SIIG and Petrochem operate.

The projected cost savings from the Acquisition Transaction are based on preliminary estimates. Therefore, there is a risk that the estimated savings will not be realized due to a variety of reasons including but not limited to the performance of SIIG and its Subsidiaries after Completion of the Acquisition and other factors related to petrochemical industry, business environment and economic situation. No responsibility for the outcome in respect of such preliminary estimates has been assumed by SIIG, its board, its executive management or any other person in this regard and there is no intention to update the cost saving and benefits or other such forward-looking statements in this Shareholders' Circular except as required pursuant to applicable law and regulation. Please see Section (3.2) ("**Rationale of the Acquisition**") of this Shareholders' Circular.

There is a risk that these cost savings expected from the Acquisition Transaction are not realized in the time, manner or amounts currently expected, if at all, as a result of various external and internal factors. This would adversely affect SIIG and its subsidiaries after the Completion of the Acquisition and their future operations and operating and financial results. (For further details of the benefits anticipated from the Acquisition Transaction, please see Section (3.2) ("**Rationale of the Acquisition**") of this Shareholders' Circular).

1.1.3 Risks relating to the Exchange Ratio for the Acquisition Transaction

SIIG will issue Consideration Shares to Petrochem's Selling Shareholders if the Effectiveness of the Acquisition Resolution becomes effective based on a fixed Exchange Ratio of (1.27) shares in the SIIG for each share in Petrochem (for more details about the Exchange Ratio, please refer to section (3.2) ("**Rationale of the Acquisition**") of this Shareholders' Circular).

The Exchange Ratio has been calculated on the basis of, amongst other things, the share price of the Companies, certain internal financial information and other data relating to the business and financial prospects of the Companies, including estimates and financial forecasts for the performance of SIIG after Completion of the Acquisition and the Acquisition Transaction benefits prepared by the respective management of the Companies. It has been assumed that such information, forecasts, estimates, and benefits have been reasonably prepared on a basis reflecting the best currently available information of the respective management of the Companies and assuming that they will be realized in the amounts and time periods contemplated thereby (for further information on Exchange Ratio, please see section (3.2) ("**Rationale of the Acquisition**") of this Shareholders' Circular).

If all or any of these assumptions prove to be incorrect, or the share price of the Companies materially change after the Exchange Ratio has been agreed upon Completion of the Acquisition (as a result of market volatility or the operations of the Companies, or due to delays in completing the Acquisition Transaction for any reason or due to any political or economic changes or any reasons that may affect the share price), this would materially affect the valuations of the Companies and the Exchange Ratio will not accurately reflect the fair values of the Companies at Completion of the Acquisition.

1.1.4 Risks relating to the dilution of the existing SIIG shareholders, and the decrease of their share in total net profits and their voting power

After the Effective Date, SIIG shall issue Consideration Shares to Petrochem's Selling Shareholders as per the Exchange Ratio of (1,27) shares in the SIIG per share in Petrochem. Upon Completion of the Acquisition, Petrochem's Selling Shareholders will own (40.38%) in SIIG while SIIG shareholders will own (59,62%). As a result, the percentage holding of the current SIIG shareholders (to the extent they do not own shares in Petrochem prior to Completion of the Acquisition) will be less than their percentage holding and number of currently owned shares in SIIG. The decrease in post-completion percentage holding of the SIIG shareholders (compared to pre-completion percentage holding) will lead to a decrease in their voting power and shares of total net profits in SIIG after the Completion of the Acquisition.

1.1.5 Risks relating to the SIIG reputation after the Completion of the Acquisition

SIIG and Petrochem reputation is critical for attracting and retaining new customers and establishing strong relationships with counterparts, whether for SIIG and its co-managed projects or Petrochem or their respective Subsidiaries. SIIG reputation could be damaged in the future by various factors, including, but not limited to, a decline, restatement, or other corrections to its financial results, legal or regulatory actions against SIIG or employee misconduct which caused SIIG to breach applicable legal requirements after Completion of the Acquisition. The damage to the SIIG reputation will have an adverse effect on SIIG, its subsidiaries -including Petrochem, their co-managed projects, business, financial position, results of operations, and future prospects after Completion of the Acquisition.

1.1.6 Risks relating to costs sustained to complete the Acquisition Transaction

SIIG expects to incur a range of non-recurring direct costs associated with the Acquisition Transaction, including fees for financial advisors, auditors, legal advisors and other related costs, these costs amounting to approximately nineteen million Saudi Riyals (SAR 19,000,000). These costs will be incurred by SIIG regardless of whether the Acquisition Transaction is completed or not. This may affect the financial position of SIIG.

1.1.7 Risks relating to Petrochem being a fully owned Subsidiary of SIIG

Upon Completion of the Acquisition, Petrochem will be a fully owned Subsidiary of SIIG. Accordingly, it will not act as an internal section or branch of SIIG. After the Completion of the Acquisition, SIIG will not be able to extract any funds from Petrochem except through profits distributed to shareholders or by reducing the capital and transferring the amount resulting from this reduction to the SIIG's current account.

The contractual relations between SIIG and Petrochem, after the Completion of the Acquisition, should not result in an undue benefit for the SIIG on the expense of Petrochem. SIIG, after the completion of the Acquisition, may not use Petrochem's assets except through appropriate contractual relationships compatible with the Companies Law. Otherwise, it may result in fines, penalties, financial claims by third parties or creditors against both SIIG and Petrochem, which will affect SIIG and Petrochem, their respective operations, future prospects, operational activities, financial results and market value of the SIIG shares.

1.1.8 Risks relating to independent advice provided by financial advisors

Upon signing the Implementation Agreement on 3/21/1443H (corresponding to 10/27/2021G), SIIG and Petrochem received independent advice from their respective financial advisors, confirming that the Acquisition is financially fair, and neither SIIG nor Petrochem obtained any updated advice from their financial advisors as of the date of the execution of the Implementation Agreement, and they do not intend to do so. The prices of SIIG's shares may differ upon Completion of the Acquisition due to the changes related to the operations of the two Companies and their future prospects or changes in the market conditions, the economy and other factors that are beyond their control, which may affect the statements relied upon by the financial advisors when preparing their advice. As the financial advisors will not update their independent advice, their opinions will not determine whether the consideration offered in the Acquisition Transaction is financially fair upon Completion of the Acquisition Transaction. For further details on this opinion, please see Annex (2) of this Shareholders' Circular.

1.1.9 Risks relating to the potential control by Petrochem's Selling Shareholders of SIIG upon Completion of the Acquisition

Upon Completion of the Acquisition, the total shareholding percentage of Petrochem's Selling Shareholders in SIIG will be more than (30%) including the current share of the General Organization for Social Insurance, being a Substantial Shareholder of Petrochem and a shareholder with direct ownership in SIIG with (4.95%) and indirect ownership, through its subsidiaries, which will be upon Completion (18.58%) directly owned and (20.33%) indirectly owned, it should be noted that the proportionate direct and indirect ownership of GOSI in SIIG amounts to (18.93%) Pre-Completion and (38.91%) Post-Completion. Accordingly, Petrochem's Selling Shareholders will collectively (including the current shareholding of the General Organization for Social Insurance in SIIG) hold a controlling stake in SIIG representing (40.38%) after Completion of the Acquisition. Following Completion of the Acquisition therefore such shareholders will be able to influence SIIG's business through their ability to influence SIIG's decisions including the general assembly's decisions and approvals (such as the appointment of SIIG's board of directors, dividend distribution, or capital increase or decrease).

1.2 Risks Relating to the Shares

1.2.1 Risks relating to the current and previous trading patterns of SIIG's shares relative to the historic trends related to SIIG's shares

SIIG's shareholders should be aware that the historic trading patterns of SIIG's shares are independent of, and may bear no resemblance whatsoever to, the trading patterns of SIIG's shares following completion of the Acquisition Transaction.

It should also be noted that the SIIG's shareholders base upon the Completion of the Acquisition will differ from the SIIG's shareholders base before the Completion of the Acquisition, which will result in a difference in trading patterns compared to the trading patterns before the Completion of the Acquisition.

1.2.2 Risks relating to the decline of the market price of the SIIG's shares as a result of the Acquisition Transaction

The market price of SIIG's shares (including the Consideration Shares) may decline in the event of occurring multiple factors related to the Acquisition Transaction, including:

- SIIG does not achieve the expected benefits of the Acquisition Transaction as rapidly or to the extent anticipated by the investors and financial analysts or SIIG's board;
- the effect of the Acquisition Transaction on financial results of SIIG after the Acquisition Transaction is completed is not consistent with the expectations of financial analysts or investors or SIIG's board.

1.2.3 Risks related to the volatility of SIIG's shares price

The announcement of the Acquisition Transaction to the investors, the management of the two Companies or their business, the delay in Completing the Acquisition for any reason or any other political, economic or any other reason may impact the market price of SIIG and Petrochem shares through increased volatility until the Acquisition Transaction is finalized. The market price of SIIG's shares during the period between the date of this Shareholders' Circular and the Completion of the Acquisition may differ significantly, which may impact the market value of SIIG's share price and the value of the investment of SIIG's investors in SIIG.

It should also be noted that the SIIG's shareholders base upon the Completion of the Acquisition will differ from the SIIG's shareholders base before the Completion of the Acquisition, which will result in that the shares price may differ volatility compared to the SIIG's shares price before the Completion of the Acquisition.

1.2.4 Risks related to sale of a significant number of SIIG's shares

It should be noted that sales, or the possibility of sales of substantial numbers of the SIIG shares by Substantial Shareholders or others upon Completion of the Acquisition may have an adverse effect on the share price.

1.2.5 Risks related to dividend distribution

It may be difficult to determine the profits that SIIG will realize or distribute (if any) upon the Completion of the Acquisition as such profit depends on a number of different factors, including, but not limited to, the economic situation at the global and local levels, the economic cycle of the petrochemical sector, and SIIG operational and financial performance and future prospects. The SIIG's board of directors will also have the absolute discretion in determining whether or not any dividends will be distributed and determining the amount of such dividends and the time of distribution (if any).

On the other hand, the distribution of dividends in SIIG's Subsidiaries shall be subject to some restrictions including, but are not limited to, the results of operations, regulatory requirements, the existence of sufficient distributable reserves, contractual restrictions under financing agreements (including financial undertakings), joint venture agreements, and each member of SIIG to have sufficient funds not required for its operations, fulfillment of other obligations or implementation of its commercial plans.

Therefore, there is no guarantee that SIIG will, after the Completion of the Acquisition, announce or distribute any future dividends, and there is no guarantee regarding the amount of dividends that SIIG will announce or distribute after the Completion of the Acquisition (if any) in any specific fiscal year. Additionally, there is no guarantee that the SIIG's shareholders will receive, after the Completion of the Acquisition, or that they will be entitled to dividends equal to the previously distributed dividends from SIIG and Petrochem. Furthermore, the SIIG's dividend distribution policy after the Completion of the Acquisition may be subject to amendment from time to time over the upcoming years.

1.3 Legal Risks

1.3.1 Risks related to the issuance of new laws and regulations that affect Petrochem's operations

Petrochem, its Subsidiaries and operations are subject to several regulators in the KSA, including, but not limited to: the MOC, the Ministry of Energy, the Royal Commission for Jubail and Yanbu, the General Authority for Meteorology and Environmental Protection, municipalities, civil defense, and other entities. Therefore, Petrochem is subject to risks related to changing laws, regulations, circulars and government policies in the KSA, including laws and regulations related to taxation, liquidation, import and export, currencies, environment, labor and health and safety standards. The regulatory and legislative environment in the KSA is subject to continuous changes and development in line with the development of economic and administrative policies and trends, in addition to the best international practices. The costs of complying with these regulations are also high. In the event of changes to the existing law and regulations or the enactment of new laws and regulations related to petrochemical manufacturing, it is possible that SIIG, after the Completion of the Acquisition, will be forced to make changes to its products and production lines to meet the requirements of these laws and regulations. This will lead to SIIG incurring, after the Completion of the Acquisition, unexpected additional financial expenses, whether exceptionally or continuously, which will have a material adverse impact on the SIIG's business, the results of its operations, its financial position, and future prospects.

SIIG must, after the Completion of the Acquisition, continuously comply with the laws and regulations related to its business and operations. Accordingly, if SIIG fails, after the Completion of the Acquisition, to comply with these regulations, it will be subject to fines or penalties imposed by the relevant authorities, which will have a negative impact on SIIG's operations after the Completion of the Acquisition, leading to an increase in its operating costs or suspension of its business or its licenses.

1.3.2 Risks related to licenses and permits

Petrochem's Subsidiaries are subject to several laws and regulations that obligate them to obtain the necessary licenses and permits from the competent regulatory authorities in KSA in order to conduct their business. Petrochem's Subsidiaries are required to obtain and maintain the necessary licenses, permits and regulatory approvals in connection with their activities including, but not limited to, industrial licenses, foreign investment licenses and commercial registration certificates obtained by the Subsidiaries of Petrochem from the Ministry of Energy, the MISA and the MOC, in addition to environmental permits, Chamber of Commerce and industry membership certificates, Saudization certificates, Zakat certificates, and social insurance certificates. These licenses and permits must remain in effect on an ongoing basis through the compliance of the Subsidiaries of Petrochem with the laws and regulations governing these licenses and permits. If, after the Completion of the Acquisition, Petrochem's Subsidiaries fail to comply with the laws and regulations governing these licenses and permits, or fail to hold a valid license, these companies may not be able to renew these licenses and permits or obtain additional licenses and permits that may be required for future expansion. It may also lead to revocation or cancellation of these licenses and permits (in addition to the imposition of fines in relation to foreign investment licenses). The loss of these licenses and permits due to non-compliance with the relevant laws and regulations may lead to the suspension of the business of the Subsidiaries Petrochem, after the Completion of the Acquisition, which leads to a material adverse on the SIIG's business, after the Completion of the Acquisition, its financial condition, business results, and future prospects.

1.3.3 Risks related to intellectual property rights

If Petrochem or any of its Subsidiaries fail to protect the intellectual property rights of any of them for any reason, or if any person infringes the property rights of Petrochem or any of its Subsidiaries, the value of these rights may be affected, which will have an adverse effect on Petrochem, its processes, future prospects, operations and financial results and the market value of their shares.

Petrochem or any of its Subsidiaries may from time to time have to file a lawsuit to enforce their trademarks or any of their intellectual property rights. It is possible for third parties to file a lawsuit against Petrochem or any of its subsidiaries regarding the violation of their intellectual property rights. Litigation may cause significant costs in addition to harnessing the company's related resources for the purpose of defending its intellectual property rights, which will adversely affect the business of Petrochem, or any of its Subsidiaries (as applicable) and their profits regardless of the outcome of the litigation. As a result of such potential litigation, Petrochem or its of their Subsidiaries may have to enter into licensing and ownership agreements whose provisions may not be in their interests, or none of these companies may be able to enter into such agreements. Any of the above will have a material adverse impact on the SIIG's business after the Completion of the Acquisition, its financial condition, business results, and future prospects.

1.3.4 Risks related to Saudization

MHRSD requires Petrochem, and its Subsidiaries to recruit a specific percentage of Saudi nationals and to 'Saudize' certain positions. Petrochem and its Subsidiaries may face, from time to time, difficulties in relation to recruitment and retention of qualified Saudi nationals. If SIIG, Petrochem, or their Subsidiaries fail to recruit a sufficient number of Saudi nationals after the Completion of the Acquisition, or if the Saudization rate decreases, SIIG, Petrochem, or their Subsidiaries may be penalized by the MHRSD for failure to comply with such requirements after the Completion of the Acquisition, these will have an adverse effect on SIIG's businesses after the Completion of the Transaction, results of operations and its financial position in general.

If SIIG and its Subsidiaries fail, upon Completion of the Acquisition, to comply with the Saudization rates, a restriction will be imposed on its recruitment of non-Saudi employees, which may adversely impact the ability of SIIG and its Subsidiaries to engage in business as usual.

1.3.5 Risks relating to legal disputes

Any lawsuits brought against Petrochem may harm the reputation of Petrochem regardless of its final results. There is no assurance that it will succeed in addressing any potential or future lawsuits or similar issues under the different regulations.

Except for Zakat claims contained in section 5.7 ("Litigation Against SIIG") and section 5.8 ("Litigation Against Petrochem"), Petrochem does not have any lawsuits brought by/or against it.

1.3.6 Risks related to the sufficiency of insurance coverage

Petrochem or its Subsidiaries, being part of the petrochemical and refining sector, may be liable for risks that cannot be insured against. The insurance may also not be sufficient to cover all the risks that they may be exposed to, or there may be future cases that are not covered by insurance, which exposes them to losses that are not fully covered by the insurance or may not be covered at all. In addition, all insurance policies they have purchased have carve outs and cases that are not covered that may expose them to risks not covered by the insurance policies. Accordingly, all losses that Petrochem or its subsidiaries may incur due to uninsured risks may adversely and materially affect the business of SIIG after the Completion of the Acquisition, its financial statis, business results and future prospects.

Additionally, in the event that any insurance policy expires and is unable to be renewed with the same coverage or on commercially reasonable terms, or in the event that it is not completely renewed, or in the event that there is insufficient insurance to cover the various activities, all of this will adversely and materially affect the business of SIIG after the Completion of the Acquisition, its financial position, business results and future prospects.

1.4 Risks related to Zakat and taxation

1.4.1 Taxation risks related to the Acquisition Transaction

SIIG shareholders and Petrochem Shareholders may have Zakat and tax obligations in or outside KSA with respect to the Acquisition or disposal of interests in SIIG and Petrochem or other matters, subject to any available exemptions or reliefs (including the obligation to disclose the Acquisition Transaction to the relevant tax and Zakat authorities inside or outside the Kingdom or pay any tax or Zakat obligations that may arise in connection with the Acquisition).

KSA's Zakat and tax rules do not contain provisions providing roll-over relief or deferment of taxation for acquisitions. While we understand that the General Authority of Zakat and Taxhas, in certain circumstances, previously accepted that acquisitions could be effected on a Zakat/tax neutral basis, there is no guarantee that they will take this position for the Acquisition Transaction.

It is expected that the Acquisition Transaction will be completed in accordance with 'the business continuity principle' for VAT purposes as per the definition set out in the VAT implementing regulations. Accordingly, although the transfer of liability and asset in accordance with 'the business continuity principle' is considered outside the scope of VAT, there is no clarity whether such transfer in the context of the Acquisition Transaction would also be considered outside the VAT scope.

As Zakat and tax laws are dynamic and change from time to time, SIIG shareholders, after the Completion of Acquisition, may be exposed to higher Zakat and taxation which could arise due to the introduction of new tax laws, any change to existing tax laws and regulations, a result of the disclosed or undisclosed practice of, or interpretation by ZATCA or the relevant authorities in the relevant taxing jurisdiction outside KSA, or case law determined by the relevant courts.

If shareholders are in any doubt as to their own tax position, they should consult a financial or tax advisor licensed by the relevant authorities.

1.4.2 Risks related to amendment of tax laws and regulations inside and outside the KSA

Subsidiaries of Petrochem that are based in the KSA must make Zakat payments at 2.5% approximately on the Zakat base. Subsidiaries of Petrochem must submit an annual Zakat declaration to the Zakat, Tax and Customs Authority within 120 days from the end of each fiscal year.

In addition, the KSA imposed value-added tax on products sold and consumed in the KSA and the Gulf Cooperation Council countries on 14/04/1439 AH (corresponding to 01/01/2018 G), and on 17/10/1441 AH (corresponding to 9/6/2020 G) a decision was issued by the board of the Zakat, Tax and Customs Authority to increase the value-added tax rate to 15% of the selling price, as of 10/11/1441 AH (corresponding to 7/1/2020 G). The Subsidiaries of both SIIG and Petrochem must pay the value-added tax, which in turn will affect the current supply, distribution, marketing, and services agreements for each of SIIG and Petrochem companies, as this will lead to an increase in their prices, which will have a significant negative impact on SIIG's business after the Completion of the Acquisition, the results of its operations, its financial position or its future prospects.

Since tax laws and regulations change from time to time, SIIG may be exposed to an increase in taxes imposed on it, after the Completion of the Acquisition, which may arise due to the enactment of new tax laws and regulations and changes to the existing tax laws and regulations, which will negatively and significantly affect SIIG's business, after the Completion of the Acquisition, the results of its operations and its financial position in general.

1.4.3 Risks related to withholding tax

The tax laws in the KSA require the payment of withholding tax, which is a tax imposed on a non-resident who does not have a permanent establishment in the KSA when he gains income from a source in the KSA, and the resident is responsible for paying the amount of withholding tax to the Zakat, Income and Customs Authority for the amounts subject to tax in the KSA for non-residents.

In the event that, after completing the Acquisition Transaction, SIIG or its Subsidiaries, which are required to deduct the tax from non-residents that do not have a permanent establishment in the KSA while generating revenue from the KSA, fail to pay the amounts of withholding tax to ZATCA pursuant to tax laws in force in the KSA, ZATCA will have the right to claim withholding tax from SIIG or its companies residing in the KSA (as applicable) and may be penalized for withholding taxes that are not paid on the due date.

1.4.4 Risks related to Zakat and tax positions

SIIG submitted its Zakat and income tax returns to ZATCA up to 2020, and ZATCA has made several additional assessments on SIIG with an additional commitment on SIIG in the amount of forty-two million one hundred thirty-eight thousand five hundred ten Saudi Riyals (SAR 42,138,510) for the years from 2007 to 2014. SIIG submitted its objection to those assessments to the General Secretariat of the Zakat, Tax and Customs Committees, and the objection is still under consideration up to the date of this Shareholders' Circular.

Petrochem also submitted its Zakat and income tax returns to ZATCA up to 2020. ZATCA has made several additional assessments with additional obligations on Petrochem, totaling three hundred forty-two million three hundred thousand Saudi Riyals (SAR 342,300,000), which had been reduced to one hundred ninety three million five hundred thousand Saudi Riyals (SAR 193,500,000) as of the date of this Circular. The details of these additional assessments and obligations and their current status is as follows:

- ZATCA made assessments for the years from 2014 to 2016 with an additional commitment on Petrochem in the amount of (SAR 204.2) million Saudi Riyals. Petrochem submitted its objection to the same to the General Secretariat of the Zakat, Tax and Customs Committees. The Tax Violations and Disputes Committee issued its decision to partially accept the objection so that the additional obligation on Petrochem for the years from 2014 to 2016 was reduced to (SAR 92.5) million Saudi Riyals. Thereafter, Petrochem and ZATCA submitted their appeals against the aforementioned decision to the Tax Violations and Disputes Appeal Committee, and the appeal is still under consideration up to the date of this Shareholders' Circular.
- ZATCA made assessments for the years from 2017 to 2018 with an additional obligation on Petrochem in the amount of (SAR 128.9) million Saudi Riyals. Petrochem submitted its objection to those assessments to the General Secretariat of the Zakat, Tax and Customs Committees, which issued its decision partially accepting the objections, bringing the amount down to (SAR 91.8) million Saudi Riyals. Petrochem plans to object to the above-mentioned decision to the General Secretariat of the Zakat, Tax and Customs Committee within the set objection period.
- ZATCA made assessments for the years from 2019 to 2020 with an additional obligation on Petrochem in the amount of (SAR 9.2) million Saudi Riyals. Petrochem submitted its objection to those assessments to the General Secretariat of the Zakat, Tax and Customs Committees, and the objection is still under consideration up to the date of this Shareholders' Circular.

If the objection of either SIIG or Petrochem is rejected by the authority competent to consider Zakat disputes, this may have an adverse impact on SIIG's business after the Completion of the Acquisition, its financial position and the results of its operations.

1.5 Risks relating to the COVID-19 pandemic

The COVID-19 pandemic may have material adverse impacts on business, financial position, results of Petrochem and its Subsidiaries.

COVID-19 was first reported in December 2019G and has subsequently spread throughout the world to countries and jurisdictions in which Petrochem and its Subsidiaries operate. The COVID-19 pandemic has had and continue to have adverse repercussions across regional and global economies and financial markets which adversely affect the jurisdictions in which Petrochem and its Subsidiaries operate including the KSA. Governments, businesses and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and other regulatory changes. While the scope, duration and full effects of COVID-19 are rapidly evolving and not fully known, the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted interest rates, increased economic and market uncertainty, and disrupted trade and supply chains. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in this Shareholders' Circular could be exacerbated, and such effects could have a material adverse impact on Petrochem in a number of ways. In addition, mutated strains of COVID-19 have been discovered with greater susceptibility to spread and infection, including strains that were discovered in the United Kingdom, India and South Africa. Given that these strains are newly discovered, it is not possible to predict how different their impact will be from the first strain of the COVID-19, but it has limited the easing of the restrictions imposed to limit the outbreak of COVID-19 in some countries, which may delay the stages of recovery of the global economy, adversely affecting SIIG after the Completion of the Acquisition.

1.5.1 Economic and financial risks

The operations, financial condition and results of Petrochem may be affected by a variety of external factors, including disruptions in the capital markets, changes in interest rates that may increase funding costs of Petrochem and its Subsidiaries due to economic conditions and the various response of governmental and nongovernmental authorities in relation to a limited number of the operations of Petrochem and its Subsidiaries. During the year 2020G, the COVID-19 pandemic has led to disruption and volatility in the global capital markets, which increased the cost of capital. Although markets began to recover, a prolonged period of volatile and unstable market conditions may increase the funding costs of Petrochem. Furthermore, the volatility in global capital markets since March 2020 has also resulted in increased volatile currency exchange rate risks, which may also negatively affect SIIG's business after the Completion of the Acquisition.

1.5.2 Strategic risks

As a result of the business shutdown and facilities closures, the global economy has significantly slowed down, resulting in reduced customer demand across the markets where the Companies operate in or is contemplating to operate in. In particular, reduced demand may impact the development and success of Petrochem Subsidiaries' business and whether they can implement their strategies. The reduced customer demand may not swiftly increase to pre-COVID-19 level or at all, due to the potential prolonged global economic crisis or recession. An economic downturn may alter the priorities of governments to subsidize and/or incentivize participation in the SIIG's Subsidiaries' markets in which they operate, which could have an adverse impact on their financial condition, results of operations, and cash flows.

1.6 Risks related to Petrochem's operations

1.6.1 Risks related to Petrochem's main operations

Petrochem and its Subsidiaries work on managing factory operations, risk management and performance monitoring in order to develop the equities of its shareholders and enhance the competitive capabilities of Petrochem and its Subsidiaries in various markets. The risks that affect Petrochem and its Subsidiaries (including Petrochem), after the Completion of the Acquisition, in their main industries include, but not limited to, the following:

1.6.1.1 **Risks related to supplying raw materials (feedstock) and their prices on which Subsidiaries of Petrochem and Petrochem depend for production. The Subsidiaries mainly supply feedstock from the Saudi Arabian Oil Company (Saudi Aramco) at prices similar to that of petrochemical companies in Saudi Arabia, and any change in the feedstock price will affect the company's profitability.**

1.6.1.2 **Risks related to the operational performance level, which contain many technologies and equipment that may be exposed to malfunctions and disruptions from time to time, as the operational units of the Subsidiaries are exposed to some unscheduled disruptions that may affect the performance of the company.**

1.6.1.3 **Risks related to the inability to increase production at the maximum capacity level.**

1.6.1.4 **The activity of the Subsidiaries includes the manufacture and marketing of petrochemical products, including hazardous or flammable products, similar to any activities that involve dealing with hazardous materials.**

1.6.1.5 **Interest rate risk, which has two effects on Petrochem's business, as the interest continued declining negatively affects bank deposits, Islamic Murabaha, and the existing hedging operations to which the Subsidiaries are associated. In Contrast, the increase in interest rates increases the cost of existing loans in Subsidiaries, which could have an adverse impact on the activities of Petrochem and their Subsidiaries.**

1.6.1.6 **Human resources risks relevant to the instability of Saudi competencies in the development and continuity of the company's performance.**

1.6.1.7 **Environmental risks relevant to petrochemical industries, such as pollution and the consequent fines and costs.**

1.6.1.8 **Risks related to dumping in the markets where the products of Subsidiaries are sold.**

1.6.1.9 **Risks related to obsolete and slow-moving spare parts.**

1.6.1.10 **Risks related to Petrochem's dependence on Gulf Polymers Distribution Company FZCO to sell the majority of its products.**

1.6.2 Operations limited revenue

Petrochem is a holding company that has no operations, source of income or assets of its own other than 1) its shares in its Subsidiaries, which are the following companies: Gulf Polymers Distribution Company and Saudi Polymers Company, and 2) its investments in securities. Therefore, SIIG's cash flows and ability to pay the debts that it may incur after the Completion of the Acquisition, as well as its ability to pay dividends to its shareholders, depend on dividends or other transfers from its Subsidiaries.

1.6.3 Risks relating to Client Concentration and reliance on Chevron Phillips Petrochemical Co., Ltd.

Petrochem's Subsidiaries have entered into several agreements with Chevron Phillips Petrochemical Company Ltd., either directly or through companies wholly owned by Chevron Phillips Petrochemical Company Ltd.. These agreements include (1) a partnership agreement, (2) sales and marketing agreements, and (3) a trade name and licensing agreement. The revenues concentration percentage relating to Chevron Phillips Petrochemical Company Ltd. is 78% of Petrochem's gross revenues pursuant to its 2020G audited consolidated financial statements. Accordingly, any negative changes in the terms and conditions of those agreements, or the adoption by Chevron Phillips Petrochemical Co., Ltd. or the Arab Chevron Phillips Petrochemical Company, of any decision to terminate any of such agreements may negatively affect the SIIG's operations after the Completion of the Acquisition, its results and its financial position.

1.6.4 Administrative control over Gulf Polymers Distribution Company and Saudi Polymers Company

There are several joint ventures between Petrochem and the Arabian Chevron Phillips Petrochemical Company (owned by Chevron Phillips Petrochemical Company Ltd.), these joint ventures are Gulf Polymers Distribution Company and Saudi Polymers Company (for more details about these companies and their structure, see Section (4.5.4) ("**Companies in which Petrochem Holds Shares**") of this Shareholders' Circular. The financials of these companies are not consolidated due to Petrochem having no administrative control over them.

Petrochem exercises control, but not complete, over these companies to the extent of its equity, and therefore, it depends on the Arab Chevron Phillips Petrochemical Company to cooperate in making decisions related to these companies. On that basis, the day-to-day operations and development of the facilities of these companies is the responsibility of their respective management. Accordingly, Petrochem does not have the absolute ability to influence these operations on a daily basis is limited and Petrochem may not be able, to prevent any actions that it may believe do not fully serve the interest of the shareholders in Gulf Polymers Distribution Company and Saudi Polymers Company, or Petrochem's interest. Accordingly, actions taken may not be in the best interest of the stakeholders or Petrochem which could adversely impact SIIG's business, after the Completion of the Acquisition, the results of its operations and its financial position.

1.6.5 Dependence on the Saudi Arabian Oil Company (Saudi Aramco) as a major supplier of raw materials

Saudi Polymers Company obtains all its raw material requirements from the Saudi Arabian Oil Company (Saudi Aramco) in addition to the ethane and propane. Saudi Polymers Company's relies 100% on Saudi Arabian Oil Company (Saudi Aramco) for raw materials pursuant to its 2020G audited consolidated financial statements. Under the raw material supply agreements currently in force, Saudi Arabian Oil Company (Saudi Aramco) is not obligated to supply the agreed raw material or provide an alternative, and is not responsible for any loss due to its failure to deliver the material in accordance with the agreement. Accordingly, if Saudi Polymers Company loses the Saudi Arabian Oil Company (Saudi Aramco) as a supplier of raw materials, or if the Saudi Arabian Oil Company (Saudi Aramco) is unable or unwilling to supply Saudi Polymers Company with raw materials in the required quantities or refuses to supply the same in any quantities, as a result of shortages in produced quantities or operational problems in any of their production facilities, this company may experience temporary interruptions in supplies that may force them to close their facilities. In addition, Saudi Polymers Company could experience material delays in its search for suitable alternative raw materials on commercially viable terms. If any one of these risks materializes, SIIG's business, after the Completion of the Acquisition, results of operations and financial condition may be materially adversely affected.

1.6.6 Production technology licenses

Most of the technology currently being used by Saudi Polymers Company is a technology used under license from Chevron Phillips Petrochemical Co., Ltd. by virtue of an agreement with Arab Chevron Phillips Petrochemical Company. The Saudi Polymers Company uses a number of technologies owned by Chevron Phillips Petrochemical Company Ltd., whose use has been licensed to the Saudi Polymers Company through Saudi Chevron Phillips. Based on the foregoing, if the patents of Chevron Phillips Petrochemical Ltd. become invalid or its trade secrets become known to its competitors, this may impair SIIG's ability to compete after the Completion of the Acquisition.

In addition, the competitors of the Subsidiaries of Petrochem or any other parties may obtain patents that may limit the ability of the Subsidiaries of Petrochem to legally produce or sell their products in a competitive manner, which may result in a significant decrease in revenues and profit margins and loss of market share if the benefits achieved through the use of current technologies are no longer available to the Subsidiaries of Petrochem. If any of the above materializes, it may adversely and materially affect the business of SIIG after the Completion of the Acquisition, its financial position, business results and future prospects

1.7 Market and Industry Risks

1.7.1 Risks related to competition

Petrochem and its Subsidiaries operate in an industrial sector with a high degree of competition, as some of the competitors of Petrochem and its Subsidiaries are able to manufacture products at lower cost and enjoy higher operational flexibility compared to the Subsidiaries of Petrochem, which enables them to better adapt to the conditions and variables of the petrochemical industry and the changes in the prices of raw materials and fuel as well as the changes in economic conditions in general. In addition, the low prices of competitors' products may force the Subsidiaries of Petrochem, after the Completion of the Acquisition, to reduce the prices of their products, which would affect SIIG's profit margins negatively after Completion of the Acquisition.

It should be noted that some competitors of Petrochem and its Subsidiaries have larger financial resources than them, which enables them to make large capital investments in their companies, including spending on research and development. If any of their current or future competitors develop proprietary technology that enables them to produce goods at a much lower cost, the technology of Petrochem and its Subsidiaries will be considered economically unviable.

The ability of Petrochem to maintain or raise the current level of profitability will depend on the ability of their Subsidiaries to balance the prices and profit margins of products or mitigate their decline by improving the efficiency and volume of production and switching to chemical products with higher profit margins as well as improving the level of existing products through innovation and research and development. In the event that the Subsidiaries are unable to do so, this may affect their market shares, which will have a material negative impact on the financial position of Petrochem after the Completion of the Acquisition.

Subsidiaries of Petrochem get a large portion of their revenues from selling their products. Due to the nature of these products, competition in the petrochemical products markets depends mainly on the price of the products and to a lesser extent on their quality, speed of delivery, and customer service provided in this regard. As a result, the Subsidiaries of Petrochem may not be able to maintain their market share. The prices of the products of the Subsidiaries of Petrochem are related to an economic cycle of the petrochemical sector and are mainly driven by supply and demand for raw materials and general economic conditions, compared to previous years. As for other products, they may be subject to these same factors, but the effect of these factors usually remains the greatest on commodity products.

1.7.2 Risks related to import and export

The change of existing legal or regulatory requirements in countries or regional trading blocs (such as the Gulf Cooperation Council Customs Union) where SIIG and its Subsidiaries operate or the imposition of new requirements in relation to import and export including anti-dumping duties and customs tariffs, will affect the competitive position of the products manufactured by the Subsidiaries of Petrochem or may prevent the sale of these products in some related countries, which may have an adverse effect on the business of SIIG and Petrochem after the Completion of the Acquisition.

1.7.3 Risks related to change in products supply and demand

The markets of many of the products Petrochem's Subsidiaries witnessed successive periods, some of which had a contraction of supply, which caused an increase in prices and profit margins, followed by periods that witnessed a recovery in production capacity, which resulted in an oversupply and a decrease in prices and profit margins. Accordingly, the future growth of demand for the products of Petrochem's Subsidiaries may not be sufficient to mitigate the impact of a surplus in production capacity, especially since these conditions may last for a longer period or may be exacerbated more as a result of expected or unexpected additions in production capacity or due to any other events. As a result, the production levels of the Subsidiaries of Petrochem, product sales, and profit margins may be affected significantly, which in turn leads to a decrease in their financial performance levels in general, which will affect the financial position of SIIG and Petrochem after the Completion of the Acquisition.

1.7.4 Risks related to the price of crude oil and its derivatives

The price of most products of the Subsidiaries of Petrochem is related to the price of feedstock. Accordingly, the international prices of oil and its derivatives greatly affect the prices of other petrochemical products, which makes their prices highly volatile and fluctuate as a result of many variables in the global oil markets. Since it may be difficult to control the factors that affect the prices of oil and its derivatives, any decline in crude oil prices could have a negative and material impact on the results of the Subsidiaries of SIIG and Petrochem, after the Completion of the Acquisition, and their financial position and liquidity, including their ability to finance planned capital expenditures, which may have an adverse effect on SIIG and its financial results.

1.7.5 Risks related to KSA economy and the global economy

Petrochem and its Subsidiaries currently have a significant proportion of their operations and interests in the KSA. Accordingly, their businesses operations and financial results will continue to be generally affected by the financial, political and economic conditions prevailing from time to time in the KSA or in the Middle East in general.

These markets are subject to risks similar to other developed and developing markets, including significant legal, economic and political risks. Although the KSA aims to diversify its economy, lift the government subsidies and reduce its dependence on oil, the oil and gas industry continues to dominate the KSA's economy. Declines in international prices of hydrocarbon products would adversely affect the KSA's economy, which in turn will have an adverse affect on the business of SIIG, after the Completion of the Acquisition, its financial position and the results of its operations.

1.7.6 Risks related to SIIG's and Petrochem's inventory

In the ordinary course of business of Petrochem's Subsidiaries, raw materials for the manufacture of products and spare parts are purchased and stored. It should be noted that inventory may be subject to recurring risks including, but not limited to, fire or damage as well as the risk of obsolescence and usable material becoming unusable. Accordingly, any unexpected accidents, the inability to maintain the stock in good condition, or the occurrence of any damage to it, in whole or in part, may adversely and materially affect the business of SIIG after the Completion of the Acquisition, its financial position, business results and future prospects.

1.7.7 Risks related to dismantling obligations

According to the IFRS as adopted by SOCPA, companies that own factories must make a provision for a dismantling obligation, which is to make an annual provision for the dismantling and removal of machinery. As at the date of this Shareholders' Circular Petrochem and its operating Subsidiaries have not recorded the provision for the dismantling obligation due to the inability to assess such obligation at the present time.

If these obligations are evaluated, this may result in the risk of creating provisions in accordance with the IFRS, which would adversely and materially affect the activities of SIIG after the Completion of the Acquisition, its financial position, business results and future prospects.

1.7.8 Risks related to changes in the prices of raw materials

There is no guarantee that the prices of raw materials and products will remain at their current levels, as the prices of raw materials may be affected by a number of factors outside the control of Petrochem or its Subsidiaries, which may include, but not be limited to, changes in economic conditions in the Kingdom, supply and demand, economic policies pursued by the government of the Kingdom, global or regional economic conditions, or international treaties to which the Kingdom is currently bound, or to which it may become a party in the future. There is also no guarantee that the prices of raw materials will not change, and there is no guarantee that they will not affect the profitability of SIIG after the Completion of the Acquisition as a result of its full ownership of Petrochem.

If any of the above materializes, it may adversely and materially affect the business of SIIG after the Completion of the Acquisition, its financial position, business results and future prospects.

1.7.9 Risks related to supply chains

The businesses of Petrochem's Subsidiaries include interconnectedness in the supply chains of raw materials or products, and accordingly, these Subsidiaries are exposed to risks that may fall on supply chains, including low quality of raw materials or products, or complete or partial disruption of supply chains.

If any of the above materializes, it may adversely and materially affect the business of SIIG after the Completion of the Acquisition, its financial position, business results and future prospects.

2. MARKET OVERVIEW

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2.1 Economic Outlook

The global economy has suffered one of the hardest hits in 2020 (G) since the Great Depression impacted by the Covid-19 pandemic. Even the largest economies came to a standstill as a direct result of the reduction of demand to levels never seen before. Crude oil demand was heavily impacted by the reduction of fuels usage in the transportation and the energy sector which, by its turn was also battered by the transition to clean energy matrices that has exponentially accelerated during that period. As a result, the chemical industry witnessed a dramatic drop in their operating rates for almost all their sectors, from paints and coatings to fine chemicals except for surfactant used in disinfectants and other cleaning products, causing a major erosion in selling prices and consequently, reducing the operating margins.

As the global vaccination drive gains momentum, the economy is expected to recover as the global GDP is set to grow by 5.7% in 2021 (G) from a contraction of 3.5% in 2020 (G) mainly driven by North America, West Europe and China. As far as the chemical industry is concerned, if we took ethylene market which is one of the most important building blocks of this industry, we expect it to return to pre-Covid levels by 2022 (G) onward as consumption will remain increasingly driven by emerging countries, where improvements in living standards and growing population are prompting a growing use of a variety of polymers and chemicals.

While Saudi Arabia enjoys a very competitive cash cost position for basic petrochemical building blocks, its geographical position away from key consumer centres poses as a major threat to its competitiveness especially when it comes to certain petrochemicals. For instance, the Middle East holds almost 20% of the global nameplate capacity for HDPE however, the regional demand is only 6.5% (Asia holds at around 48% of the global demand). Therefore, the development of a strong petrochemicals downstream industry in Saudi Arabia and fomenting the internal demand are paramount to adding value to base chemicals which still are exported to major consumer centres that can transform those products into high added value finished goods.

2.2 Ethylene

Introduction

Ethylene is primarily a petrochemically derived monomer used as a feedstock in the manufacture of plastics, fibers, and other organic chemicals that are ultimately consumed in the packaging, transportation, and construction industries, as well as many other industrial and consumer markets. Nondurable or consumable end uses—in particular, packaging—account for more than half of all ethylene derivative consumption worldwide. One particular plastic resin, polyethylene, accounts for most of the total ethylene consumption. Because ethylene is one of the largest-volume petrochemicals worldwide, with a diverse derivative portfolio (including nondurable and durable end uses), ethylene consumption is sensitive to both economic and energy cycles. Because of its size and broad usage, ethylene is also often used as a benchmark for the performance of the entire petrochemical industry.

Global Supply, Demand and Trade Overview

Ethylene is the largest-volume basic petrochemical, produced primarily by the steam cracking of hydrocarbons (naphtha, ethane, gas oil, and LPG). In 2020 (G), global production was 166.3 million metric tons. As a major chemical intermediate, ethylene is further reacted to produce a wide spectrum of products. Polyethylene is the single-largest outlet and accounted for 63% of global ethylene consumption in 2020 (G). Other major applications include the production of ethylene oxide, ethylene dichloride, and ethylbenzene. Ethylene underpins several different value chains and various economic sectors; the ethylene industry is cyclical and broadly depends on investment and economic cycles.

The recent Covid-19 pandemic led to a global disruption of many economic sectors, prompting world GDP decline of 3.2%. Ethylene markets suffered in 2020 (G), but have remained positive, driven by a high dependence on consumables and supporting underlying trends such as online shopping, working from home, and a shift in consumer spending away from services towards consumer goods. New capacity additions have also remained sustained, leading to a further decline of the industry-wide operating rate to about 86% in 2020 (G).

In 2020 (G), world ethylene capacity was about 194.1 million metric tons. Northeast Asia had the single-largest installed capacity (27.4%), followed by North America (24.5%) and the Middle East (17.5%). During 2011-2020 (G) period, ethylene capacity has increased at an average rate of 3% per year, translating into 45.8 million metric tons of newly installed capacity. Regions with access to cost-advantaged ethane feedstock have contributed to a large portion of new ethylene capacity commissioned since 2010 (G).

The Middle East has capitalized on the availability of cheap ethane and has exported most of its downstream derivatives. However, the rhythm of new capacity additions in this region has recently slowed, influenced by decreasing natural gas field developments. In North America, natural gas liquids coproduced with shale gas and tight oil have represented competitively priced feedstock readily available for the petrochemical industry. As a result, new ethane-based petrochemical units have been launched, with 14.6 million metric tons commissioned over the last decade.

Ethylene - Historical and Future Capacities (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	35,308	36,630	38,088	41,215	43,881	47,584	48,874	51,506	53,552	53,552	53,552	53,552
South America	5,404	5,404	5,400	5,404	5,382	5,382	5,382	5,382	5,382	5,382	5,382	5,382
West Europe	22,804	22,550	22,550	22,550	22,550	22,550	22,550	22,550	22,550	22,550	22,550	22,550
Central Europe	2,324	2,324	2,324	2,324	2,324	2,324	2,324	2,324	2,324	2,324	2,324	2,324
CIS & Baltic States	3,737	4,137	4,437	4,611	4,910	6,410	6,410	6,410	7,561	8,610	8,716	11,330
Africa	1,428	1,544	1,888	1,888	1,888	1,888	1,888	1,888	1,888	1,888	1,888	1,888
Middle East	30,987	32,294	33,857	33,912	33,912	33,912	35,250	35,293	35,335	35,335	35,335	36,335
Indian Subcontinent	3,980	4,350	6,388	7,470	7,470	7,470	7,769	8,670	8,670	8,670	8,670	8,670
Northeast Asia	41,751	42,002	43,724	45,680	47,678	53,109	60,975	67,899	72,275	74,451	76,338	76,338
Southeast Asia	11,632	11,941	12,041	12,133	12,564	13,433	14,261	14,393	15,393	16,393	16,393	16,393
Global	**159,355**	**163,177**	**170,697**	**177,187**	**182,559**	**194,062**	**205,684**	**216,314**	**224,930**	**229,155**	**231,148**	**234,762**

Source: IHS 2020

Ethylene - Historical and Future Demand (KT)												
Region/Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
North America	31,839	32,876	33,168	36,007	38,157	39,729	40,824	42,197	43,657	44,759	46,008	47,078
South America	4,614	4,648	4,591	4,354	3,912	3,781	4,118	4,179	4,209	4,290	4,382	4,384
West Europe	19,311	19,669	19,821	19,494	19,090	18,654	18,944	19,030	18,982	19,214	19,343	19,771
Central Europe	1,904	1,673	1,997	1,962	1,897	2,112	2,196	2,188	2,192	2,234	2,315	2,396
CIS & Baltic States	3,171	3,627	3,760	3,974	4,353	5,178	5,440	5,446	6,290	6,901	7,457	8,345
Africa	976	1,020	1,214	1,244	1,289	1,244	1,327	1,340	1,338	1,374	1,400	1,447
Middle East	26,098	27,334	28,856	30,095	30,305	28,896	29,438	29,189	29,191	29,701	30,601	31,177
Indian Subcontinent	3,985	4,181	4,732	6,872	6,822	7,322	6,938	7,446	7,469	7,767	8,067	8,554
Northeast Asia	38,138	40,965	42,669	43,858	45,699	47,412	53,043	57,097	60,813	63,585	65,816	68,524
Southeast Asia	10,827	10,871	11,399	12,129	11,992	12,005	12,327	12,621	13,182	13,891	14,596	15,089
Global	**140,863**	**146,865**	**152,209**	**159,989**	**163,517**	**166,333**	**174,596**	**180,734**	**187,323**	**193,716**	**199,985**	**206,764**

Source: IHS 2020

Ethylene - Historical and Future Production (KT)												
Region/Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
North America	32,508	32,718	34,236	37,160	38,956	40,601	41,712	43,185	44,314	45,597	46,763	47,974
South America	4,371	4,513	4,496	4,216	3,818	3,729	4,065	4,128	4,159	4,233	4,345	4,344
West Europe	19,316	20,305	20,355	19,812	18,412	19,045	18,818	18,843	18,885	19,116	19,323	19,750
Central Europe	1,742	1,415	1,932	1,915	1,877	1,725	1,983	1,969	1,984	2,012	2,183	2,262
CIS & Baltic States	3,041	3,484	3,631	3,874	4,003	5,353	5,445	5,456	6,305	6,921	7,487	8,365
Africa	935	1,054	1,178	1,210	1,284	1,232	1,301	1,314	1,312	1,346	1,373	1,420
Middle East	26,479	27,955	29,357	30,513	30,474	29,294	30,082	29,896	29,897	30,234	30,866	31,371
Indian Subcontinent	3,932	4,346	5,485	6,417	6,933	7,037	6,836	7,347	7,370	7,652	7,937	8,424
Northeast Asia	38,533	40,480	41,742	42,589	44,752	46,810	52,417	56,455	60,500	62,923	65,143	67,745
Southeast Asia	10,602	10,527	11,587	12,018	11,949	11,532	11,937	12,141	12,597	13,681	14,566	15,109
Global	**141,460**	**146,797**	**153,998**	**159,724**	**162,457**	**166,357**	**174,596**	**180,734**	**187,323**	**193,716**	**199,985**	**206,764**

Source: IHS 2020

In the Middle East region, ethylene capacity was around 33.9 million metric tons, accounting for 17.5% of the world total. Regional ethylene capacity has developed at an average rate of 2.5% per year during 2011-2020 (G) period.

Saudi Arabia is the region's largest ethylene producer, accounting for 52% of the total capacity. In this country, the very cheap nature of ethane (fixed at $0.75 per mmBtu until 2015 (G) and raised to $1.75 per mmBtu in 2016(G)) has provided a significant cost advantage for ethylene and ethylene derivatives manufacturers and has created the foundation for the most cost-competitive ethylene industry globally. In 2015–20 (G), the most notable project start-up in Saudi Arabia was the large-scale export-oriented integrated olefins and derivatives complex of Sadara Chemical in Al Jubail, Saudi Arabia.

Polyethylene (HDPE, LDPE, and LLDPE) is the major outlet for ethylene, with 63% of the global demand in 2020 (G). The next largest market is ethylene oxide (EO), used primarily to produce ethylene glycol (EG), which is used primarily in the production of PET (for polyester fibers, PET bottles, and polyester film). EO accounted for 15% of the ethylene market in 2020 (G). The third largest outlet is ethylene dichloride (EDC), which is used for the production of PVC. In 2020, EDC accounted for nearly 9% of ethylene demand. Other major ethylene uses include ethylbenzene, alpha-olefins, and vinyl acetate.

Global demand of ethylene is forecast to recover along with the global economy in the next ten years. Overall, ethylene demand is expected to increase by about 63.3 million metric tons throughout the forecast period 2021-2031 (G) (3.1% per year). The largest contributors will be Northeast Asia, North America, the CIS and Baltic States, and Southeast Asia. By 2031 (G), world ethylene consumption is expected to exceed 237.9 million metric tons.

In 2020 (G), global ethylene trade was 4.1 million metric tons. Trade volumes appear limited at just about 2.5% of world production; this is related to the cost of ethylene transportation and its associated danger (highly flammable and explosive gas when mixed with air or an oxygen source). Ethylene is normally used where it is produced or transported by pipeline from one production unit to the other (typically located on the same petrochemical platform). In 2020 (G), most of the ethylene trade was in Northeast Asia, which accounted for 65% and 44% of the world's total imports and exports, respectively; most of the traded volumes corresponded to intraregional flows. The remainder was largely covered by Southeast Asia. Other regions had a more limited share in the global ethylene trade. Northeast Asia is projected to remain the major region for ethylene trade.

Following the dramatic increase in capacity during the preceding decade, the last five years have seen a period of slow development in Middle Eastern steam cracker capacity, still increasing but at a much-reduced pace. This lower rate of addition will continue through much of the forecast period. Nevertheless, the region's capacity has increased from 31 million metric tons in 2015 (G) to around 34 million metric tons in 2020 (G). The region's portion of global capacity has slipped from 19.1% in 2017 to 16.8% in 2020 (G); this compares with just 7.0% at the turn of the century. Most of the associated derivative production is being exported, to the extent that the region is exporting more than 18 million metric tons of equivalent ethylene, growing slowly to 22 million metric tons by 2030 (G).

Pricing and Margin Analysis

In North America, the weighted average cash costs, which are calculated using the cash cost for feedstocks (ethane, propane, butane, light naphtha, and gas oil) and the estimated amount of ethylene produced from each feedstock during the period. Although this cost does not estimate the actual cost for an individual steam cracker using the given feedstock, it is a good estimate of the average cost for the industry in any given year. This number is used when forecasting the ethylene prices and margins. During the forecast period, margins for ethane-based steam crackers are expected to trend close to reinvestment economic parity to incentivize enough cracker builds in the United States to assist in closing the global ethylene balance and balance US ethane production. The drilling of shale wells in areas that yield large amounts of natural gas liquids will keep the supply of ethane high and prices low relative to other feedstocks, with ethane expected to remain the favoured feed in the long-term forecast. US cracker margins are forecast to improve in the latter half of the forecast period as the new capacity is absorbed.

Ethylene production in West Europe is predominately based on naphtha feedstocks. Since movements in crude oil pricing influence regional naphtha prices, global energy market volatility has a strong impact on steam cracker cash costs in West Europe. In recent years, the amount of propane and butane being cracked in the region has increased; however, the amount has not and is not expected to become large enough to dictate ethylene pricing. The imports of ethane will also have no bearing on European pricing levels; the volumes imported will not be significant enough to change market dynamics. With significant additional capacity in other regions, European operating rates are expected to remain below long-term levels as pressure from imports remains in place and derivative closures are limiting ethylene consumption. A current exposure to ethylene exports to ensure full cracker utilization will not be viable in a longer market balance expected in the early 2020s (G); competition from increasing US exports will also not help.

The Southeast Asia spot ethylene price represents an average cost and freight (CFR) import spot price to the region. The cost of production from local suppliers will effectively provide a floor value for the spot CFR price, although at points in time, prices can move below this level as a result of the diversity of cost structures in the region. As in the US and West European ethylene markets, the costs associated with producing ethylene will have a significant impact on the ethylene price in Southeast Asia. For most ethylene producers in Southeast Asia, feedstock costs, and therefore production cash costs, are typically related to the price of naphtha, as 67% of the region's ethylene is currently produced from naphtha. The remainder of the ethylene output is produced from ethane and some LPG. As a result, the floor value of the spot CFR price in Southeast Asia is very dependent upon world crude oil and naphtha prices.

2.3 Propylene

Introduction

Propylene is the second-largest volume chemical produced globally after ethylene. In 2020 (G), global production of propylene was about 113.4 million metric tons, with the major producing regions being Northeast Asia (46.1%), North America (13.1%), and Western Europe (12%). Propylene demand for chemical derivatives is heavily dominated by the production of polypropylene, which accounted for about 67% of the overall market in 2020 (G). There is a myriad of chemical applications for propylene, but other major uses include propylene oxide, oxo alcohols (2-ethylhexanol and butanol), acrylonitrile, cumene, and acrylic acid. Ultimately, after further processing into derivatives, then into finished goods, propylene is primarily found in durable goods (cars and furniture), packaging, and infrastructure (buildings and houses); demand is therefore broadly tied to the general economy.

Global Supply, Demand and Trade Overview

The Covid -19 pandemic that has impacted the world since late 2019 (G) has added a significant level of uncertainty and volatility to many markets. In 2020 (G), it has translated into a world GDP decline of about 3.2%, with the disruption of many economic sectors as well as a collapse in transportation activities. Some propylene outlets have suffered (durable goods), while other have benefitted from the pandemic because of specific trends such as working from home, increased online shopping, and fast-rising demand for medical protective equipment. Overall, propylene demand increased by 1% between 2019 and 2020 (G), primarily driven by growth in polypropylene production. Propylene consumption has been increasingly linked to emerging markets (mainland China, more particularly), where improvement in living standards and growing urbanization are driving an increasing usage of a broad spectrum of polymers and chemicals. In 2020 (G), the mainland Chinese market has proven to be quite resilient, thanks to an early control of the pandemic as well as strong underlying growth fundamentals.

In 2020, world propylene capacity was about 144.3 million metric tons. Northeast Asia has the largest propylene capacity, accounting for 42.3% of the world's total. Within this region, mainland China holds the lion's share of the capacity, accounting for 68% of the total. The next-largest producing regions are North America, Western Europe, and the Middle East. During 2011-2020 (G), global propylene capacity has increased at an average rate of 3.7% per year, primarily driven by the development of on-purpose facilities, which have accounted for about 62% of the total net capacity increase.

Total Propylene - Historical and Future Capacities (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	23,581	24,142	24,331	25,235	25,238	25,441	25,226	25,969	26,615	26,836	27,436	27,436
South America	3,973	3,973	3,973	3,973	3,973	3,973	3,973	3,973	3,973	3,973	3,973	3,973
West Europe	17,282	17,111	17,051	17,100	17,041	17,021	16,981	16,981	17,731	17,731	17,731	17,731
Central Europe	1,932	1,942	1,962	1,958	2,029	2,096	2,138	2,138	2,138	2,355	2,568	2,568
CIS & Baltic States	3,187	3,287	3,287	3,362	3,481	4,001	4,127	4,501	4,871	4,871	5,071	5,471
Africa	1,603	1,623	1,643	1,643	1,643	1,643	1,643	1,643	1,643	1,643	1,643	1,643
Middle East	10,508	11,151	11,873	11,935	11,935	12,085	12,429	12,429	12,429	12,429	12,852	13,272
Indian Subcontinent	4,924	5,092	5,557	6,342	6,426	6,592	6,715	7,092	7,892	7,892	7,892	7,892
Northeast Asia	45,154	48,365	51,742	53,962	56,559	61,041	68,132	74,018	78,039	82,078	83,400	83,400
Southeast Asia	8,071	8,531	8,631	9,039	9,369	10,396	11,148	11,346	11,846	12,346	12,346	12,346
Global	**120,214**	**125,217**	**130,050**	**134,549**	**137,693**	**144,290**	**152,513**	**160,091**	**167,177**	**172,154**	**174,912**	**175,733**

Source: IHS 2020

Total Propylene - Historical and Future Demand (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	15,612	15,695	15,695	15,735	15,506	15,627	16,313	16,693	17,464	17,739	17,904	18,027
South America	3,019	3,139	3,183	2,984	3,025	2,799	2,907	2,892	2,896	2,956	2,964	3,004
West Europe	14,268	14,555	14,478	14,369	14,187	13,887	13,678	13,589	13,745	13,954	14,039	14,172
Central Europe	1,455	1,425	1,501	1,534	1,571	1,550	1,557	1,669	1,704	1,884	2,030	2,086
CIS & Baltic States	2,198	2,354	2,422	2,503	2,617	2,810	3,085	3,431	3,652	3,715	4,217	4,425
Africa	1,143	1,198	1,234	1,268	1,324	1,256	1,301	1,340	1,366	1,406	1,619	1,655
Middle East	7,608	8,428	8,146	9,192	9,779	9,039	9,423	9,718	9,740	10,154	10,936	12,018
Indian Subcontinent	4,297	4,454	4,510	5,135	5,198	5,689	5,936	6,327	6,856	7,249	7,595	8,147
Northeast Asia	40,485	44,042	47,471	49,439	51,655	53,084	57,862	61,144	64,070	67,070	69,615	72,109
Southeast Asia	7,043	6,842	7,113	7,658	8,033	8,257	8,767	9,117	9,419	10,137	10,577	10,765
Global	**97,128**	**102,131**	**105,752**	**109,816**	**112,896**	**113,997**	**120,828**	**125,921**	**130,911**	**136,264**	**141,496**	**146,408**

Source: IHS 2020

Total Propylene - Historical and Future Production (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	16,175	15,705	15,760	16,266	15,736	14,886	16,493	16,887	17,809	18,134	18,274	18,402
South America	3,089	3,013	2,927	2,818	2,713	2,569	2,637	2,632	2,606	2,683	2,698	2,744
West Europe	14,390	14,835	14,029	13,905	13,312	13,658	13,186	13,134	13,540	13,749	13,834	13,767
Central Europe	1,327	1,251	1,479	1,505	1,639	1,472	1,678	1,686	1,765	1,945	2,167	2,268
CIS & Baltic States	2,362	2,631	2,758	2,850	3,080	3,220	3,325	3,712	3,892	3,903	4,450	4,615
Africa	1,129	1,094	1,130	1,178	1,211	1,185	1,177	1,229	1,244	1,269	1,503	1,541
Middle East	8,057	8,706	8,484	9,288	9,554	9,678	9,638	9,920	9,927	10,363	11,121	12,188
Indian Subcontinent	4,346	4,529	4,566	5,024	5,400	5,724	5,936	6,327	6,856	7,249	7,595	8,147
Northeast Asia	39,990	43,915	47,224	49,465	51,555	52,322	57,850	61,102	63,837	66,804	69,299	71,967
Southeast Asia	6,717	6,568	7,331	7,849	8,400	8,678	8,908	9,292	9,437	10,167	10,555	10,770
Global	**97,582**	**102,249**	**105,689**	**110,147**	**112,601**	**113,392**	**120,828**	**125,921**	**130,911**	**136,264**	**141,496**	**146,408**

Source: IHS 2020

Northeast Asia dominates the global production of many chemicals including propylene. During 2011-2020 (G), the region has seen its propylene capacity expand at an average rate of 7.2% per year, partly driven by the broader development of its refining and petrochemical. Outside of Northeast Asia, propylene capacity has expanded primarily in the Middle East, Southeast Asia, and North America, but their collective share of the new global capacity commissioned in 2011–2020 (G) has only accounted for 33% of the world total. These regions have also extensively relied on on-purpose processes to develop their own propylene capacity base.

Mainland China and the United States were the largest consumers of propylene in the world, accounting for market shares of 33% and 13% in 2020 (G), respectively. The next-largest markets are South Korea, Saudi Arabia, India, and Japan. Ultimately, propylene consumption is driven by developments of propylene derivatives capacity. Different marketing strategies have been unfolded in different regions. For instance, new derivative capacities in mainland China have been aimed at satisfying domestic demand and reducing external dependency, while the Middle East has primarily targeted export markets. Overall, mainland China has attracted about 69% of the new propylene requirements recorded globally since 2015 (G).

In 2020 (G), global propylene demand was estimated to amount to about 114 million metric tons. Between 2011 and 2020 (G), propylene demand had developed at a sustained average rate of 3.7% per year. In 2020, propylene demand was negatively impacted by the Covid -19 pandemic and the global recession that ensued, leading to a more moderate year-on-year market growth of 1%. Propylene demand growth has been and continues to be driven by the developments in the polypropylene industry, which accounted for about 67% of the global propylene consumption in 2020 (G). The next-largest end uses of propylene are comparatively much smaller—propylene oxide (7%) and acrylonitrile (5%).

In 2020 (G), global propylene trade was estimated at about 5.4 million metric tons dominated by Northeast Asia. In 2020, the region accounted for about 48% of global exports and 55% of global imports. Within the region, however, there are significant disparities among markets. Mainland China is the largest propylene importer, as it has yet to reach propylene self-sufficiency. Most of mainland China's trade partners are located within Northeast Asia (Japan, South Korea, and Taiwan). Other significant exporting countries include Canada, the United States, and Saudi Arabia.

In Middle East region, nameplate capacity of propylene was about 12.1 million metric tons (excluding splitters) in 2020 (G). Saudi Arabia is currently the largest producing country in the region, accounting for 59% of the total, followed by the UAE (21%) and Iran (8%). The development of the propylene industry has not been as spectacular as the ethylene industry in the Middle East, primarily owing to a steam cracking base largely relying on ethane, with limited associated propylene output. In 2020 (G), while the Middle East accounted for 17% of the global ethylene capacity base, its share of propylene capacity was much lower at about 8%. During 2011-2020 (G), regional propylene capacity has nevertheless increased at an average rate of 3.5% per year, driven by the development of the on-purpose, petrochemical, and refinery-based production. In addition, the steam cracking base is gradually shifting toward heavier feedstock, which yields much higher propylene coproduct. In 2020 (G), propylene capacity was dominated by steam crackers (46%) and on-purpose units including HS-FCC (44%); refineries accounted for the rest. Within the Middle East, on-purpose production technologies include propane dehydrogenation, metathesis, and high-severity FCC units.

In 2020 (G), Middle Eastern propylene demand was estimated at about 9.0 million metric tons, with polypropylene accounting for about 88%. Despite the recent decline in demand, propylene consumption has expanded at a sustained average rate of 4% per year between 2011-2020 (G), primarily driven by the development of the regional polypropylene industry. With only minor quantities consumed by an acrylonitrile plant in Turkey as well as for oxo alcohol and oligomers production in Saudi Arabia, polypropylene production has historically accounted for nearly all of the propylene consumption in the region. Lower logistics costs, readily available technology licenses, and sales portfolio considerations (complementing polyethylene) have made polypropylene the propylene derivative of choice. In 2020 (G), polypropylene exports were estimated to account for as much as 78% of the regional production; however, volumes were down by almost 7% due to the pandemic-induced disruptions of global trade and the impact on the wider economy. There are several polypropylene producers in the Middle East, with a combined capacity of about 9.4 million metric tons; most of the producers are back-integrated into propylene production and typically operate an upstream steam cracker or an on-purpose propylene facility. Saudi Arabia operates, by far, the region's largest PP capacity base with a total of 5.4 million metric tons. Saudi Arabian polypropylene plants include YANPET, YANSAB, Saudi Kayan, Saudi Polymers, Saudi Polyolefins Co., Al-Waha, Ibn Zahr, Petro-Rabigh, and Natpet.

Pricing and Margin Analysis

In North America, the benchmark polymer-grade propylene (PGP) prices refer to pipeline-delivered PGP prices in the US. The benchmark PGP prices are non-discounted reference prices while refinery-grade propylene (RGP) refers to weighted average spot prices. The propylene/ethylene (P/E) price ratio has increased in the past five years as the supply/demand balance for propylene tightened against a lengthening market for ethylene as new crackers came up as demand growth slowed in Asian polyethylene markets. During the near-term forecast period, the P/E price ratio is expected to decrease in 2022–25 (G) before returning to the 1.1–1.2 level in the following years and remaining above parity throughout the forecast period, suggesting the rate of demand growth for ethylene and propylene will be more closely aligned than in the past.

In Europe, the polymer-grade propylene (PGP) prices are benchmark reference prices delivered in West Europe. The propylene-to-ethylene (P/E) price ratio is a useful comparison of the strength of the propylene price relative to the ethylene price. As in the US, the current P/E ratio in Europe is higher when compared with historical data, because of the increased value of propylene derivatives. However, producers in Europe are still producing plenty of propylene from naphtha crackers, so the ratio of propylene to ethylene prices is not forecast to move as high as in the US. Historically, Europe was a net importer of propylene monomer, and therefore the global market conditions together with the availability of propylene monomer largely influenced prices. From 2008 (G), however, Europe was a small net exporter of propylene. Recent losses of local supply have pushed it back to being an importer. Over the next few years, Western Europe is forecast to be a net importer of propylene monomer. In the short term with an import requirement, propylene monomer trade is expected to support European prices, although longer term with a smaller monomer trade exposure, the market will sit closer to other regional values with deep-sea arbitrage rarely open.

In Southeast Asia, the spot propylene price represents an average cost and freight (CFR) import price. As most of the regional propylene production is well integrated with the local derivative markets, the spot market is relatively small in comparison to the larger Northeast Asian market. In the past, the Southeast Asian propylene market was mostly balanced either through on-purpose propylene production or imports. This market dynamic contributed to a higher cost structure, with prices in Southeast Asia often considerably higher than in the United States, which had been the marginal supplier to Asia. As a result, prices were often based on US polymer-grade propylene (PGP) prices and the average freight cost to deliver propylene to Southeast Asia, particularly when a trading arbitrage between the regions was open. However, in 2010 (G), the region turned into a net exporter of propylene monomer as it became more self-sufficient with capacity additions.

2.4 Hexene-1

Introduction

Hexene is a large-volume commodity petrochemical that is primarily produced in oil refineries and steam crackers, or as a by-product of p-xylene production. The global hexene-1 demand in 2020 was estimated at 1.1 million metric tons, almost (96%) dedicated to comonomer use (77% and 19% respectively for LLDPE and HDPE). For hexene-1, its demand by LLDPE is estimated to grow at CAGR of 4.3%, faster than hexene-1 demand by HDPE projected at over 3.2% over the forecast years 2021-2031. Hexene-1 in LLDPE is mainly consumed in North America, W. Europe and few countries in Asia as Japan, Korea, Thailand. Due to the fact that LLDPE production is growing faster in in emerging economies like China, where the regional preference focus on the use of butene-1, growth of hexene-1 demand in LLDPE is only slightly higher than the growth of butene-1. Besides the growth rate differential between LLDPE and HDPE, there are two reasons sustaining an increasing hexene-1 use in LLDPE. The first is the increasing preference in the use of hexene-1 based LLDPE grades in developed economies which will partially displace butene-1 based LLDPE grades. Hexene-1 comonomer is used in HDPE (slurry phase), and more commonly in gas phase LLDPE. LLDPE with a hexene-1 comonomer gives a tougher film than with butene-1 and so it can be converted in a much thinner application as for example film, which is preferred in packaging applications for overall cost savings, while keeping the same mechanical properties.

Hexene-1 is rarely used in plastomers and elastomers as producers mainly using solution technology, use octene-1 and in limited cases butene-1. However, few new entrants in the POP/POE business are developing lower density polymers, in the POP/POE range, but based on hexene-1. If successful, this trend could prove as a new game changer reducing the emphasis on octene-1 use and POP/POE market dominance by the few traditional players.

Global Supply, Demand and Trade Overview

The global hexene-1 demand in 2020 (G) was estimated at 1.1 million metric tons and is forecast to grow at an average annual rate of 4% through 2031 to reach around 1.6 million metric tons in 2031 (G). Global nameplate capacity of hexene-1 was around 1.3 million metric tons in 2020 (G) and is expected to grow at an annual average rate of 1.9% to reach almost 1.6 million metric tons by 2031 (G).

Hexene-1 - Historical and Future Capacities (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	588	596	596	598	661	661	706	803	803	803	803	803
South America	-	-	-	-	-	-	-	-	-	-	-	-
West Europe	109	109	109	97	73	73	73	73	73	73	73	73
Central Europe	-	-	-	-	-	-	-	-	-	-	-	-
CIS & Baltic States	1	1	1	1	1	1	1	1	1	1	1	11
Africa	220	220	220	220	220	220	220	220	220	220	220	220
Middle East	245	245	245	245	245	245	245	245	245	245	330	330
Indian Subcontinent	-	-	-	-	-	-	-	-	-	-	-	-
Northeast Asia	102	112	112	112	112	112	112	112	120	120	120	120
Southeast Asia	-	-	-	-	-	-	-	-	-	-	-	-
Global	**1,266**	**1,283**	**1,283**	**1,273**	**1,312**	**1,312**	**1,357**	**1,454**	**1,462**	**1,462**	**1,547**	**1,557**

Source: IHS 2020

Hexene-1 - Historical and Future Demand (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	339	378	383	456	474	564	494	500	540	578	607	611
South America	33	36	37	36	33	33	32	32	32	34	35	37
West Europe	172	174	175	172	168	162	165	165	166	173	173	178
Central Europe	7	6	7	6	6	6	6	6	6	6	6	6
CIS & Baltic States	1	2	2	2	2	4	5	7	12	15	18	19
Africa	14	14	17	17	18	17	17	17	17	18	18	19
Middle East	16	17	20	21	23	23	24	40	42	46	49	50
Indian Subcontinent	2	2	6	9	11	13	15	18	20	22	22	25
Northeast Asia	139	141	147	140	145	151	180	206	223	251	261	286
Southeast Asia	98	107	111	126	122	131	133	132	135	141	145	152
Global	**820**	**877**	**906**	**986**	**1,001**	**1,104**	**1,072**	**1,124**	**1,193**	**1,284**	**1,336**	**1,383**

Source: IHS 2020

Hexene-1 - Historical and Future Production (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	357	429	453	519	531	602	616	659	682	732	723	732
South America	-	-	-	-	-	-	-	-	-	-	-	-
West Europe	102	109	109	97	73	62	73	73	73	73	73	69
Central Europe	-	-	-	-	-	-	-	-	-	-	-	-
CIS & Baltic States	0	1	1	1	1	-	8	8	9	8	9	14
Africa	105	92	87	87	105	100	70	78	120	161	136	122
Middle East	192	196	198	221	226	235	223	223	223	223	271	295
Indian Subcontinent	-	-	-	-	-	-	-	-	-	-	-	-
Northeast Asia	61	51	57	61	68	106	82	83	87	87	125	152
Southeast Asia	-	-	-	-	-	-	-	-	-	-	-	-
Global	**817**	**878**	**905**	**986**	**1,003**	**1,104**	**1,072**	**1,125**	**1,193**	**1,284**	**1,336**	**1,383**

Source: IHS 2020

In 2020 (G), North America, the Middle East and Africa were the top three producing regions, followed by West Europe. The top three regions accounted for 86% of the world capacity in 2020 (G). By 2031 (G), the largest capacity increase will occur in Middle East which will by then increase its capacity share to 25%. New capacity additions are being built in North America and planned for the Middle and in over the forecast period. Hexene-1 is a fairly concentrated market with only 5 players contributing to over 80% of the global capacity out of a total of less than 10 players.

The global hexene-1 demand in 2020 (G) was estimated at 1.1 million metric tons, almost (96%) dedicated to comonomer use (77% and 19% respectively for LLDPE and HDPE). For hexene-1, its demand by LLDPE is estimated to grow at CAGR of 4.3%, faster than hexene-1 demand by HDPE projected at over 3.2% over the forecast years 2021-2031 (G). Hexene-1 in LLDPE is mainly consumed in North America, W. Europe and few countries in Asia as Japan, Korea, Thailand. Due to the fact that LLDPE production is growing faster in in emerging economies like China, where the regional preference focus on the use of butene-1, growth of hexene-1 demand in LLDPE is only slightly higher than the growth of butene-1.

In terms of trade, hexene-1 trade is currently dominated by export flows from the Middle East, North America and Africa (South Africa). In fact, most of the production of hexene-1 in these regions is targeted towards exports while Asia in a net importer of hexene-1. Besides Asia other net importers are South America, Indian Subcontinent and SE Asia. The total global export volume in 2020 (G) for hexene-1 stood at 417,000 metric tons and is estimated to grow to 588,000 metric tons by 2031 (G).

In Middle East region, hexene-1 nameplate capacity was around 245,000 metric tons, accounting for 18.7% of the established world capacity in 2020 (G). In the past years, since 2011 (G), the capacity has almost doubled from 145,000 metric tons to 245,000 metric tons by 2020 (G). Some of the key players/projects in the region include Q-Chem I & II, Saudi Polymers and JUPC, among others. In the forecast period, additional capacity will come live in the region; INEOS signed an agreement with Saudi Aramco and Total to construct three new plants in Jubail, Saudi Arabia. Project "Amiral" which will include a 400,000 metric tons per year LAO plant, and an associated PAO plant. The plants are expected to be commissioned in 2025 (G). Borouge, in Abu Dhabi, is considering building a trimerization unit, by 2028 (G), with a 75,000 metric tons capacity.

In 2020 (G), the region's hexene-1 capacity was based on trimerization (64%) and oligomerization (36%). The region will maintain a high nameplate utilization rate at an average of 90% between 2021-2031 (G). The region's nameplate capacity is estimated to remain at 245,000 metric tons through 2024 and will increase to 405,000 metric tons by 2031 (G).

Pricing and Margin Analysis

North America: recent ethylene-based formulas in the U.S are believed to have a Factor (A) of approximately 1.05 and Deltas (B) or Adders" between 22 and 30 cents per pound in past decade. Prior to 2015 (G), the value of the Delta B in the US had been higher and closer to the 30 cents per pound range due to relative tighter market and the North America region was a net importer. However, since the start-up of more capacities in the United States, after the mid-decade, the region has turned into a net exporter and the values of the Delta has been dropped to lower ranges, generally between 22 – 27 cents per pound.

Europe: Prices for hexene-1 in West Europe will be at a premium to the North America and Northeast Asia prices, given the region's import dependency in the long term, and its generally higher ethylene prices.

Prices prices for hexene-1 in Northeast Asia will be priced at a premium over the US prices, based on freight differentials from the US, Middle East and South African exporters, with some importers purchasing hexene-1 based on US ethylene price formulas.

2.5 High Density Polyethylene

Introduction

Polyethylene is the largest volume commercial polymer used in the world. High-density polyethylene (HDPE) is the most widely used polyethylene. HDPE is used for many purposes, especially in the food and non-food packaging industry.

Global Supply, Demand and Trade Overview

The global HDPE industry, similar as polyethylene industry, is characterized mainly by a wave of capacity additions in North America, the Middle East, and China. The shift toward lighter and cost-advantaged feedstock in North America has incentivized production in the region. The competition in the international market has increased, thus adding pressure to the high-cost producers, especially in Western Europe. With the dip in oil prices in late 2014 (G), the cost advantages enjoyed by natural gas–based producers declined but were not entirely eliminated. Thus, North American capacity and production increases in the coming years will result in increased exports from the region. China is expected to benefit from local production, although its rapid demand growth will continue to depend on imported HDPE resins.

Global capacity stood at around 56.3 million metric tons in 2020 (G). Nameplate capacity for HDPE is expected to grow at CAGR of 1.5% between 2021 (G) and 2031 (G), to reach about nearly 69.6 million metric tons by 2031 (G). Global operating rates are expected to average at 86% over the same forecast period. In 2020 (G), North America, Middle East and Northeast Asia were the regions that holds almost 68% of the global nameplate capacity.

HDPE - Historical and Future Capacities (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	9,442	10,302	10,814	11,570	11,798	12,248	12,164	12,979	13,789	13,789	13,789	13,789
South America	1,770	1,770	1,770	1,770	1,770	1,770	1,770	1,770	1,770	1,770	1,770	1,770
West Europe	4,947	4,898	4,898	4,898	4,898	4,898	4,898	4,898	4,898	4,898	4,898	4,898
Central Europe	1,240	1,240	1,240	1,240	1,240	1,444	1,510	1,510	1,510	1,510	1,510	1,510
CIS & Baltic States	1,235	1,635	1,593	1,656	2,116	2,640	2,726	2,726	3,152	3,251	3,251	3,853
Africa	638	687	838	838	838	838	838	838	838	838	838	838
Middle East	10,499	10,785	10,924	10,924	10,924	11,206	11,504	11,504	11,504	11,504	11,504	11,504
Indian Subcontinent	1,645	1,813	2,359	2,435	2,435	2,735	2,948	3,585	3,585	3,585	3,585	3,585
Northeast Asia	11,467	11,617	11,520	11,854	12,664	14,735	17,670	20,524	21,536	21,859	22,044	22,118
Southeast Asia	3,780	3,710	3,735	3,735	3,651	3,775	4,073	4,425	4,875	5,125	5,125	5,125
Global	**46,663**	**48,457**	**49,690**	**50,920**	**52,333**	**56,288**	**60,100**	**64,759**	**67,457**	**68,129**	**68,313**	**68,989**

Source: IHS 2020

HDPE - Historical and Future Demand (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	7,489	7,423	7,738	8,193	7,702	7,641	7,902	8,086	8,279	8,512	8,730	8,928
South America	2,143	2,100	2,053	2,058	2,064	1,999	2,064	2,112	2,154	2,203	2,260	2,317
West Europe	4,859	5,037	5,138	5,158	5,179	5,153	5,266	5,337	5,397	5,456	5,512	5,545
Central Europe	977	1,009	1,037	1,068	1,101	1,088	1,116	1,152	1,176	1,201	1,229	1,255
CIS & Baltic States	1,297	1,354	1,350	1,565	1,602	1,519	1,569	1,624	1,680	1,731	1,784	1,838
Africa	1,528	1,586	1,641	1,704	1,788	1,760	1,878	1,956	2,040	2,125	2,208	2,292
Middle East	2,915	3,000	3,054	3,142	3,202	3,147	3,270	3,345	3,450	3,578	3,693	3,809
Indian Subcontinent	2,403	2,547	2,727	2,872	3,008	2,981	3,256	3,442	3,647	3,911	4,198	4,471
Northeast Asia	12,875	13,766	15,086	16,138	17,419	19,252	20,646	21,759	22,917	24,059	25,187	26,235
Southeast Asia	3,387	3,598	3,813	3,929	4,042	3,929	4,057	4,199	4,347	4,493	4,636	4,784
Global	**39,874**	**41,419**	**43,636**	**45,829**	**47,106**	**48,468**	**51,023**	**53,013**	**55,086**	**57,269**	**59,437**	**61,474**

Source: IHS 2020

HDPE - Historical and Future Production (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	8,695	9,182	9,296	10,252	10,612	10,892	11,076	11,301	11,730	11,982	12,231	12,290
South America	1,454	1,442	1,428	1,386	1,296	1,245	1,380	1,368	1,385	1,388	1,405	1,373
West Europe	4,465	4,516	4,532	4,420	4,528	4,210	4,168	4,118	4,083	4,099	4,088	4,295
Central Europe	953	775	999	995	965	1,139	1,183	1,162	1,140	1,159	1,213	1,260
CIS & Baltic States	1,004	1,448	1,407	1,510	1,744	2,192	2,231	2,210	2,503	2,608	2,706	3,041
Africa	318	335	444	473	498	481	478	466	462	480	478	489
Middle East	8,799	9,451	9,476	10,034	10,147	9,619	9,953	9,698	9,542	9,796	9,936	10,072
Indian Subcontinent	1,530	1,590	1,880	2,200	2,380	2,530	2,669	3,002	3,031	3,094	3,150	3,259
Northeast Asia	9,462	9,979	10,081	10,703	11,218	12,671	14,387	15,963	17,266	18,341	19,564	20,665
Southeast Asia	3,357	3,272	3,362	3,354	3,341	3,338	3,500	3,726	3,945	4,322	4,667	4,730
Global	**40,036**	**41,992**	**42,905**	**45,328**	**46,730**	**48,317**	**51,023**	**53,013**	**55,086**	**57,269**	**59,437**	**61,474**

Source: IHS 2020

Global HDPE demand was around 48.5 million metric tons in 2020 (G) and this is expected to reach around 71.3 million metric tons by 2031 (G). Film and sheet, driven by food packaging remains the largest market segment for HDPE resins with share of 28% of global demand in 2020 (G).

The demand growth rate for major end-use application sectors is expected to remain mainly in the range of 2.9% to 3.6% per year between 2021-2031 (G). Overall, global HDPE demand is forecast to grow at CAGR of 3.4% by 2031 (G).

Northeast Asia, North America and West Europe are the major demand centres in the world comprising of about 66% of the total demand. Countries with large populations and rapidly expanding economies, such as China, India, and Indonesia hold huge demand potential. While per capita PE demand in China now exceeds the global average, a large percentage remains driven by exports of downstream products rather than domestic consumption.

Covid -19 pandemic has dealt a heavy blow to the global economy as global and major economies are heading for recessions. There are many factors suppressing demand: recession, temporary plant closures, reduced operating rates, job losses combined with dramatic drops in discretionary spending, export slowdowns, and companies undertaking cash-conservation measures.

Covid -19 has been a demand driver for some key HDPE demand segments such as food-related packaging, which has benefited as global consumers have shunned restaurants in favour of local grocery stores, (ultimately consuming more plastics). Covid -19–inspired delays in the implementation of plastic bag bans in cities around the world and supported the continued use of single-use packaging to limit the spread of the virus.

Sustainability and anti-plastics initiatives have been at least temporarily paused around the world as plastics and PE in particular have played a high-profile role in limiting the spread of Covid -19. While the circumstance of the virus may have caused governments, businesses, and citizenry to re-evaluate the role of plastics in society, we expect this “pause” to be temporary and therefore expect the sustainability initiatives to regain priority when the pandemic subsides.

On the supply side, Covid -19 has resulted in delays associated with the start-up of several new HDPE projects that were anticipated to initiate production during 2020 (G). The uncertainty related to demand as well as evolving assumptions associated with regional feedstock advantages have likely caused a delay in the final investment decisions (FIDs) associated with several additional projects around the world that have been pending approval.

The Middle East remained the largest exporter of HDPE on a regional basis with net export volumes of around 8.3 million metric tons in 2020 (G). It was observed that a majority of exported HDPE from Middle East were targeted towards the Northeast Asia and Southeast Asia markets particularly China, Singapore, Vietnam and Malaysia followed by Africa, Indian Subcontinent and West Europe.

In Middle East region, HDPE capacity stands at around 11.2 million metric tons which is almost equivalent to 20% of the global capacity. Nearly 45.3% of the region’s capacity or 5.1 million metric ton of production capacity is located in Saudi Arabia followed by Iran with 25.8% of regional capacity and the UAE with 14.2%.

Middle East is the third largest producer of HDPE in the world, accounting for almost 20% of the global capacity in 2020 (G) after Northeast Asia and North America. The main countries that contribute to the supply and demand in the region are Saudi Arabia, Iran, the United Arab Emirates, Qatar, Kuwait, Turkey, and Israel.

IHS Markit expects further hypothetical capacity to be built to support growing demand in other regions via exports, and by 2031 (G), the region’s capacity is forecast to reach 11.5 million metric tons. A hypothetical capacity of about 4.4 million metric tons is expected to be added by 2031 (G). IHS Markit anticipates countries in the region to continue to monetize competitive gas and crude oil feedstocks into higher value chemical products including polymers.

North America is a net HDPE exporter with expected net export volume of around 3.4 million metric tons in 2022 (G). Apart from intraregional trade, exports are targeted to South America, Western Europe, and Northeast Asia.

Northeast Asia will continue to be the world’s largest importer of HDPE, with net import volume of around 6.8 million metric tons in 2020 (G) and is forecast to reach over 7.5 million metric tons by 2031 (G). China is the largest HDPE importer in the region. Although large volume of capacity addition will occur in China, imports are still expected to continue to increase.

Pricing and Margin Analysis

The unprecedented level of new production capacity in North America is expected to test producer discipline as net exports become a larger percentage of total production. Distributors and traders will not be able to absorb all the incremental production and polyethylene producers will therefore be forced to increase export volumes and/or increase domestic sales by becoming more aggressive relative to their pricing practices. As a result, domestic prices are expected to trend toward export price levels and these prices are expected to remain more closely aligned going forward. Imports are not expected to impact the North American price forecast.

Even though Western Europe will remain on the right of the cash-cost curve with its majority high-cost producers, recent relatively lower oil prices have weighed on the polyethylene (PE) cost curve, making it flatter; therefore, the cost disparity between high-cost regions such as Western Europe versus the cost-advantaged regions such as the Middle East and North America has shrunk significantly. The close parity in cost along with improved prices, owing to a combination of underinvestment and robust demand growth, had fueled an industry upcycle that drove the profitability of West European producers to unprecedented levels as global markets hit a tighter balance

With the majority of production at marginal cost levels, Western Europe will remain a price-setting region and therefore will continue to offer higher export netback on a relative basis, especially when compared with Asia. Global oversupply and the US–China trade dispute had led to a realignment of trade routes, with more products flowing into Europe in preference over China. Now with China easing back from additional tariffs, the US volume expansion in Europe will cease, but that void could be filled to some extent by CIS countries, where a significant expansion of capacities is underway. Import volumes are expected to gradually rise from the current 3.4 million metric tons to 4.0 million metric tons by 2025 (G). While imports edge higher, exports, which form a sizable volume, will face rising challenges from competition, especially from advantaged feedstock regions such as the CIS, US, and MDE, which will lead to stagnant volume; this will raise the supply length in the domestic market. So, while imports will rise, exports will shrink, while domestic demand will gradually recover after the slump in 2020 (G), and this will put producers under pressure in terms of operating rates. We anticipate a sharp drop in operating rates not only from a market perspective, but also from a tactical angle. As in the past, we have seen that European producers are very nimble in terms of utilization level with an eye on inventory and price movements. We see a continuation of this strategy, which will mean that operating rates will drop to cap competition and support margins from going below the threshold.

Asian prices in the first five years of the forecast will likely remain the lowest on a global basis, primarily because of China's influence as the world's largest net importer, but also because of the impact of low-cost resins moving from the Middle East and North America into the region. The low freight cost and CFR China port spot pricing policy ensure very competitive prices compared with Europe, where the prices are on a contractual delivered basis to the client's facility. Low crude oil prices make Asian naphtha-based producers more competitive, thus supporting their efforts to run at higher operating rates. As crude prices started rising and the new North American shale-based PE supplies have fully stabilized and are running at optimal rates, world prices are expected to converge to a "global price" with netback neutrality to the major exporting regions. Considering the spot pricing policy employed in China and the rest of the Asia markets, the regional PE prices will remain volatile. Healthy PE demand growth in the region, as well as rising energy costs, are expected to push prices upward during the later years of the forecast period. Despite growth in domestic production, the self-sufficiency level in China will remain at around 60% in the medium to long term. Considering the huge volumes of imports in major Asian markets, such as China, India, Indonesia, and Vietnam, the domestic prices set by the producers in the respective markets will be greatly influenced by the net landed price of imports.

2.6 Polypropylene

Introduction

Polypropylene (PP) is a lightweight, versatile polymer with excellent chemical resistance along with relatively high rigidity and a high melting point compared with other polymers such as polyethylene. The high temperature feature is very important and allows for polypropylene to be under the hood in auto applications and to undergo retort and hot-filled treatments for food packaging. Polypropylene continues to be used in applications ranging from automotive parts, carpet fibres, household and food containers, toys, dog kennels, and diapers to high-clarity films. Polypropylene is typically split into three major categories: homo-polymer (does not contain any ethylene co-monomer), random copolymer (starting from less than 1% up to 4% typically), and impact homo-polymer (low percentage of ethylene upwards of nearly 20% and made in two reactors). The estimated global homopolymer share continues to be approximately 70% of total PP demand.

Global Supply, Demand and Trade Overview

Year 2020 (G) was very unique, given the global pandemic and its negative impact on global economies. However, PP demand is separating from global GDP in 2020 (G) and is expected to be flat versus 2019 (G). While flat does not excite many, considering that the automotive industry worldwide is expected to be down by nearly 25% in 2020 (G) versus 2019 (G) and demand for PP into the automotive industry is estimated to make up 10% of the global PP demand, flat sounds pretty impressive. We are seeing other markets, such as nonwovens, have a banner year because of strong demand from face masks and hospital gowns. Food packaging is having a strong year owing to increased consumption among stay-at-home consumers. If it was not for the automotive industry, we might be seeing growth of over 3% in 2020, maybe higher.

As we move through 2021 (G) and get past the pandemic, we expect a nice economic recovery in most regions and a strong rebound in PP demand. We expect 2021–2031 (G) to see an average year-over-year demand growth of 3.8%. As we have stated in recent years, this growth will be led by mainland China and India, emerging economies with large populations. India's processed PP per capita is well below the world average and there is a lot of potential to increase that number. The more mature economies, such as Western Europe and North America, will lag that of mainland China and India but are still positive over the forecast period.

Polypropylene - Historical and Future Capacities (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	8,540	8,647	8,934	9,058	9,127	9,345	9,643	10,017	10,743	10,868	10,868	10,868
South America	2,924	2,924	2,924	2,924	2,924	2,924	2,924	2,924	2,924	2,924	2,924	2,924
West Europe	9,560	9,560	9,560	9,560	9,560	9,640	9,460	9,460	9,460	9,460	9,460	9,460
Central Europe	1,420	1,420	1,420	1,420	1,460	1,500	1,500	1,500	1,500	1,722	1,940	1,940
CIS & Baltic States	1,468	1,578	1,668	1,688	1,962	2,432	2,558	2,932	3,182	3,182	3,682	3,682
Africa	1,377	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482
Middle East	8,594	9,284	9,284	9,284	9,284	9,435	9,825	10,064	10,064	10,064	10,465	10,864
Indian Subcontinent	4,361	4,640	4,984	5,175	5,316	5,816	5,981	6,355	6,805	6,805	6,805	6,805
Northeast Asia	29,081	30,802	33,530	35,200	36,783	39,974	45,423	48,857	50,231	52,858	53,726	53,875
Southeast Asia	5,215	5,270	5,409	5,855	6,341	7,534	7,995	8,235	8,738	9,138	9,138	9,138
Global	**72,540**	**75,607**	**79,195**	**81,645**	**84,239**	**90,081**	**96,791**	**101,825**	**105,130**	**108,503**	**110,490**	**111,038**

Source: IHS 2020

Polypropylene - Historical and Future Demand (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	7,848	8,025	7,819	8,152	7,780	7,778	8,015	8,198	8,458	8,697	8,921	9,121
South America	2,737	2,706	2,768	2,789	2,668	2,408	2,596	2,661	2,719	2,789	2,860	2,935
West Europe	7,844	8,158	8,322	8,363	8,372	8,278	8,485	8,673	8,825	8,968	9,102	9,211
Central Europe	1,632	1,690	1,739	1,798	1,848	1,829	1,893	1,946	1,990	2,023	2,062	2,101
CIS & Baltic States	1,308	1,325	1,346	1,516	1,617	1,580	1,641	1,696	1,750	1,798	1,849	1,899
Africa	1,812	1,894	1,962	2,044	2,132	2,099	2,175	2,259	2,340	2,425	2,511	2,600
Middle East	4,081	4,223	4,307	4,445	4,490	4,433	4,596	4,738	4,869	4,991	5,109	5,244
Indian Subcontinent	4,718	5,039	5,465	5,928	6,282	6,259	6,954	7,466	8,051	8,810	9,661	10,557
Northeast Asia	26,612	28,696	30,826	32,390	34,129	36,808	39,404	41,489	43,634	45,842	47,935	49,796
Southeast Asia	5,207	5,633	5,826	6,072	6,293	6,159	6,468	6,784	7,175	7,589	8,003	8,461
Global	**63,799**	**67,388**	**70,381**	**73,497**	**75,610**	**77,631**	**82,227**	**85,911**	**89,811**	**93,933**	**98,013**	**101,924**

Source: IHS 2020

Polypropylene - Historical and Future Production (KT)												
Region/Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
North America	7,777	7,780	7,870	7,698	7,647	7,803	8,300	8,513	9,180	9,401	9,441	9,430
South America	2,450	2,537	2,577	2,395	2,440	2,284	2,342	2,324	2,318	2,377	2,385	2,410
West Europe	8,650	8,900	8,870	8,680	8,660	8,520	8,285	8,117	8,246	8,397	8,468	8,603
Central Europe	1,177	1,108	1,167	1,166	1,211	1,182	1,197	1,207	1,218	1,396	1,539	1,596
CIS & Baltic States	1,385	1,531	1,562	1,614	1,720	1,925	2,121	2,437	2,642	2,685	3,169	3,348
Africa	992	1,038	1,077	1,124	1,166	1,111	1,158	1,197	1,220	1,259	1,485	1,526
Middle East	7,031	7,651	7,051	7,870	8,410	7,909	8,184	8,446	8,442	8,807	9,553	10,609
Indian Subcontinent	4,170	4,320	4,360	4,980	4,990	5,475	5,588	5,874	6,354	6,486	6,764	7,301
Northeast Asia	24,997	27,591	29,846	31,547	33,145	34,866	38,398	40,864	42,970	45,252	46,945	48,724
Southeast Asia	4,972	4,845	4,977	5,546	5,776	6,090	6,653	6,932	7,220	7,874	8,264	8,377
Global	**63,602**	**67,301**	**69,358**	**72,619**	**75,165**	**77,165**	**82,227**	**85,911**	**89,811**	**93,933**	**98,013**	**101,924**

Source: IHS 2020

The global nameplate capacity stood at nearly 90.1 million metric ton in 2020 (G) and it is expected to grow at a CAGR of 1.4% between 2021 and 2031 (G), to reach over 111.2 million metric tons by 2031 (G). In 2020 (G), the largest producing country in Northeast Asia—and the world—was China, accounting for about 76% of the region's capacity. In the forecast years, China, Japan, and South Korea plan to increase their polypropylene capacity.

Global demand of PP was around 77.6 million metric ton in 2020 (G). Demand is expected to grow at CAGR of 3.8% per year during 2021-2031 (G), to reach around 119.5 million metric tons by 2031 (G). Northeast Asia is the leading consumer of PP with over 47.4% share of the total demand. The demand share is expected to reach around 48% by 2031 (G). China had a global demand share of 42% in 2020 (G), which is expected to grow to 43% by 2031 (G).

Looking forward we expect demand to increase by another 41.9 million metric tons over the 2020–2031 (G) timeframe, which would result in a per capita consumption of 13.9 kg by 2031 (G). Demand growth is expected to be driven by continued urbanization of the large populations of developing nations, such as Vietnam, India, and mainland China. Looking around the world in 2020 (G), there remains a large gap in consumption per capita between regions and hence strong growth potential, with some regions such as the Indian Subcontinent and Africa only at 7.6 kg and 1.8 kg, respectively, compared with Western Europe and North America at 22.5 kg and 18.6 kg, respectively. Northeast Asia also has a very high processed PP per capita at 33.4 kg, but there is a very large difference between some economies in Asia.

Northeast Asia, Southeast Asia, and the Indian Subcontinent will be the major demand growth engines as they have been every year for some time now. Therefore, economic performance and major shifts in consumption patterns in these regions will be of utmost importance to global markets. Mainland China's expected performance in 2020 (G) as it ramps up mask production to supply the world is really the only thing keeping global PP markets in 2020 (G) close to flat. The rest of the world is expected to be negative in terms of growth in 2020 (G) versus 2019 (G). Mainland China's demand through the forecast period is the biggest demand factor by far in the global market.

In 2020, world PP trade totalled about 22.8 million metric tons, or about 30% of the polypropylene produced. Northeast Asia is the largest importer of PP, accounting for about 6.6 million metric tons or 29% of total PP traded in 2020 (G). Southeast Asia is the next-largest market, at 4.39 million metric tons. Mainland China was the largest importer, with 5.98 million metric tons, followed by Turkey and Vietnam with 2 million metric tons and 1.5 million metric tons, respectively.

The Middle East is the largest exporter of PP resins, with exports of more than 6.15 million metric tons, or nearly 27% of the world total in 2020 (G). It is also the third-largest importer of PP, accounting for 2.6 million metric tons. Other large exporters of PP resins are Southeast Asia with 4.3 million metric tons exports, and Northeast Asia with 4.76 million metric tons in 2020 (G). Saudi Arabia was the largest exporting country and exported 4.2 million metric tons, followed by South Korea with 3 million metric tons and the United States with 1.88 million metric tons.

In Middle East region, nameplate capacity in Middle East was around 9.4 million metric tons in 2020 (G) and it is expected to reach over 10 million metric tons by 2022 (G) with certain planned capacity additions in the region. Additional hypothetical capacity of 4.5 million metric tons is expected to be added to the region by 2031 (G). In 2020 (G), the operating rates of PP plants in Middle east averaged to be around 84% which is down by 7% from 2019 (G), mainly due to the global pandemic world is facing.

The Middle East is expected to see slower polypropylene (PP) demand growth over the forecast years compared with the previous years. In 2021–2031 (G), growth will average 2.6% per year, which is lower compared to CAGR of 2.8% for the 2011–2020 (G) period. The slowdown in global growth and the political and economic woes in the region have weighed on PP demand. Turkey had been the powerhouse of the Middle East until 2012 (G) because its PP demand grew at above 10% for almost a decade. However, demand growth has considerably decelerated in Turkey over the last few years on the back of political turmoil, security issues, and a plunge in the local currency; these issues have limited demand growth and capped investment. Saudi Arabian PP demand growth has weakened during recent years because of the challenges faced by the country after the sharp drop in crude oil and gas prices. As oil prices recovered, Saudi Arabian PP demand growth recovered marginally and, in the future, it is expected to accelerate above 4% at the end of the decade. The biggest drag on regional PP demand over the next five years is likely to be countries not part of the Gulf Cooperation Council (GCC)—Syria, Yemen, Jordan, and Lebanon—because unstable political scenarios are likely to result in flat or declining PP demand growth. Iran, where demand had slumped under economic sanctions, has had volatile demand growth and has fluctuated between years with positive and negative growth. Much will depend on how growing economic tensions in the region evolve, and a change in the breadth of the sanctions could alter the forecast growth.

The Covid -19 pandemic is going to leave a deep impact on the region from growth to consumption patterns to investments. Incidentally, it was not Covid -19 alone that affected the region but also the collapse of crude oil prices, which had a significant impact on the region's economy and life. Apart from impacting tourism and travel, these twin factors will weigh on government finances, which will have negative bearing on investment and welfare. Loss of employment, subsidy rollbacks, cuts in salaries, and rise in value-added tax (VAT), namely in Saudi Arabia from 5% to 15%, will constrain consumers and throttle capital investment in the short and medium term. Therefore, demand will underperform in the next few years.

Pricing and Margin Analysis

North American PP prices and margins have been the most volatile in the world over the last decade owing to the up-and-down nature of the domestic propylene monomer market as well as a few years of PP margin spike in 2015 (G) and 2016 (G). This volatility has changed the import dynamics of the marketplace as the market has learned how to handle 25-kilogram bags and super sacks and has at times imported up to 10% of consumption needs, a figure unheard of prior to 2015 (G). Domestic converters made one-time investments for debagging equipment that gives them the ability to import resin if necessary, for years to come. Over the last decade, the region has seen its net export position change to more balanced as imports have become a key piece of domestic supply to meet growing demand. However, 2019 (G) and 2020 (G) have been awful demand years, taking the region back to 2014 (G) levels for total demand. This situation is very challenging for resin producers as they have brought on a total of nearly 1.1 million metric tons over the time period via debottlenecks (670,000 metric tons) and the new Braskem plant (450,000 metric tons) that started in September 2020 (G). This supply and demand imbalance is expected to challenge near-term margins for 2021(G) onward.

Over time, the European polypropylene business has gradually integrated with the global market as more imports flowed into the region, especially from the Middle East, which also necessitated more exports from the region in order to balance the market. As Middle East producers ramped up their import market share, especially following huge capacity expansions between 2009 (G) and 2012 (G) that leveraged the advantaged feedstock in that region, the European market, with its higher export arbitrage opportunity, offered an attractive outlet for the surplus volume from the Middle East. This inflow of material weighed on operating rates and margins in Europe amid demand contraction and slow recovery following the Great Recession in 2008 (G). Oversupply amidst a cost disadvantage and a weak outlook forced some local PP units into either closure, restructuring, or a shift in product portfolio toward value-added grades and exports. However, as Middle East capacity growth tapered, and PP business saw underinvestment in the global context, Europe soon regained its market balance and operating rates and margins saw cyclical uplift between 2016 (G) and 2018 (G). However, we are once again witnessing a gradual structural shift that will intensify in the coming years.

Northeast Asian prices throughout the forecast period will likely continue to be the lowest on a global basis, primarily because of Mainland China's influence as the world's largest net importer, but also because of the impact of lower-cost resins moving from the Middle East into the region at a lower freight rate than exports to Europe. Mainland China's move to a higher self-sufficiency rate, via increased capacity builds in the forecast period compared with history, also puts tremendous pressure on other Northeast Asian producers that currently depend on Mainland China for their PP exports. Mainland China is expected to supply approximately 87% of its own demand needs by 2025 (G), and much of this new capacity will be driven by new expansions as Mainland China seeks higher self-sufficiency for its petrochemical needs. The new supply additions will put downward pricing pressure on older, high-cost Chinese PP assets and could lead to reductions in operating rates.

3. THE ACQUISITION Transaction

3.1 Overview of the Acquisition Transaction

On 3/2/1442H (corresponding to 20/9/2020 G), SIIG and Petrochem announced the start of the initial discussions for the economic feasibility of merging the business of the two Companies. On 3/9/1442H (corresponding to 15/4/2021G), the two companies announced that the initial economic feasibility study is completed, based on which SIIG and Petrochem decided to commence reciprocal due diligence and negotiate the terms and conditions of merging the businesses of the two Companies and the sharing of information between them in this regard.

On 20/2/1442H (corresponding to 27/9/2021G), SIIG announced that it had signed a non-binding Memorandum of Understanding with Petrochem in relation to the share exchange ratio and the implementation structure of the Acquisition Transaction (the "**Memorandum of Understanding**" or "**MoU**").

On 21/3/1443H (corresponding to 27/10/2021G), SIIG announced the entry into the Implementation Agreement and its firm intention to proceed with the Acquisition Transaction and making an offer to Petrochem's Selling Shareholders in this respect. The Implementation Agreement included all the provisions and steps necessary to implement and complete the Acquisition Transaction between both companies in accordance with the provisions of Article (26) of the Merger and Acquisition Regulations. For more information on the provisions of the Implementation Agreement, please refer to section (5.4.1) ("**Implementation Agreement**") of this Shareholders' Circular.

Pursuant to the Implementation Agreement, SIIG will acquire the Offer Shares, which will result in an increase in the SIIG's ownership in Petrochem from (50%) to (100%), in consideration for the issue of the Consideration Shares by SIIG to Petrochem's Selling Shareholders by increasing its share capital in accordance with the provisions of Article (57) of the Rules on the Offer of Securities and Continuing Obligations and based on the final exchange ration, whereby Petrochem's Selling Shareholders obtain (1.27) SIIG shares in consideration for every Petrochem share held. The total number of Consideration Shares will be three hundred four million eight hundred thousand (304,800,000) fully paid shares with a nominal value of ten Saudi Riyals (SAR 10) per share. The total nominal value of the Consideration Shares is three billion forty-eight million (SAR 3,048,000,000) Saudi Riyals. These shares will be issued by way of increasing the fully paid-up capital of SIIG at a rate of (67.733%), from four billion five hundred million (4,500,000,000) Saudi Riyals to seven billion five hundred forty-eight million (7,548,000,000) Saudi Riyals and increasing the number of issued shares of SIIG from four hundred fifty million (450,000,000) shares to seven hundred fifty-four million eight hundred thousand (754,800,000) fully paid shares. Upon completion of the Acquisition, the current SIIG Shareholders will own (59.62%) of the SIIG capital and the Petrochem's Selling Shareholders will own (40.38%) of the SIIG's capital.

The total value of the Acquisition Transaction will be determined based on the value of the Consideration Shares. The total nominal value of the Consideration Shares is three billion forty-eight million (SAR 3,048,000,000) Saudi Riyals. The total market value of the Consideration Shares as determined on the basis of the Exchange Ratio and the closing price of SAR 41.1 per SIIG share on 20/03/1443H (corresponding to 26/10/2021G) (which is the last trading day prior to the Implementation Agreement) is twelve billion five hundred twenty-seven million two hundred and eighty thousand (SAR 12,527,280,000) Saudi Riyals. The total value of the Consideration Shares (as will be recorded on the financial accounts of SIIG) will be determined at a later stage on the basis of the closing price of SIIG shares on the last trading day prior to the Effective Date of the Acquisition.

In the event that the calculation of the number of shares owed to any Petrochem's Selling Shareholder based on the Exchange Ratio results in fractional shares, the resulting figure will be rounded down to the lowest whole number. For example, if a Petrochem Shareholder holds (50) Petrochem shares, he will be allocated 63 Consideration Shares, not (63.5) Consideration Shares. The fractional shares will be aggregated and sold in Tadawul at the then market price on behalf of the entitled Petrochem's Selling Shareholders. Subsequently, the proceeds resulting from the sale of the fractional shares will be distributed to such Petrochem Shareholders proportionate to their respective fractional entitlements within a period not exceeding thirty (30) days from Completion. The costs related to the sale of fractional shares will be deducted from the total proceeds of such sale.

It should be noted that no involuntary staff redundancies are expected as a result of the Acquisition.

Since there are no Substantial Shareholders in SIIG, the following table shows details of ownership in SIIG of each of SIIG's board of directors, its Senior Executives and the public, in addition to GOSI's direct and indirect ownership prior to and following the Acquisition Transaction as of 7/8/1443H (corresponding to 10/3/2022G):[11]

Shareholder	Pre- Completion		Post- Completion	
	No. of Shares	Shareholding %	No. of Shares	Shareholding %
SIIG Directors*	100,708	0.02%	100,708	0.01%
SIIG Senior Executives**	1,000	0.0002%	1,000	0.0001%
GOSI***	22,275,000	4.95%[12]	140,260,834	18.58%
The Public	449,898,292	99,97%	614,437,458	81.4%
Total	**450,000,000**	**100%**	**754,800,000**	**100%**

* Pursuant to the shares owned by SIIG directors in SIIG only, which include the shares they own directly and the shares in which they have an indirect interest.

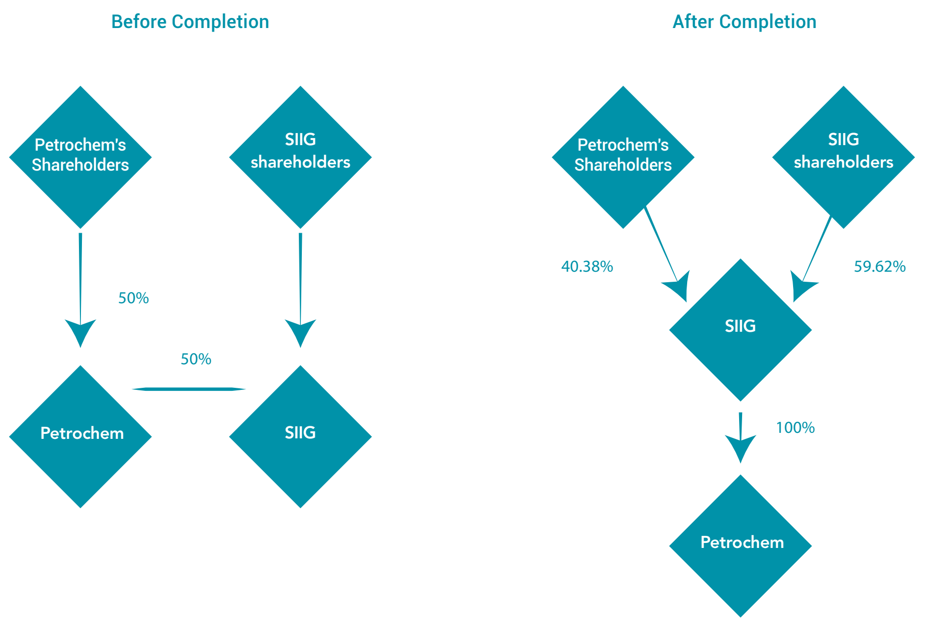
** pursuant to the shares owned directly by SIIG senior executives in SIIG only.

*** GOSI has indirect ownership in SIIG, as described below:

(1) Pre- Completion of the Acquisition Transaction: GOSI indirectly owns, through its subsidiaries, (62,926,190) shares in SIIG, which accounts for (13.98%) of SIIG's capital.

(2) Post- Completion of the Acquisition Transaction: GOSI will indirectly own, through its subsidiaries, (135,451,790) shares, which will account to (20.23%) of SIIG's capital.

The below diagram is a simplified description of the structure of the Acquisition Transaction:



11 Note: GOSI transferred part of its direct ownership in SIIG to some of its subsidiaries. The percentage of direct ownership of GOSI in SIIG fell from (13.14%) to (4.95%) as of 13/01/2022G according to the data published on Tadawul. Noting that GOSI's total direct and in direct ownership in SIIG Pre-Completion of the Acquisition Transaction is (18.93%) of SIIG's share capital. Furthermore, GOSI's total direct and in direct ownership in SIIG Post-Completion of the Acquisition Transaction will be (38.91%) of SIIG's share capital. Noting that GOSI will not own any shares in Petrochem Post-Completion, due to Petrochem becoming a delisted joint stock company wholly owned by SIIG.

12 Note: GOSI's direct ownership in SIIG Pre-Completion of the Acquisition Transaction has been included for the purpose of disclosure and for the reason that it will become a Substantial Shareholder in SIIG Post-Completion of the Acquisition Transaction. GOSI's direct ownership has also been included within the public ownership total which represents (99.97%) of SIIG's share capital Pre-Completion of the Acquisition Transaction, due to its current direct ownership being below (5%).

3.2 Rationale of the Acquisition

Overview

The petrochemicals industry, globally and in Saudi Arabia, has witnessed significant development over the past few years on the back of shifts in macroeconomic fundamental, evolution of commodity prices, shift of investments in regional production capacity, and reform of public policies, among other factors.

The latest trends in the sector impose challenges on industry players that could hamper performance and limit growth potential. These challenges include, but not limited to, the following:

- Shale oil expansion in the United States was accompanied with an increase in the production of natural gas and decrease in its price, where Henry Hub benchmark dropped from $4.4 per MMBtu in 2010 to $1.9 per MMBtu in 2020, which resulted in an increase of competitive tension among polymer producers globally[13].
- Reduction of polymer imports into North East Asia—one of the largest destinations of polymers producers in Saudi Arabia—due to improvement in self-sufficiency, where ethylene production capacity in the region increased by 4.9% compounded annual growth rate between 2015 – 2020, while, during the same period, ethylene production capacity in the Middle East increased by only 1.8% compounded annual growth rate[14].
- Recent volatility of oil prices was accompanied with shrinkage of naphtha-ethane spread due to the precautionary measures undertaken to contain the spread of COVD19, where since the beginning of 2020, Brent benchmark reached a low of $9.1 per barrel and a high of $78.3 per barrel[15].
- Potential reduction of the feedstock prices' competitive advantage and its availability in the Kingdom and the Middle East due to tighter supply of gas, which may reduce allocation of natural gas and result into higher investments in naphtha crackers. Natural gas total proved reserves in the Middle East declined from 77.8 trillion cubic meters in 2010 to 75.8 trillion cubic meters in 2020[16].
- Limited demand, to date, on polymer products from local industrial producers and manufacturer in Saudi Arabia who use these products in their operations, where the sales in Saudi Arabia by petrochemical listed entities in Saudi Arabia were at 16.9% of total sales as of 2020[17].

In an effort to overcome these challenges, the board of directors of each of SIIG and Petrochem discussed the potential impact of the Transaction, and determined based on these discussions that the Transaction will allow both SIIG and Petrochem to be better positioned to overcome the current challenges and developments of the petrochemicals sector, as the Transaction will create a leading integrated petrochemical company with robust business model and an expanded products portfolio. SIIG post-completion will be better positioned to streamline operational activities through an effective organizational structure and better arrangements for infrastructure and utilities which will reduce the fluctuations effect of the petrochemical sector.

Further, SIIG post-completion will be able to improve the operational activities, crystallize growth potential, economize on financing and access to capital, improve equity trading and coverage exposure by equity research analysts, rationalize corporate governance arrangements and decision-making process, and, as a result safeguard and grow shareholders value. Set forth below are the key themes of benefits from the Transaction:

13 Note: based on British Petroleum's Statistical Review of World Energy 2020
14 Note: based on the market study prepared by IHS Markit
15 Note: based on United States's Energy Information Agency
16 Note: based on British Petroleum's Statistical Review of World Energy 2020
17 Note: based on the weighted average split of sales in Saudi Arabia by SIIG, Petrochem, Tasnee, Advanced, Sipchem, SABIC AN, YANSAB, Saudi Kayan.

Benefits

The Transaction will create a number of benefits for SIIG post-completion which will benefit the current shareholders of SIIG and Petrochem's Selling Shareholders upon becoming shareholders in SIIG post-completion. These benefits are as follows:

Increased operational and financial scale. SIIG post-completion will become one of the largest petrochemical companies in Saudi Arabia from a pro-forma market value perspective, in addition to becoming among the largest in the MENA region, with pro-forma market capitalization of 30.4 billion Saudi Riyals as of 30 September 2021 and pro-forma combined total production capacity of 6.3 million ton per year as of 31 December 2020. From an operational standpoint, SIIG post-completion will have a robust and expanded products portfolio with an adequate level of resilience, not to mention an enhanced corporate profile that can support in various business arrangements between its subsidiaries and counterparts, which can potentially help increase operating rates.

Growth and development opportunities. SIIG post-completion will be better positioned to achieve growth in its current assets and through new investments; and capture business development opportunities through its enlarged market capitalization, share capital base and improved integration. This includes improvement of utilization and efficiency, expansion of capacity in operations and infrastructure; improvement of current partnership to anchor future growth; forge new strategic alliances and partnerships locally and globally, such as Shareek Program which is a framework between the government and private sector to encourage local investments in the KSA ; scout for future M&A opportunities, in Saudi Arabia or internationally, with value creation potential; and venture into new industries with higher value-add products to diversify the business.

Diversification and risk reduction. SIIG post-completion will be in a better position when it comes to hedging against naphtha-ethane spread, which is tied with oil price movement, to reduce its impact on earnings, as the shareholders of SIIG post-completion will have enhanced exposure to production lines that utilizes naphtha, ethane and propane. The diversification of the feedstock slate will enable SIIG post-completion to manage market and oil volatility.

Better capital market exposure and access to a larger investor base. SIIG post-completion, as a result of the Transaction, will have a larger market capitalization, larger free float and shareholders base, as well as increased average daily trading volumes, values and trades in absolute terms, which when coupled with the other benefits from the Transaction, will result into an improved trading patterns, such as market depth, share price volatility, as well as liquidity levels. The enlarged capitalization and investors base, in turn, will provide SIIG post-completion a higher likelihood of inclusion in global and emerging market indices based on the criteria of the relevant entities, which will increase global exposure, induce capital flow, invite further coverage by equity analysts.

Simplification of ownership structure and opportunity for asset optimization. SIIG post-completion will have a simplified ownership structure, which will support in the reduction or rationalization of the common overhead costs. In addition, the unification of control over the subsidiaries of SIIG post-completion will introduce agility in the decision making process in relation to operations, strategies, investments, among other general corporate areas.

Achieving combined fully phased in cost synergies for both companies. The Acquisition Transaction is expected to result in fully phased in cost synergies for SIIG after Completion around approximately in an annual basis. The expectations in relation to the cost synergies are based on the initial estimates and it is subject amendments post-completion and the addition of more details. Furthermore, the cost synergies may not be achieved due to the inaccuracy of the initial estimates on which they were based on. SIIG, its board of directors, and Senior Executives will not be held responsible for the results of the initial estimates, and there is no intention of updating the expected benefits and cost synergies of the Acquisition Transaction unless it is required by the relevant rules and regulations. On that basis, these expectations shall not be explained in a manner that indicates that SIIG's dividends post-completion will be greater than those in past financial periods.

3.3 Directors

The board of directors of SIIG, as of 7/8/1443H (corresponding to 10/3/2022G), is comprised of nine (9) members, as follows:

Name	Nationality	Age	Position	Membership Status	Representation	Date of Appointment	Ownership in SIIG				Ownership in Petrochem			
							Direct	Indirect Interest*	Total	Percentage	Direct	Indirect Interest*	Total	Percentage
Mr. Khalil I. Alwatban	Saudi	62	Chairman of Board of Directors	Non-Executive	GOSI	1/7/2021G	N/A	N/A	-	-	N/A	N/A	-	-
Mr. Nabil A. Almubarak	Saudi	54	Vice Chairman of Board of Directors	Non-Executive	-	1/7/2021G	5,000	N/A	5,000	0.001%	N/A	N/A	-	-
Mr. Sulaiman A. Algwaiz	Saudi	66	Member of the Board of Directors	Independent	-	1/7/2021G	N/A	N/A	-	-	N/A	N/A	-	-
Mr. Abdulrahman S. Alrajhi	Saudi	59	Member of the Board of Directors	Non-Executive	-	1/7/2021G	38,193	N/A	38,193	0.01%	N/A	N/A	-	-
Mr. Adel A. Alquraishi	Saudi	55	Member of the Board of Directors	Non-Executive	-	1/7/2021G	40,000	N/A	40,000	0.01%	N/A	N/A	-	-
Mr. Farraj M. Abothenain	Saudi	67	Member of the Board of Directors	Independent	-	1/7/2021G	N/A	N/A	-	-	N/A	N/A	-	-
Mr. Saad S. Alrwaite	Saudi	62	Member of the Board of Directors	Independent	-	1/7/2021G	N/A	N/A	-	-	N/A	N/A	-	-
Mr. Thamer A. Alhumud	Saudi	39	Member of the Board of Directors	Non-Executive	GOSI	1/7/2021G	17,500	N/A	17,500	0.004%	N/A	N/A	-	-
Mr. Fahad A. Almaekel	Saudi	42	Member of the Board of Directors	Independent	-	1/7/2021G	15	N/A	15	0.000003%	N/A	N/A	-	-

Source: SIIG and Petrochem

* Indirect interest includes any shares through:

- Relatives of the relevant director.
- any company Controlled by the relevant director.

3.4 Proposed changes to the Board of Directors of SIIG after the Completion of the Acquisition

Subject to procurement of relevant regulatory and shareholder approvals, both Companies have agreed pursuant to the Implementation Agreement to take the necessary steps for implementing the following changes in respect of the SIIG board composition after the Completion of the Acquisition:

1- To appoint two (2) individuals (whom shall be nominated by Petrochem board within thirty (30) days prior to the Effective Date of the Acquisition) to fill in the two vacant board seats following the Completion of the Acquisition.

2- SIIG will provide two vacant seats for the two members who are nominated by Petrochem Board of Directors through increasing SIIG's board size from nine (9) members to ten (10) members and one member resigning from the SIIG board of directors on the date of the Completion.

As a result of the above changes, it is expected that, following the Completion of the Acquisition, the composition of the board of SIIG will be as follows:

- GOSI, one of the current Shareholders of SIIG and a Substantial Shareholder of Petrochem, will have two representatives in the board of SIIG as of the Completion (at present, the GOSI has two representatives in SIIG board);
- two (2) directors will be nominated by Petrochem's board as members of the SIIG's board following the Completion; and
- the remaining directors will be from the then current board of SIIG.

These changes will only take effect following the Completion of the Acquisition. Until then, the current boards and executive management teams of both Companies will continue to lead their respective Companies independently.

3.5 Description of Petrochem

3.5.1 OVERVIEW

Petrochem was established as a Saudi joint stock company registered in the city of Riyadh, Kingdom of Saudi Arabia, with Commercial Registration No. 1010246363 dated 8th of Rabi' Al-Awwal 1429H (corresponding to 16th of March 2008G). The headquarters of the company is located in Riyadh and its capital is (4,800) million Saudi Riyals. Petrochem's activity includes development, establishment, operation, management and maintenance of plants of petrochemical, gas, petroleum and other industries, as well as wholesale and retail trade in petrochemical materials and products and their derivatives. Petrochem activity is currently limited to investing in its subsidiaries: Saudi Polymers Company, which produces petrochemical products, and Gulf Polymers Distribution Company, which distributes Saudi Polymers Company's products. The following is an overview of these two companies:

3.5.1.1 Saudi Polymers Company:

Saudi Polymers Company, the first project of Petrochem, is a limited liability company with a capital of 1,406 million Saudi Riyals and commercial registration number 2055008886 issued from Jubail on 29/11/1428H (corresponding to 9/12/2007G), located in Al-Jubail Industrial City. The activity of the project cover producing and selling ethylene, propylene, hexane, high and low density polyethylene, polypropylene and polystyrene. Petrochem owns 65% of the project. and the remaining 35% is owned by Arabian Chevron Phillips Petrochemical Company Ltd. The project started its commercial production in the last quarter of 2012G. The production is carried out with the following capacities:

Material	Production Capacity (1,000 tons)
Ethylene	1,220
Propylene	440
Polyethylene	1,100
Polypropylene	400
Hexane-1	100
Polystyrene	100

On 25th of June 2020, Petrochem announced on the Saudi Exchange Company website the resolution of the board of directors of its subsidiary company (Saudi Polymers Company) dated 25th of June 2020 to stop the polystyrene production unit and amortize its value, due to the difficulty of making profits from this unit in light of the situation in the polystyrene market globally.

During 2020G, the total sales of Saudi Polymers Company amounted to 5,532 million Riyals, compared to 6,774 million Riyals in 2019G. During 2020G, Saudi Polymers Company realized a net profit of 259 million Riyals, compared to a net profit of 870 million Riyals in 2019G. The average production capacity of the Company reached about 98% during 2020G.

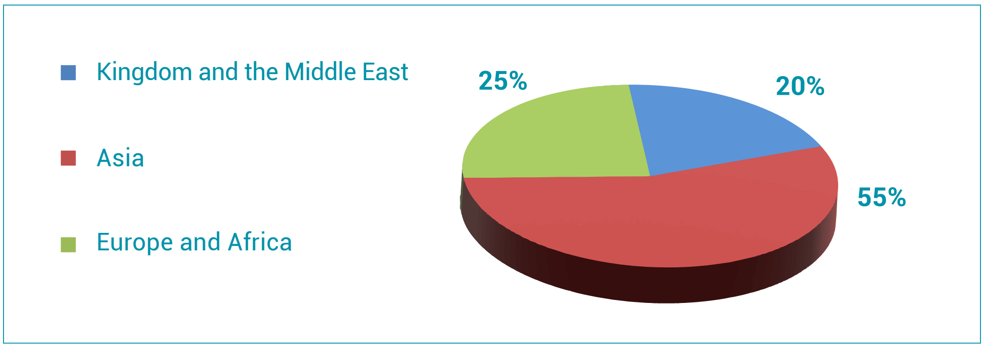
Saudi Polymers Company markets its products inside the Kingdom, while sales outside the Kingdom are made by Gulf Polymers Distribution Company. Chevron Phillips Chemical International Sales Inc. (CPCIS) also provides marketing support through marketing services for all Saudi Polymers Company products globally based on the sale agreement concluded between Gulf Polymers Distribution Company and CPCIS.

It should be noted that the capital of Saudi Polymers Company was reduced on 29/4/2021G from (4,800) million Riyals to (1,406) million Riyals as a result of its increment beyond the Company's need, and Petrochem's share of this reduction is (2,206) million Riyals.

3.5.1.2 Gulf Polymers Distribution Company:

It is a limited liability company, located in Dubai Airport Free Zone at the United Arab Emirates. It was established in 2011 with a capital of 2 million dirhams, of which Petrochem owns 65% and Arabian Chevron Phillips Petrochemical Company owns 35%. The company markets the products outside the Kingdom in cooperation with Chevron Phillips Chemical International Sales Inc. (CPCIS) based on the sale agreement concluded between Gulf Polymers Distribution Company and CPCIS. The Company's activity is limited to providing marketing support by storing, selling and distributing the Saudi Polymers Company products outside the Kingdom.

The geographical distribution of the revenues of Saudi Polymers Company and Gulf Polymers Distribution Company during 2020 was as follows:



3.5.2 Strategy Overview of Petrochem

Petrochem's strategy is based on a number of main areas, including:

- Continuing to enhance the returns to shareholders.
- Enhancing production efficiency, expanding the company's current projects while reducing production costs.
- Continuing to develop national cadres to ensure the company's future.
- Diversifying the company's investments internally and externally, and distributing investment risks.
- Studying and evaluating investment and growth opportunities in new projects, petrochemical and non-petrochemical.
- Looking for existing investment opportunities, including merger and acquisition opportunities that have a competitive advantage.

3.5.3 Petrochem Board

The board of directors of Petrochem, as of 7/8/1443H (corresponding to 10/3/2022G), is comprised of eight (8) members, as follows:

Name	Nationality	Age	Position	Status	Representation	Date of Appointment	Ownership in Petrochem				Ownership in SIIG			
							Direct	Indirect Interest*	Total	Percentage	Direct	Indirect Interest*	Total	Percentage
His Excellency Mr. Hamad S. AlSayari	Saudi	83 years	Chairman of Board of Directors	Non-Executive	-	11/04/2019G	100,000	N/A	100,000	0,002%	200,000	N/A	200,000	0,0044%
Mr. Suliman M Al-Mandeel	Saudi	74 years	Member of the Board of Directors	Non-Executive	-	11/04/2019G	1000	N/A	1000	0,00002%	30,000	6,500	306,500	0,007%
Dr. Rasheed R. Bin Owain	Saudi	65 years	Member of the Board of Directors	Independent	-	11/04/2019G	4,000,000	N/A	4,000,000	0,83%	N\A	1,150,000	1,150,000	0.25%
Mr. Khalid M. Alaraifi	Saudi	57 years	Member of the Board of Directors	Non-Executive	GOSI	11/04/2019G	N/A				N/A			
Mr. Ziyad M. AlShiha	Saudi	57 years	Member of the Board of Directors	Independent	-	11/04/2019G	N/A				N/A			
Mr. Abdullatif A. AlSeif	Saudi	45 years	Member of the Board of Directors	Independent	-	11/04/2019G	N/A				N/A			
Mr. Eyad A. Alhusain	Saudi	44 years	Member of the Board of Directors	Non-Executive	GOSI	11/04/2019G	N/A				N/A			
Mr. Abdulrahman S. Alismail	Saudi	53 years	Member of the Board of Directors	Non-Executive	-	11/04/2019G	1,000	N/A	1,000	0,00002%	1,000	N/A	1,000	0,00002%

Source: Petrochem and SIIG

* Indirect interest includes any shares through:

- relatives of the relevant director.
- any company controlled by the relevant director.

3.5.4 Companies in which Petrochem Holds Shares

The following table shows a list of companies Controlled by Petrochem through directly owning 30% or more of its shares:

Name of entity	Legal form	Sharehold-ing %	Country of incorporation	Principal activity
Saudi Polymers Company	Limited liability company	65%	Kingdom of Saudi Arabia	Production and sale of ethylene, propylene, hexane, high and low density polyethylene, and polypropylene
Gulf Polymers Distribution Company	Limited liability company	65%	United Arab Emirates	Store, sale and distribution of Saudi Polymers Company products around the world.

3.6 The Valuation of Petrochem

It was agreed between SIIG and Petrochem on the exchange ratio that determines the number of shares that Petrochem's Selling Shareholders will obtain in SIIG as a result of the Acquisition, after negotiation and discussion between both companies. In negotiating the Exchange Ratio, SIIG made reference to advice and assistance from its respective advisers and a detailed review of due diligence information on Petrochem's business. For more details on the terms of the Implementation Agreement, please see section (5.4.1) ("**Implementation Agreement**") of this Shareholders' Circular.

In reaching agreement on the Exchange Ratio, a number of valuation methodologies have been considered by HSBC Saudi Arabia in its valuation based upon which SIIG has reached the final Exchange Ratio. The main valuation methodologies included:

Discounted cash flow analysis

- Discounted cash flows were calculated based on certain internal financial analyses and projections for SIIG and certain financial analyses and projections for Petrochem, as prepared by SIIG and Petrochem managements.
- These cash flows are discounted using an appropriate discount rate to offset the risk to the present value of shareholders.

Price-to-earnings multiples analysis

- In reaching an implicit nominal value, price-to-earnings multiples for selected peers were calculated by identifying specific valuation multiples of listed companies similar in terms of assets and business to SIIG and Petrochem.
- The financial forecasts for each of SIIG and Petrochem were calculated based on certain internal financial analyses and projections for SIIG and certain financial analyses and projections for Petrochem, as prepared by SIIG and Petrochem managements.
- Price-to-earnings multiples for selected peers were obtained using market data sources, i.e. Tadawul, (Bloomberg) and (Factset).

Market Valuation

- The market has been evaluated based on current market capitalization levels of SIIG and Petrochem and implied market capitalization levels using the average price weighted by the trading volume over several time periods.
- Market data was obtained using market data sources, i.e. Tadawul, (Bloomberg) and (Factset).

Based on the aforementioned valuation methodologies, and after reviews by, and discussions with, SIIG, the Exchange Ratio's range was determined to be between 1.20 to 1.37 shares in SIIG for each share in Petrochem. This is based on the financial advisor's valuation as set out in the below table as at 26/09/2021G:

Company	Share Price (SAR)	Total number of shares (million)	Fair Value (million SAR)
SIIG based on closing share price as of 26/09/2021G	39.90	450.00 MM	17,955.00
Petrochem based on closing share price as of 26/09/2021G	49.70	480.00 MM	23,856.00
Petrochem based on the minimum range of the Exchange Ratio (1.20 shares)	47.88	480.00 MM	22,982.40
SIIG based on the minimum range of the Exchange Ratio (1.37 shares)	54.66	480.00 MM	26,238.24

Following discussions and negotiations between SIIG and Petrochem, the final exchange ratio was agreed at (1.27) shares in SIIG for each share in Petrochem. The following table sets out the final valuation based on said exchange ratio as of 26/09/2021G:

Company	Share closing price as of 26/09/2021 (SAR)	Total number of shares (million)	Fair value (million SAR)
Petrochem based on the final exchange ratio (1.27 share)	50.67	480.00	24,323.04

In addition to reviewing the necessary professional due diligence reports related to Petrochem's business, analyzing the mutual benefits and evaluating the current status of Petrochem, the Saudi Group has taken the advice of its advisors to determine the final exchange ratio.

With the above considered, a final exchange ratio of 1.27 shares in SIIG for each share in Petrochem was agreed. This implies a total number of fully paid-up Consideration Shares to be issued of three hundred four million eight hundred thousand (304,800,000) shares. The total nominal value of the Consideration Shares is three billion forty-eight million (SAR 3,048,000,000) Saudi Riyals based on a SAR 10 nominal share value for SIIG. The total market value of the Consideration Shares as determined on the basis of the Exchange Ratio and the closing price of SAR 41.1 per SIIG share on 26/10/2021G (the last trading day prior to the firm intention announcement) is twelve billion five hundred twenty-seven million two hundred and eighty thousand (SAR 12,527,280,000) Saudi Riyals, implying a per share value of SAR 52.2 per outstanding Petrochem share which represents: (i) a premium of 2.35% to the closing share price of Petrochem of SAR 51 in Tadawul on 26/10/2021G (the last trading day prior to the firm intention announcement); (ii) a premium of 5.02% to the closing share price of Petrochem of SAR 49.7 in Tadawul on 26/9/2021G (the last trading day prior to the announcement made by the companies that they concluded the non-binding Memorandum of Understanding in relation to the Acquisition on 21/2/1443H (corresponding to 28/9/2021G)). The total book value of the Consideration Shares in the financial accounts of SIIG will be determined on the basis of the closing price of SIIG shares on the last trading day prior to the Effective Date of the Acquisition.

In its capacity as the financial advisor to SIIG, HSBC Saudi Arabia rendered its written fairness opinion to the SIIG board of directors on 26/10/2021G, to the effect that, as of such date and based upon and subject to the factors and assumptions set forth therein, the Exchange Ratio pursuant to the Implementation Agreement was fair from a financial point of view to SIIG.

It should be noted that HSBC Saudi Arabia provided advisory services and its opinion solely for the information and assistance of the SIIG board of directors in connection with its consideration of the Acquisition. As such, the HSBC Saudi Arabia opinion is not a recommendation as to how any SIIG Shareholder should vote with respect to the resolutions to be proposed at the SIIG EGM in relation to the Acquisition or any other matter.

The following documents were reviewed by HSBC Saudi Arabia in arriving at the opinion that the Exchange Ratio pursuant to the Implementation Agreement was fair from a financial point of view to SIIG: (i) draft Implementation Agreement concluded between SIIG and Petrochem on 27/10/2021G; (ii) draft of the Offer Document with respect to the Acquisition; (iii) certain publicly available business and financial information concerning SIIG and Petrochem, the markets in which they operate and certain other companies engaged in businesses comparable to them; (iv) proposed financial terms of the Acquisition in comparison with publicly available financial terms of other certain acquisitions involving companies deemed relevant and the consideration received for such acquisitions; (v) the financial and operating performance of SIIG and Petrochem in comparison with publicly available information concerning certain other companies deemed relevant including the review of current and historical market prices of SIIG shares and Petrochem shares and certain publicly traded securities of such other companies; (vi) the audited consolidated financial statements of SIIG and Petrochem for the fiscal years ended on 31st of December 2018G, 2019G and 2020G and the condensed consolidated interim financial statements of SIIG and Petrochem for the three and six months period ended on 30th of June 2021G; (vii) certain internal, unaudited financial analyses, projections, assumptions and forecasts prepared by or at the direction of the managements of SIIG and Petrochem relating to their respective businesses for the three fiscal years ended on 31st of December 2018G, 31st of December 2019G and 31st of December 2020G and for the six months period ended on 30th of June 2021G, as well as the estimated amount and timing of the cost savings and related expenses and synergies expected to result from the Acquisition; and (viii) other financial studies and analyses and considered such other information as deemed appropriate for the purposes in arriving at the opinion that the Exchange Ratio pursuant to the Implementation Agreement was fair from a financial point of view to SIIG.

Furthermore, HSBC Saudi Arabia has held discussions with members of the senior management of SIIG with respect to certain aspects of the Acquisition, and their assessments of the past and current business operations of SIIG, the financial condition and future prospects and operations of SIIG, the effects of the Acquisition on the financial condition and future prospects of SIIG, and certain other matters necessary or appropriate to the opinion.

The full text of the written opinion of HSBC Saudi Arabia submitted to SIIG on 26/10/2021G, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex 2 to this Shareholders' Circular.

The following table summarizes the results of the agreed valuation, which equals to twelve billion five hundred twenty-seven million two hundred eighty thousand Saudi Riyals (12,527,280,000):

Agreed Exchange Ratio	1.27 shares in SIIG for each share in Petrochem.
Total Number of the Consideration Shares	Three hundred four million eight hundred thousand (304,800,000) fully paid shares.
Total Nominal Value of the Consideration Shares	Three billion forty-eight million (3,048,000,000) Saudi Riyals based on a SAR 10 nominal share value.
The total market value of the Consideration Shares (at the end of the last trading day prior to the conclusion of the Implementation Agreement dated 20/3/1443H (corresponding to 26/10/2021G)	is twelve billion five hundred twenty-seven million two hundred eighty thousand (SAR 12,527,280,000) Saudi Riyals.
The total market value of Petrochem shares (at the end of the last trading day prior to the conclusion of the Implementation Agreement dated 20/3/1443H (corresponding to 26/10/2021G)	Twelve billion two hundred forty million (SAR 12,240,000,000) Saudi Riyals.
The percentage of the difference between the total market value of the Consideration Shares and the total market value of Petrochem's shares which are the subject of the Transaction (at the end of the last trading day prior to the conclusion of the Implementation Agreement dated 20/3/1443H (corresponding to 26/10/2021G)	2.35%
Stock price of SIIG (at the end of the last trading day prior to the conclusion of the Implementation Agreement dated 20/3/1443H (corresponding to 26/10/2021G).	SAR 41.1
Stock price of Petrochem (at the end of the last trading day prior to the conclusion of the Implementation Agreement dated 20/3/1443H (corresponding to 26/10/2021G).	SAR 51.0
Implied valuation of Petrochem's stock (at the end of the last trading day prior to the conclusion of the Implementation Agreement dated 20/3/1443H (corresponding to 26/10/2021G).	SAR 52.2

3.7 Related Parties and Conflicted Directors

The Acquisition Transaction involves Related Parties as GOSI is a Shareholder in SIIG and a Substantial Shareholder in Petrochem, and it has representation on the boards of both SIIG and Petrochem. SIIG is also a Related Party because it owns (50%) of Petrochem, in addition to its interest above its ordinary interest as a shareholder in its capacity as the Offeror in the Acquisition Transaction.

The CMA has issued a waiver for GOSI (as a Related Party) from the requirements of Article 3(o) and Article 48 of the Merger and Acquisition Regulations, thereby allowing GOSI to vote on the Acquisition Resolutions in the General Assembly of one of the companies, subject to the voting restrictions applicable to the shareholder who owns shares in both companies, in which case the shareholder will be permitted to vote in the General Assembly of one of the companies, and the voting restrictions applicable to their representatives in the meeting of the board or any committee. SIIG (as a Related Party) will not be able to vote on the Acquisition Resolutions in the General Assembly of Petrochem.

A waiver was also obtained from the CMA from the requirements of (2)(b)(10) from the Instructions for Companies' Announcements in relation to the announcement made in the event where the agenda includes an item for changing the company's capital. As such, SIIIG's Extraordinary General Assembly's invite announcement will not set out a clarification that the votes of Related Parties will not be included when voting on the Acquisition Resolutions in the Extraordinary General Assembly.

A number of SIIG's directors have an interest in the Acquisition Transaction, as Mr. Khalil I. Alwatban and Mr. Thamer A. Alhumud (in their capacity as the representatives of GOSI in SIIG Board) have declared their interest to SIIG Board and did not vote on SIIG Board resolution to approve entry into the Implementation Agreement.

A number of Petrochem's directors have an interest in the Acquisition Transaction, as His Excellency Mr. Hamad S. AlSayari (due his direct ownership in SIIG), Mr. Suliman M. Al-Mandeel (due his direct and indirect ownership in SIIG), Mr. Abdulrahman S.Alisamail (in his capacity as a senior executive in SIIG and due his direct ownership in SIIG) and Dr. Rasheed R. Bin Owain (due to his indirect ownership in SIIG), and Mr. Khalid M. Alaraifi and Mr. Eyad A. Alhusain (in their capacity as representatives of GOSI in Petrochem Board) have declared their interest to Petrochem Board and did not vote on Petrochem Board resolution to approve entry into the Implementation Agreement.

Pursuant to Article 3 (n) of the Merger and Acquisition Regulations, a shareholder that holds shares in both Petrochem and SIIG can only vote on the Acquisition Resolutions in the EGM of one of the companies.

The following table sets out the names and shareholdings of the Related Parties and conflicted directors in relation to the Acquisition Transaction as of 7/8/1443H (corresponding to 10/3/2022G):

Name	Nature of the conflict	Direct Ownership in SIIG		Direct Ownership in Petrochem	
		No. of Shares	Shareholding %	No. of Shares	Shareholding %
Substantial Shareholders in each or both Companies					
GOSI	a Shareholder in SIIG and a Substantial Shareholder in Petrochem and has a representative on the board of both Companies	22,275,000	4.95%[18]	92,902,232[19]	19,35%
Saudi Industrial Investment Group (SIIG)	Substantial Shareholder in Petrochem and has interest above its ordinary interest as a shareholder in its capacity as Issuer.	N/A		240,000,000	50%
SIIG's Conflicted Directors					
Mr. Khalil I. Alwatban	a representative of GOSI on the board of SIIG	N/A		N/A	
Mr. Thamer A. Alhumud	a representative of GOSI on the board of SIIG	17,500	0,004%	N/A	
Petrochem's Conflicted Directors					
His Excellency Mr. Hamad S. AlSayari	has direct ownership in SIIG	200,000	0.0044%	100,000	0,002%
Mr. Suliman M. Al-Mandeel	has direct and indirect ownership in SIIG	300,000	0.007%	1000	0,00002%
Mr. Abdulrahman S.Alismail	Senior Executive and has direct ownership in SIIG	1000	0.0002%	1000	0.0002%
Dr. Rsheed R. Bin Owain	has an indirect ownership in SIIG	N/A	N/A	4.000.000	0,83%
Mr. Khalid M. Alariafi	a representative of GOSI on the board of Petrochem	N/A		N/A	
Mr. Eyad A. Alhusain	a representative of GOSI on the board of Petrochem	N/A		N/A	

18 Note: In addition to its direct ownership in SIIG, GOSI indirectly owns, through its subsidiaries, (62,926,190) shares in SIIG, which accounts for (13.98%) of the shares issued by SIIG. Noting that GOSI's total direct and in direct ownership in SIIG Pre-Completion of the Acquisition Transaction is (18.93%) of SIIG's share capital. Furthermore, GOSI's total direct and in direct ownership in SIIG Post-Completion of the Acquisition Transaction will be (38.91%) of SIIG's share capital.

19 Note: In addition to its direct ownership in Petrochem, GOSI indirectly owns, through its subsidiaries, (71,280,000) shares in Petrochem, which accounts for (24.85%) of the shares issued by Petrochem. Noting that GOSI will not own any shares in Petrochem Post-Completion, due to Petrochem becoming a delisted joint stock company wholly owned by SIIG.

3.8 Ownership Structure Prior to and Following the Acquisition Transaction

Upon completion of the Acquisition, the current SIIG Shareholders will own (59.62%) of the SIIG capital and the Petrochem Shareholders will own (40.38%) of the SIIG capital. Due to the fact that there are no Substantial shareholders in SIIG, the following table shows details of ownership in SIIG of each of the Directors, Senior Executives and the Substantial Shareholders of Petrochem and the public, in addition to GOSI's direct and indirect ownership, prior to and following the Acquisition Transaction as of 16/6/1443H (corresponding to 19/1/2022G):[20]

Shareholder	Pre- Completion		Post- Completion	
	No. of Shares	Shareholding %	No. of Shares	Shareholding %
SIIG Directors*	100,708	0.02%	100,708	0.01%
SIIG Senior Executives**	1,000	0.0002%	1,000	0.0001%
GOSI***	22,275,000	4.95%[21]	140,260,834	18.58%
The Public	449,898,292	86.84%	754,698,292	99,97%
Total	**450,000,000**	**100%**	**754,800,000**	**100%**

* Pursuant to the shares owned by SIIG directors in SIIG only, which include the shares they own directly and the shares in which they have an indirect interest.

** pursuant to the shares owned directly by SIIG senior executives in SIIG only.

*** GOSI has indirect ownership in SIIG, as described below:

(1) Pre- Completion of the Acquisition Transaction: GOSI indirectly owns, through its subsidiaries, (62,926,190) shares in SIIG, which accounts for (13.98%) of SIIG's capital.

(2) Post- Completion of the Acquisition Transaction: GOSI will indirectly own, through its subsidiaries, (135,451,790) shares, which will account to (20.23%) of SIIG's capital.

3.9 Pro Forma Condensed Consolidated Financial Information

Saudi Industrial Investment Group "SIIG"

and Its Subsidiary

Pro forma condensed consolidated financial information (unaudited)

Introduction

The Pro forma financial information consists of the unaudited pro forma condensed consolidated statement of financial position as at 31 December 2020 of the Group and the unaudited pro forma condensed consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 along with related notes, as if the Transaction had taken place on 1 January 2020 (the "Deemed Transaction Date").

The purpose of the Pro forma financial information is to illustrate the impact of the Transaction as if the two companies had already existed in the capital structure created by the Transaction since the Deemed Transaction Date and the Transaction had occurred at the Deemed Transaction Date.

The preparation and presentation of the Pro forma financial information is based on certain pro forma assumptions (detailed in the Note A. Basis of Preparation) and has been prepared for illustrative purposes only. Moreover, because of its nature, the Pro forma financial information addresses a hypothetical situation and therefore, does not represent SIIG's actual financial position and financial performance, and may not give a true picture of the financial position and financial performance of SIIG upon completion of the Transaction. In addition, the Pro forma financial information is not representative of the financial situation and performance that could have been observed if the indicated Transaction had been undertaken at an earlier date nor is the Pro forma financial information indicative of the future operating results or financial position of SIIG upon completion of the Transaction.

20 Note: GOSI transferred part of its direct ownership in SIIG to some of its subsidiaries. The percentage of direct ownership of GOSI in SIIG fell from (13.14%) to (4.95%) as of 13/01/2022G according to the data published on Tadawul. Noting that GOSI's total direct and in direct ownership in SIIG Pre-Completion of the Acquisition Transaction is (18.93%) of SIIG's share capital. Furthermore, GOSI's total direct and in direct ownership in SIIG Post-Completion of the Acquisition Transaction will be (38.91%) of SIIG's share capital. Noting that GOSI will not own any shares in Petrochem Post-Completion, due to Petrochem becoming a delisted joint stock company wholly owned by SIIG.

21 Note: GOSI's direct ownership in SIIG Pre-Completion of the Acquisition Transaction has been included for the purpose of disclosure and for the reason that it will become a Substantial Shareholder in SIIG Post-Completion of the Acquisition Transaction. GOSI's direct ownership has also been included within the public ownership total which represents (99.97%) of SIIG's share capital Pre-Completion of the Acquisition Transaction, due to its current direct ownership being below (5%).

Saudi Industrial Investment Group "SIIG" and Its Subsidiary

Pro forma condensed consolidated statement of financial position (unaudited)

As at 31 December 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020					
		SIIG (Consolidated)	Restatement	SIIG (Consolidated)	Petrochem (Restated)	Pro forma adjustments	Pro forma (Consolidated)
		Audited – As previously reported	Note 1B				
		(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6) = (3) + (5)
ASSETS							
Non-current assets							
Property, plant and equipment		12,951,249	(12,949,710)	1,539	691	-	1,539
Investments in joint ventures accounted for using the equity method		1,290,946	8,087,372	9,378,318	8,087,372	-	9,378,318
Other assets		135,905	(130,710)	5,195	3,524	-	5,195
Right-of-use assets		63,266	(63,266)	-	-	-	-
Total non-current assets		**14,441,366**	**(5,056,314)**	**9,385,052**	**8,091,587**	**-**	**9,385,052**
Current assets							
Trade receivables		784,883	(784,883)	-	-	-	-
Inventories		1,013,390	(1,013,390)	-	-	-	-
Prepayments and other current assets		147,621	(141,000)	6,621	3,643	-	6,621
Due from related parties		838,231	(229,481)	608,750	-	-	608,750
Cash and cash equivalents		2,080,971	(915,229)	1,165,742	382,298	-	1,165,742
Total current assets		4,865,096	(3,083,983)	1,781,113	385,941	-	1,781,113
Total assets		**19,306,462**	**(8,140,297)**	**11,166,165**	**8,477,528**	**-**	**11,166,165**

Saudi Industrial Investment Group "SIIG" and Its Subsidiary

Pro forma condensed consolidated statement of financial position (unaudited)

As at 31 December 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Note		31 December 2020			
		SIIG (Consolidated)	Restatement	SIIG (Consolidated)	Petrochem (Restated)	Pro forma adjustments	Pro forma (Consolidated)
		Audited – As previously reported	Note 1B				
		(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6) = (3) + (5)
EQUITY AND LIABILITIES							
Equity							
Share capital	B1	4,500,000	-	4,500,000	4,800,000	3,048,000	7,548,000
Share premium	B2	-	-	-	-	4,066,032	4,066,032
Other reserves	B3	-	-	-	-	(3,038,661)	(3,038,661)
Statutory reserve	B5	906,301	-	906,301	438,294	11,541	917,842
Retained earnings	B5	1,005,359	-	1,005,359	2,877,752	(26,989)	978,370
Equity attributable to the shareholders of Saudi Industrial Investment Group Company		6,411,660	-	6,411,660	8,116,046	4,059,923	10,471,583
Non-controlling interests	B5	8,221,670	(4,161,747)	4,059,923	-	(4,059,923)	-
Total equity		**14,633,330**	**(4,161,747)**	**10,471,583**	**8,116,046**	**-**	**10,471,583**

Pro forma condensed consolidated statement of financial position (unaudited)

As at 31 December 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020					
		SIIG (Consolidated)	Restatement	SIIG (Consolidated)	Petrochem (Restated)	Pro forma adjustments	Pro forma (Consolidated)
		Audited – As previously reported	Note 1B				
		(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6) = (3) + (5)
Non-current liabilities							
Long-term borrowings		1,493,854	(1,493,854)	-	-	-	-
Lease liabilities		42,244	(42,244)	-	-	-	-
Deferred tax liabilities, net		298,696	(298,696)	-	-	-	-
Employee benefits obligations		330,416	(311,865)	18,551	7,094	-	18,551
Total non-current liabilities		**2,165,210**	**(2,146,659)**	**18,551**	**7,094**	**-**	**18,551**
Current liabilities							
Trade payables		300,975	(300,975)	-	-	-	-
Due to related parties		198,884	(198,833)	51	234	-	51
Accrued and other liabilities		392,367	(360,183)	32,184	2,726	-	32,184
Dividends payable		225,000	-	225,000	-	-	225,000
Current portion of long-term borrowings		743,254	(743,254)	-	-	-	-
Current portion of lease liabilities		23,187	(23,187)	-	-	-	-
Zakat and income tax		624,255	(205,459)	418,796	351,428	-	418,796
Total current liabilities		**2,507,922**	**(1,831,891)**	**676,031**	**354,388**	**-**	**676,031**
Total liabilities		**4,673,132**	**(3,978,550)**	**694,582**	**361,482**	**-**	**694,582**
Total shareholders' equity and liabilities		**19,306,462**	**(8,140,297)**	**11,166,165**	**8,477,528**	**-**	**11,166,165**

Saudi Industrial Investment Group "SIIG" and Its Subsidiary

Pro forma condensed consolidated statement of profit or loss and other comprehensive income (unaudited)

For the year ended 31 December 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2020					
		SIIG (Consolidated)	Restatement	SIIG (Consolidated)	Petrochem (Restated)	Pro forma adjustments	Pro forma (Consolidated)
		Audited – As previously reported	Note 1B	Restated – Note A			
		(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6) = (3) + (5)
Revenue from contracts with customers		6,112,766	(6,112,766)	-	-	-	
Cost of revenues		(5,169,261)	5,169,261	-	-	-	
Gross profit		**943,505**	**(943,505)**	**-**	**-**	**-**	
Share of net profit of joint ventures accounted for using the equity method		(14,944)	268,458	253,514	268,458	-	
Selling and distribution expenses		(333,263)	333,263	-	-	-	
General and administrative expenses		(193,172)	140,872	(52,300)	(24,545)	-	
Operating profit		**402,126**	**(200,912)**	**201,214**	**243,913**	**-**	
Finance costs		(78,175)	77,803	(372)	(205)	-	
Finance income		31,808	(11,803)	20,005	9,879	-	
Finance income - net		(46,367)	66,000	19,633	9,674	-	
Other income - net		24,070	(23,985)	85	(284)	-	
Profit before Zakat and income tax		**379,829**	**(158,897)**	**220,932**	**253,303**	**-**	
Zakat expense		(23,881)	10,005	(13,876)	(23,532)	-	
Income tax expense		(22,744)	22,744	-	-	-	
Profit for the year		**333,204**	**(126,148)**	**207,056**	**229,771**	**-**	
Other comprehensive income							
Re-measurements of employee benefit obligations		(32,948)	32,093	(855)	(859)	-	(855)
Deferred tax		2,246	(2,246)	-	-	-	-
Share of other comprehensive loss of joint ventures accounted for using the equity method		(13,054)	(20,860)	(33,914)	(20,860)	-	(33,914)
Other comprehensive loss for the year		(43,756)	8,987	(34,769)	(21,719)	-	(34,769)
Total comprehensive income for the year		**289,448**	**(117,161)**	**172,287**	**208,052**	**-**	**172,287**

	Note	31 December 2020					
		SIIG (Consoli-dated)	Restate-ment	SIIG (Consoli-dated)	Petrochem (Restated)	Pro forma adjustments	Pro forma (Consoli-dated)
		Audited – As previously reported	Note 1B	Restated – Note A			
		(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6) = (3) + (5)
Profit for the year is attributable to:							
Shareholders of Saudi Industrial Investment Group Company		91,645	-	91,645	229,771	115,411	207,056
241,559 (126,148) 115,411 - (115,411) - Non-controlling interests		241,559	(126,148)	115,411	-	(115,411)	-
	B5	**333,204**	**(126,148)**	**207,056**	**229,771**	**-**	**207,056**
Total comprehensive income for the year is attributable to:							
Shareholders of Saudi Industrial Investment Group Company		67,735	-	67,735	208,052	104,552	172,287
Non-controlling interests		221,713	(117,161)	104,552	-	(104,552)	-
	B5	**289,448**	**(117,161)**	**172,287**	**208,052**	**-**	**172,287**
Earnings per share (Saudi Riyals) Basic and diluted	B4						0.27

A- Basis of preparation

The Group has prepared the Pro forma financial information, consisting of the unaudited pro forma condensed consolidated statement of financial position as at 31 December 2020, the unaudited pro forma condensed consolidated statement of profit or loss and other comprehensive income for the year then ended and the related notes below. The Pro forma financial information is prepared for illustrative purposes only and the pro forma adjustments are based upon assumptions, which are described in the accompanying notes (Proforma Notes (A) Basis of preparation and (B) Description of the pro forma adjustments). Because of its nature, the Pro forma financial information illustrates the impact of the Transaction, as set out in the Introduction section, would have had on the condensed consolidated financial position and condensed consolidated financial performance of the Group as if the Transaction had taken place on 1 January 2020 and does not represent the Group's actual financial results or position.

The Pro forma financial information has been prepared based on the provisions of Article 57 related to the conditions and requirements of raising the capital for the purpose of acquiring a company or purchasing an asset under the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority of the Kingdom of Saudi Arabia, and in accordance with the following:

1- The Pro forma financial information only includes the impact of this Transaction and has been prepared on the basis of the condensed consolidated interim financial statements (unaudited) of the Group for the three-month and nine-month periods ended 30 September 2021 which include the restated (refer Note 1B below) condensed consolidated statement of financial position as at 31 December 2020 and condensed consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020. The condensed consolidated interim financial statements (unaudited) of the Group for the three-month and nine-month periods ended 30 September 2021 have been prepared in accordance with IAS 34 "Interim Financial Reporting" ("IAS 34"), as endorsed in the Kingdom of Saudi Arabia. The condensed consolidated interim financial statements for the three-month and nine-month periods ended 30 September 2021 do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, the condensed consolidated interim financial statements for the three-month and nine-month periods ended 30 September 2021 are to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2020. Also refer to Note 1B below.

1A. Certain disclosures that may be required by International Financial Reporting Standards ("IFRS"), and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") have not been included in this Pro forma financial information.

1B. Until 31 December 2020, Petrochem consolidated Saudi Polymers Company (a limited liability company) ("SPCO") and Gulf Polymers Distribution Company FZCO (a free zone limited liability company) ("GPDC") on the judgement that it had control over both SPCO and GPDC. During the three-month period ended 30 September 2021, Petrochem reassessed this judgement in light of the contractual arrangements stipulated between the shareholders and concluded that Petrochem exercised joint control according to the requirements of IFRS 10, 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements'. As a consequence, Petrochem has accounted for the investments in SPCO and GPDC as investments in joint ventures using the equity method. Accordingly, the Group has included a restatement in the condensed consolidated interim financial statements for the three-month and nine-month periods ended 30 September 2021. The restatement had no impact on the total equity attributable to the shareholders of SIIG, net income and earnings per share (basic and diluted).

A- Basis of preparation (continued)

2- The accounting policies applied for the preparation of this Pro forma financial information are consistent with those disclosed in Note 2 of the consolidated financial statements of the Group for the year ended 31 December 2020 (Audited - as previously reported). Also refer to Note 1B above.

3- The assets and liabilities in this Pro forma financial information are reflected at their carrying amounts. No adjustments have been made to reflect fair values, or recognise any new assets or liabilities, at the Deemed Transaction Date that would otherwise be required.

4- The requirements of, and instructions issued by, the regulatory authorities, including, instructions issued in relation to the overall form and presentation of the Pro forma financial information and the Deemed Transaction Date i.e. 1 January 2020.

5- IFRS 10 'Consolidated Financial Statements' B96 states that when the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

   Hence, for the purpose of this Transaction, SIIG has accounted for the acquisition of ownership interest of non-controlling equity holders in Petrochem as an equity transaction due to no change in control. Consequently, the difference between fair value of consideration paid and the amount by which the non-controlling interests are adjusted, is recognised in equity (other reserves).

   IFRS does not provide guidance on the presentation of resulting gain or loss within equity from such transactions; for the purpose of the Pro forma financial information management has opted to present this difference under "other reserves". [For further explanation and calculations, please refer notes B2 and B3]

6- The Transaction is between equity participants without change of control, consequently, any goodwill that may have been recognized on the date of originally obtaining control of Petrochem by SIIG is not adjusted in this Pro forma financial information.

7- The Pro forma financial information does not take into consideration the effects of any expected synergies or costs incurred to achieve these synergies as a result of the Transaction. The Pro forma financial information gives no indication of the results and future financial situation of the activities of SIIG upon completion of the Transaction.

8- In consideration for the acquisition of Petrochem's shares from non-controlling interests, the Company agrees to issue and allocate 304,800 thousand new shares ("Consideration shares") having par value of SAR 10 per share at a market price of SAR 23.34 per share as published on "Tadawul" on the Deemed Transaction Date i.e. 1 January 2020 at the share exchange ratio of 1.27 shares in SIIG for each share in Petrochem. This closing price and the value of the consideration are indicative and will be revised to reflect the market price of the shares of SIIG on the actual date of the Transaction.

9- Upon completion of the Transaction, all of Petrochem's shares will be delisted from "Tadawul" and Petrochem will become a wholly-owned subsidiary of SIIG.

B- Description of the pro forma adjustments

The pro forma adjustments made for purposes of the Pro forma financial information are based on information available as well as certain pro forma assumptions as described in these notes to the Pro forma financial information. Pro forma adjustments include adjustments for consistent and better presentation of significant items only. As previously mentioned, the Pro forma financial information contains neither any potential synergies or cost savings nor any normalisation adjustments or any additional future expenses that could result from the Transaction. Furthermore, the Pro forma financial information does not contain any potential or future effects resulting from any possible remedies/regulatory requirements imposed on SIIG upon completion of the Transaction by regulatory authorities in connection with the Transaction. In addition, all costs related to the Transaction have been adjusted in equity as at 1 January 2020.

B- Description of the pro forma adjustments (continued)

The pro forma adjustments included in the Pro forma financial information are as follows:

1- The Transaction would result in issuance of 304,800 thousand shares of the Company to acquire entire equity stake of non-controlling shareholders in Petrochem.

a- Pro forma share capital of SIIG post-transaction

Outstanding shares of Petrochem owned by NCI (480M*50%) (in '000 units)	(A)	240,000
Exchange ratio	(B)	1.27
Number of shares to be issued by SIIG (in '000 units)	(C=A*B)	304,800
Par value of shares to be issued by SIIG (in '000 SAR)	(D=C*10)	3,048,000
Outstanding share capital of SIIG (in '000 SAR) as at 1 January 2020	(E)	4,500,000
Total issued share capital of SIIG post-Transaction (in '000 SAR)	(D+E)	7,548,000

2- The consideration has been calculated on the basis of SIIG's closing price of SAR 23.34 per share published on the "Tadawul" on the Deemed Transaction Date i.e. 1 January 2020. This closing price and the value of the consideration are indicative and will be revised to reflect the market price of the shares of SIIG on the actual date of the Transaction.

a- Pro forma total consideration

Number of shares to be issued by SIIG to Petrochem's shareholders / sellers (in '000 units)	304,800
Multiplied by: share price of SIIG (in SAR) as at 1 January 2020	23.34
Total consideration (in '000 SAR) as at 1 January 2020	7,114,032

b- Pro forma share premium of SIIG post-transaction

Total consideration (in '000 SAR)	7,114,032
Less: Par value of shares issued by SIIG to Petrochem's shareholders (in '000 SAR)	(3,048,000)
Share premium as at 1 January 2020 (in '000 SAR)	4,066,032

3- Furthermore, the difference between fair value of consideration paid and the amount by which the non-controlling interests are adjusted, is recognised in equity (Other reserves).

Par value of shares issued by SIIG to Petrochem's shareholders / sellers (in '000 SAR)	
[304,800 thousand number of shares @ SAR 10 per share]	(3,048,000)
Add: Share premium (Note B2(b)) (in '000 SAR)	(4,066,032)
Fair value of the consideration transferred (Note B2(a)) (in '000 SAR)	(7,114,032)
Carrying value of the additional interest in Petrochem (in '000 SAR)	4,075,371
Equity [Other reserves (See note A5 above)] (in '000 SAR)	(3,038,661)

4- Following the issuance of Consideration shares, basic and diluted earnings per share for the year ended 31 December 2020 have increased from SAR 0.20 per share to SAR 0.27 per share.

5- For the purposes of pro forma presentation, Petrochem has become a wholly owned subsidiary of SIIG effective from 1 January 2020 thereby requiring the following adjustments in the Pro forma financial information:

a- Reallocation of Petrochem's profit and total comprehensive income for the year ended 31 December 2020 between SIIG and non-controlling interests with reference to the Deemed Transaction Date i.e. 1 January 2020. SIIG's portion of profit and total comprehensive income for the year ended 31 December 2020 increased by SAR 115,411 thousand and SAR 104,552 thousand respectively;

B- Description of the pro forma adjustments (continued)

b- Increase in the amount of statutory reserve for the year ended 31 December 2020 as a result of income reallocation;

c- Change in the amount of NCI appearing in the restated figures for the period ended 31 December 2020. As a result of the Transaction, the non-controlling interests of Petrochem being acquired by SIIG is adjusted and reclassified under "Equity attributable to the shareholders of Saudi Industrial Investment Group Company"; and

d- The above changes (a) to (c) resulted in change in the amount of retained earnings as well.

The changes explained above are reflected as follows:

	As at 31 December 2020		
	Pre-transaction	Increase / (decrease)	Post-transaction
Other reserves	-	(3,038,661)	(3,038,661)
Statutory reserve	906,301	11,541	917,842
Retained earnings	1,005,359	(26,989)	978,370
Non-controlling interests	4,059,923	(4,059,923)	-

3.10 Comparison of Financial and Key Performance Indicators (KPIS) as of the 31st of December 2018G, 2019G and 2020G at SIIG level (before the Acquisition Transaction) and at the level of Pro Forma Condensed Consolidated Financials after the Completion of the Acquisition as of 31st of December 2020G:

Indicator	2018 SIIG	2019 SIIG	2020 SIIG	2020 SIIG after the Completion of the Acquisition
Gross Profit Margin %	30.0%	24.6%	15.4%	N/A
Net profit margin	22.2%	16.8%	5.5%	N/A
Return on Assets%	8.1%	5.8%	1.7%	1.9%
Return on Equity	13.7%	8.6%	2.3%	2.0%
Trade Percentage (x)	1.7	1.9	1.9	2.6
Liabilities to Equity (x)	0.7	0.5	0.3	0.1
Debt to Total Equity (x)	0.5	0.3	0.2	N/A

3.11 Impact on Ownership

Upon completion, existing Petrochem's Selling Shareholders will hold (40.38%) while SIIG shareholders will hold 59.62% of the SIIG capital after the Completion of the Acquisition.

Company	Pre-Acquisition	Post-Acquisition	
SIIG	Total outstanding shares	450,000,000	450,000,000
	% shareholding	100%	59.62%
Petrochem	Total outstanding shares	480,000,000	304,800,000
	% shareholding	100%	40.38%
SIIG (Post-Acquisition)	**No. of Shares**	**450,000,000**	**754,800,000**
	% shareholding	**100%**	**100%**

3.12 Impact on Profitability

Total Number of current SIIG shares	450.000,000
Profitability Per Share (PPS)	0,20
Total Number of new SIIG shares	304,800,000
Total Number of SIIG following Capital Increase	754,800,000
PPS following Capital Increase (based on pro forma financial statements)	0,27
Profit Increase (in figures)	0,07
Profit Increase (%)	35%

3.13 SIIG Historical Share Price Performance

Date	SIIG Share Price (SAR)
First day of each month for past year prior to the date of publishing this Shareholders' Circular	
01/10/2020G	23.16
01/11/2020G	20.52
01/12/2020G	26.45
03/01/2021G	26.45
01/02/2021G	24.90
01/03/2021G	28.75
01/04/2021G	32.85
02/05/2021G	35.15
01/06/2021G	37.50
01/07/2021G	34.05
01/08/2021G	37.20
01/09/2021G	36.00
03/10/2021G	39.25
01/11/2021G	36.3
The last day prior to beginning of the offer period	
26/10/2021G	41.1
The last available date before the publishing of this Shareholders' Circular	
17/3/2022	37.50

4. Financial Information

4.1 Introduction

This section presents an analytical review of the operational performance and financial position of National Petrochemical Company (hereafter referred to as the "**Petrochem**") on a consolidated basis during the financial years ended 31 December 2018G, 31 December 2019G, 31 December 2020G and the period ended 30 June 2021G. This section should be read in conjunction with the consolidated financial statements of Petrochem available to shareholders on the official Saudi Tadawul website and which have been audited by the auditors for the years ended 31 December 2018G, 31 December 2019G, 31 December 2020G and the period ended 30 June 2021G.

It should be noted that the financial information presented in this section has been extracted from consolidated financial statements of Petrochem.

Petrochem's financial information for the six-month period ended 30 June 2021G and the financial years ended in 2020G, 2019G and 2018G have been extracted from the interim financial statements for the six-month period ended 30 June 2021G for Petrochem and the financial statements for the years ended 2020G, 2019G and 2018G, respectively, and this information was not subject to any fundamental modification. Petrochem's financial information for the six-month period ended 30 June 2020G and for the financial year ended on 31 December 2019G has also been extracted from the comparative data of the condensed financial statements for the six-month period ended on 30 June 2021G for Petrochem and the financial statements for the year 2020G for Petrochem, respectively, this information was not subject to any material modification.

In connection with the proposed merger between SIIG and Petrochem, which required a review of and alignment of the relevant accounting policies specifically related to evaluating the control of Petrochem's investments in Saudi Polymers and Gulf Polymers Distribution Company, in which Petrochem owns 65% of the shares, it was concluded that the two entities which were previously accounted for as subsidiaries in the financial statements of Petrochem should now be accounted for as joint arrangements using the equity method.

As a result of this reassessment, Petrochem deconsolidated the financial statements of Saudi Polymers and Gulf Polymers Distribution Company and accounted for these as investments in joint ventures under the equity method in the condensed interim financial statements for the nine months ended 30 September 2021G and accordingly included a restatement in these condensed interim financial statements.

The restatement however had no financial impact on the total equity attributable to Petrochem's shareholders nor the net income or earnings per share. The changes as a result of the restatement are presented in the condensed interim financial statements of Petrochem for the nine months ended 30 September 2021G.

The shareholders should read this circular in full, and should not solely rely upon the information contained in this section.

The financial and statistical information presented in this section have been rounded to the nearest thousand. In case these figures are summed, minor differences might be noted when compared to the figures presented in the tables which too have been rounded to the nearest thousand. All ratios, margins and annual expenses have been calculated using the rounded figures.

4.2 Director's Declaration for Financial Statements

The members of the Board of Directors of the Saudi Industrial Investment Group ("**Saudi Group**") bear no responsibility for the accuracy and completeness of the information contained in this section, which was obtained from Petrochem and other public sources, including Petrochem's financial statements without making any material modification to them, bearing in mind that Petrochem is bound by the implementation agreement to provide the Saudi Group with all the information required for the purpose of preparing this circular. Petrochem has provided, under the implementation agreement, a guarantee to the Saudi Group, according to what is customary in such cases, regarding the correctness and completeness of the information received from it from all material aspects regarding the transaction, as on the date of providing such information, including information that was submitted during the stage of conducting the required due diligence and preparing the transaction documents, including this circular, and that the information provided is not misleading in all material aspects. Under the implementation agreement, Petrochem also provided a guarantee that it did not intentionally conceal from the Saudi Group any material information related to the transaction. The Saudi Group has assumed that there is currently no intention to make any material change in Petrochem's activities and that there has been no interruption in its business that could affect or have materially affected its financial position during the (12) month period preceding the date of this circular.

4.3 Summary of Significant Accounting Policies

The accounting policies applied for the preparation of Petrochem's financial statements, which are attached to this shareholder circular, have been presented in addition to being published and made available on the Saudi Tadawul website periodically in accordance with the regulations and rules of the Capital Market Authority. In addition, Petrochem has reclassified some of the 2019G transactions that appear in the comparative statements for the fiscal year ended on December 31, 2019G as stated below:

Until 31 December 2019, the managements of GPDC and SPCO recorded freight costs as incidental costs necessary to satisfy performance obligations with its customers. As a result, freight costs were netted-off against the "**Revenue from contracts with customers**" line item in the consolidated statement of profit or loss and other comprehensive income. During 2020, the managements of GPDC and SPCO re-assessed this practice and concluded that freight costs were not incidental costs and, instead, were incurred in order to satisfy the performance obligation with its customers. As a consequence, management has reclassified such freight costs from "**Revenue from contracts with customers**" to "**Cost of revenues**" as summarized below. This reclassification has had no impact on the gross profit, operating profit, profit for the year, basic and diluted earnings per share or any consolidated statement of financial position line items.

Finance income previously included under "**Other income - net**" in the comparative consolidated financial statements has been presented separately as "**Finance income**" in the consolidated statement of profit or loss and other comprehensive income to conform to the presentation for the year ended 31 December 2020. This reclassification has had no impact on the gross profit, operating profit, profit for the year, basic and diluted earnings per share or any consolidated statement of financial position line items.

	As previously reported	Reclassification	As reclassified
Consolidated statement of profit or loss and other comprehensive income			
For the year ended 31 December 2019			
Revenue from contracts with customers	7,434,705	220,828	7,655,533
Cost of revenues	(5,551,441)	(220,828)	(5,772,269)
Gross profit	**1,883,264**	**-**	**1,883,264**
Other income - net	98,160	(83,690)	14,470
Finance income	-	83,690	83,690

Until 31 December 2019, the management of SPCO presented the financial asset and liability balances relating to its employee savings plan on a net basis in its statement of financial position. During 2020, the management of SPCO reassessed this position and concluded that such presentation was not appropriate keeping in view the requirements of IAS 19, 'Employee Benefits'. As a consequence, the management of SPCO reclassified the financial asset and liability balances on a gross basis in the "**Due from related parties**" and "**Employee benefit obligations**" line items in its comparative 2019 statement of financial position and related notes as summarized below. The management of the Company has included this reclassification in the consolidated statement of financial position and believes the reclassification to be immaterial, and has had no impact on any consolidated statement of profit or loss and other comprehensive income line items.

	As previously re-ported	Reclassification	As reclassified
Consolidated statement of financial position			
As at 31 December 2019			
Due from related parties	237,226	27,694	264,920
Employee benefit obligations	231,162	27,694	258,856

4.4 Analysis of Historical Financial Results

4.4.1 Consolidated statement of profit or loss and other comprehensive income

The following table presents Petrochem's consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2018G, 31 December 2019G, 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Revenue from contracts with customers	8,930,414	7,655,533	6,112,766	2,979,982	4,583,659	(14.3)%	(20.2)%	53.8%
Cost of revenues	(6,244,959)	(5,772,269)	(5,168,211)	(2,851,531)	(2,903,705)	(7.6)%	(10.5)%	1.8%
Gross profit	**2,685,455**	**1,883,264**	**944,555**	**128,451**	**1,679,954**	**(29.9)%**	**(49.8)%**	**1,207.9%**
Selling and distribution expenses	(471,618)	(421,931)	(333,263)	(167,496)	(227,933)	(10.5)%	(21.0)%	36.1%
General and administrative expenses	(205,001)	(175,460)	(165,417)	(79,583)	(67,929)	(14.4)%	(5.7)%	(14.6)%
Operating profit	**2,008,836**	**1,285,873**	**445,875**	**(118,628)**	**1,384,092**	**(36.0)%**	**(65.3)%**	**(1,266.7)%**
Finance costs	(309,373)	(227,721)	(78,008)	(41,460)	(16,375)	(26.4)%	(65.7)%	(60.5)%
Finance income	-	83,690	21,682	14,859	4,761	-	(74.1)%	(68.0)%
Finance costs - net	(309,373)	(144,031)	(56,326)	(26,601)	(11,614)	(53.4)%	(60.9)%	(56.3)%
Other income - net	231,648	14,470	23,701	4,315	(2,803)	(93.8)%	63.8%	(165.0)%
Profit before zakat and income tax	**1,931,111**	**1,156,312**	**413,250**	**(140,914)**	**1,369,675**	**(40.1)%**	**(64.3)%**	**(1,072.0)%**
Income tax	(132,141)	(70,149)	(22,744)	(23,344)	(103,144)	(46.9)%	(67.6)%	341.8%
Zakat expense	(98,620)	(70,800)	(33,537)	(45,397)	27,066	(28.2)%	(52.6)%	(159.6)%
Profit after tax	**1,700,350**	**1,015,363**	**356,969**	**(209,655)**	**1,293,597**	**(40.3)%**	**(64.8)%**	**(717.0)%**

Source: Audited financial statements of Petrochem and Management information

4.4.1.1 Revenue from contracts with customers

The following table presents the breakdown of revenue from contracts with customers as recorded in each subsidiary for the years ended 31 December 2018G, 31 December 2019G and 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
SPC revenue from contracts with customers								
From sales to GPDC	6,773,896	5,384,228	4,364,363	1,990,137	3,500,936	(20.5)%	(18.9)%	75.9%
From sales to local KSA based customers	1,632,638	1,390,202	1,167,780	606,168	816,443	(14.8)%	(16.0)%	34.7%
Total SPC revenue from contracts with customers	8,406,534	6,774,430	5,532,143	2,596,305	4,317,379	(19.4)%	(18.3)%	66.3%
GPDC revenue from contracts with customers	7,541,515	6,265,331	4,944,986	2,373,814	3,767,216	(16.9)%	(21.1)%	58.7%
Subtotal	15,948,049	13,039,761	10,477,129	4,970,119	8,084,595	(18.2)%	(19.7)%	62.7%
Less: elimination of sales from SPC to GPDC	(6,773,896)	(5,384,228)	(4,364,363)	(1,990,137)	(3,500,936)	(20.5)%	(18.9)%	(75.9)%
Less: freight costs	(243,739)	-	-	-	-	-	-	-
Total consolidated revenues	**8,930,414**	**7,655,533**	**6,112,766**	**2,979,982**	**4,583,659**	**(14.3)%**	**(20.2)%**	**53.8%**

Source: Management information

Petrochem's revenues include revenues from the Saudi Polymers Company ("**SPC**") and revenues from Gulf Polymers Distribution Company ("**GPDC**"). Sales of SPC to GPDC are eliminated upon consolidation. Petrochem does not generate any direct revenues as the operating, production and sales activities are carried out through SPC and the GPDC. Freight costs in 2018G were net off revenue, while in 2019G and 2020G these were presented within cost of revenues.

SPC revenue from contracts with customers increased from SAR 2.6bn in the six-month period ended 30 June 2020G to SAR 4.3bn in the six-month period ended 30 June 2021G due to the increase in sales from both GPDC and sales to local KSA based customers.

Revenues from GPDC decreased from SAR 7.5bn in 2018G to SAR 6.3bn in 2019G despite an increase in volumes sold by 57,093 MT in 2019G. This was driven by the decline in average selling prices by 19.8% during 2019G.

Revenue from GPDC further decreased from SAR 6.3bn in 2019G to SAR 4.9bn in 2020G due to the decrease in sales volumes as well as average selling prices due to a slowdown in demand from customers.

Revenues from GPDC increased from SAR 2.4bn in the six-month period ended 30 June 2020G to SAR 3.8bn in the six-month period ended June 30 2021G mainly driven by the increase in prices, whereas the price of Polypropylene and other products are directly linked to crude oil prices, which increased in international markets during the same period, in addition to an increase in sales volumes from 776,766 MT to 791,169 MT.

SPC revenue

Revenues from SPC includes revenue from products sold to GPDC as well as revenue from products sold to local KSA based customers including, Jubail Chevron Philips and Saudi Chevron Philips (affiliates). Sales made from SPC to GPDC were eliminated on consolidation of Petrochem.

Revenues from SPC declined from SAR 8.4bn in 2018G to SAR 6.8bn in 2019G and further to SAR 5.5bn in 2020G due to the decline in sales to both GPDC as well as local KSA based customers.

Revenue from sales to GPDC decreased from SAR 6.8bn in 2018G to SAR 5.4bn in 2019G despite an increase in sales volumes from 1,597,694 MT to 1,618,572 MT due to the decline in average selling price from the sale of SPC's products from SAR 4,240 per MT to SAR 3,327 per MT.

Revenue from sales to GPDC decreased further from SAR 5.4bn in 2019G to SAR 4.4bn in 2020G due a decline in sales volumes from 1,618,572 MT to 1,526,342 MT and the decrease in average selling prices from SAR 3,327 per MT to SAR 2,859 per MT.

Revenues from sales to local KSA based customers decreased from SAR 1.6bn in 2018G to SAR 1.4bn in 2019G primarily due to a decline in average selling prices for products from SAR 3,616 per MT in 2018G to SAR 3,012 per MT in 2019G.

Revenue from sales to local KSA based customers decreased further from SAR 1.4bn in 2019G to SAR 1.2bn in 2020G due to a further decline in average selling prices from SAR 3,012 per MT to SAR 2,560 per MT and a decline in sales volumes to local KSA based customers from 461.566 MT to 456,154 MT.

The following table presents the breakdown of SPC revenue generated from sales to GPDC by product for the years ended 31 December 2018G, 31 December 2019G, 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

4-4-1-1-1 Breakdown of SPC sales to GPDC by product

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Sales to GPDC (SAR '000)								
Polyethylene ("PE")	4,910,081	3,724,891	2,975,173	1,393,451	2,240,155	(24.1%)	(20.1%)	%60.8
Polypropylene ("PP")	1,757,994	1,553,161	1,290,950	550,447	1,144,612	(11.7%)	(16.9%)	%107.9
Polystyrene ("PS")	39,835	25,234	11,829	3,022	7,521	(36.7%)	(53.1%)	%148.9
1-Hexene	65,986	80,942	86,412	43,217	108,648	22.7%	6.8%	%151.4
Total	**6,773,896**	**5,384,228**	**4,364,364**	**1,990,137**	**3,500,936**	**(20.5%)**	**(18.9%)**	**%75.9**
Volumes sold ('000 MT)								
Polyethylene ("PE")	1,138,806	1,139,311	1,070,726	547,033	530,078	0.0%	(6.0%)	%(3.1)
Polypropylene ("PP")	434,307	454,791	429,327	194,935	238,639	4.7%	(5.6%)	%22.4
Polystyrene ("PS")	7,736	6,097	3,142	737	1,205	(21.2%)	(48.5%)	%63.5
1-Hexene	16,845	18,373	23,147	11,271	24,206	9.1%	26.0%	%114.8
Total quantities sold	**1,597,694**	**1,618,572**	**1,526,342**	**753,976**	**794,127**	**1.3%**	**(5.7%)**	**%5.3**
Average selling price (SAR)								
Polyethylene ("PE")	4,312	3,269	2,779	2,547	4,226	(24.2%)	(15.0%)	%65.9
Polypropylene ("PP")	4,048	3,415	3,007	2,824	4,796	(15.6%)	(11.9%)	%69.8
Polystyrene ("PS")	5,149	4,139	3,765	4,100	6,241	(19.6%)	(9.0%)	%52.2
1-Hexene	3,917	4,405	3,733	3,834	4,488	12.5%	(15.3%)	%17.1
Overall ASP	**4,240**	**3,327**	**2,859**	**2,640**	**4,409**	**(21.5%)**	**(14.1%)**	**%67.0**

Source: Management information

Revenue from the sales to GPDC decreased from SAR 6.8bn in 2018G to SAR 5.4bn in 2019G primarily due to a decline in the average selling price of products sold by SPC to GPDC from SAR 4,240 per MT to SAR 3,327 per MT.

The decline in the average selling price of majority of products sold by SPC was due to the decline in the price of crude oil in international markets which was linked to the average selling price of SPC's products.

The price of one of 1-Hexene however increased in 2019G due to the one off spot sale opportunities availed during the year in addition to signing contracts with new customers.

Sales to GPDC declined further from SAR 5.4bn in 2019G to SAR 4.4bn in 2020G due the combined impact of a decline in average selling prices from SAR 3,327 per MT to SAR 2,859 per MT as well as a decline in volumes sold from 1,618, 572 MT to 1,526,342 MT.

The decline in volumes sold was primarily due to the challenging economic conditions faced by customers during the COVID 19 pandemic.

Revenue from the sales to GPDC increased by 75.9% in the six-month period ended June 2021G, primarily driven by the increase in quantities sold for Polypropylene, Polystyrene and 1-Hexene in addition to the increase in the Polyethylene conversion price during the period. The average selling price for the same period increased by SAR 1,769, driven by the increase in crude oil prices.

The following table presents the breakdown of SPC revenue generated from sales to KSA based local customers by product for the years ended 31 December 2018G, 31 December 2019G and 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

4-4-1-1-2 Breakdown of SPC sales to KSA based local customers by product:

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Sales (SAR '000)								
Polyethylene ("PE")	684,769	520,269	522,728	257,298	374,086	(24.0)%	0.5%	%45.4
Polypropylene ("PP")	185,581	195,730	182,906	104,560	106,404	5.5%	(6.6)%	%1.8
Polystyrene ("PS")	75,391	90,839	66,505	39,762	25,031	20.5%	(26.8)%	%(37.0)
1-Hexene	48,698	45,063	63,358	25,424	39,434	(7.5)%	40.6%	%55.1
Others	638,199	538,301	332,283	179,123	271,488	(15.7)%	(38.3)%	%51.6
Total	**1,632,638**	**1,390,202**	**1,167,780**	**606,168**	**816,442**	**(14.8)%**	**(16.0)%**	**%34.7**
Volumes sold ('000 MT)								
Polyethylene ("PE")	154,038	145,378	167,810	88,450	80,910	(5.6)%	15.4%	%(8.5)
Polypropylene ("PP")	42,238	50,041	55,979	32,630	19,859	18.5%	11.9%	%(39.1)
Polystyrene ("PS")	13,662	19,837	15,950	9,908	3,862	45.2%	(19.6)%	%(61.0)
1-Hexene	9,760	9,480	13,920	5,973	7,204	(2.9)%	46.8%	%20.6
Others	231,850	236,830	202,495	103,763	106,876	2.1%	(14.5)%	%3.0
Total quantities sold	**451,548**	**461,566**	**456,154**	**240,723**	**218,710**	**2.2%**	**(1.2)%**	**%(9.1)**
Average selling price (SAR)								
Polyethylene ("PE")	4,445	3,579	3,115	2,909	4,623	(19.5)%	(13.0)%	%58.9
Polypropylene ("PP")	4,394	3,911	3,267	3,204	5,358	(11.0)%	(16.5)%	%67.2
Polystyrene ("PS")	5,518	4,579	4,170	4,013	6,481	(17.0)%	(8.9)%	%61.5
1-Hexene	4,990	4,753	4,552	4,256	5,474	(4.7)%	(4.2)%	%28.6
Others	2,753	2,273	1,641	1,726	2,540	(17.4)%	(27.8)%	%47.2
Overall ASP	**3,616**	**3,012**	**2,560**	**2,518**	**3,733**	**(16.7)%**	**(15.0)%**	**%48.3**

Source: Management information

Despite an increase in sales volumes from 451,548 MT in 2018G to 461,566 MT in 2019G, sales to local KSA based customers declined from SAR 1.6 bn to SAR 1.4bn due to the decline in average selling prices of products from SAR 3,616 per MT to SAR 3,012 per MT.

Revenues from sales to local KSA based customers also decreased from SAR 1.4bn in 2019G to SAR 1.2bn in 2020G due to lower quantities of Aromatics Hydrocarbon Mixture ("**AHM**"), Pyrolysis Gasoline ("**Pygas**") and Ethylene procured by the larger local KSA based customers including Jubail Chevron Philips and Saudi Chevron Philips; and a decline in average selling prices from SAR 3,012 per MT to SAR 2,560 per MT due to the global decline in crude oil prices.

The comparatively lower average selling prices for sales to local KSA based customers was due to the product mix as sales to local customers included larger volumes of Pygas and AHM which had comparatively lower average selling prices as compared to Polyethylene and Polypropylene.

Revenue from other local contracts increased 34.7% in the six-month period ended June 2021G, primarily driven by increase in the conversion rate of the Polyethylene and Polypropylene during the period. The average selling price for the same period increased by SAR 1,215 driven by higher crude oil prices.

Revenues from GPDC

Revenues from Gulf GPDC are linked to the export and sales to clients in Europe, the Middle East and Asia. Revenues from GPDC decreased from SAR 7.5bn in 2018G to SAR 6.3bn in 2019G and to SAR 4.9bn in 2020G driven by a similar approach to the prices of SPC's products.

The following table presents the breakdown of GPDC revenue generated from sales to customers in Asia, Middle East and Europe for the years ended 31 December 2018G, 31 December 2019G, 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

4-4-1-1-3 GPDC – Breakdown of revenue by products

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Sales (SAR '000')								
Polyethylene ("**PE**")	5,425,510	4,284,761	3,402,578	1,645,238	2,405,878	(21.0)%	(20.6)%	46.2%
Polypropylene ("**PP**")	1,979,207	1,841,354	1,420,982	663,033	1,205,841	(7.0)%	(22.8)%	81.9%
Polystyrene ("**PS**")	43,231	27,993	11,449	3,085	7,188	(35.2)%	(59.1)%	133.0%
1-Hexene	93,515	111,097	114,536	62,458	150,410	18.8%	3.1%	140.8%
Others	52	126	(4,559)	-	(2,101)	142.3%	(3718.3)%	100.0%
Total	**7,541,515**	**6,265,331**	**4,944,986**	**2,373,813**	**3,767,216**	**(16.9)%**	**(21.1)%**	**58.7%**
Volumes sold ('000 MT)								
Polyethylene ("**PE**")	1,137,415	1,155,356	1,078,939	559,599	527,286	1.6%	(6.6)%	(5.8)%
Polypropylene ("**PP**")	429,764	469,014	420,797	204,109	238,465	9.1%	(10.3)%	16.8%
Polystyrene ("**PS**")	7,736	6,097	2,933	737	1,205	(21.2)%	(51.9)%	63.5%
1-Hexene	16,844	18,385	23,156	12,321	24,214	9.1%	26.0%	96.5%
Others	na	na	na	-	na	-	-	-
Total quantities sold	**1,591,759**	**1,648,852**	**1,525,825**	**776,766**	**791,169**	**3.6%**	**(7.5%)**	**1.9%**
Average selling price (SAR)								
Polyethylene ("**PE**")	4,770	3,709	3,154	2,940	4,563	(22.2%)	(15.0%)	55.2%
Polypropylene ("**PP**")	4,605	3,926	3,377	3,248	5,057	(14.7%)	(14.0%)	55.7%
Polystyrene ("**PS**")	5,588	4,591	3,904	4,186	5,965	(17.8%)	(15.0%)	42.5%

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
1-Hexene	5,552	6,043	4,946	5,069	6,212	8.8%	(18.2%)	22.5%
Other products	na	na	na	-	na	-	-	--
Overall ASP	**4,738**	**3,800**	**3,241**	**3,056**	**4,762**	**(19.8%)**	**(14.7%)**	**55.8%**

Source: Management information

Despite an increase in volumes sold by GPDC from 1,591,759 MT in 2018G to 1,648,852 MT in 2019G, sales in SAR terms declined by 16.9% from SAR 7.5 bn to SAR 6.3bn which was due to the decline in average selling prices by 19.8% during 2019G.

As shown in the table above, in 2019G, the average selling prices for PE, PP and PS, which are linked to the global price of crude oil declined by 22.2%, 14.7% and 17.8% respectively.

Revenue declined from SAR 6.3bn in 2019G to SAR 4.9bn in 2020G due to the combined impact of a decrease in sales volumes as well as average selling prices. Sales volumes decreased from 1,648,852 MT to 1,528,825 MT due to a slowdown in demand from customers, while average selling prices declined from SAR 3,800 per MT to SAR 3,241 per MT.

Revenue increased by 58.8% from SAR 2.4bn in the six-month period ended 30 June 2020G to SAR 3.8bn in the six-month period ended 30 June 2021G due to the increase in average selling prices by 55.8% during the same period. Also, the total quantities sold increased by 1.9% (or 14,403 MT) during the same period.

At 31 December 2020G and 30 June 2021G. others consisted of revenue adjustments including freight overtime adjustments (unsatisfied performance obligation related to ongoing shipments to customers).

As shown in the above table, during the six-month period ended 30 June 2021G, the average selling prices (linked to the global price of crude oil) for Polyethylene, Polypropylene and Polystyrene increased by 55.2%, 55.7% and 42.5%, respectively.

The following table presents the breakdown of GPDC revenue by geography for the years ended 31 December 2018G, 31 December 2019G, 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

4-4-1-1-4 GPDC - Revenues by geography

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Asia	4,327,604	3,859,226	2,941,713	1,378,975	2,071,619	(10.8)%	(23.8)%	%50.2
Europe	2,633,584	1,842,547	1,446,356	705,618	1,255,609	(30.0)%	(21.5)%	%77.9
Middle East	580,275	563,432	561,476	289,220	442,088	(2.9)%	(0.3)%	%52.9
Revenue	**7,541,463**	**6,265,205**	**4,949,545**	**2,373,813**	**3,769,317**	**(16.9)%**	**(21.0)%**	**%58.8**
Others	52	126	(4,559)	-	(2,101)	142.3%	(3718.3)%	100.0%
Total revenue	**7,541,515**	**6,265,331**	**4,944,986**	**2,373,813**	**3,767,216**	**(16.9)%**	**(21.1)%**	**%58.7**

Source: Management information

4.4.1.2 Cost of revenues

The following table presents the breakdown of the cost of revenues as recorded in each subsidiary for the years ended 31 December 2018G, 31 December 2019G and 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
SPC cost of revenues	6,242,097	5,408,800	4,948,493	2,682,603	2,786,616	(13.3)%	(8.5)%	3.9%
GPDC cost of revenues	6,819,454	5,801,284	4,572,979	2,192,367	3,496,796	(14.9)%	(21.2)%	59.5%
Combined cost of revenues	13,061,551	11,210,084	9,521,472	4,874,970	6,283,412	(14.2)%	(15.1)%	28.9%
Less: elimination of intercompany transactions	(6,816,592)	(5,437,815)	(4,353,261)	(2,023,439)	(3,379,707)	(20.2)%	(19.9)%	67.0%
Consolidated cost of revenues	**6,244,959**	**5,772,269**	**5,168,211**	**2,851,531**	**2,903,705**	**(7.6)%**	**(10.5)%**	**1.8%**

Source: Management information

Cost of revenues include costs related to both SPC and GPDC. Cost of revenue for SPC includes the cost of production while costs of revenue for GPDC include the cost of material procured from SPC as well as freight cost. Costs of material procured from SPC are eliminated on consolidation. Petrochem does not incur any direct cost of revenues, as the operating, production and sales activities are carried out through SPC and the revenues of GPDC.

Saudi Polymers Company – cost of revenues

The following table presents the breakdown of cost of revenues for the years ended 31 December 2018G, 31 December 2019G and 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

4-4-1-2-1 Cost of revenues - Saudi Polymers Company

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Raw materials and consumables	3,900,439	3,262,005	2,414,303	1,233,304	1,722,040	(16.4)%	(26.0)%	39.6%
Depreciation	1,104,585	876,057	866,695	434,740	428,243	(20.7)%	(1.1)%	(1.5) %
Utilities, supplies and services	552,780	586,819	602,108	290,804	310,390	6.2%	2.6%	6.7%
Impairment of property, plant and equipment	-	-	389,969	389,968	-	-	-	-
Salaries, wages and benefits	192,600	215,550	203,066	121,326	107,483	11.9%	(5.8)%	(11.4)%
Royalty	51,488	51,323	51,146	25,822	25,148	(0.3)%	(0.3)%	(2.6)%
Contract services	63,709	49,646	40,526	20,786	18,031	(22.1)%	(18.4)%	(13.3)%
Freight and distribution	-	15,898	17,276	9,348	6,338	-	8.7%	(32.2)%
Write-off of inventories	-	-	10,500	-	-	-	-	-
Others	62,670	55,278	42,025	17,998	32,548	(11.8)%	(24.0)%	80.8%
Support services charged by related parties	313,826	296,224	310,879	138,507	136,396	(5.6)%	4.9%	(1.5)%
Cost of revenues	**6,242,097**	**5,408,800**	**4,948,493**	**2,682,603**	**2,786,616**	**(13.3)%**	**(8.5)%**	**3.9%**

Source: Audited financial statements of Petrochem and Management information

Cost of revenues primarily include raw materials and consumables (e.g. cost of materials procured from Saudi Aramco and other suppliers), utilities, supplies and services (including maintenance), employee costs, royalty expenses and cost of contracts and support services.

Cost of revenues declined from SAR 6.2bn in 2018G to SAR5.4bn in 2019G (or by 13.3%) due to a decline in the costs of material, contracts services and costs of support services recharged by related parties and further decreased to SAR 4.9bn in 2020G by 8.5% due to lower production levels as compared to 2019G, lower costs of materials and employee costs as well as contract services.

Costs of raw materials and consumables declined by 16.4% and 26.0% in 2019G and 2020G respectively from SAR 3.9bn in 2018G to SAR 3.3bn in 2019G and then to SAR 2.4bn in 2020G, due to the decrease in the cost of key feedstocks (Propane and C5-Mixed Pentane) procured. The decrease in the cost of feedstocks per MT procured in each period was directly linked to the decline in the price of crude oil in global markets.

In contrast, utilities, supplies and services increased in 2019G by 6.2% due to the increase in sales volumes from 2,049,241 MT in 2018G to 2,080,128 MT in 2019G. In 2020G, utility expenses increased by 2.6% due to an increase in sanitation expenses related to the COVID 19 pandemic.

In 2020G, SPC also shut down its production unit for Polystyrene and wrote off the net book value of its assets of SAR 390.0m and inventory of SAR 10.5m in relation to the production unit for the product. The decision to shut down the production unit was due to the high costs of production which were in excess of the revenues generated from the sale of Polystyrene and the difficulty of generating profits from this unit in light of the situation of the Polystyrene market globally.

Salaries, wages and benefits increased from SAR 192.6m in 2018G to SAR 215.6m in 2019G (or by 11.9%) due to the increase in the number of employees from 377 in 2018G to 380 in 2019G in addition to annual increments to staff during the year.

In 2020G, salaries, wages and benefits declined from SAR 215.6m in 2019G to SAR 203.1m (or by 5.8%) due to a decrease of 28 employees during the year resulted from the decrease in outsourced labor ("**secondees**") driven by economic slow-down related to the Covid-19 Pandemic.

Royalty expenses remained stable between 2018G and 2020G and did not witness a noticeable fluctuation as it is determined by an agreement with Chevron Philips Chemical International Sales L.L.C and calculated on the production levels in each year.

Contract services declined by SAR 14.1m in 2019G due to the termination of a water treatment services contract between SPC and a third party vendor during the year. This was due to commencement of operations at a new water treatment facility constructed by SPC. In 2020G, costs reduced further due to the reduction in contractual labor hired under a fixed term contract.

Support services charged by related parties declined from SAR 313.8m in 2018G to SAR 296.2m in 2019G (or by 5.6%) before increasing to SAR 310.9m in 2020G (or by 4.9%). The decline in these expenses by SAR 17.6m in 2019G was mainly due to certain rent contracts classified within depreciation of right of use assets, while the increase by SAR 14.7m in 2020G was due to increase in shared inventory management cost as well as internal maintenance and operational initiatives.

Cost of revenues increased from SAR 2.7bn in the six-month period ended June 2020G to SAR 2.8bn in the six-month period ended June 2021G (or by 3.9%), mainly due to the increase in the costs of raw materials and consumables used.

Cost of raw materials and consumables increased by 39.6% in the six-month period ended in June 2021G, from SAR 1.2bn in the six-month period ended in June 2020G to SAR 1.7bn in the six-month period ended June 2021G, due to the increase in the price of crude oil in the global markets.

Utilities, supplies and services increased in the six-month period ended June 2021G by 6.7% as a result of the increase in sales quantity from 994,699 MT to 1,012,837 MT during the same period.

In 2020G, Petrochem decided to shut down the production of the Polystyrene and wrote off the net book value of assets and inventories related to the production unit for this product. The decision to shut down the production unit was due to the high production costs that exceeded the revenues generated from the sale of Polystyrene, and the difficulty of generating profits from this unit in light of the situation of the Polystyrene market globally, which led to a decrease in salaries, wages and benefits from SAR 121.3m in the six-month period ended June 2020G to SAR 107.4m in the six-month period ended June 2021G (or by 11.4%).

Royalty expenses remained stable between the six-month periods ended June 2020G and 2021G, did not witness a noticeable fluctuation as they are determined under an agreement with Chevron Philips Chemical International Sales L.L.C and calculated on the production levels in each year.

Contract services decreased to SAR 18.0m in the six-month period ended June 2021G (or by 13.3%) compared to the six-month period ended June 2020G.

Gulf Polymers Distribution Company – cost of revenues

The following table presents the breakdown of GPDC cost of revenues for the years ended 31 December 2018G, 31 December 2019G and 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

4-4-1-2-2 Cost of revenues - Gulf Polymers Distribution Company

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Cost of materials	6,819,454	5,596,354	4,369,823	2,082,904	3,378,398	(17.9)%	(21.9)%	62.2%
Freight	-	204,930	203,156	109,463	118,399	-	(0.9)%	8.2%
Cost of revenues	**6,819,454**	**5,801,284**	**4,572,979**	**2,192,366**	**3,496,796**	**(14.9)%**	**(21.2)%**	**59.5%**

Source: Audited financial statements of Petrochem and Management information

Costs of revenue for GPDC included costs of material procured from SPC for onward sale to external customers outside the Kingdom in addition to freight costs.

Costs of revenue declined by 14.9% and 21.2% in 2019G and 2020G primarily due to the decline in the cost of procurement from SPC in 2019G and 2020G as shown in the table above.

Freight costs relate to the transportation costs of products from the warehouses to the end customer and include ocean freight. In 2018G, freight costs of SAR 215.6m were net off against revenue.

In 2019G, freight costs declined to SAR 204.9m as a result of a decline in freight rates due to discounts received from carriers caused by the decrease in bunker cost. Freight rates declined by 0.9% in in 2020G due to a decline in the volume of exports during the year.

Costs of revenue increased by 59.5% in the six-month period ended June 2021G, mainly due to the increase in the cost of materials purchased from Petrochem in the six-month period ended in June 2021G, as shown in the above table.

Freight costs relate to the costs of transporting products from the warehouse to the end customer and also includes the cost of ocean freight. Freight cost increased by 8.2% in the six-month period ended on 30 June 2021G, in line with the increase in revenues during the same period.

4.4.1.3 Selling and distribution expenses

The following table presents the breakdown of the selling and distribution expenses for the years ended 31 December 2018G, 31 December 2019G and 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Marketing fees	317,231	259,748	198,428	93,844	151,808	(18.1)%	(23.6)%	%61.8
Freight and distribution	60,821	70,234	61,410	29,232	31,979	15.5%	(12.6)%	%9.4
Warehousing	81,934	57,627	36,420	26,879	26,423	(29.7)%	(36.8)%	%(1.7)
Salaries, wages and benefits	7,575	7,598	9,113	5,299	5,100	-	19.9%	%(3.8)
Other	4,057	21,579	22,544	9,876	9,940	431.9%	4.5%	%0.6
Support services charged by related parties	-	5,145	5,348	2,366	2,684	-	3.9%	%13.4
Selling and distribution expenses	**471,618**	**421,931**	**333,263**	**167,496**	**227,933**	**(10.5)%**	**(21.0)%**	**%36.1**

Source: Audited financial statements of Petrochem and Management information

Selling and distribution expenses include marketing fees paid to Chevron Philips Chemicals International Sales in relation to sales to customers in Asia and Europe which are calculated based on the value of export sales and freight and distribution costs which primarily relate to transferring goods from the production plant in Jubail to GPDC, warehousing costs which relate to storing products ready to be transported as well as salaries and wages of employees working within the sales teams and support services charged by related parties and other expenses.

Marketing fees decreased by 18.1% in 2019G and 23.6% in 2020G in line with the decrease in export sales by 14.5% in 2019G and 21.1% in 2020G as marketing fees are calculated based on the value of sales.

Freight and distribution expenses increased in 2019G by 15.5% due to the increase in port rates, detention and demurrage charges in relation to delayed shipments as well as customs clearance. The costs decreased by 12.6% in 2020G due to lower volumes transported during the year.

Warehousing costs decreased from SAR 81.9m in 2018G to SAR 57.6m in 2019G (or by 29.7%) due to the reclassification of rental costs from warehousing to others in the same year. In 2020G, costs reduced by a further SAR 21.2m and 36.8% due to the termination of arrangement and rental costs related to two of the four tanks being used to store 1–Hexene, and lower traffic to warehouses in Europe as a result of Managements strategy to divert sales volumes to the Middle East and Asia due to the high costs of warehousing in Europe.

Salaries and wages related to the sales team was relatively stable between 2018G and 2019G. In 2020G, salaries and wages increased due to the addition of 4 new employees during the year as total employees increased from 16 in 2019G to 20 in 2020G.

Marketing fees increased during the six months of 2021G by SAR 58.0m driven by an increase in sales by SAR 1.6bn.

In line with the increase in the value and volume of sales to Petrochem during the six-month period of 2021G, shipping and distribution expenses increased by SAR 2.7m to SAR 32.0m in the same period.

It should be noted that warehousing expenses, salaries, benefits, and other selling and distribution expenses remained relatively stable between the six-month periods of 2020G and 2021G, respectively.

4.4.1.4 General and administrative expenses

The following table presents the breakdown of the general and administrative expenses for the years ended 31 December 2018G, 31 December 2019G and 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Support services charged by related parties	134,390	115,796	103,841	52,067	39,837	(13.8)%	(10.3)%	%(23.5)
Salaries and benefits	17,947	24,648	26,019	10,855	10,198	37.3%	5.6%	%(6.1)
Depreciation	10,839	10,439	10,081	5,247	5,004	(3.7)%	(3.4)%	%(4.6)
Bank charges	6,467	6,212	5,420	2,838	2,698	(3.9)%	(12.7)%	%(4.9)
Professional fees	929	566	4,146	236	1,472	(39.1)%	632.5%	%523.7
Remunerations of board of directors and key personnel	20,801	-	-	2,897	2,534	(100.0)%	-	%(12.5)
Other	13,628	17,799	15,910	5,443	6,186	30.6%	(10.6)%	%13.7
General and administrative expenses	**205,001**	**175,460**	**165,417**	**79,583**	**67,929**	**(14.4)%**	**(5.7)%**	**%(14.6)**

Source: Audited financial statements of Petrochem and Management information

General and administrative expenses include support services costs recharged by related parties, salaries and wages, depreciation and bank charges related to export sales in addition to remuneration of board of directors and key personnel.

General and administrative expenses declined in 2019G by SAR 29.5m and in 2020G by SAR 10.0m due to a decline in support services costs from year to year.

Support services charged by related parties comprised of expenses related to IT and costs related to secondments from related parties during the year. Support services costs declined by SAR 18.6m in 2019G (or by 13.8%) primarily due to a decline in the housing costs related to secondees by SAR 15.1m due to a reduction in the number of villas rented by secondees during the year.

In 2020G, costs declined by a further SAR 12.0m (or by 10.3%) due to a further decline in houses rented during the year in addition to a reduction in the housing allowance by SAR 9.2m during the year.

Bank charges which primarily related to export documentation for sales to customers in Asia, Europe and the Middle East declined in line with the decrease in sales revenues in 2019G and 2020G.

Professional fees included payments to consultants and third party firms for professional services provided for audit and tax. Professional fees increased in 2020G due to advisors costs of SAR 3.2m incurred in relation to an appeal filed to the tax authorities on behalf of Petrochem.

Remunerations of board of directors and key personnel for 2019G and 2020G were presented under salaries and benefits.

Support services charged by related parties decreased from SAR 52.1m in the six-month period in 2020G to SAR 39.8m in the six-month period in 2021G, mainly due to the decrease in support services to SPC due to the decrease in legal services provided in addition to improvements in job vacancies.

Salaries and benefits expenses decreased from SAR 10.9m in the six-month period ended 2020G to SAR 10.2m in the six-month period ended 2021G driven by lower salary expenses in GPDC in relation to promotions of existing employees within the management team, which was partially offset by an increase in expenses as a result of the increase in the number of employees.

4.4.1.5 Finance costs

The following table presents the breakdown of the finance costs for the years ended 31 December 2018G, 31 December 2019G and 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Finance costs on long-term borrowings	203,160	171,224	46,328	32,126	11,483	(15.7)%	(72.9)%	%(64.3)
Amortization of transaction costs	5,400	3,159	10,217	5,114	3,679	(41.5)%	223.4%	%(28.1)
Finance costs on lease liabilities	-	2,072	7,950	880	1,082	-	283.7%	%23.0
Finance costs on employee benefit obligations	6,206	7,615	7,799	-	-	22.7%	2.4%	-
Finance costs on subordinated loan from non-controlling interest	42,189	10,527	4,723	-	-	(75.0)%	(55.1)%	-
Finance costs on loans to employees	-	8,336	991	-	-	-	(88.1)%	-
Finance costs on Sukuk	49,692	24,788	-	-	-	(50.1)%	(100.0)%	-
Financing costs on a subordinated loan from shareholders	-	-	-	7,866	-	-	-	%(100.0)
Discounting of employees' loans granted during the year	1,778	-	-	-	-	(100.0)%	-	-
Other service charges	948	-	-	503	131	(100.0)%	-	%(74.0)
Less: eliminations	-	-	-	(5,029)	-	-	-	%(100.0)
Finance costs	**309,373**	**227,721**	**78,008**	**41,460**	**16,375**	**(26.4)%**	**(65.7)%**	**%(60.5)**

Source: Audited financial statements of Petrochem and Management information

Finance costs comprised of costs related to debt obtained from banks to finance capital projects as well as to meet working capital requirements.

Finance costs declined from SAR 309.4m in 2018G to SAR 227.7m in 2019G (or by 26.4%) and SAR 78.0m in 2020G (or by 65.7%) due to the repayment of long term borrowings as well as the subordinated loan from shareholders during 2019G and 2020G.

Long term borrowings declined from SAR 4.8bn Dec18G to SAR 3.4bn in Dec19G and to SAR 1.4bn at Dec20G, while shareholders loans declined from SAR 413.9m at Dec18G to SAR 182.9m at Dec19G and were fully repaid in 2020G.

Finance costs declined from SAR 41.5m in the six-month period ended 2020G to SAR 16.4m in the six-month period ended 2021G driven by the following:

1- the decrease in finance costs from long-term loans from SAR 32.1m to SAR 11.5m as a result of a decrease in interest paid due to repayments made during the period by SPC;
2- a decrease in finance costs on the secondary loan from shareholders by SAR 7.8m as a result of the full settlement of the loan from shareholders in the second half of 2020G.

4.4.1.6 Income from cash investments

The following table presents the breakdown of the income from cash investments for the years ended 31 December 2018G, 31 December 2019G and 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Finance income on short-term deposits	-	77,757	10,162	8,665	1,738	-	(86.9)%	%(79.9)
Unwinding of finance income on loans to employees	-	5,933	11,520	-	2,989	-	94.2%	-
Gain from subordinated loan modification	-	-	-	5,550	-	-	-	%(100.0)
Finance income on a subordinated loan to a subsidiary	-	-	-	3,607	-	-	-	%(100.0)
Other	-	-	-	2,066	34	-	-	%(98.4)
Less: eliminations	-	-	-	(5,029)	-	-	-	%(100.0)
Income from cash investments	**-**	**83,690**	**21,682**	**14,859**	**4,761**	**-**	**(74.1)%**	**%(68.0)**

Source: Audited financial statements of Petrochem and Management information

Income from cash investments comprised of returns on short term deposits and current accounts with local and foreign banks in 2019G and 2020G. The decline in finance income from short term deposits in 2020G was due to the decline in cash and cash equivalents utilized primarily to meet Sukuk obligations in June 2019G and the settlement of long term loans during 2020G.

The balance of cash at banks and short term deposits declined from SAR 3.3bn at Dec18G to SAR 2.5bn at Dec19G, and then to SAR 1.3bn at Dec20G.

Income from cash investments also included interest charges on loans to employees. These increased from SAR 5.9m in 2019G to SAR 11.5m in 2020G due to the increase in loans from SAR 110.4m at Dec19G to SAR 126.5m at Dec20G.

Income from cash investments decreased from SAR 14.9m in the six-month period ended 2020G to SAR 4.8m in the six-month period ended in 2021G as a result of a decrease in finance income on short-term deposits from SAR 8.7m to SAR 1.7m during the same period which was driven by lower interest rates and the balance of short term deposits.

In addition, the gain from the subordinated loan modification decreased by SAR 5.6m during the same period as a result of the full repayment of the loan by 2021G.

4.4.1.7 Other income

The following table presents the breakdown of the other income for the years ended 31 December 2018G, 31 December 2019G, 31 December 2020G and the six-month periods ended 30 June 2020G and 2021G:

Currency: SAR000	For the year ended 31 December,			For the period ended 30 June,		Δ %		
	2018G	2019G	2020G	2020G	2021G	Δ % 2018G-2019G	Δ % 2019G - 2020G	Δ % 2020G - 2021G
Foreign currency exchange gain (loss) - net	(19,740)	(6,649)	18,791	2,756	(8,115)	(66.3)%	(382.6)%	(394.4)%
Gain on disposals of property, plant and equipment	-	968	953	55	165	-	(1.5)%	%200.0
Gain on modification of subordinated loan from non-controlling interests	-	5,508	619			-	(88.8)%	
Insurance recovery	186,786	11,768	-	-	-	(93.7)%	-	-
Interest income on short term deposits	58,346	-	-	-	-	(100.0)%	-	-
Other - net	6,256	2,875	3,338	1,503	5,147	(54.0)%	16.1%	%242.4
Other income	**231,648**	**14,470**	**23,701**	**4,315**	**(2,803)**	**(93.8)%**	**63.8%**	**%(165.0)**

Source: Audited financial statements of Petrochem and Management information

Other income primarily comprised of forex gains and losses on sales to customers in Europe, the settlement of a claim in relation to a business interruption incident in 2017G as well as interest income on short term deposits in 2018G. Interest income on short term deposits was classified as finance income in 2019 and 2020G.

Other income decreased from SAR 231.6m in 2018G to SAR 14.5m in 2019G primarily due to the decline in insurance claim from SAR 186.8m in 2018G to SAR 11.8m in 2019G due to receiving a higher insurance claim in 2018G in relation to an incident incurred in 2017G and reclassification of income from short term deposits from 'other income' to 'finance income'.

Other income decreased from SAR 4.3m in the six-month period ended 2020G to losses of SAR (2.8m) during the six-month period of 2021G mainly due to foreign exchange losses incurred, which amounted to SAR 8.1m between each of the Euro and the US Dollar.

4.4.2 Consolidated balance sheet

The following table presents the consolidated balance sheet of the Company as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Property, plant and equipment	15,019,709	14,175,165	12,950,401	12,555,487	(5.6)%	(8.6)%	(3.05)%
Right-of-use assets	-	69,280	63,266	51,317	-	(8.7)%	(18.89)%
Other assets	128,464	138,978	134,234	123,569	8.2%	(3.4)%	(7.95)%
Non-current assets	**15,148,173**	**14,383,423**	**13,147,901**	**12,730,373**	**(5.0)%**	**(8.6)%**	**(3.18)%**
Inventories	1,105,457	917,803	1,017,190	1,008,923	(17.0)%	10.8%	(0.81)%
Prepayments and other current assets	256,922	85,557	144,643	153,262	(66.7)%	69.1%	5.96%
Due from related parties	221,326	264,920	229,481	248,268	19.7%	(13.4)%	8.19%
Trade receivables	1,035,382	906,097	784,883	1,210,407	(12.5)%	(13.4)%	54.21%
Cash and cash equivalents	3,251,537	2,485,617	1,297,527	1,404,969	(23.6)%	(47.8)%	8.28%
Current assets	**5,870,624**	**4,659,994**	**3,473,724**	**4,025,829**	**(20.6)%**	**(25.5)%**	**15.89%**
Total assets	**21,018,797**	**19,043,417**	**16,621,625**	**16,756,202**	**(9.4)%**	**(12.7)%**	**0.81%**
Share capital	4,800,000	4,800,000	4,800,000	4,800,000	-	-	0.00%
Statutory reserve	347,870	415,317	438,294	438,294	19.4%	5.5%	0.00%
Retained earnings	2,592,311	2,932,677	2,877,752	3,431,590	13.1%	(1.9)%	19.25%
Equity attributable to the shareholders' of the Company	7,740,181	8,147,994	8,116,046	8,669,884	5.3%	(0.4)%	6.82%
Non-controlling interest	3,648,431	4,101,801	4,165,547	3,313,652	12.4%	1.6%	(20.45)%
Equity	**11,388,612**	**12,249,795**	**12,281,593**	**11,983,536**	**7.6%**	**0.3%**	**(2.43)%**
Long-term borrowings	4,850,920	3,435,135	1,493,854	1,121,310	(29.2)%	(56.5)%	(24.94)%
Lease liabilities	-	52,097	42,244	34,532	n.a	(18.9)%	(18.26)%
Deferred tax liabilities-net	311,055	326,273	298,696	318,833	4.9%	(8.5)%	6.74%
Employee benefit obligations	163,087	258,856	318,959	341,510	58.7%	23.2%	7.07%
Subordinated loan from non-controlling interest	413,927	182,696	-	-	(55.9)%	(100.0)%	-
Non-current liabilities	**5,738,989**	**4,255,057**	**2,153,753**	**1,816,185**	**(25.9)%**	**(49.4)%**	**(15.67)%**
Trade payables	37,962	203,467	300,975	254,567	436.0%	47.9%	(15.42)%
Due to related parties	209,581	208,054	199,067	1,043,801	(0.7)%	(4.3)%	424.35%
Accrued and other liabilities	605,204	337,824	362,909	361,221	(44.2)%	7.4%	(0.47)%
Zakat and income tax	585,677	565,878	556,887	539,733	(3.4)%	(1.6)%	(3.08)%
Sukuk-current portion	1,078,000	-	-	-	(100.0)%	-	-
Current portion of long term borrowings	1,374,772	1,210,425	743,254	744,475	(12.0)%	(38.6)%	0.16%
Current portion of lease liabilities	-	12,917	23,187	12,684	-	79.5%	(45.30)%
Current liabilities	**3,891,196**	**2,538,565**	**2,186,279**	**2,956,481**	**(34.8)%**	**(13.9)%**	**35.23%**
Total liabilities	**9,630,185**	**6,793,622**	**4,340,032**	**4,772,666**	**(29.5)%**	**(36.1)%**	**9.97%**
Total equity and liabilities	**21,018,797**	**19,043,417**	**16,621,625**	**16,756,202**	**(9.4)%**	**(12.7)%**	**0.81%**

Source: Audited financial statements of Petrochem and Management information

4.4.2.1 Non-current assets

4-4-2-1-1 Property, plant, and equipment

The following table presents the net book value of property, plant, and equipment as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Net book value at beginning of the year	16,070,911	15,019,709	14,175,165	12,950,401	(6.5)%	(5.6)%	(8.6)%
Additions	69,103	32,802	25,076	30,573	(52.5)%	(23.6)%	21.9%
Adjustment	(4,881)	-	-	-	(100.0)%	-	-
Disposals	(191)	(11,284)	(9,770)	(13,419)	5,807.9%	(13.4)%	(37.3)%
Write-off	(323)	-	-	-	(100.0)%	-	-
Impairment	-	-	(389,969)	-	-	-	%100.0
Depreciation for the year/period	(1,114,910)	(866,062)	(850,101)	(412,068)	(22.3)%	(1.8)%	%(51.5)
Property, plant and equipment net book value	**15,019,709**	**14,175,165**	**12,950,401**	**12,555,487**	**(5.6)%**	**(8.6)%**	**%(3.0)**

Source: Audited financial statements of Petrochem and Management information

Property, plant and equipment includes plant, machinery and equipment, office buildings, furniture and office equipment, catalysts (platinum), vehicles, and capital work-in-progress. Property, plant, and equipment accounted for 71.5%, 74.4%, and 77.9% of total assets as at 31 December 2018G, 31 December 2019G, and 31 December 2020G and primarily included the net book value of the plant, machinery and equipment in Jubail. The plant and office buildings are constructed on land leased from the Royal Commission for Jubail and Yanbu on a 30 year lease which commenced on 9 December 2007. The lease is renewable for further periods.

The net book value of property, plant, and equipment decreased from SAR 15.0bn at Dec18G to SAR 14.2bn at Dec19G and further decreased to SAR 12.9bn at Dec20G mainly due to annual depreciation charged during each period.

Annual depreciation decreased from SAR 1.1bn in 2018G to SAR 866.1m in 2019G and further decreased to SAR 850.1m in 2020G. The higher depreciation in 2018G of SAR 1,114.9m was due to the reassessment of the useful life of certain plant and machinery during the year.

In 2020G, in addition to the annual depreciation, Petrochem also recognized an impairment charge due to the discontinuation of its polystyrene production unit which led to the write-off of its net book value at Dec20G by a further SAR 390.0m.

Property, plant and equipment includes plant, machinery and equipment, office buildings, furniture and office equipment, catalysts (platinum), vehicles, and capital work-in-progress. Property, plant and equipment represented 74.9% of the total assets as at 30 June 2021G.

The net book value of property, plant and equipment decreased from SAR 12.9bn as at 31 December 2020G to SAR 12.5bn as at 30 June 2021G mainly due to depreciation for the year of SAR 412,068m as there were no significant additions to property, plant and equipment during the same period.

The net additions as at 30 June 2021G amounted to SAR 30.6m and were mainly related to additions to plant, plant and equipment. This was partially offset by disposals of SR 13.4m related to fully depreciated office equipment and furniture.

4-4-2-1-2 Right of use assets

In line with the requirements of International Financial Reporting Standards ("IFRS") and starting from 1 January 2019G, Petrochem adopted a policy of capitalizing operating leases, by recording right-of-use assets and lease liabilities related to those contracts, in the statement of financial position. These lease contracts mainly related to the land on which the plant was constructed in addition to the warehouses.

Right of use assets decreased from SAR 69.3m at Dec19G to SAR 63.3m at Dec20G due to the annual depreciation charge of SAR 21.5m in 2020G, despite new effective leases of SAR 15.5m during the same year.

Right-of-use assets decreased from SAR 63.3 million as at 31 December 2020G to SAR 51.3 million as at 30 June 2021G.

4-4-2-1-3 Other assets

Other assets included non-interest bearing housing loans and subsidies provided to eligible Saudi employees. The loans are secured by mortgages on the property purchased under the employee home ownership program and are repayable in monthly installments within a maximum period of 15 years. Once the loan is disbursed to eligible employees, Petrochem subsidizes SAR 0.2m of the total loans granted to employees which are then amortized over a period of 8 years.

Employees' loans and subsidies increased from SAR 128.5m at Dec18G to SAR 139.0m at Dec19G due to the increase in the number of eligible employees who obtained these loans while the balance decreased to SAR 134.2m at Dec20G mainly due to collections received from the employees' as well as the amortization of the subsidies.

Other assets include interest-free housing loans and subsidies provided to eligible Saudi employees in line with the historical period between 2018G and 2020G. Employee loans and subsidies decreased from SAR 134,2m at Dec20G to SAR 123,6m at Jun21G due to collections received from the employees' as well as the amortization of the subsidies.

4.4.2.2 Current assets

4-4-2-2-1 Inventories

The following table presents the inventory balances as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Spare parts and consumables	411,506	428,374	422,659	398,938	4.1%	(1.3)%	(5.6)%
Finished goods	560,405	304,051	410,116	307,894	(45.7)%	34.9%	(24.9)%
Catalyst, chemicals and additives	132,798	129,949	136,718	163,289	(2.1)%	5.2%	19.4%
Goods-in-transit	-	53,730	46,099	137,149	-	(14.2)%	197.5%
Raw materials	748	1,699	1,598	1,653	127.1%	(5.9)%	3.4%
Inventory	**1,105,457**	**917,803**	**1,017,190**	**1,008,923**	**(17.0)%**	**10.8%**	**(0.8)%**

Source: Audited financial statements of Petrochem and Management information

Inventory accounted for 5.3%, 4.8%, and 6.1% of total assets as at 31 December 2018G, 31 December 2019G, and 31 December 2020G respectively. Inventories comprised of finished goods, spare parts and consumables, catalysts, chemicals and additives, goods in transit and raw materials.

Finished goods primarily included Polyethylene and Polypropylene. The decrease in finished goods inventory by SAR 256.4m at Dec19G was mainly due to the increase in the quantity sold to local customers as well as increase GPDC sales in 2019G.

At Dec20G, finished goods inventory increased by SAR 106.1m due to larger quantities of Polyethylene and Polypropylene which had increased at Dec20G due to comparatively lower sales during 2020G.

Spare parts and consumable increased by SAR 16.9m from SAR 411.5m at Dec18G to SAR 428.4m at Dec19G due to purchases made during the year in preparation for the planned turnaround of the plant in 2022G and then declined in 2020G due to a write off spare parts of SAR 10.5m related to the discontinuance of the Polystyrene production line. The decline was partially offset by purchases during 2020G.

Catalysts, chemicals and additives decreased from SAR 132.8m at Dec18G to SAR 130.0m at Dec19G due to a write down of the catalyst inventory in line with an assessment performed during the year. The increase in inventory levels at Dec20G was due to inventory buildup in line with the expected turnaround of the plant in 2022G.

Inventory accounted for 6.0% of total assets as at 30 June 2021G. The inventory includes spare parts, finished goods, consumables, catalysts, chemicals, additives, goods in transit and raw materials.

Spare parts and consumables decreased by 5.6% from SAR 422.6m at Dec20G to SAR 398.9m at Jun21G.

The finished goods mainly consisted of Polyethylene and Polypropylene. The decrease in the finished goods inventory by 24.9% at Jun21G is mainly due to the increase in the quantities sold to local customers and GPDC.

Catalysts, chemicals and additives increased from SAR 136.7m as at 31 December 2020G to SAR 163.3m as at 30 June 2021G.

The balance of goods in transit increased by 197.5% as at 30 June 2021G to SAR 137,1m due to the increase in the value of goods procured from SPC in line with the increase in international crude oil prices.

4-4-2-2-2 Prepayments and other current assets

The following table presents the prepayments and other current assets of the Company as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
VAT receivable - net	31,732	17,321	72,829	102,410	(45.4)%	320.5%	40.6%
Prepaid expenses	27,429	41,392	37,549	28,521	50.9%	(9.3)%	(24.0)%
Loans to employees - current portion	27,744	16,746	13,509	13,502	(39.6)%	(19.3)%	(0.1)%
Advance income tax	-	-	12,013	-	-	-	-
Advances to suppliers	-	5,959	5,111	6,080	-	(14.2)%	19.0%
Cash margin against bank guarantee	2,264	2,264	2,264	-	-	-	-
Accrued finance income	5,780	245	74	705	(95.8)%	(69.8)%	852.7%
Recoverable insurance claim	136,759	-	-	-	(100.0)%	-	-
Cash margin against issuance of Sukuk	16,455	-	-	-	(100.0)%	-	-
Other receivables	8,759	1,630	1,294	2,044	(81.4)%	(20.6)%	58.0%
Prepayments and other current assets	**256,922**	**85,557**	**144,643**	**153,262**	**(66.7)%**	**69.1%**	**6.0%**

Source: Audited financial statements of Petrochem and Management information

Prepayments and other current assets accounted for 1.2%, 0.4%, and 0.9% of total assets as at 31 December 2018G, 31 December 2019G, and 31 December 2020G respectively.

Prepayments and other current assets decreased from SAR 256.9m as at 31 December 2018G to SAR 85.6m as at 31 December 2019 due to the collection of an insurance claim amounting to SAR 136.8m related to an incident in the plant in 2017G at SPC.

In addition, the decline in balance at Dec19G was also due to the recovery of the cash margin of SAR 16.5m subsequent to the settlement of the Sukuk in June 2019G as well as the decline in the amount of VAT receivable at Dec19G as compared to the prior year end. The VAT receivable at Dec18G comprised of refunds for three months while the VAT receivable at Dec19G related to a single month of Dec19G.

Prepayments and other current assets increased from SAR 85.6m at Dec19G to SAR 144.6m at Dec20G due to the increase in amounts of VAT receivable from SAR 17.3m at Dec19G to SAR 72.8m at Dec20G as a result of the change in the VAT rate from 5% to 15% in 2020G as well as the income tax submitted of SAR 12.0m at Dec20G.

Prepayments and other current assets accounted for 0.9% of the total assets as at 30 June 2021G.

Prepayments and other current assets increased from SAR 144.6m as at 31 December 2020G to SAR 153.3m as at 30 June 2021G due to an increase in the net value added tax receivables by 40.6%.

4-4-2-2-3 Cash and cash equivalents

The following table presents cash and cash equivalents as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Cash at banks	1,076,537	2,349,617	872,506	461,950	118.3%	(62.9)%	(47.1)%
Short-term deposits	2,175,000	136,000	425,021	943,019	(93.7)%	212.5%	121.9%
Cash and cash equivalents	**3,251,537**	**2,485,617**	**1,297,527**	**1,404,969**	**(23.6)%**	**(47.8)%**	**8.3%**

Source: Audited financial statements of Petrochem and Management information

Cash and cash equivalents accounted for 15.5%, 13.1%, and 7.8% of total assets as at 31 December 2018G, 31 December 2019G, and 31 December 2020G respectively. Short-term deposits included amounts deposited with local commercial banks for periods having maturities of three months or less at each balance sheet date.

These short term deposits declined from SAR 2.2bn at Dec18G to SAR 0.1m at Dec19G due to the withdrawal by Petrochem of cash available at maturity for use in the settlement of Sukuk repayments in June 2019G and increased at Dec20G due to Petrochem's strategy to place excess cash in short term deposits during the year.

Cash at banks increased from SAR 1.1bn at Dec18G to SAR 2.3bn at Dec19G due to the increase in operating cash flows driven by the annual profits before tax and zakat for the year then decreased from SAR 2.3bn at Dec19G to SAR 872.5m at Dec20G due to lower operating cash flows generated for the year in addition to net repayments of SAR 2.9bn during 2020G.

Cash and cash equivalents accounted for 8.4% of total assets as at 30 June 2021G, and included short-term deposits and amounts deposited with local commercial banks for periods having maturities of three months or less at each balance sheet date.

Cash at banks decreased from SAR 872.5m at Dec20G to SAR 461.9bn at Jun21G mainly due to the increase in cash flows from financing activities paid to lenders amounting to SAR 350.0 million.

Short-term deposits increased from SAR 425.0m at Dec20G to SAR 943.0m at Jun21G mainly related to the increase in short-term Murabaha deposits in line with the management's strategy to keep cash in form of short-term deposits.

4-4-2-2-4 Trade receivables

The following table presents the aging of trade receivables as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G
Current to 30 days	1,028,366	903,510	784,099	1,134,954
31 to 60 days	5,696	2,482	777	(1,298)
61 to 90 days	1,320	105	7	22,319
More than 90 days	-	-	-	(1)
Prepayments	-	-	-	58,408
Foreign currency valuation	-	-	-	(3,975)
Trade receivables aging	**1,035,382**	**906,097**	**784,883**	**1,210,407**

Source: Audited financial statements of Petrochem and Management information

Trade receivables are non-interest bearing receivables from third party customers in Asia, Europe, KSA and the Middle East and accounted for 4.9%, 4.8%, and 4.7% of total assets as at 31 December 2018G, 31 December 2019G, and 31 December 2020G respectively. According to Petrochem's accounting policies, current trade receivables up to 30 days accounted for 99.3%, 99.7% and 99.9% of the total trade receivables as at 31 December 2018G, 2019G and 2020G respectively.

Trade receivables decreased from SAR 1.0bn at Dec18G to SAR 906.1m at Dec19G and then decreased to SAR 784.9m at Dec20G in line with the decrease in revenues in the same period.

Trade receivables increased to SAR 1.2bn as at 30 June 2021G in line with the increase in Petrochem's revenues during the same period.

4.4.2.3 Equity

4-4-2-3-1 Equity attributable to the shareholders' of Petrochem

The following table provides a breakdown of equity attributable to the shareholders' of Petrochem as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Share capital	4,800,000	4,800,000	4,800,000	4,800,000	-	-	-
Statutory reserve	347,870	415,317	438,294	438,294	19.4%	5.5%	-
Retained earnings	2,592,311	2,932,677	2,877,752	3,431,590	13.1%	(1.9)%	19.2%
Equity attributable to the shareholders' of Petrochem	**7,740,181**	**8,147,994**	**8,116,046**	**8,669,884**	**5.3%**	**(0.4)%**	**6.8%**

Source: Audited financial statements of Petrochem and Management information

Equity attributable to the shareholders' of Petrochem comprised of share capital, statutory reserve and retained earnings.

There was no change to share capital of SAR 4.8bn at Dec19G and Dec20G.

Shareholders equity increased from SAR 7.7 bn at Dec18G to SAR 8.2bn at Dec19G due to an increase in retained earnings by SAR 340.4m during the period. The increase in retained earnings of SAR 340.4m was after the distribution of dividends of SAR 240.0m and transfer of 10% of the profits earned by Petrochem to the statutory reserve during the year.

At Dec20G, Shareholders Equity declined by SAR 31.9m primarily due to a decrease in profits generated during the year. While Petrochem's share of net profits of SAR 230.0m for 2020G were added to the opening balance of retained earnings, the transfer of SAR 23.0m to statutory reserve and an additional SAR 240.0m as dividends resulted in a decline in the ending balance of Shareholders Equity at Dec20G.

There was no change to share capital of SAR 4.8bn at Dec20G and Jun21G.

Shareholders' equity increased from SAR 8.1bn at Dec20G to SAR 8.7bn at Jun21G due to an increase in retained earnings by SAR 553.8m during the period.

4-4-2-3-2 Non-controlling interest

The balance represents the non-controlling interest share of 35% within SPC and GPDC equity. Non-controlling interest accounted for 32.0%, 33.5%, and 33.9% of the total equity at Dec18G, Dec19G, and Dec20G respectively.

The balance represents the non-controlling interest share of 35% within SPC and GPDC equity. Non-controlling interests accounted for 27.7% of the total equity at Jun21G.

The balance increased by SAR 453.4m and SAR 63.7m at Dec19G and Dec20G respectively due to the share in subsidiaries' results during 2019G and 2020G. The increase during 2020G was offset by the dividends of SAR 105.0m declared and paid by GPDC to the non-controlling interest.

The balance of non-controlling interests decreased from SAR 4.2bn at Dec20G to SAR 3.3bn at Jun21G.

4.4.2.4 Non-current liabilities

4-4-2-4-1 Long term borrowings

The following table presents long term borrowings as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Local commercial banks	-	-	2,250,000	1,875,000	-	-	%(16.7)
PIF	904,849	391,779	-	-	(56.7)%	(100.0)%	-
SIDF	300,004	100,000	-	-	(66.7)%	(100.0)%	-
Consortium of local and foreign commercial banks	5,027,476	4,157,259	-	-	(17.3)%	(100.0)%	-
Less: unamortized transaction costs	(6,637)	(3,478)	(12,892)	(9,215)	(47.6)%	270.7%	%(28.5)
Less: current portion of long-term borrowings	(1,374,772)	(1,210,425)	(743,254)	(744,475)	(12.0)%	(38.6)%	%0.2
Long term borrowings	**4,850,920**	**3,435,135**	**1,493,854**	**1,121,310**	**(29.2)%**	**(56.5)%**	**%(24.9)**

Source: Audited financial statements of Petrochem and Management information

Long term borrowings accounted for 50.4%, 50.6%, and 34.4% of total liabilities as at 31 December 2018G, 31 December 2019G, and 31 December 2020G respectively.

Long-term borrowings accounted for 23.5% of the total liabilities at Jun21G.

The balance of long term borrowings outstanding decreased by SAR 1.4bn at Dec19G due to principal repayments of SAR 1.6m made during 2019G.

During 2020G, SPC signed a loan agreement with Riyad Bank and Samba Financial Group (Currently: The Saudi National Bank) to refinance and settle the remaining amounts outstanding from the existing loans at Dec19G. The new loan which carries a financial charge of LIBOR plus 0.9% is to be repaid in 8 equal semi-annual instalments beginning 30 June 2020G.

The balance of outstanding long-term borrowings decreased by SAR 372.5m at Jun21G due to principal repayments.

The maturity profile of the long-term loans as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G is presented in the table below.

4-4-2-4-2 Maturity profile

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G
2019	1,374,772	-	-	-
2020	1,263,867	1,210,425	-	-
2021	783,268	762,896	750,000	750,000
2022	956,960	931,500	750,000	750,000
2023	1,853,462	1,744,217	750,000	750,000
Repayment profile	**6,232,329**	**4,649,038**	**2,250,000**	**2,250,000**

Source: Audited financial statements of Petrochem and Management information

4-4-2-4-3 Subordinated loan from non-controlling interest

Arabian Chevron Phillips Petrochemical, (the non-controlling shareholder in SPC and GPDC) had provided a non-interest bearing subordinated loan of SAR 1.1bn in 2008G to finance the construction of Petrochem's plant. The loan was repaid and settled in full during 2020G.

4-4-2-4-4 Sukuk

In June 2014G, Petrochem issued Sukuk amounting to SAR 1.2bn at SAR 1m par value. SAR 0.6bn of the total proceeds was used to settle existing term loans while the remaining was used to finance working capital requirements. The Sukuk was fully settled on maturity in June 2019G.

4-4-2-4-5 Employee benefit obligations

The following table presents the components of employees' benefits obligation as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Defined benefit plan	163,087	231,162	288,599	308,407	41.7%	24.8%	6.9%
Employee savings plan	-	27,694	30,360	33,103	-	9.6%	9.0%
Employee benefit obligations	**163,087**	**258,856**	**318,959**	**341,510**	**58.7%**	**23.2%**	**7.1%**

Source: Audited financial statements of Petrochem and Management information

Employee benefit obligations accounted for 1.7%, 3.8%, and 7.3% of total liabilities as at 31 December 2018G, 31 December 2019G, and 31 December 2020G respectively.

Until 2018G, Saudi Polymers Company, in cooperation with affiliates owned by the Saudi Group (Saudi Chevron Phillips and Jubail Chevron Phillips) jointly operated an employee savings plan for their eligible employees. Under the plan, contributions from employees were deposited in a separate bank account held and operated by Saudi Chevron Phillips. The liability related to employees for Saudi Polymers Company was netted against receivables from affiliates and was not presented separately. However, in 2019G and 2020G, the liability related to Saudi Polymers Company's employees was presented separately as shown in the table above.

Employee benefit obligations increased by SAR 22.5m as at 30 June 2021G in line with extensions of current services and interests charged during the year as per the actuarial valuation report conducted by independent experts.

The following table presents the components of employees' benefits obligation as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Employees' benefits obligation movement

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Opening balance	165,379	163,087	231,162	288,599	(1.4)%	41.7%	%24.8
Current service cost	24,543	20,824	25,919	19,808	(15.2)%	24.5%	%(23.6)
Finance cost	6,206	7,615	7,799	-	22.7%	2.4%	%(100)
Benefits paid	(4,890)	(6,586)	(10,935)	-	34.7%	66.0%	%(100)
Transfer from a related party	-	5,573	1,702	-	-	(69.5)%	%(100)
Remeasurements	(28,151)	40,649	32,952	-	(244.4)%	(18.9)%	%(100)
Closing balance defined benefit obligations	**163,087**	**231,162**	**288,599**	**308,407**	**41.7%**	**24.8%**	**6.9%**

Source: Audited financial statements of Petrochem and Management information

Petrochem operates a single post-employment benefit scheme of defined benefit plan driven by the labor laws of the Kingdom of Saudi Arabia and the United Arab Emirates which is based on most recent salary and number of service years.

Defined benefits plan increased by SAR 68.1m at Dec19G, SAR 57.4m at Dec20G and SAR 19.8m at Jun21G due to incremental annual employees' service costs, the accrued finance costs as well as the annual remeasurements of obligations calculated on the basis of an independent actuarial report.

4.4.2.5 Current liabilities

4-4-2-5-1 Accrued and other liabilities

The following table presents the accrued and other liabilities as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Accrued expenses	438,188	276,911	282,956	280,021	(36.8)%	2.2%	(1.0)%
Advances from customers	63,645	29,029	51,300	58,410	(54.4)%	76.7%	13.9%
Accrued salaries and benefits	-	30,595	19,164	10,751	-	(37.4)%	(43.9)%
VAT payable - net	-	-	2,423	3,113	-	-	28.5%
Other	103,371	1,289	7,066	8,926	(98.8)%	448.2%	26.3%
Accrued and other liabilities	**605,204**	**337,824**	**362,909**	**361,221**	**(44.2)%**	**7.4%**	**(0.5)%**

Source: Audited financial statements of Petrochem and Management information

Accrued, and other current liabilities accounted for 6.3%, 5.0%, and 8.4% of total liabilities as at Dec18G, Dec19G and Dec20G respectively.

Accrued expenses comprised mainly of accrued purchases of raw materials on which invoices were not presented to Petrochem, warehousing and customs, utilities, and other employees' benefits. Petrochem presented these within 'Others' at Dec18A and within accrued expenses at Dec19G and Dec20G.

Accrued expenses decreased by SAR 161.3m as at Dec19G due to the lower cost of feedstock (primarily propane) supplied by Saudi Aramco, which was driven by a decrease in global crude oil prices. The balance increased at Dec20G by SAR 6.0m due to the receipt of purchases in Dec20G which had not been settled at year end.

Advances from customers comprise of cash received in advance from customers for exchange for goods to be delivered in subsequent periods. The balance declined from SAR 63.6m at Dec18G to SAR 29.0m at Dec19G before increasing to SAR 51.3m at Dec20G. The fluctuation in advances from customers was based on the requirements from customers at specific times and was adjusted against the invoice issued for goods delivered.

Accruals and other liabilities accounted for 7.6% of the total liabilities as at 30 June 2021G. Accrued expenses comprised mainly of accrued purchases of raw materials on which invoices were not presented to Petrochem, warehousing and customs, utilities, and other employees' benefits.

The accrued expenses were stable between the period ended December 2020G and June 2021G, as the expenses did not witness a noticeable fluctuation during the period.

Advances from customers includes cash received in advance from customers for goods to be delivered in subsequent periods. The balance increased from SAR 51.3m at Dec20G to SAR 58.4m at Jun21G in line with the increase in sales to customers at the end of the period.

4-4-2-5-2 Trade Payables

Trade payables accounted for 0.4%, 3.0%, and 6.9% of total liabilities as at Dec18G, Dec19G, and Dec20G respectively and included amounts to be paid for goods and services received.

Trade payables increased from SAR 38.0m at Dec18G to SAR 203.5m at Dec19G and to SAR 301.0m at Dec20G primarily due to amounts payable to Saudi Aramco, which increased by SAR 150.3m at Dec19G and SAR 92.4m at Dec20G.

The increase in payables to Saudi Aramco at Dec19G was due to the increase in volumes of feedstock procured during the year, while the increase in payables to Saudi Aramco at Dec20G was due to Petrochem availing a temporary extension in the credit period provided by Saudi Aramco for the full settlement of its invoices.

Trade payables accounted for 5.3% of the total liabilities as at 30 June 2021G.

Trade payables decreased from SAR 301.0 m at Dec20G to SAR 254.6m at Jun21G, mainly due to a decrease in payable balances due to third party suppliers (unrelated parties).

4-4-2-5-3 Zakat and income tax

Zakat and income tax accounted for 6.1%, 8.3%, 12.8% and 11.3% of the total liabilities as at Dec18G, Dec19G, Dec20G and Jun21G respectively.

The following table presents the movement in Zakat and income tax for the year ended 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Zakat	Income tax	Total
1 January 2021	556,887	(12,013)	544,874
Provision	66,934	83,006	149,940
Advance income tax paid	-	(12,034)	(12,034)
Payment	(40,300)	(8,747)	(49,047)
Reversal of zakat provision	(94,000)	-	(94,000)
Closing balance 30 June 2021	**489,521**	**50,212**	**539,733**
1 January 2020	562,296	3,582	565,878
Provision	33,537	48,075	81,612
Advance income tax paid	-	(24,281)	(24,281)
Payment	(38,946)	(39,389)	(78,335)
Closing balance 31 December 2020	**556,887**	**(12,013)**	**544,874**
1 January 2019	521,552	64,125	585,677
Provision	70,800	52,133	122,933
Advance income tax paid	-	(48,554)	(48,554)
Payment	(30,056)	(64,122)	(94,178)
Closing balance 31 December 2019	**562,296**	**3,582**	**565,878**
1 January 2018	436,544	43,958	480,502
Provision	98,620	97,126	195,746
Payment	(13,612)	(76,959)	(90,571)
Closing balance 31 December 2018	**521,552**	**64,125**	**585,677**

Source: Audited financial statements of Petrochem and Management information

The provision for zakat and income tax decreased from SAR 585.7m at Dec18G to SAR 565.9m at Dec19G, and further to SAR 544.9m at Dec20.

As mentioned in note 19 of Petrochem's consolidated financial statements for the year ended 31 December 2020G, the assessments for the years 2011-2018 have been completed by ZATCA. Petrochem has appealed against the assessments raised by ZATCA for the years 2014G to 2018G.

4.4.2.6 Related parties' balances

The following table presents related parties' balances as at 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G	Δ % Dec18G – Dec19G	Δ % Dec19G – Dec20G	Δ % 2020G - 2021G
Due from related parties:							
Saudi Chevron Phillips Company	172,631	212,682	183,326	196,511	23.2%	(13.8)%	7.2%
Jubail Chevron Phillips Company	48,695	52,238	46,106	51,705	7.3%	(11.7)%	12.1%
Aromatics Distribution Company	-	-	49	52	-	-	6.1%
Total due from related parties	**221,326**	**264,920**	**229,481**	**248,268**	**19.7%**	**(13.4)%**	**8.2%**
Due to related parties:							
Jubail Chevron Phillips Company	86,524	99,383	87,188	116,773	14.9%	(12.3)%	33,9
Saudi Chevron Phillips Company	72,187	65,509	73,088	79,040	(9.3)%	11.6%	8,1%
Chevron Phillips Chemical International Sales LLC	48,200	41,993	37,780	57,956	(12.9)%	(10.0)%	53,4%
Saudi Industrial Investment Group Company	409	-	-	-	(100.0)%	-	-
Chevron Phillips Chemical Global Employment Company LLC	2,261	-	-	787,587	(100.0)%	-	100.0%
Others	-	1,169	1,011	2,445	100.0%	(13.5)%	141.8%
Total due to related parties	**209,581**	**208,054**	**199,067**	**1,043,801**	**(0.7)%**	**(4.3)%**	**%424.3**

Source: Audited financial statements of Petrochem and Management information

Due from related parties accounted for 1.1%, 1.4%, and 1.4% of the total assets as at Dec18G, Dec19G, and Dec20G respectively, whereas due to related parties accounted for 2.2%, 3.1%, and 4.6% of the total liabilities as at Dec18G, Dec19G, and Dec20G respectively.

Due from related parties accounted for 1.5% of total assets as at 30 June 2021G, while due to related parties accounted for 21.9% of total liabilities as at 30 June 2021G.

The following table presents the major transactions with related parties during the year ended 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	Dec18G	Dec19G	Dec20G	Jun21G
Saudi Industrial Investment Group Company ("SIIG")				
Support services	(409)	(760)	(1,413)	(403)
Saudi Chevron Phillips Company				
Sales	261,563	203,940	151,279	129,238
Purchases	19,804	69,349	120,274	75,830
Support services	341,354	313,410	333,566	153,150
Jubail Chevron Phillips Company				
Sales	374,858	302,415	173,171	121,863
Purchases	1,197,694	1,064,058	695,614	539,106
Support services	-	853	536	360
Chevron Phillips Chemical International Sales LLC				
Marketing	317,231	259,748	198,428	155,946
Royalty	51,488	51,323	51,146	25,148
Support services	(7,583)	(10,654)	(9,676)	742
Chevron Phillips Chemical Global Employment Company (Support Services)	(77,639)	(73,452)	(55,770)	21,572
Chemical Services Inc	(17,487)	(18,743)	(18,806)	9,255
Other subsidiaries (support services)	(3,744)	(1,759)	(2,786)	1,366

Source: Audited financial statements of Petrochem and Management information

Petrochem procured liquid feed stocks from Saudi Chevron Phillips Company and Jubail Chevron Philips Company during the financial years ended 31 December 2018G, 2019G, 2020G and 30 June 2021G, while making sales of AHM, Ethylene, Propylene, and Pygas to Saudi Chevron Phillips Company and Jubail Chevron Philips Company during the same period.

Saudi Chevron Phillips Company and Jubail Chevron Philips Company also provided support services to Petrochem which included operating and maintaining SPC plant and common facilities with SCP and JCP, and to perform certain operational and administrative services on behalf of Petrochem.

Petrochem is also paying marketing fees and royalty fees to Chevron Phillips Chemical International Sales LLC under separate long term agreements expiring in July 2041G and October 2036G respectively.

4.4.3 Consolidated cash flow statement

The following table presents a summary of the consolidated cash flows of Petrochem and its subsidiaries for the years ended 31 December 2018G, 31 December 2019G, 31 December 2020G and 30 June 2021G:

Currency: SAR000	2018G	2019G	2020G	For the period ended 30 June, 2020G	For the period ended 30 June, 2021G
Profit before zakat and income tax	1,931,111	1,156,312	413,250	(140,914)	1,369,675
Depreciation	1,115,424	886,496	876,776	443,211	437,436
Impairment of property, plant and equipment	-	-	389,969	389,969	-
Adjustment of property, plant and equipment	4,881	-	-	-	-
Finance costs - net	309,373	144,031	56,326	26,601	11,614
Provision for employee benefit obligations	25,859	24,316	29,744	20,067	25,590
Re-measurement gain on non-controlling partner's subordinated loan	-	(5,508)	(619)	(765)	-

Currency: SAR000	2018G	2019G	2020G	For the period ended 30 June, 2020G	For the period ended 30 June, 2021G
Loss / (gain) on disposal of property, plant and equipment	(68)	(968)	(953)	(55)	(165)
Changes in operating assets and liabilities:					
Decrease (increase) in inventories	(12,519)	187,654	(99,387)	(9,908)	8,267
(Increase) decrease in prepayments and other assets	(188,036)	155,189	(26,387)	11,600	(6,273)
(Increase) decrease in due from related parties	7,184	(12,360)	37,141	52,736	(18,787)
(Increase) decrease in trade receivables	73,565	129,285	121,214	211,466	(425,524)
Decrease in trade payables	(181,005)	165,505	97,508	(119,207)	(46,408)
Increase (decrease) in due to related parties	(27,782)	(1,527)	(8,987)	(84,417)	57,116
(Decrease) increase in accrued and other liabilities	214,360	(290,140)	23,675	110,416	(3,399)
Cash generated from operations	3,272,347	2,538,285	1,909,270	910,800	1,409,142
Finance costs paid	(259,439)	(206,902)	(59,001)	(31,016)	(12,698)
Finance income received	-	77,512	10,088	9,398	1,067
Zakat and income tax paid	(90,571)	(142,732)	(102,616)	(24,276)	(61,082)
Employee benefit obligations paid	-	(8,045)	(12,094)	(1,714)	(3,008)
Loans to employees paid	-	(8,628)	(5,339)	-	-
Net cash generated from operations	**2,922,337**	**2,249,490**	**1,740,308**	**863,192**	**1,333,421**
Payments for purchases of property, plant and equipment	(69,103)	(10,042)	(23,666)	(7,462)	(28,862)
Proceeds from disposals of property, plant and equipment	68	12,197	5,591	55	165
Net movement in short term investments – bank deposits	358,000	-	-	-	-
Net cash (used in) / generated from investing activities	**288,965**	**2,155**	**(18,075)**	**(7,407)**	**(28,697)**
Proceeds from long-term borrowings	-	-	2,980,369	2,980,500	-
Repayment of term loans	(1,773,604)	(1,583,291)	(5,399,038)	(5,024,038)	(375,000)
Repayment of Sukuk	(122,000)	(1,078,000)	-	-	-
Repayment of non-controlling partner's subordinated loan	(446,250)	(227,432)	(182,077)	(76,043)	-
Income tax reimbursed by non-controlling interest	66,270	123,671	50,535	24,276	21,871
Dividends paid	(240,000)	(240,000)	(240,000)	(240,000)	(360,000)
Dividends paid by subsidiary to NCI	-	-	(105,000)	(52,500)	(65,625)
Principal elements of lease payments	-	(12,513)	(15,112)	(6,961)	(18,215)
Repatriation of share capital in a subsidiary to non	-	-	-	-	(400,313)
Net cash outflow from financing activities	**(2,515,584)**	**(3,017,565)**	**(2,910,323)**	**(2,394,766)**	**(1,197,282)**
Movement in cash	**695,718**	**(765,920)**	**(1,188,090)**	**(1,538,981)**	**107,442**
Cash and cash equivalents at the beginning of the year	2,555,819	3,251,537	2,485,617	2,485,617	1,297,527
Cash and cash equivalents at the end of the year	**3,251,537**	**2,485,617**	**1,297,527**	**946,636**	**1,404,969**

Source: Audited financial statements of Petrochem and Management information

Cash and cash equivalents fluctuated over the Historical Period, driven by changes in net profit for the year, working capital changes, and net cash flows from financing activities.

Net cash generated from operating activities

Cash inflows from operations decreased by SAR 672.8m in 2019G mainly driven by a SAR 774.8m decline in net profits before zakat during the year. In 2020G, cash from operations declined further by SAR 509.2m driven by a further decline in profits before zakat in 2020G.

Cash inflows from operating activities increased by SAR 470.2m in the six-month period ended June 2021G mainly driven by the increase in net profits during the period.

Net cash (used in)/generated from investing activities

Cash inflows from investing activities decreased by SAR 286.8m in 2019G due to recovery of term deposits of SAR 358.0m held at Dec18G. Petrochem did not invest in term deposits with maturity of more than three months in 2019G nor 2020G.

In 2020G, cash flows from investing activities included cash outflows related to purchase of property, plant, and equipment in 2020G.

The cash flows from investing activities included cash outflows related to the acquisition of property, plant and equipment for SPC during the period of 2021G.

Net cash used in financing activities

Cash flows from financing activities comprised of loans obtained from commercial banks and shareholders, loan repayments to commercial banks and shareholders and dividend payments over the Historical Period.

Cash outflows from financing activities increased by SAR 502.0m in 2019G from SAR 2.5bn in 2018G to SAR 3.0bn in 2019G. The increase in cash outflows in 2019G were due to the increase in repayment of Sukuk by SAR 956.0m during the year, offset by the decrease in repayment of subordinated loan and commercial banks loans SAR 409.1m.

In 2020G, cash outflows declined by SAR 107.2m, due to the cash inflows of SAR 3.0bn from the loan obtained from Samba Financial Group (currently: Saudi National Bank) and Riyad Bank during the year which offset loan repayments of SAR 5.6bn during the year.

Petrochem also paid dividends to the shareholders of SAR 240.0m in 2018G, 2019G and 2020G, in addition to SAR 105.0m paid by a subsidiary to its non-controlling shareholders.

Cash flows from financing activities decreased by SAR 1.2bn in the six-month period ended June 2021G, due to a decrease in the repayment of long-term borrowings compared to the year ended 31 December 2020G.

5. LEGAL INFORMATION

5.1 SIIG's Directors Declaration

The directors of SIIG provide the following confirmations:

1- The Acquisition does not constitute a breach of the relevant laws and regulations in Saudi Arabia;

2- the issuance of the Consideration Shares does not constitute a breach of any contract or agreement entered into by SIIG, subject to Section (1.1) (Risks Related to Acquisition and SIIG Business after completion of acquisition) of this Shareholders' Circular;

3- This section includes all the material legal information about the Acquisition which SIIG Shareholders should take into consideration to make a well-informed voting decision; and

4- There is no other material legal information within this section the omission of which would make any statement herein misleading.

5- Except as disclosed in Section (3.7) ("**Related Parties and Conflicted Directors**").of this Shareholders' Circular, the independent members of the board of directors of SIIG, other than the conflicted directors, acknowledge that they do not have any direct or indirect interest in any of SIIG's shares or in any of the shares or businesses of Petrochem, or in any contracts, signed or to be signed, between the parties to the Acquisition, and that they confirm their full independence in respect of the Acquisition, of this Shareholders' Circular.

The members of the board of directors of SIIG (other than the conflicted directors) believe that the Acquisition Transaction is fair and reasonable, having conducted appropriate due diligence - with the support of its advisors - they deemed sufficient under the current circumstances and considered the market position prevailing at the time of the publication of this Shareholders' Circular in addition to the future growth prospects of the SIIG, including potential synergies, and the opinion of HSBC Saudi Arabia (SIIG's Financial Advisor in connection with the Acquisition) dated 26/10/2021G, to the SIIG board of directors, which opinion is attached to this Shareholders' Circular as Annex 2, to the effect that, as of that date and based upon and subject to the factors and assumptions set forth therein, the Exchange Ratio pursuant to the Implementation Agreement was fair from a financial point of view to SIIG.

The members of the board of directors of SIIG (other than the conflicted directors) further believe that the Acquisition is in the best interests of SIIG and its Shareholders and therefore unanimously recommends that SIIG Shareholders approve the Acquisition Resolutions. In arriving at their recommendation, the members of the board of directors of SIIG have also received and considered external advice on legal, accounting, financial, strategic and other matters relating to the Acquisition.

All board members of SIIG who will vote on the Acquisition Resolutions at SIIG EGM will vote, with respect to their shareholding, in favor of the Acquisition Resolutions.

In giving its recommendation, the board of directors of SIIG has not had regard to specific investment objectives, financial situation, tax or Zakat positions or the individual circumstances of any individual SIIG shareholder. As each of SIIG shareholders has different investment objectives and portfolios, the board of directors of SIIG recommends that each individual SIIG shareholder consults its own independent licensed financial advisor in relation to the Acquisition and relies on its own examination of the Acquisition to ensure whether or not the acquisition and the information herein are consistent with the SIIG shareholder's individual objectives and financial situations.

5.2 Summary of the Legal Structure of the Acquisition Transaction

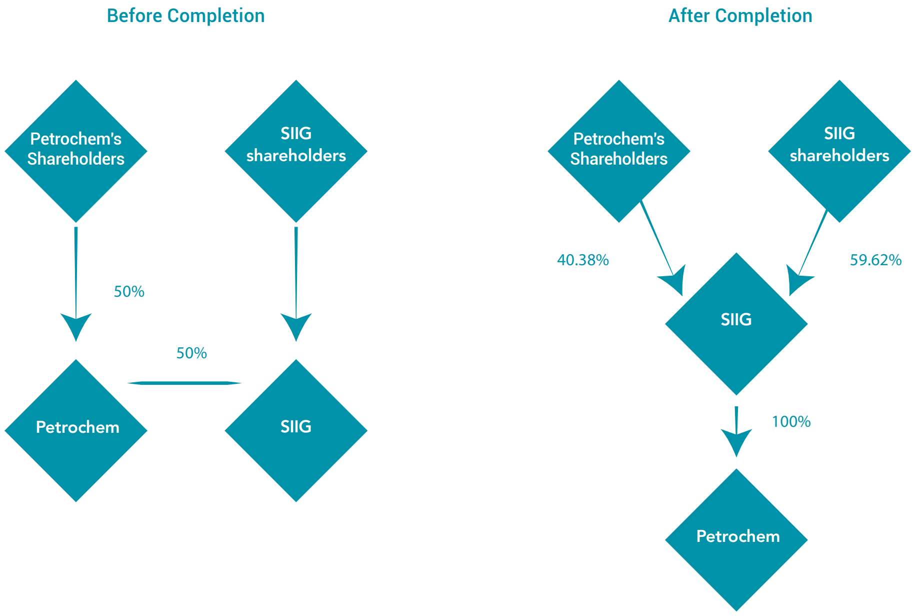
The Acquisition will be implemented according to Article 26 of the Merger and Acquisition Regulations. After fulfilment of all the terms and conditions of the Implementation Agreement as summarized in Section (5.4.1.1) "Implementation Agreement Terms and Conditions") of this Shareholders' Circular (any of which may not be amended or assigned except by mutual written and executed agreement between the two Companies) and completion of the Acquisition, all Petrochem shares shall be delisted from Tadawul and the company shall be fully owned by Saudi Industrial. As a result of acquisition, Saudi Industrial shall issue Consideration Shares to Petrochem's Selling Shareholders listed in the shareholder's register of Petrochem as of the end of the second trading period following the Effective Date.

Pursuant to the Implementation Agreement, SIIG will acquire the Offer Shares, which will result in an increase in the SIIG's ownership in Petrochem from (50%) to (100%), in consideration for the issue of the Consideration Shares by SIIG to Petrochem's Selling Shareholders by increasing its share capital in accordance with the provisions of Article (57) of the Rules on the Offer of Securities and Continuing Obligations and based on the final exchange ration, whereby Petrochem's Selling Shareholders obtain (1.27) SIIG shares in consideration for every Petrochem share held. The total number of Consideration Shares will be three hundred four million eight hundred thousand (304,800,000) fully paid shares with a nominal value of ten Saudi Riyals (SAR 10) per share. The total nominal value of the Consideration Shares is three billion forty-eight million (SAR 3,048,000,000) Saudi Riyals. These shares will be issued by way of increasing the fully paid-up capital of SIIG at a rate of (67.733%), from four billion five hundred million (4,500,000,000) Saudi Riyals to seven billion five hundred forty-eight million (7,548,000,000) Saudi Riyals and increasing the number of issued shares of SIIG from four hundred fifty million (450,000,000) shares to seven hundred fifty-four million eight hundred thousand (754,800,000) fully paid shares. Upon completion of the Acquisition, the current SIIG Shareholders will own (59.62%) of the SIIG capital and the Petrochem's Selling Shareholders will own (40.38%) of the SIIG capital.

The total value of the Acquisition will be determined based on the value of the Consideration Shares. The total nominal value of the Consideration Shares is three billion forty-eight million (SAR 3,048,000,000) Saudi Riyals. The total market value of the Consideration Shares as determined on the basis of the Exchange Ratio and the closing price of SAR 41.1 per SIIG share on 20/03/1443H (corresponding to 26/10/2021G) (which is the last trading day prior to the Implementation Agreement) is twelve billion five hundred twenty-seven million two hundred and eighty thousand (SAR 12,527,280,000) Saudi Riyals. The total value of the Consideration Shares (as will be recorded on the financial accounts of SIIG) will be determined at a later stage on the basis of the closing price of SIIG shares on the last trading day prior to the Effective Date of the Acquisition.

In the event that the calculation of the number of shares owed to any Petrochem's Selling Shareholder based on the Exchange Ratio results in fractional shares, the resulting figure will be rounded down to the lowest whole number. For example, if one of Petrochem's Selling Shareholder holds (50) Petrochem shares, he will be allocated 63 Consideration Shares, not (63.5) Consideration Shares. The fractional shares will be aggregated and sold in Tadawul at the then market price on behalf of the entitled Petrochem's Selling Shareholders. Subsequently, the proceeds resulting from the sale of the fractional shares will be distributed to such Petrochem Shareholders proportionate to their respective fractional entitlements within a period not exceeding thirty (30) days from Completion. The costs related to the sale of fractional shares will be deducted from the total proceeds of such sale.

The below diagram is a simplified description of the structure of the Acquisition:



5.3 Approvals Required to Effect the Acquisition Transaction

5.3.1 Government Approvals

A number of regulatory approvals must be obtained for the purposes of the implementation of the Acquisition as follows:

a- CMA approval of the SIIG Capital Increase and publication of the Offer Document.

b- Saudi Exchange Company approval for listing of the Consideration Shares on Tadawul.

c- MOC approval for the proposed amendments to SIIG bylaws (as set out in Annex (1) of this Shareholders' Circular).

d- CMA approval to publish the invitation for the SIIG EGM and Petrochem EGM in relation to the Acquisition. The EGM date will be announced on the Saudi Exchange Company website.

Except for CMA approval of inviting the SIIG EGM and Petrochem EGM in relation to the Acquisition, all government approvals mentioned above have been obtained

SIIG and Petrochem obtained a GAC letter dated 14/11/1442 H, indicating that reporting the Acquisition to the GAC is not required as the Acquisition shall not produce an economic concentration that requires a GAC non-objection.

5.4 Summary of Implementation Agreement

5.4.1 Implementation Agreement

On 21/03/1443 H (27/10/2021 G), SIIG and Petrochem entered into an Implementation Agreement whereby they agreed to the terms and conditions of the Acquisition Transaction and obligations of both companies in relation to the implementation of the Acquisition Transaction. The Implementation Agreement contains warranties given by each company to the other on a reciprocal basis as well as restrictions on the conduct of business.

The Acquisition Transaction is subject to the approvals of SIIG's and Petrochem's Selling Shareholders. According to Article (3) (n) of the Merger and Acquisition Regulations, a shareholder that holds shares in both SIIG and Petrochem can only vote on the Acquisition Resolutions in the EGM of one of the companies. For further details about voting in the EGM, see Section (5.6.2) ("**EGM Approval**") of this Shareholders' Circular.

5.4.1.1 Implementation Agreement Terms and Conditions

The Implementation Agreement includes a number of terms and conditions that must be met to complete the Acquisition Transaction. The two companies have committed to seeking to fulfill the terms and conditions as soon as possible and to coordinate with each other in this regard. The two companies have also agreed that none of these terms and conditions may be amended or assigned without a written consent from both companies. Here is a summary of those terms and conditions:

1- Obtaining all the CMA required approvals in relation to the Acquisition Transaction.

2- Obtaining the approval of the Saudi Exchange Company to list the Consideration Shares in the Saudi Exchange and any other approvals that the Saudi Exchange Company may request in connection with the Acquisition Transaction.

3- Approval of the required majority of SIIG shareholders on the Acquisition Resolutions.

4- Approval of the required majority of Petrochem's shareholders on the Acquisition Resolutions.

5- No material adverse event exists or continues.

6- No breach of a number of warranties provided by both SIIG and Petrochem under the Implementation Agreement (unless such breach is capable of remedy where the breach has been remedied to the reasonable satisfaction of the non-breaching party); these warranties are as follows:

   a- that both Companies have the requisite power and authority to enter into the Implementation Agreement, including all obligations stipulated under it;

   b- that the obligations of the Implementation Agreement constitute binding obligations on both Companies;

   c- that the execution and delivery of, and the performance of its obligations under the Implementation Agreement will not result in a material breach of any provision of constitutional document for both Companies;

   d- that the execution of the Implementation Agreement and all arising obligations thereof will not result in a material breach to any material agreement or give a right to a third party to terminate or fundamentally modify any material agreement (pursuant to the agreed definition stipulated in the Implementation Agreement) to which either of the two companies is a party except as disclosed to the other party. The Implementation Agreement defines a material agreement as: (i) any agreement with a value equal to or greater than ten million US Dollars (USD 10,000,000) or; (ii) any other agreement that is material for non-financial reasons such that its termination results in a material adverse event on SIIG and its Subsidiaries or on Petrochem and its Subsidiaries (as applicable);

   e- that all information provided by each party to the other party in connection with the Acquisition Transaction (including information provided during the stage of professional due diligence) is correct and complete in all material aspects and is not materially misleading as on its date; and

   f- no material information has been withheld by the other party in the context of the Acquisition Transaction.

7- No decision or court judgement from any governmental authority in the KSA to prevent the Acquisition Transaction pursuant to the provisions of the Implementation Agreement.

5.4.1.2 Conduct of Business Requirements

The Implementation Agreement included an obligation on the two Companies to refrain from taking particular actions in breach of specific restrictions stipulated in the Implementation Agreement in relation to the method of conducting their business during the period between the date of entering into the Implementation Agreement until the Effective Date of the Implementation or the date on which the Implementation Agreement is terminated in accordance with its terms (whichever occurs earlier) without obtaining the consent of the other party, noting that the other party cannot withhold its consent without a reasonable cause.

In the event that one of the two Companies violates any of these restrictions and this violation results in the occurrence of a Material Adverse Event (pursuant to the agreed definition in the Implementation Agreement), the other party will then have the right to terminate the Implementation Agreement pursuant to a notice to be submitted to the violating party. For further details about the provisions for terminating the Implementation Agreement, see Section (5.4.1.4) "Termination of the Implementation Agreement" of this Shareholders' Circular.

The restrictions related to the conduct of business stipulated in the Implementation Agreement require that none of the two Companies and members of their group act, or agree to act, in a way that would violate any of these restrictions, unless this is legally required. The following is a summary of the conduct of business requirements:

1- limiting the business that the two Companies and members of their group carry out to their ordinary course of business that is substantially consistent with their previous practices, provided that the relevant regulations are not violated in all cases;
2- refrain from making any material amendments or alterations to the general nature or scope of the business of the company or any member of their group or conducting any new material activities
3- in relation to the two Companies (without members of their group), not to declare, make, set aside or pay any dividend or other distributions (whether in cash or in the form of share grants or any other form) for any period.
4- refrain from acquiring or disposing of any tangible assets or entering into or amending an agreement or assuming any related obligation if such action would result in incurring compensation, expenses or obligations exceeding an amount of two hundred fifty million (250,000,000) US dollars (or its equivalent).
5- not to amend share capital, Articles of Association or by-laws.

5.4.1.3 Structure of SIIG Board of Directors after Completion of Acquisition

Subject to procurement of relevant regulatory and shareholder approvals, both companies have agreed pursuant to the Implementation Agreement to take the necessary steps for implementing the following changes in respect of the composition of SIIG's board of directors after the Completion of the Acquisition:

1- To appoint two (2) individuals (whom shall be nominated by Petrochem current board within thirty (30) days prior to the Effective Date of the Acquisition) to fill in the two vacant board seats following the Acquisition Transaction.
2- SIIG will provide two vacant seats for the two members who are nominated by Petrochem Board of Directors through increasing SIIG's board size from nine (9) members to ten (10) members and discharge one member of the SIIG board of directors on the date of the Completion.

As a result of the above changes, it is expected that, following the Completion, the composition of the board of SIIG will be as follows:

- the GOSI, one of the current shareholders of SIIG and a Substantial Shareholder of Petrochem, will have a number of representatives in the board of SIIG as of the Completion (at present, the GOSI has two representatives in SIIG board);
- two (2) directors will be nominated by Petrochem's board as members of the SIIG's board following the Completion; and
- the remaining directors will be from the then current board of SIIG.

These changes will only take effect following the Completion. Until then, the current boards and executive management teams of both Companies will continue to lead their respective Companies independently.

5.4.1.4 Termination of the Implementation Agreement

The Implementation Agreement shall expire with immediate effect and thus all the rights and obligations of the two Companies under the Implementation Agreement (with the exception of some rights and obligations that remain binding even after termination of the Implementation Agreement, such as confidentiality, dispute resolution and provisions relating to notifications) will be terminated in any of the following cases:

1- Either party provides a notice of termination of the Implementation Agreement to the other party following breach by the other party of the Implementation Agreement where such breach constitutes a Material Adverse Event including the following:
   - a- to breach the obligations under clause (5) of the Implementation Agreement which relates to the preparation and submission of the required documentation to the CMA to approve the publication of the Offer Document and SIIG capital increase request, as well as the provision of all required information to enable the other party to prepare such documents;
   - b- to breach any restrictions on the conduct of business (as detailed in Section (5.4.1.2) ("**Conduct of Business Requirements**") of this Shareholders' Circular without the written approval of the other party;
   - c- to breach any of the warranties (as detailed in section (5.4.1.1) ("**Implementation Agreement Terms and Conditions**")) which stipulate that all information provided to the other party in connection with the Acquisition Transaction including information that was provided during the course of the due diligence process and during the preparation of the Acquisition documents including this Shareholders' Circular, was as at the date as to which it speaks true and accurate (in all material respects); and warranties that neither party has knowingly withheld from the other party any information that is material in the context of the Acquisition Transaction; and warranties that neither party has knowingly withheld from the other party any information that is material in the context of the Acquisition Transaction; and
   - d- to breach warranties relating to the correctness and completeness of any information (in all material aspects) to be submitted after conclusion of the Implementation Agreement to the Other Party including any information to be submitted for the purpose of preparing the documentation of the Acquisition Transaction including this Shareholders' Circular.

2- Failing to enforce the Acquisition Resolutions prior to or on the long stop date being 26/10/2022G (unless both Companies agree in writing on another date).

3- Failing to satisfy any of Implementation Agreement conditions or waive any conditions thereof prior to or on the long stop date being 26/10/2022G (unless both Companies agree in writing on another date).

4- SIIG and Petrochem agree to terminate the agreement in writing.

5.5 Other Agreements

Except for the Implementation Agreement, there are no other material documents or agreements between the two Companies related to the Acquisition Transaction.

5.6 Procedures Required to Effect the Acquisition Transaction

Subject to satisfying all of the conditions set out in the Implementation Agreement and set out above, there are certain procedures required to be completed for the purpose of effecting the Acquisition Transaction, which are as follows:

5.6.1 Government Approvals

A number of regulatory approvals must be obtained for the purposes of the implementation of the Acquisition Transaction as follows:

a- CMA approval of the SIIG Capital Increase and publication of the Offer Document.

b- Saudi Exchange Company approval for listing of the Consideration Shares on Tadawul.

c- MOC approval for the proposed amendments to SIIG bylaws (as set out in Annex (1) of this Shareholders' Circular).

d- CMA approval to publish the invitation for the SIIG EGM and Petrochem EGM in relation to the Acquisition Transaction. The EGM date will be announced on the Saudi Exchange Company website.

Except for CMA approval of inviting the SIIG EGM and Petrochem EGM in relation to the Acquisition Transaction, all government approvals mentioned above have been obtained

SIIG and Petrochem obtained a GAC letter dated 14/11/1442 H, indicating that reporting the Acquisition Transaction to the GAC is not required as the Acquisition Transaction shall not produce an economic concentration that requires a GAC non-objection.

5.6.2 EGM Approval

The Acquisition Transaction is also conditional upon obtaining approvals at EGMs of SIIG and Petrochem as follows:

1- Approval of the required majority (which is represented by at least three-quarters of the shares represented at the meeting) of SIIG shareholders on the Acquisition Resolutions.

2- Approval of the required majority (which is represented by at least three-quarters of the shares represented at the meeting) of Petrochem's Selling Shareholders on the Acquisition Resolutions.

SIIG will submit an application to the CMA to obtain its approval to convene the SIIG EGM and Petrochem EGM shortly after the publication of this Shareholders' Circular. Following the CMA approval, SIIG and Petrochem will publish the invitation for the respective EGMs, which shall be convened within a maximum period of twenty-eight (28) days as of the date of publishing this Shareholders' Circular (or any other date as agreed between the Companies and approved by the CMA)

EGM shall be valid only if attended by a number of shareholders representing at least one half of the capital of SIIG. If such quorum is not met, a call shall be made for a second EGM to be held one hour after the expiry of the period prescribed for holding the first EGM (provided that the invitation to hold the first EGM shall indicate the possibility of holding a second EGM one hour after the end of the period specified for the first EGM in the event that the quorum required for holding the EGM is not met). The second EGM shall be valid only if attended by a number of Shareholders representing at least one fourth of the capital of SIIG. If such quorum is not met, SIIG shall obtain the approval of the CMA to hold a third EGM. Upon obtaining the approval of the CMA, SIIG will publish the invitation for the EGM, and the EGM will be held after a period of not less than twenty-one (21) days as of the date of publishing the invitation. In all cases, the third EGM shall be valid regardless of the number of shareholders represented therein.

All shareholders who appear in the shareholders register of SIIG by the end of trading on the same day of the relevant EGM will be eligible to attend and vote (whether in person, by proxy or via remote/electronic voting), pursuant to the relevant procedures. The delegation of a proxy must be in writing, signed by the relevant shareholder and attested by the Chamber of Commerce, one of the banks, the CMA authorized persons, notary public, or persons authorized to notarize documentation. The proxy must show the original copy of the proxy in the EGM, along with a copy of the national identification, passport, or residence permit.

Acquisition Resolutions shall be approved in the SIIG EGM if issued by a majority of three quarters of the shares represented in the EGM, either attending in person or by proxy. Furthermore, according to Article (3) (n) of the Merger and Acquisition Regulations, a shareholder that holds shares in both SIIG and Petrochem can only vote on the Acquisition Resolutions in the EGM of one of the companies.

Shareholders are also able to vote on the EGM agenda remotely/electronically by using "Tadawulaty" which is a service provided by the Saudi Exchange Company, provided that the shareholders are registered with "Tadawulaty". The registration with "Tadawulaty" and the ability to vote remotely on the EGM agenda is available to all shareholders free of charge. For more information, please visit: http://www.tadawulaty.com.sa The remote/electronic voting will commence at least three (3) days prior to the date of the EGM, and the exact dates during which the remote/electronic voting will be available will be announced as part of the EGM invitation.

Votes in the EGM shall be calculated on the basis of one (1) vote per share. Shareholders who fail to attend the EGM (whether in person or via remote/electronic voting or a proxy) will forfeit their rights to vote in such EGM and their shares will not be counted as represented.

Whilst all shareholders have the right to attend and vote on the resolutions proposed at the SIIG EGM related to the Acquisition Transaction (unless they are restricted due to a conflict of interest or any other restriction imposed by the relevant Saudi laws and regulations), shareholders residing outside of the Kingdom of Saudi Arabia are hereby made aware that this Shareholders' Circular was not filed or registered with any regulatory authority outside the KSA. Therefore, if a shareholder is based in a jurisdiction where voting on the Acquisition Transaction based on this Shareholders' Circular requires any steps to be taken by SIIG to lawfully enable such shareholder to vote on the Acquisition Transaction then that shareholder should not vote on the resolutions to be proposed at the SIIG EGM. If such shareholder has nevertheless voted on the Acquisition Resolutions, then SIIG reserves the right, after agreeing with Petrochem, not to proceed with the Acquisition Transaction unless the relevant resolutions are approved by the requisite majorities without counting the vote of that shareholder.

For clarification, if the requisite percentage – at least three quarters of the shares represented in the meeting- of Petrochem's Selling Shareholders approve the Acquisition Transaction in Petrochem's EGM related to the Acquisition Transaction and all other conditions of the Acquisition Transaction are met, all Petrochem shareholders (including those who voted to reject the Acquisition Transaction or did not vote) shall not hold any of Petrochem's shares because Petrochem's shares will be delisted and Petrochem will be fully owned by SIIG. They will receive, in return, Consideration Shares in SIIG according to the terms and conditions of the Implementation Agreement upon the Completion.

5.6.3 Completion of the Acquisition

Following the approval of the Acquisition Resolutions by the Shareholders of both companies, the Resolutions shall be effective and the ownership of all the shares, subject to the Offer, shall be transferred to SIIG. Petrochem's shares shall be delisted and Petrochem will be fully owned by SIIG which will, as a result, issue Consideration Shares to Petrochem's shareholders listed in the Petrochem's Selling Shareholder register by the end of second trading period following the effectiveness of the Acquisition Transaction.

5.7 Litigation against SIIG

SIIG submitted its zakat and income tax returns to ZATCA up to 2020G, and ZATCA has made several additional assessments on SIIG with an additional commitment on SIIG in the amount of forty-two million one hundred and thirty-eight thousand five hundred and ten Saudi Riyals (SAR 42,138,510) for the years from 2007G to 2014G. SIIG has submitted its objection to those assessments to the General Secretariat of the Zakat, Tax and Customs Committees, and the objection is still under consideration up to the date of this Shareholders' Circular.

5.8 Litigation against Petrochem

Petrochem also submitted its zakat and income tax returns to ZATCA up to 2020G. ZATCA has made several additional assessments on Petrochem with additional obligations on Petrochem, totaling three hundred and forty two million and three hundred thousand Saudi Riyals (SAR 342,300,000), which had been reduced to one hundred ninety three million five hundred thousand Saudi Riyals (SAR 193,500,000) as of the date of this Circular, the details of these additional assessments and obligations and their current status is as follows:

- ZATCA made assessments for the years from 2014 to 2016 with an additional commitment to Petrochem in the amount of (SAR 204.2) million Saudi Riyals. Petrochem has submitted its objection to the same to the General Secretariat of the Zakat, Tax and Customs Committees. The Tax Violations and Disputes Committee issued its decision to partially accept the objection so that the additional obligation on Petrochem for the years from 2014 to 2016 was reduced to (SAR 92.5) million Saudi Riyals. Thereafter, Petrochem and ZATCA submitted their appeals against the aforementioned decision to the Tax Violations and Disputes Appeal Committee, and the appeal is still under consideration up to the date of this Shareholders' Circular.
- ZATCA made assessments for the years from 2017 to 2018 with an additional commitment to Petrochem in the amount of (SAR 128.9) million Saudi Riyals. Petrochem has submitted its objection to those assessments to the General Secretariat of the Zakat, Tax and Customs Committees, and the Tax Violations and Disputes Resolution Committee issued its decision to partially accept the objection, and as a result, the Zakat obligation for these years was reduced to (91.8) million Saudi Riyals, and the Company intends submit an objection to the aforementioned decision to the Tax Violations and Disputes Resolution Committee within the time limit specified for that.
- ZATCA made assessments for the years from 2019 to 2020 with an additional commitment to Petrochem in the amount of (SAR 9.2) million Saudi Riyals. Petrochem has submitted its objection to those assessments to the General Secretariat of the Zakat, Tax and Customs Committees, and the objection is still under consideration up to the date of this Shareholders' Circular.

5.9 Bankruptcy

None of the SIIG directors (or the proposed directors of the SIIG), senior executives or the board secretary of the SIIG board has been the subject of any bankruptcy action.

5.10 Insolvency

During the past five years, none of the directors of SIIG (or proposed directors of the SIIG), the senior executives or the board secretary of the SIIG board, in the preceding five years, has been employed by any insolvent company in a managerial or supervisory capacity.

6. STATEMENTS BY EXPERTS

The advisors whose names are set in Section ("**Corporate Directory**") have submitted their written consent to the publication of their names, addresses, logos and the statements attributed to each of them in the context in which they appear in this Shareholders' Circular and did not withdraw such consent. And the market advisor does not have any shareholding or interest of any kind in SIIG or its Subsidiaries.

7. EXPENSES

The costs and expenses of completing the Acquisition are estimated at Nineteen million (SAR 19,000,000) Saudi Riyals. Such expenses include the fees of the legal advisor, financial advisor, auditors, financial due diligence advisor and other advisors, in addition to government fees, marketing, publication and other expenses related to the Acquisition. It should be noted that the costs and expenses referred to above do not include the SIIG and Petrochem integration costs following Completion (for further details about the integration cost, see Section (1.1.2) "**Risks relating to realizing the cost savings, growth opportunities, and other benefits anticipated from the Acquisition**")

8. WAIVERS

The CMA has issued a waiver for GOSI (as a Related Party) from the requirements of Article 3(o) and Article 48 of the Merger and Acquisition Regulations, thereby allowing GOSI to vote on the Acquisition Resolutions in the General Assembly of one of the companies, subject to the voting restrictions applicable to the shareholder who owns shares in both companies, in which case the shareholder will be permitted to vote in the General Assembly of one of the companies, and the voting restrictions applicable to their representatives in the meeting of the board or any committee. SIIG (as a Related Party) will not be able to vote on the Acquisition Resolutions in the General Assembly of Petrochem.

A waiver was also obtained from the CMA from the requirements of (2)(b)(10) from the Instructions for Companies' Announcements in relation to the announcement made in the event where the agenda includes an item for changing the company's capital. As such, the SIIG Extraordinary General Assembly's invite announcement will not set out a clarification that the votes of Related Parties will not be included when voting on the Acquisition Resolutions in the Extraordinary General Assembly.

A waiver has been obtained from the CMA with respect to requirements set out under Article (57) (2) of the Rules on the Offer of Securities and Continuing Obligations in relation to the SIIG submission of professional and legal due diligence reports issued by its relevant advisors, according to their respective part, on Petrochem to CMA.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the head office of SIIG in Riyadh during normal business hours on any Business Day from the date of publication of this Shareholders' Circular up until the date of the SIIG's EGM in relation to Acquisition:

1- The bylaws and articles of association of Petrochem including all the amendments made to it during the last three years and up to its date.
2- Implementation Agreement.
3- Consolidated financial statements of Petrochem for years ended on 31 December 2018G, 2019 G and 2020 G in addition to the consolidated condensed financial statements (unaudited) of Petrochem for the two periods of three and six months ended on 30 June 2021G and condensed financial statements (unaudited) of Petrochem for the two periods of three and nine months ended on 30 September 2021G
4- Valuation Report.
5- Pro forma condensed consolidated statement (unaudited) of SIIG;
6- Advisors' consent letters to the use their names, logos and statements in the Shareholders' Circular.
7- Market study prepared by IHS Markit Ltd.

ANNEX 1

SIIG BYLAWS AMENDMENTS IN CONNECTION WITH THE ACQUISITION TRANSACTION

Article (1) will be amended to be as follows:

A Saudi Joint Stock Company (the "**Company**") has been established in accordance with the provisions of the Companies Law, its regulations, and these Bylaws in accordance with the following:

Article (2) will be amended as follows:

Saudi Industrial Investment Group (a listed Saudi Joint Stock Company)

Article (3) will be amended to be as follows:

The Company conducts and implements the following objectives:

1- Manufacture of refined oil products;
2- Manufacture of basic chemical materials;
3- Manufacture of other chemical products that are unspecified in another position;
4- Wholesale of solid, liquid and gaseous fuels and related products;
5- Manufacture of plastics and synthetic rubber in primary forms;
6- Mining of chemical metals and mineral fertilizers;
7- Mining of non-ferrous metal ores;
8- Manufacture of batteries and accumulators;
9- Manufacturing;
10- Oil and natural gas extraction support activities; and
11- Construction work related to other civil engineering works.

The Company shall conduct its activities in accordance with the regulations that are in force, and after obtaining the required licenses from the competent authorities, if any.

Article (6) will be amended to be as follows:

The duration of the Company shall be ninety-nine (99) Hijri years commencing as of the date of the Company's registration in the Commercial Registrar. The Company's term may always be extended by a resolution adopted by the Extraordinary General Assembly of shareholders, at least one year prior to the expiration of the original term.

Article (7) will be amended to be as follows:

The capital of the Company shall be seven billion five hundred and eighty four million Saudi Riyals (SAR 7,548,000,000), divided into seven hundred fifty four million and eight hundred thousand (754,800,000) nominal shares of an equal value of ten (10) Saudi Riyals each, which are paid in full.

Article (8) will be amended to be as follows:

The shareholders subscribed to all the share capital representing seven billion five hundred and eighty four million Saudi Riyals (SAR 7,548,000,000), seven hundred fifty four million and eight hundred thousand (754,800,000), which are paid in full.

Article (18) will be amended to be as follows:

The Company shall be managed by a Board of Directors (the "**Board**" or the "**Board of Directors**") composed of ten (10) members to be elected by the Shareholders' Ordinary General Assembly for a period of three (3) years.

Article (21) will be amended to be as follows:

Without prejudice to the powers conferred on the General Assembly, the Board shall be vested with full powers to manage the Company, supervise its business and funds, conduct its business inside and outside the Kingdom, and establish the general policy to achieve its objectives, including without limitation the following:

1- Represent the Company before all third parties and government authorities including, the Ministry of Commerce, the Ministry of Investment, the Capital Market Authority, the Saudi Stock Exchange, the Zakat, Tax and Customs Authority, public notaries, and before the Judiciary, Sharia courts, administrative courts (Board of Grievance), all judicial and arbitration committees and agencies, Labor and Employment Offices, civil rights, police departments, chambers of commerce and chambers of industry, private bodies, as well as other companies and establishments inside and outside of the Kingdom.

2- Do all actions in relation to claims and courts, including without limitation, file lawsuit, plead and defend, hear the claim and challenge it, deny, request the taking of, and reject oath, present witnesses and evidences and impeach them, contest, impeach and vouch for witnesses, allege forgery, deny the stamps, style of writing and signatures, request the ban of traveling and cancel the request, follow up with the confiscation and enforcement circuits, request confiscation and enforcement, request arbitration, appoint experts and arbitrators, challenge the reports of the experts and arbitrators, remove and replace them, challenge and appeal judgments, receive judgments' deeds, conclude whatever is necessary, attend hearings in relation to all cases before all the courts, including without limitation, Shari'ah courts, administrative courts (the Board of Grievances) and all committees.

3- Do all actions in relation to companies in which the Company participates in, including, but not limited to, agreeing to establish, incorporate, acquire, manage, operate, terminate, liquidate, finance, guarantee, and participate in any type of company, institution, fund, or branch with others or alone inside or outside the Kingdom, and determining the tasks and budgets of branches and companies, and determining the value of shares in which the Company will participate, increase or decrease the share capital of those companies, or the company's withdrawal from the companies in which it participates, the sale, purchase, mortgage, redemption, assignment and disposal of the company's shares or shares in other companies and receive amounts, and converting the corporate structure of those companies either to a joint stock company or a limited liability company or otherwise, sign articles of association and amendments thereof before the notary public, cancel articles of association and amendments thereof, sign shareholders' resolutions in the Company's capacity as a shareholder, sign contracts for the company with third parties or resolutions in respect of companies, including contracts to buy, sell, mortgage, mortgage removal, assign or dispose of shares, meetings of the shareholders, attend and vote on behalf of the Company in the meetings of the shareholders in the companies in which the Company participates in including constituent assemblies, ordinary and extra-ordinary assemblies, take all decisions and vote on any decisions in these companies, appoint and remove managers or members of the board of directors.

4- Buy or sell or mortgage the Company's real property and assets, physical or otherwise, its monies, and shares in other companies, as well as other movable and immovable assets, which shall include conveying lands are buildings by deed, sale, purchase, investment, mortgage or release of mortgage, and marginalization of bonds by merging, sorting, endowing, payment of price, receipt of payment, transferring the right of attachment and signing before the notary public or any other government authority in this regard; provided however that the minutes of the meeting of the Board state the reasons for its decision the following:

    a- the reasons and justifications of its decision;

    b- the sale price shall be equivalent to the prices of similar property or acceptable to the Board in its absolute discretion;

    c- the sale shall be spot sale, except in certain circumstances determined by the board and with sufficient guarantees in the Baord's absolute discretion; and

    d- such disposition shall not result in the suspension of certain Company activities or its encumbrance with other obligations.

5- Represent the company in its relations with companies, banks, money houses and all government financing funds and financial institutions of all kinds and other lenders, opening, managing, operating and closing bank accounts of any kind, in any country and conduct all transactions on these accounts in connection with the Company's activities, including withdrawals from, deposits and transfers from, receiving and disbursing funds, claiming its rights, signing any documents or contracts related thereto, obtaining loans and other facilities of all kinds for any period or amount, and to issue guarantees for the benefit of any entity whatsoever when the Board - according to its absolute discretion - deems that this serves the interest of the Company, signing, writing and accepting checks, promissory notes and other commercial papers, and entering into financial lease arrangements, financing operations, financial derivatives operations, treasury operations, financial hedging, hedging against currency exchange rates, granting credits, and carrying out all actions necessary for the conclusion of all agreements and banking transactions, in the form and terms the Board deems appropriate at its absolute discretion. The Board shall observe the following conditions for contracting loans with terms exceeding three (3) years:

   a- the Board's decision shall define the aspects of application of loan funds and method of repayment; and

   b- terms and conditions of the loan agreement and related securities shall not be detrimental to the Company's and Shareholders' interests

6- Entering into contracts, commitments, and association in the name of and on behalf of the Company, entering into tenders, investing in shares, portfolios and bonds, and signing all types of contracts and documents, including memoranda of understanding, and carrying out all acts, including negotiation, contracting, commitment, engagement, conciliation, assignment, termination, signature, delivery, modification, replacement, and addition to any contracts and obligations with others that would achieve the Company's objectives, including, but not limited to, licensing, marketing, future purchase, purchase, sale, lease and rental contracts, agencies, concessions, insurance contracts, compensation contracts, and guarantees, all in the form, terms, and amounts that the Board deems appropriate in accordance with to its absolute discretion.

7- The Board shall have, in cases determined at its discretion, the right to discharge the Company's debtors of their obligation, provided, however, that the minutes of the meeting of the Board and its decision shall take into consideration the following conditions:

   a- the discharge shall take effect after the lapse of one full year from the effective start of debt as a minimum;

   b- the discharge shall be restricted to a certain maximum amount annually per each debtor; and

   c- the discharge is a right of the Board that cannot be delegated.

8- Making decisions regarding the company's financial plan and policies for setting aside the statutory reserve, as well as – and with the authorization of the Ordinary General Assembly – declaring and distributing the Company's annual, semi-annual, and quarterly profits.

9- Issuing any type of debt instruments that are tradable inside or outside the Kingdom in accordance with the applicable laws and regulations.

10- Approving the Company's internal financial, administrative, and technical bylaws, and the policies and regulations for its employees.

11- Appointing the Company's employees, agents, and consultants, on the terms the Board deems appropriate, dismissing them, determining their powers and duties, and promoting or transferring them, determining the necessary allowances, salaries, and bonuses, paying their salaries and compensations, requesting visas, and recruiting employees and workers from abroad, issuance of residency and work permits, transfer, termination and assignment of sponsorships.

12- Forming committees of all kinds (except for the audit committee), determining their powers, appointing their members from among the members of the Board or otherwise, dismissing them, and determining their compensation.

13- Approving the Company's business plan and its annual capital budget and operational plans.

14- Signing and ratifying all licenses, records, certificates, necessary authorizations, forms and documents, receiving and delivering them in the name and on behalf of the Company, register signatures and seals with the Chambers of Commerce and Chambers of Industry, and issue, renew and amend the Company's certificates and licenses.

15- Conduct all actions in relation to commercial registers and chambers of commerce, including without limitation, follow up with registers' department, issue and renew registers, reserve commercial names, register trademarks, register and renew the registration with the Chamber of Commerce, sign all documents before Chamber of Commerce, manage registers, amend registers, add activities, open branch registers and cancel registers.

16- Register trademarks and other intellectual property rights inside or outside the Kingdom

17- Within the limits of its powers, the Board may delegate or authorize one or more of its members or a third party to carry out certain activities, or assume a certain function or certain functions, and to cancel such authorization or delegation, partially or in full.

The Board may also authorize the audit committee to approve the unaudited quarterly financial statements, while the annual audited financial statements shall continue to be approved by the Board.

Article (23) will be amended to be as follows:

The Board of Directors shall appoint a Chairman and a Vice Chairman from among its members. A single member may not concurrently hold the post of Chairman and any other executive position at the Company, including that of Chief Executive Officer.

The Board of Dirctors shall appoint a Chief Executive Officer from among its members or otherwise, who shall be tasked with conducting the daily business of the company.

In addition to the powers given to the Chairman and the Chief Executive Officer mentioned in these bylaws, the Board of Dirctors may, by resolution, define the authorities and powers of each of the Chairman and the Chief Executive Officer.

The Board of Directors shall determine the compensation of the Chairman and Chief Executive Officer, as well as the remuneration given to Board members, within the limits set out in the Companies' Law, its Implementing Regulations, and the Company's internal procedures and regulations.

The term of office of the Chairman and Vice Chairman shall not exceed their respective terms of membership on the Board. They may be reelected for additional terms and the Board may, at any time, dismiss one or both of them without prejudice to their right to seek compensation if dismissal were not properly justified or occurred at an inappropriate time. The term of office Chief Executive Officer and Secretary - if he is a Board member, respectively - shall not exceed their respective terms of membership on the Board. They may be reelected for additional terms. The Board may, at any time, dismiss one or both of them.

The Chairman shall have the following authorities:

1- Inviting the Board to convene for a Board Meeting. The Chairman, if asked by two Board members, shall invite the Board to convene.

2- Do all that is necessary with regard to companies established or is participated in by the Company - including but not limited to - agreeing to establish, purchase, manage, operate, terminate, liquidate, finance, guarantee, and participate in any type of companies, institutions, funds or branches, with others or alone, in any percentage, whether inside or outside the Kingdom of Saudi Arabia, and determining the branches and companies' responsibilities and budget, determining the amounts and values of the shares or stocks in which the Company will participate, increasing or decreasing the capital of those companies, or withdrawing the Company from those companies participated in, buying, selling, mortgaging, removing a mortgage, redeeming, transferring, assigning, disposing, and acting for the Company in relation to those shares or stocks in those companies participated in and receiving the value, transferring the entities of these companies, whether to a joint stock company, a limited liability company, or any other form, and signing the articles of association of those companies, and any amendment or annex to them, before a notary public or any other government agencies, or cancelling them, and signing any documents, contracts, resolution or other decisions issued by the Company in its capacity as a partner or shareholder in those companies and in relation to those companies, including contracts of purchase, sale, pledge, release of pledge, assignment or disposal of shares or stocks, minutes of general assemblies, permits, requests, notices, powers of attorney, resolutions, lease contracts or any other document that may be necessary or required, appoint managers and members of the boards of directors and board of managers these companies and the Company's representatives at shareholder or partners meetings and attend and vote, on behalf of the Company, at meetings of partners, including the regular and extraordinary constituent and general assemblies, or amend the purposes of those companies.

3- The Chairman has the right to delegate any of his powers – within the limits of his powers and authority – to one or more members of the Board or any other person, to take any action or conduct or perform certain work or actions on his behalf as Chairman, and he may also cancel this power of attorney or delegation in whole or in part, and the Chairman may also grant the delegate or agent the right to delegate or five power of attorney to another.

The Chief Executive Officer shall have the following authorities:

1- The Chief Executive Officer shall represent the Company in its relationship with others and before governmental and private bodies, including with the Ministry of Commerce, Ministry of Investment, Capital Market Authority, Saudi Exchange, the Zakat, Tax, and Customs Authority, public notaries, in judicial proceedings, Sharia courts, judicial committees, administrative courts, Labor and Employment Offices, civil rights, police departments, chambers of commerce and industry, private and public authorities, companies, establishments, in different forms inside and outside the Kingdom of Saudi Arabia and all governmental and private entities.

2- Do all actions in relation to claims and courts, including without limitation, file lawsuit, plead and defend, hear the claim and challenge it, deny, request the taking of, abstain, and reject oaths, present witnesses and evidences and impeach them, contest, impeach and vouch for witnesses, allege forgery, deny the stamps, style of writing and signatures, request the ban of traveling and cancel the request, follow up with the confiscation and enforcement circuits, request confiscation and enforcement, request arbitration, appoint experts and arbitrators, challenge the reports of the experts and arbitrators, remove and replace them, challenge and appeal judgments, receive judgments' deeds, conclude whatever is necessary, attend hearings in relation to all cases before all the courts, including without limitation, Shari'ah courts, administrative courts (the Board of Grievances) and all committees.

3- Entering into contracts, commitments, and association in the name of and on behalf of the Company, entering into tenders, investing in shares, portfolios and bonds, and signing all types of contracts and documents, including memoranda of understanding, and carrying out all acts, including negotiation, contracting, commitment, engagement, conciliation, assignment, termination, signature, delivery, modification, replacement, and addition to any contracts and obligations with others that would achieve the Company's objectives, including, but not limited to, licensing, marketing, future purchase, purchase, sale, lease and rental contracts, agencies, concessions, insurance contracts, compensation contracts, and guarantees, on the condition that none of these contracts shall exceed ten million (SAR 10,000,000.00) Saudi Riyals.

4- Represent the Company in its relations with companies, banks, money houses and all government financing funds and financial institutions of all kinds and other lenders, opening, managing, operating and closing bank accounts of any kind, in any country and conduct all transactions on these accounts in connection with the Company's activities, including withdrawals from, deposits and transfers from, receiving and disbursing funds, and claiming its rights, use electronic services relating to these and any in country on behalf of the Company, signing, writing and accepting checks, promissory notes and other commercial papers.

5- After obtaining the Board's approval, obtaining loans and other facilities of all kinds for any period or amount, from funds, governmental financial institutions, commercial banks, money houses, insurance companies, and any other insurance entity, and to issue guarantees for the benefit of any entity whatsoever and entering into financial lease arrangements, financing operations, financial derivatives operations, treasury operations, financial hedging, hedging against currency exchange rates, granting credits, and carrying out all actions necessary for the conclusion of all agreements and banking transaction, and sign any document or contract relating to this.

6- Signing deeds and Sukuks before a notary public and official and private bodies inside and outside the Kingdom of Saudi Arabia.

7- Appointing the Company's employees, agents, and consultants, dismissing them, determining their powers and duties, and promoting or transferring them, determining the necessary allowances, salaries, and bonuses, paying their salaries and compensations, requesting visas, and recruiting employees and workers from abroad, issuance of residency and work permits, transfer, termination and assignment of sponsorships.

8- Signing and ratifying all licenses, records, certificates, necessary authorizations, forms and documents, receiving and delivering them in the name and on behalf of the Company, register signatures and seals with the Chambers of Commerce and Chambers of Industry, and issue, renew and amend the Company's certificates and licenses.
9- Conduct all actions in relation to commercial registers and chambers of commerce, including, but not limited to, follow up with registers' department, issue and renew registers, reserve commercial names, register trademarks, register and renew the registration with the Chamber of Commerce, sign all documents before Chamber of Commerce, manage registers, amend registers, add activities, open branch registers and cancel registers.
10- Register trademarks and other intellectual property rights inside or outside the Kingdom of Saudi Arabia.
11- Accepting and removing mortgages on real estate taken as security for the Company's rights owed to third parties, including, but not limited to, advances on wages provided to the Company's employees within the Company's housing program.
12- Receiving and delivering on behalf of the Company.
13- The Chief Executive Officer has the right to delegate any of his powers – within the limits of his powers and authority – to another, to take any action or conduct or perform certain work or actions on his behalf as Chief Executive Officer, and he may also cancel this power of attorney or delegation in whole or in part.

The Board of Directors shall appoint a Secretary from among its members or others, to record the minutes to the Board Meetings, resolution resulting for such meeting, and storing these, in addition to any other responsibility the Board of Directors assign to the Secretary. The Board of Directors shall determine the Secretary's remuneration.

Article (25) will be amended to be as follows:

A Board meeting shall be quorate only if attended by a majority of members in person or by proxy, provided that the number of attendees in principle be no less than six. Board members may delegate other Board members to represent them in meetings pursuant to the following:

1- a member of the Board may not act on behalf of more than one Board member during the same meeting;
2- a proxy shall be made in writing and delivered to the Company by hand or through email; and
3- a Board member acting by proxy may not vote on resolutions on which his principal is prohibited from voting on.

The Board may adopt resolutions by circulation to all Board members unless one Board member submits a request that a meeting be convened for deliberations. Such resolutions shall be adopted by an absolute majority of Board members and presented to the Board at its first subsequent meeting.

ANNEX 2

FINANCIAL ADVISOR'S FAIRNESS OPINION

26 October 2021

The Board of Directors (the "Board")

Saudi Industrial Investment Company

Office 203, Rubeen Plaza

Northern Ring Road

Hittin District

P.O. Box 99833 Riyadh 11625

Saudi Arabia

Dear Sirs

Saudi Industrial Investment Company (the "**Company**") proposes to acquire the entire issued and outstanding share capital of the National Petrochemicals Company (the "**Offeree**") other than shares owned by the Company (the "**Offer**"), such that upon completion of the Offer, the Offeree will be a wholly-owned subsidiary of the Company and the Offeree will be de-listed from the Saudi Exchange (the "**Transaction**"). Pursuant to the offer document to be issued by the Company in relation to the Transaction (the "**Offer Document**") and the implementation agreement to be entered into between the Company and the Offeree in relation to the Transaction (the "**Implementation Agreement**" and, together, with the Offer Document, the "**Offer Documents**"), each share in the Offeree will be exchanged for 1.27 shares in the Company (the "**Exchange Ratio Consideration**").

As part of our engagement as financial adviser to the Company in relation to the Offer and pursuant to the terms agreed between us in an engagement letter dated 15 April 2021 (the "**Engagement Letter**"), the Company has requested the opinion of HSBC Saudi Arabia ("**HSBC**"), pursuant to Article 18 of the Merger and Acquisition Regulations, as to whether HSBC considers the Exchange Ratio Consideration as fair, from a financial point of view, to the Company.

We have not been requested to opine on, and our opinion does not in any manner address, the underlying business decision of the Company's Board of Directors to recommend or proceed with the Transaction. Neither have we been asked to opine on whether the process of achieving the Transaction, including the Company's shareholders' approval of the Transaction, is fair or otherwise.

Be advised that while certain provisions of the Offer are summarised above, the terms of the Offer are more fully described in the Offer Documents. As a result, the description of the Offer and certain other information contained herein is qualified in its entirety by reference to the Offer Documents. Capitalised terms used but not defined herein shall have the meanings ascribed thereto in the Offer Documents.

Scope of our review

In arriving at the opinion set out below, we have, among other things:

1- reviewed the financial terms of the Offer;
2- reviewed the Offer Documents;
3- reviewed the audited financial statements of the Company and the Offeree for the financial years 2018 to 2020 and the interim financial statements of the Company and the Offeree for the first six months of 2021;
4- considered and discussed with the Company's management certain internal financial analyses and forecasts relating to the business, earnings, cash flow, assets, liabilities and prospects of the Company prepared and provided to us by its management and the Offeree;
5- held discussions with members of the management of the Company regarding the past and current business operations, the financial condition and the future prospects of the Company and the Offeree;
6- reviewed the reported price and trading activity for ordinary shares of the Company and the Offeree and compared them with those of certain publicly traded companies that we deemed to be relevant;
7- compared the terms of the Offer with those, to the extent publicly available, of certain comparable transactions that we deemed to be relevant;
8- reviewed, on a no-reliance basis, certain due diligence materials prepared by the Company's advisors for the purposes of the Offer; and
9- reviewed such other financial studies and analyses, performed such other investigations, used certain valuation methods commonly used for these types of analyses and taken into account such other matters, as we deemed appropriate, including our assessment of current conditions and prospects for the petrochemical industry and general economic, market and monetary conditions.

Assumptions and limitations

In forming our opinion:

1- we have relied on, without independent verification, the assessment of the Company's management and the Board on the commercial merits of the Offer, including that the Offer is in the best interests of the Company and its shareholders as a whole;
2- we have relied upon, without independent verification, the accuracy and completeness of all of the information that was made available to us or publicly available or was discussed with or reviewed by us (including the information set out above) and have assumed such accuracy and completeness for the purpose of providing this opinion;
3- we have assumed that the financial forecasts furnished by the Company and the Offeree have been reasonably prepared on bases reflecting the best available estimates and judgements of the future financial performance of the Company and the Offeree by their senior management teams and Board and we have not independently verified these forecasts and we express no opinion on the fairness of such estimates and judgements;
4- while we have used various assumptions, judgements and estimates in our inquiry, which we consider reasonable and appropriate under the circumstances, no assurances can be given as to the accuracy of any such assumptions, judgements and estimates. Such assumptions, judgements and estimates have been reviewed with the Company prior to the rendering of this opinion, without independent verification;
5- we have not made any independent evaluation or appraisal of the assets and liabilities of the Company and its subsidiaries/affiliates or the Offeree and its subsidiaries/affiliates and we have not been furnished with any such evaluation or appraisal nor have we evaluated the solvency or fair value of the Company or the Offeree under any laws relating to the bankruptcy, insolvency or similar matters;

6- we have not conducted any independent legal, tax, accounting or other analysis of the Company, the Offeree or of the Offer and our opinion does not address any legal, tax, regulatory or accounting matters, or the contractual terms of the Offer Documents, as to each of which we understand that the Company may have obtained such advice as it deemed necessary from other qualified professionals. We are financial advisors only and, when appropriate, we have relied solely, without independent verification, upon the assessment of the Company's legal, tax, accountants and other professional advisors who may have given such advice to the Company;

7- we have not included the legal and tax effects of any reorganisation or transaction costs that may arise as a result of the Offer in our analysis;

8- we have not performed any independent analysis of the situation of the individual shareholders of the Company, including with respect to taxation in relation to the Offer and express no opinion thereon;

9- we have assumed that the Transaction will be consummated on the terms set forth in the Offer Documents and that the final version of the Offer Documents will not change in any material respect from the draft version we have reviewed for the purposes of this letter;

10- we have assumed that all governmental, regulatory, shareholder or other approvals and consents necessary for the consummation of the Transaction will be obtained without any delays or limitations or conditions or restrictions that may have any adverse effect on the Company or the Offeree or on the expected benefits of the Offer in any way meaningful to our analysis;

11- we have also assumed that there has been no material change in the Company and/or the Offeree's assets and financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to us;

12- we have not conducted any physical inspection of the properties or facilities of the Company or the Offeree;

13- we have relied on the confirmations, representations, warranties and undertakings given by the Company in the Engagement Letter; and

14- we have relied on the assurances of the management of the Company that they are not aware of any facts or circumstances that would make any information necessary for us to provide this opinion inaccurate or misleading and that the management have not omitted to provide us with any information which may be relevant to the delivery of this opinion and that all information which may be relevant to the delivery of this opinion will be disclosed in the Offer Documents.

Our opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

We express no opinion with respect to the fairness of the amount or nature of the compensation to any of the Offeree's officers, directors or employees, or any class of such persons, relative to the consideration to be paid to the holders of the shares of Stone who accept the Offer.

We are expressing no opinion herein as to the price at which any securities of either the Company or the Offeree will trade at any time, including the prices at which the Company's securities will trade following consummation of the Transaction.

Our opinion, as set forth herein, is limited to the fairness, from a financial point of view, of the Exchange Ratio Consideration to the Company as of the date hereof and we do not express any opinion regarding any variations of, or modifications to, the Exchange Ratio Consideration made after the date hereof.

No opinion is expressed whether any alternative transaction might be more beneficial to the Company.

Relationship with HSBC

We have acted as financial adviser only to the Board of Directors of the Company in connection with the Offer and expect to receive a fee from the Company for our services, a significant portion of which is contingent upon completion of the Offer. In addition, the Company has agreed to indemnify us in relation to certain liabilities incurred within the scope of our engagement. HSBC and its affiliates have provided advisory, financing and other services to the Company and have received fees for the rendering of these services, and may continue to provide such services to the Company and receive fees in relation thereto. In the ordinary course of their businesses and subject to applicable laws, HSBC and its affiliates may at any time actively trade in the debt and equity securities of the Company and/or the Offeree, for their own accounts, or for the accounts of customers and, accordingly, may at any time hold a long or short position in such debt and securities.

Other limitations

This opinion is addressed to the Board of Directors of the Company and no one else in connection with the Offer and will not be responsible to any person other than the Board of Directors of the Company for providing this opinion.

This letter is confidential to, and addressed to and provided solely for the Board of Directors of the Company exclusively in connection with and for the purposes of its evaluation of the Offer and must not be used, or disclosed in whole or in part, or referred to publicly, or be communicated to, or be relied upon by, any other person or used for any other purpose without our prior written consent. Notwithstanding the foregoing sentence, we confirm that the Board of Directors may disclose that this opinion has been obtained from us and that a copy of this opinion may be included in its entirety (subject to our prior consent/review of the relevant documentation) in any filing the Company is required to make with the Capital Markets Authority and the Saudi Exchange, including in the shareholder circular to be issued by the Company, in connection with the Offer, if such inclusion is required by applicable law or regulation or expressly requested by any regulatory authority having jurisdiction over the Company.

This letter shall not confer rights or remedies upon, and may not be used or relied on by, any holder of securities of the Company or by other person other than the Board of Directors of the Company.

Specifically, this opinion does not address the commercial merits of the Offer nor the underlying decision by the shareholders of the Company to vote in favour of the Offer nor does it constitute a recommendation to the Company or any shareholder of the Company in respect of the Offer or any other matter.

The ultimate responsibility for the decision to recommend the Offer rests solely with the Board of Directors of the Company.

This opinion shall be governed by the laws of the Kingdom of Saudi Arabia.

Conclusion

Based upon, and subject to, the foregoing we are of the opinion that, as of the date of this letter, the Exchange Ratio Consideration is fair, from a financial point of view, to the Company and the shareholders of the Company.

Yours faithfully

HSBC Saudi Arabia

ANNEX 3

THE ANNUAL AUDITED FINANCIAL STATEMENTS OF PETROCHEM

AS AT 21 DECEMBER 2018G, 31 DECEMBER 2019G, 31 DECEMBER 2020G AND THE SIX-MONTH PERIOD ENDED ON 30 JUNE 2021G

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM) AND ITS SUBSIDIARIES

(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND INDEPENDENT AUDITOR'S REPORT

National Petrochemical Company (Petrochem) (A Saudi Joint Stock Company) and its subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of National Petrochemical Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements.

Opinion

We have audited the consolidated financial statements of National Petrochemical Company, A Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income and other 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 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 issued by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 opinion.

Key Audit Matters

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

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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of National Petrochemical Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued).

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
Uncertain Zakat Position The Company files its zakat returns with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT raised assessments for the years from 2011 to 2013 claiming additional zakat liability of SR 95.5 million. The Company has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC"). Subsequently, the Company received revised zakat assessments for the years from 2011 to 2013 from the GAZT claiming additional zakat liability of SR 5.74 million. The Company accepted and paid SR 3.47 million and filed an appeal for the remaining balance SR 2.27 million with the Higher Appeal Committee ("HAC") and the HAC's hearing is awaited. The GAZT raised an assessment for the years from 2014 to 2016 claiming additional zakat liability of SR 204.2 million. The Company has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC") and the PAC's hearing is awaited. The Group's management believes that the provision made in the consolidated statements of financial position is adequate to cover any additional zakat liability that may arise from the GAZT. We considered this as a key audit matter as it involves significant management judgment and Zakat provision and the related additional assessments by the GAZT and related zakat provisions are material to the consolidated financial statements.	We performed the following procedures in relation to the additional assessed zakat liability and related zakat provisions: • Evaluated the appropriateness of the zakat provision provided by the Group given the related zakat assessments issued by GAZT for all years under appeal and for the years which still under GAZT's review; • Gained an understanding of the process that management followed to assess the impact of the assessments and the reasons for such differences between the positions of the Company and GAZT; • Performed a retrospective review of management's judgement related to similar cases in prior periods; • Together with specialists in our team, evaluated the reasonableness of management's assessment for the accounting of the uncertain zakat position in the light of zakat regulations, recent practices of GAZT and merits of the appeal filed with the GAZT against the assessments raised; and • Assessed the appropriateness of the disclosure made in relation to the assessments issued by GAZT in respect of claiming additional zakat liability and the status of the related appeals.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of National Petrochemical Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued).

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
Changes in the estimated useful life of a production line As per the requirement of relevant IFRS standards, the residual value and the useful life of an asset under property, plant and equipment shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate. During the year, and as a result for the change in the expectations of the management for the useful life and residual value for a production line, the management has changed its estimation for the useful life for a production line ("the production line"), which accounted for prospectively and resulted in recognizing accelerated depreciation charge amounted to SR 236 million for the year. Had this change not taken place, the income before zakat and income tax for the year would have increased by SR 236 million. The change in estimated useful life for the production line, was significant to our audit since it involved material amounts and significant management's judgment and estimation.	We performed the following procedures in relation to the changes in the estimated useful life: • Obtained an understanding for the management basis in respect of change in their expectation of the useful life for the production line and assessed the basis of revised useful life, based on such analysis and the technical condition of the production line; • Considered the business and industry practice, reviewed the methodology adopted by management for consistency with best practices followed; • Reviewed the management's basis for the accounting treatment for the charge of the depreciation which resulted from change in the useful life of the production line in view of the related IFRS standards; • Reviewed the appropriateness of the reflection of the revised useful lives in the fixed asset register and recomputed depreciation based on revised useful lives; and • Assessed the adequacy and appropriateness of disclosures made in the consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of National Petrochemical Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued).

Other information included in The Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 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 2018 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 do not express any form of assurance conclusion thereon.

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

When we read the Group's 2018 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of 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.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of National Petrochemical Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued).

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)
As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

- 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, related safeguards.

Building a better working world

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of National Petrochemical Company (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (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 period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

Waleed G. Tawfiq
Certified Public Accountant
Registration No. 437

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

21 Jumada Al-Thani 1440H
26 February 2019

Al-Khobar

National Petrochemical Company (Petrochem) (A Saudi Joint Stock Company) and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 SR "000"	2017 SR "000"
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	**15,019,709**	16,070,911
Employees' loans	8	**128,464**	113,849
TOTAL NON-CURRENT ASSETS		**15,148,173**	16,184,760
CURRENT ASSETS			
Trade receivables	9	**1,035,382**	1,108,947
Inventories	10	**1,105,457**	1,092,938
Prepayments and other receivables	11	**256,922**	83,501
Amounts due from related parties	12	**221,326**	228,510
Short term investments – bank deposits	13	-	358,000
Cash and cash equivalents	14	**3,251,537**	2,555,819
TOTAL CURRENT ASSETS		**5,870,624**	5,427,715
TOTAL ASSETS		**21,018,797**	21,612,475
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15	**4,800,000**	4,800,000
Statutory reserve	16	**347,870**	231,332
Retained earnings		**2,592,311**	1,765,169
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY		**7,740,181**	6,796,501
Non-controlling interests	17	**3,648,431**	3,037,340
TOTAL EQUITY		**11,388,612**	9,833,841
LIABILITIES			
NON-CURRENT LIABILITIES			
Term loans	18	**4,850,920**	6,625,869
Non-controlling partner's subordinated loan	19	**413,927**	817,988
Sukuk	20	-	1,200,000
Deferred tax liabilities, net	23	**311,055**	276,040
Employees' benefits	21	**163,087**	165,379
TOTAL NON-CURRENT LIABILITIES		**5,738,989**	9,085,276
CURRENT LIABILITIES			
Trade payables		**37,962**	218,967
Amounts due to related parties	12	**209,581**	237,363
Current portion of term loans	18	**1,374,772**	1,368,027
Sukuk-current portion	20	**1,078,000**	-
Accrued expenses and other payables	22	**605,204**	388,499
Zakat and income tax provisions	23	**585,677**	480,502
TOTAL CURRENT LIABILITIES		**3,891,196**	2,693,358
TOTAL LIABILITIES		**9,630,185**	11,778,634
TOTAL EQUITY AND LIABILITIES		**21,018,797**	21,612,475

Chairman of the Board of Directors	Designated member	Chief accountant
Hamad Al Sayari	Abdulrahman Alismail	Marzoug Al-Shamari

The attached notes 1 to 36 form part of these consolidated financial statements

National Petrochemical Company (Petrochem) (A Saudi Joint Stock Company) and its subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 SR "000"	2017 SR "000"
Sales		8,930,414	7,363,811
Cost of sales	24	(6,244,959)	(5,100,291)
GROSS PROFIT		2,685,455	2,263,520
Selling and distribution expenses	25	(471,618)	(420,166)
General and administrative expenses	26	(205,001)	(217,153)
OPERATING PROFIT		2,008,836	1,626,201
Other income, net	27	231,648	157,194
Finance costs	28	(309,373)	(274,245)
INCOME BEFORE ZAKAT AND INCOME TAX		1,931,111	1,509,150
Zakat and income tax:			
Current tax	23	(97,126)	(43,958)
Deferred tax	23	(35,015)	(54,825)
Zakat	23	(98,620)	(114,163)
NET INCOME FOR THE YEAR		1,700,350	1,296,204
NET INCOME FOR THE YEAR ATTRIBUTABLE TO:			
- Shareholders of the Company		1,165,382	888,303
- Non-controlling interests	17	534,968	407,901
		1,700,350	1,296,204
OTHER COMPREHENSIVE INCOME			
Re-measurement gain (loss) on defined benefit plans	21	28,151	(14,861)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,728,501	1,281,343
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
- Shareholders of the Company		1,183,680	878,643
- Non-controlling interests	17	544,821	402,700
		1,728,501	1,281,343
EARNINGS PER SHARE FORM NET INCOME (Saudi Riyals)			
Number of shares outstanding (in thousands)		480,000	480,000
Basic and diluted earnings per share attributable to the shareholders of the Company	29	2.43	1.85

Chairman of the Board of Directors	Designated member	Chief accountant
Hamad Al Sayari	Abdulrahman Alismail	Marzoug Al-Shamari

The attached notes 1 to 36 form part of these consolidated financial statements.

National Petrochemical Company (Petrochem) (A Saudi Joint Stock Company) and its subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to the shareholders of the Company				Non-controlling interests	Total equity
	Share capital	Statutory reserve	Retained earnings	Total		
	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"	**SR "000"**
Balance as 1 January 2018	4,800,000	231,332	1,765,169	6,796,501	3,037,340	**9,833,841**
Income before zakat and income tax	-	-	1,264,002	1,264,002	667,109	**1,931,111**
Current tax	-	-	-	-	(97,126)	**(97,126)**
Deferred tax	-	-	-	-	(35,015)	**(35,015)**
Zakat	-	-	(98,620)	(98,620)	-	**(98,620)**
Net income for the year	-	-	1,165,382	1,165,382	534,968	**1,700,350**
Other comprehensive income	-	-	18,298	18,298	9,853	**28,151**
Total comprehensive income for the year	-	-	1,183,680	1,183,680	544,821	**1,728,501**
Transfer to statutory reserve	-	116,538	(116,538)	-	-	**-**
Income tax reimbursed by non-controlling partner	-	-	-	-	66,270	**66,270**
Dividends	-	-	(240,000)	(240,000)	-	**(240,000)**
Balance at 31 December 2018	**4,800,000**	**347,870**	**2,592,311**	**7,740,181**	**3,648,431**	**11,388,612**
As at 1 January 2017	4,800,000	142,502	1,215,356	6,157,858	2,634,640	8,792,498
Income before zakat and income tax	-	-	1,002,466	1,002,466	506,684	1,509,150
Current tax	-	-	-	-	(43,958)	(43,958)
Deferred tax	-	-	-	-	(54,825)	(54,825)
Zakat	-	-	(114,163)	(114,163)	-	(114,163)
Net income for the year	-	-	888,303	888,303	407,901	1,296,204
Other comprehensive loss	-	-	(9,660)	(9,660)	(5,201)	(14,861)
Total comprehensive income for the year	-	-	878,643	878,643	402,700	1,281,343
Transfer to statutory reserve	-	88,830	(88,830)	-	-	-
Dividends	-	-	(240,000)	(240,000)	-	(240,000)
Balance at 31 December 2017	4,800,000	231,332	1,765,169	6,796,501	3,037,340	9,833,841

Chairman of the Board of Directors	Designated member	Chief accountant
Hamad Al Sayari	Abdulrahman Alismail	Marzoug Al-Shamari

The attached notes 1 to 36 form part of these consolidated financial statements.

National Petrochemical Company (Petrochem) (A Saudi Joint Stock Company) and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 SR "000"	2017 SR "000"
Cash flow from operating activities			
Income before zakat and income tax		1,931,111	1,509,150
Adjustments to reconcile income before zakat and income tax to net cash flows from operations:			
Depreciation of property, plant and equipment		1,115,424	913,491
Adjustment of property, plant and equipment		4,881	-
Finance costs		309,373	274,245
Reversal for zakat provision no longer required		-	(65,000)
Employees' benefits, net		25,859	24,378
Re-measurement gain on non-controlling partner's subordinated loan		-	(8,502)
(Gain) Loss on disposal of property, plant and equipment		(68)	974
		3,386,580	2,648,736
Working capital adjustments:			
Trade receivables		73,565	(546,116)
Inventories		(12,519)	(169,236)
Employees' loans, prepayments and other receivables		(188,036)	(18,031)
Amounts due from related parties		7,184	48,153
Amounts due to related parties		(27,782)	(51,207)
Trade payables		(181,005)	123,911
Accrued expenses and other payables		216,705	(47,103)
Net cash flows from operations		3,274,692	1,989,107
Finance costs paid		(267,184)	(236,811)
Zakat and income tax paid		(90,571)	(267)
Net cash flows from operating activities		2,916,937	1,752,029
Investing activities			
Additions to property, plant and equipment		(69,103)	(88,162)
Net movement in short term deposits		358,000	218,000
Proceeds from disposal of property, plant and equipment		68	1,088
Net cash flows from (used in) investing activities		288,965	130,926
Financing activities			
Net movement in term loans		(1,768,204)	(1,511,559)
Net movement in Sukuk		(122,000)	-
Repayment of non-controlling partner's subordinated loan		(446,250)	(196,875)
Income tax reimbursed by non-controlling partner		66,270	-
Dividends paid		(240,000)	(240,000)
Net cash flows used in financing activities		(2,510,184)	(1,948,434)
Net increase (decrease) in cash and cash equivalents		695,718	(65,479)
Cash and cash equivalents at the beginning of the year		2,555,819	2,621,298
Cash and cash equivalents at the end of the year	14	3,251,537	2,555,819
Non-cash transactions			
Accrued interest on non-controlling partner's subordinated loan		42,189	37,434
Re-measurement gain (loss) on defined benefit plans		28,151	(14,861)

Chairman of the Board of Directors	Designated member	Chief accountant
Hamad Al Sayari	Abdulrahman Alismail	Marzoug Al-Shamari

The attached notes 1 to 36 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

National Petrochemical Company (Petrochem) ("the Company") is a Saudi Joint Stock Company registered under Commercial Registration Number 1010246363 issued in Riyadh on 8 Rabie I 1429 H (corresponding to 16 March 2008), and it was established pursuant to the Ministry of Commerce and Industry's resolution number 53/Q dated 16 Safar 1429 H (corresponding to 23 February 2008).

The accompanying consolidated financial statements include the activities of the Company and its following subsidiaries **(collectively referred to as "the Group")**:

	Country of incorporation	Percentage of ownership
Saudi Polymers Company (A Limited Liability Company)	Saudi Arabia	65%
Gulf Polymers Distribution Company (A Free Zone Limited Liability Company)	United Arab Emirates	65%

Saudi Polymers Company is a limited liability company registered in Jubail, Saudi Arabia under Commercial Registration number 2055008886 dated 29 Dhul-Qadah 1428H (corresponding to 9 December 2007), with a branch in Jubail under Commercial Registration number 2055009065.

Gulf Polymers Distribution Company FZCO was formed in the Dubai Airport Free Zone on 15 February 2011 as per DAFZA trade license. The registered address of the company is Dubai Airport Free Zone, Office No.6EA 420, Dubai, United Arab Emirates.

The Group is engaged in development and establishment, operation and management and maintenance of petrochemical factories, gas, petroleum and other industries, wholesale and retail trade in material and petrochemical products and its derivatives.

2 BASIS OF PREPARATION

2.1 Statement of compliance

Effective 1 January 2017, all entities listed in Saudi Stock Exchange are required to prepare their financial statements in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia ('KSA') and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA"). These consolidated financial statements have been prepared in accordance with the IFRSs as endorsed in KSA".

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018 (note 5). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018 and accounting policies for these new standards are disclosed in note 5.

2.2 Basis of measurement

The consolidated financial statements are prepared under the historical cost convention using the accruals basis of accounting. For employee and other post-employment benefits, actuarial present value calculations are used.

The consolidated financial statements are presented in Saudi Riyals (SR), which is also the functional currency of the Group except for the Gulf Polymers Distribution Company FZCO which is translated in these consolidated financial statement from US Dollar currency to Saudi Riyals currency on a fixed rate of SR 3.75 to 1 US Dollar. All values are rounded to the nearest thousand (SR '000'), except when otherwise indicated.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. 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:

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

a) The contractual arrangement(s) with the other vote holders of the investee;
b) Rights arising from other contractual arrangements;
c) 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 OCI are attributed to the shareholders of the Company 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.

2.4 Approval of consolidated financial statements

These consolidated financial statements were approved on 21 Jumada Al-Thani 1440H (corresponding to 26 February 2019).

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Capital management
- Financial risk management objectives and policies

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognized in the financial statements) includes:

The Group uses a provision matrix to calculate expected credit losses ("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 geography, product type, customer type and rating.

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods except for the significant new judgments and significant sources of estimates and uncertainties related to the application of IFRS 9 and IFRS 15 as mentioned below in note 5.

3.1 **Impairment of trade receivables**

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 forecasted 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 the manufacturing 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 analysed.

The assessment of the correlation between historical observed default rates, forecasted economic conditions and (""ECLs"") is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecasted economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future.

3.2 **Impairment of inventories**

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of aging or obsolescence, based on anticipated selling prices.

3.3 **Useful lives of property, plant and equipment**

The management determines the estimated useful lives of its equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted when the management believes the useful lives differ from previous estimates.

3.4 **Deferred tax asset/liabilities**

The management determines the estimated tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecasted cash flows from operations and judgment about the application of existing tax laws in each jurisdiction.

3.5 **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 calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

3.5 Impairment of non-financial assets (continued)

The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's 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 cash-inflows and the growth rate used for extrapolation purposes.

The management believes, that for certain production lines which were pre-conditioned with gas allocation agreement, accordingly the lowest level of identifiable cash inflow that are largely independent of the cash inflows from other assets or group of assets is the cash inflows generated by all productions lines together covered by the agreement. Therefore, the management consider all these production lines covered by the gas allocation agreement as single cash generation unit for the purpose of impairment calculation testing.

3.6 Provisions

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

3.7 Valuation of defined benefit obligations

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for atleast twelve months after the reporting period.

All other assets are classified as non-current.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification

A liability is current when:

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

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each consolidated statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized 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 (unadjusted) market prices in active markets for identical assets or liabilities.

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

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

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

The policies and procedures for both recurring fair value measurement are evaluated periodically.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are initially recorded at cost and stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognize such parts as individual assets and depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income and other comprehensive income as incurred.

Depreciation is calculated from the date the item of property, plant and equipment is available for its intended use or in respect of self constructed assets, from the date such assets are completed and ready for the intended use. Assets under construction, which are not ready for its intended use, are not depreciated. Further, the cost of platinum is not depreciated as platinum is a precious metal, and the value of these assets does not diminish with the usage. The cost of other property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Office buildings	25 years
Plant and equipment	10 to 25 years
Furniture, fixture and office equipment	4 to 10 years
Motor vehicles	5 years

An item of property, plant and equipment is derecognized upon disposal or when no future 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 carrying amount of the asset) is included in the consolidated statement of income and other comprehensive income in the year the asset is derecognized.

Planned turnaround costs (primarily major repair and maintenance costs) are deferred and amortized over the period until the date of next planned repair and maintenance. Should unexpected repair and maintenance occur prior to the previously envisaged planned date, then the previously unamortized costs are immediately expensed and the new major repair and maintenance costs are deferred and amortized over the period likely to benefit from such costs.

The assets' 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.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income and other comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of income and other comprehensive income on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of 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 consolidated statement of income and other 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 period in which they are earned.

Borrowing costs

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

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations are recognised in the consolidated statement of income and other comprehensive income in expense categories consistent with the function of the impaired asset.

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

Fair value of employees' loans

The fair value of employees' loans is determined based on the 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 judgment is required in establishing fair values. Judgments include considerations of inputs such as discount rate, liquidity risk, credit risk and volatility.

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

Financial instruments – initial recognition, subsequent measurement and derecognition

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

Financial assets

Initial recognition and measurement

Financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

Financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial asset at amortised cost that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables, and loans included under other non-current financial assets.

Derecognition

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

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  (a) the Group has transferred substantially all the risks and rewards of the asset, or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

IFRS 9 requires the Group to record an allowance for expected credit losses (""ECL"") for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECL based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

Financial assets (continued)

Impairment of financial assets (continued)
For other debt financial assets (i.e., employee loans), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowing and non-controlling partner's subordinated loan.

Subsequent measurement
The financial liabilities are subsequently measured at amortized costs.

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

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

Inventories
Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials and spares: purchase cost on a weighted average basis.
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

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

Cash and cash equivalents
Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Short term investments – bank deposits
Short term investments bank deposits in the consolidated statement of financial position comprise cash at short-term deposits with original maturities of more than three months but not more than one year from the date of acquisition, which are subject to an insignificant risk of changes in value.

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

Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, the Group must set aside 10% of its net income for the year until it has built up a reserve equal to 30% of the share capital. The Group may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

Earnings per share

Basic earnings per share is calculated by dividing:

- The net income attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares.
- By the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Fair value of non-controlling partner's subordinated loan

The fair value of non-controlling partner's subordinated loan is determined based on the 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 judgment is required in establishing fair values. Judgments include considerations of inputs such as discount rate, liquidity risk, credit risk and volatility.

Zakat and income tax

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia. Under the revised zakat standard issued by the Saudi Organization of Certified Public Accountants (SOCPA), zakat provision is charged to the consolidated statement of income and other comprehensive income, as IAS 12 'Income Taxes' do not provide any guidance on the accounting treatment of zakat. The Non-controlling interests in the Group is subject to income tax in the Kingdom of Saudi Arabia.

Current income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax is recognized in the consolidated statement of income and other comprehensive income. Management periodically evaluates positions taken in the Group's tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized on all deductible temporary difference, carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which these assets can be utilized.

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

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

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax (continued)

Deferred income tax (continued)

Withholding tax

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividend payments to the non-Saudi partner, as required under Saudi Arabian Income Tax Law.

Value added tax

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

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

Provisions

Provisions are recognized 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, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Contingencies

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

Employees' benefits

The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized in equity through the consolidated statement of income and other comprehensive income in the period in which they arise.

Revenue recognition

Sales of products is the only source of revenue. Sales of products in the consolidated statement of income and other comprehensive income are recognized when the Group has an obligation to sell the goods, it is able to establish that a contract exists, the consideration is relatively measurable, and collection is probable. The amounts recognized as sales of products represent the fair values of the considerations received or receivable from related parties and third parties on the sales of such products. The Group's contracts with customers for the sale of its products generally includes one performance obligation. The Group recognizes revenue from products sale at the point in time when control of such products is transferred to the customer, generally on delivery.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sales revenue

The Group manufactures and sells a wide range of products. For such products, sales shall be recognised when control of the products transfers to the customer, which shall be considered in the context of the following the five-steps approach mentioned previously and applying the applicable shipping terms (or 'incoterms').

Financing components

The Group currently does not have or expect to have any customer contracts in routine sales or products where the period between the transfer of the promised products or services to the customer and payment by the customer exceeds a period of one year. As a consequence, the Group currently does not adjust any of the transaction prices for the time value of money. However, if any such case is identified, the related amounts shall be re-measured to adjust for the time value of money.

Expenses

All expenses are recognized on an accrual basis. Operating costs are recognized on a historical cost basis. Production costs and direct expenses are classified as cost of sales. All other expenses, including selling and distribution expenses not deducted from sales are classified as selling, general and administrative expenses. Allocation between cost of sales, selling and distribution and general and administrative expenses, where required, is made on a consistent basis.

Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyal, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of income and other comprehensive income reflects the amount that arises from using this method.

Transaction and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of income and other comprehensive income with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in OCI until the disposal of the net investment, at which time they are reclassified to consolidated statement of income and other 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 recognised in OCI or consolidated statement of income and other comprehensive income, respectively).

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. As required by IAS 8, the nature and effect of these changes, if any, are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group is engaged in production and selling of fuel blend stock, fuel oil, ethylene, propylene, 1-Hexene, high density and low density polyethylene, polypropylene and polystyrene. The sale of product is generally expected to be the only performance obligation for the Group and accordingly, adoption of IFRS 15 does not have any impact on the Group's revenue and profit or loss.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

Although the Group followed the requirements of IFRS 9, it had no significant impact on the consolidated financial statements of the Group.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 16 Leases

The Group is currently evaluating the impact of adopting this standard; however, it expects the adoption of this standard to increase assets and liabilities as it will be required to record a right-of-use asset and a corresponding lease liability in its consolidated financial statements. The Group continues to assess the financial impact of adopting this standard which will be completed and disclosed in the interim condensed consolidated financial statements for the first quarter of 2019.

7 PROPERTY,PLANT AND EQUIPMENT

	Office buildings (Note 7.1) SR '000	*Plant and equipment (Note 7.1 & 7.2) SR '000*	*Turnaround (Note 7.4) SR '000*	*Furniture, fixture and office equipment SR '000*	*Motor vehicles SR '000*	*Platinum SR '000*	*Construction work in progress SR '000*	*Total SR '000*
Cost:								
At 1 January 2017	681,394	18,752,985	506,727	158,809	30,882	24,461	148,855	20,304,113
Additions	26	2,846	22,136	7,319	2,375	-	53,460	88,162
Transfer	799	61,687	-	10,725	-	5,490	(78,701)	-
Disposal	(900)	(664)	-	(811)	(2,364)	-	-	(4,739)
At 31 December 2017	681,319	18,816,854	528,863	176,042	30,893	29,951	123,614	20,387,536
Additions	240	4,718	-	1,514	126	-	62,505	69,103
Transfer	225	49,553	-	11,096	-	-	(60,874)	-
Adjustment	-	-	(4,881)	-	-	-	-	(4,881)
Disposal	-	-	-	-	(191)	-	-	(191)
Write-off	-	-	-	-	(323)	-	-	(323)
At 31 December 2018	**681,784**	**18,871,125**	**523,982**	**188,652**	**30,505**	**29,951**	**125,245**	**20,451,244**
Accumulated depreciation:								
At 1 January 2017	115,512	3,133,879	9,897	121,795	24,728	-	-	3,405,811
Charge for the year	27,266	752,677	103,693	25,000	4,855	-	-	913,491
Disposal	(188)	(664)	-	(811)	(1,014)	-	-	(2,677)
At 31 December 2017	142,590	3,885,892	113,590	145,984	28,569	-	-	4,316,625
Charge for the year	27,569	990,668	89,640	6,690	857	-	-	1,115,424
Disposal	-	-	-		(191)	-	-	(191)
Write-off	-	-	-	-	(323)	-	-	(323)
At 31 December 2018	**170,159**	**4,876,560**	**203,230**	**152,674**	**28,912**	-	-	**5,431,535**
Net book amounts:								
At 31 December 2018	**511,625**	**13,994,565**	**320,752**	**35,978**	**1,593**	**29,951**	**125,245**	**15,019,709**
At 31 December 2017	538,729	14,930,962	415,273	30,058	2,324	29,951	123,614	16,070,911

7 PROPERTY, PLANT AND EQUIPMENT (continued)

7.1 The office buildings and plant and equipment are constructed on land leased from the Royal Commission for Jubail and Yanbu. The lease is initially for a period of 30 years commencing from 29 Dhul-Qada 1428 H (corresponding to 9 December 2007) and is renewable for further periods thereafter.

7.2 The Group's plant and equipment are secured by (i) liens against term loan from Saudi Industrial Development Fund (note 18.4) and (ii) assignment of residual proceeds against term loans from consortium of commercial banks (note 18.2) and Public Investments Fund (note 18.3).

7.3 At the reporting date, construction work in progress represents costs incurred in connection with the plant activities.

7.4 As per the Group's policy, the normal turnaround cycle occur at the interval of 72 months and planned turnaround costs are deferred and amortized over the next planned turnaround.

7.5 The Group reviewed the estimated useful life for a production line and changes in the estimated useful life has been effected prospectively. Had this change not taken place, the profit for the year would have been increased by SR 236 million. The effects of the change in the estimated useful life on the deprecation charge for the current and future years are as following:

	The yearly effect of more (less) depreciation charge SR "000"
For the year 2018	**236,537**
For each year from 2019 up to 2038	**(11,493)**
For the year 2039	**(6,177)**

7.6 The depreciation charge has been allocated as follows:

	2018 SR "000"	2017 SR "000"
Cost of sales (note 24)	**1,104,585**	892,509
General and administrative expenses (note 26)	**10,839**	20,982
	1,115,424	913,491

8 EMPLOYEES' LOANS

Employees' loans represent non-interest bearing housing loans provided to Saudi employees and are secured by mortgage over property purchased under the employee home ownership program. The loans are repayable in monthly installments within a maximum period of 15 years. The installments due within one year are included in prepayments and other receivables under current assets. The carrying value at the reporting date presented as following:

	2018 SR "000"	2017 SR "000"
Non-current portion - presented under non-current assets	**128,464**	113,849
Current portion - presented under prepayments and other receivables (note 11)	**27,744**	25,860
	156,208	139,709

9 TRADE RECEIVABLES

	31 December 2018 SR "000"	31 December 2017 SR "000"
<30 days	**1,028,366**	1,106,457
31-60 days	**5,696**	1,845
61-90 days	**1,320**	645
	1,035,382	1,108,947

9.1 As at 31 December 2018 and 31 December 2017 , none of the accounts receivable were impaired.

9.2 Trade receivables are non-interest bearing and the Group's credit period is 30-60 days after which trade receivables are considered to be past due. Unimpaired trade receivables are unsecured and are expected, on the basis of past experience, to be fully recoverable.

10 INVENTORIES

	2018 SR "000"	2017 SR "000"
Finished goods	**560,405**	498,458
Raw materials (note 10.1)	**748**	3,731
Spares	**411,506**	436,436
Catalyst, chemicals and additives	**132,798**	154,313
	1,105,457	1,092,938

10.1 The Group purchases its raw materials primarily from two suppliers including one affiliate in the Kingdom of Saudi Arabia.

11 Prepayments and other receivables

	2018 SR "000"	2017 SR "000"
Recoverable insurance claim	**136,759**	-
Value added tax receivables, net	**31,732**	3,233
Employees' loans - current portion (note 8)	**27,744**	25,860
Prepayments	**27,429**	26,105
Cash margin against issuance of Sukuk (note 20)	**16,455**	16,455
Cash margin against bank guarantee	**2,264**	2,505
Accrued interest income	**5,780**	1,453
Other receivables	**8,759**	7,890
	256,922	83,501

12 RELATED PARTIES' TRANSACTIONS AND BALANCES

Related parties represent major shareholders, 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 The following are the major related parties' transactions :

Related parties	Relationship	Nature of transactions	2018 SR "000"	2017 SR "000"
Saudi Industrial Investment Group Company	Shareholder	Support services	**409**	3,287
Saudi Chevron Phillips Company	Related party	Sales	**261,562**	218,985
		Purchases	**19,805**	46,302
		Cost of sales support services (note 24)	**186,878**	254,708
		General and administrative support services (note 26)	**104,483**	130,062
Jubail Chevron Phillips Company	Related party	Sales	**374,858**	208,236
		Purchases	**1,197,694**	1,028,913
Chevron Phillips Chemical Company LLC (note a.2)	Related party	Royalty (note 24)	**51,488**	47,565
Chevron Phillips Chemical Global Employment Company LLC	Related party	Cost of sales support services (note 24)	**69,428**	58,571
		General and administrative support services (note 26)	**8,213**	3,360
Chevron Phillips Chemical International Sales LLC	Related party	Cost of sales support services (note 24)	**7,581**	7,185
		Marketing fees (note 25)	**317,231**	272,415
Chemical Services Inc.	Related party	Cost of sales support services (note 24)	**2,963**	21,210
		General and administrative support services (note 26)	**14,523**	60

(note a.1) The Group entered into a common facilities agreement (the "Agreement") with Saudi Chevron Phillips Company pursuant to which, affiliate provides support services to the Group in operations and maintenance, management support and technical support.

(note a.2) The Group entered into a royalty agreement (the "Agreement") with Chevron Phillips Chemical Company LLC in prior years under which the related party charged the royalty for the use of polymerization processes.

(note a.3) The non-controlling partner of Saudi Polymers Company (a consolidated subsidiary) have provided non-interest bearing subordinated loan of SR 1,133 million in prior years to finance the construction of a petrochemical plant. The repayment of the loan is subject to certain covenants being met under the terms of commercial loan facilities (note 19). The Group has repaid SR 709 million in current and prior periods.

12 RELATED PARTIES' TRANSACTIONS AND BALANCES (continued)

b The following are the related parties' ending balances:

b.1 Amounts due from related parties under current assets:

	2018 SR "000"	2017 SR "000"
Saudi Chevron Phillips Company	172,631	186,377
Jubail Chevron Phillips Company	48,695	42,133
	221,326	228,510

b.2 Amounts due to related parties under current liabilities:

	2018 SR "000"	2017 SR "000"
Saudi Industrial Investment Group Company	409	3,287
Saudi Chevron Phillips Company	72,187	61,956
Jubail Chevron Phillips Company	86,524	116,773
Chevron Phillips Chemical International Sales LLC	48200	52,849
Chevron Phillips Chemical Global Employment Company LLC	2,261	2,295
Chemical Services Inc.	-	203
	209,581	237,363

c The following are the key management personnel compensation:

Key management personnel represent board members, directors and key personnel of the Group. Remuneration for the year ended 31 December 2018 and 31 December 2017 of key management of the Group are detailed as follows:

	2018 SR "000"	2017 SR "000"
Short-term employees' benefits	18,048	13,727
Terminal benefits	2,376	2,929
	20,424	16,656

13 SHORT TERM INVESTMENTS – BANK DEPOSITS

Short term investments bank deposits include placements with banks, with original maturities of more than three months but not more than one year from the date of acquisition, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2018 SR "000"	2017 SR "000"
Bank balances	1,076,537	2,265,819
Short-term deposits	2,175,000	290,000
	3,251,537	2,555,819

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 interest at the respective short-term deposit rates.

Part of the Group's cash and cash equivalents amounting to SR 2,097 million (31 December 2017: SR 2,152 million) are assigned as security against loan facilities from consortiums of commercial banks and Public Investment Fund ("PIF") (see note 18). This includes SR 1,185 million (31 December 2017: SR 1,073 million) related to debt service requirements.

15 SHARE CAPITAL

The share capital amounting to SR 4,800 million is divided into 480 million shares of SR 10 each as of 31 December 2018 and 31 December 2017.

16 STATUTORY RESERVE

In accordance with the Saudi Arabian Regulations for Companies, 10% of net income for the year is required to be transferred to the statutory reserve until the balance in the reserve equals 30% of the share capital. This reserve is not normally available for distribution except in circumstances specified in the Saudi Arabian Companies Regulations.

17 NON-CONTROLLING INTERESTS

17.1 Proportion of equity interest's held by non-controlling interests are as following:

Name	*Country of incorporation*	**2018**	2017
Saudi Polymers Company	Saudi Arabia	**35%**	35%
Gulf Polymers Distribution Company	United Arab Emirates	**35%**	35%

17.2 Following are the movement of non-controlling interests during the year:

	Total 2018 SR '000	*Total 2017 SR '000*
At the beginning of the year	**3,037,340**	2,634,640
share in net results	**534,968**	407,901
Other comprehensive income (loss)	**9,853**	(5,201)
Income tax reimursed by non-controlling partner	**66,270**	-
At the end of the year	**3,648,431**	3,037,340

18 TERM LOANS

Current	*Effective interest rate*	*Maturity*	**2018 SR "000"**	2017 SR "000"
Consortium of commercial banks (note 18.1)	Libor + 1.05%	16-Dec-19	**517,770**	551,027
Consortium of commercial banks (note 18.2)	Libor + 0.06%	16-Dec-19	**177,000**	177,000
Public Investments Fund (PIF) (note 18.3)	Libor + 0.50%	31-Dec-19	**480,000**	450,000
Saudi Industrial Development Fund (SIDF) (note 18.4)	1.014%	14-Oct-19	**200,002**	190,000
			1,374,772	1,368,027

Non-current	*Effective interest rate*	*Maturity*	**2018 SR "000"**	2017 SR "000"
Consortium of commercial banks (note 18.1)	Libor + 1.05%	2020 - 2023	**3,300,773**	4,063,821
Consortium of commercial banks (note 18.2)	Libor + 0.06%	2020 - 2023	**1,031,933**	1,291,768
Public Investments Fund (PIF) (note 18.3)	Libor + 0.50%	2020	**424,849**	982,317
Saudi Industrial Development Fund (SIDF)(note 18.4)	1.014%	2020	**100,002**	300,000
			4,857,557	6,637,906
Less: unamortized transaction costs			**(6,637)**	(12,037)
			4,850,920	6,625,869

18 TERM LOANS (continued)

The movement in unamortized transaction costs in respect of these financing facilities is as follows:

	2018	2017
	SR "000"	SR "000"
Costs:		
At 1 January	**238,369**	238,369
Amortization:		
At 1 January	**(226,332)**	(217,918)
Charge for the year (note 28)	**(5,400)**	(8,414)
At 31 December	**(231,732)**	(226,332)
Balance at 31 December	**6,637**	12,037

18.1 The Group obtained commercial loan facilities of SR 7,046 million (2017: SR 7,046 million) from a consortium of commercial banks which was fully drawn at the reporting date (2017: fully drawn). The loan is secured by the assignment of residual proceeds in project bank accounts, pledge and assignment over onshore project bank accounts (2017: same). The loan is repayable in 22 successive semi-annual installments varying from 2% to 20% of the facilities utilized, commenced from 15 June 2013. Accordingly, the portion of the loan payable before 1 January 2020 has been classified under current liabilities. The facilities are subject to interest at LIBOR plus a margin progressively increasing from 0.80% to 1.15% over the life of the loans.

18.2 The Group obtained a loan facility of SR 2,212 million (2017: SR 2,212 million) from a consortium of commercial banks. The facility is guaranteed by the Export-Import Bank of the U.S. At the reporting date the loan was fully drawn (2017: fully drawn). The loan is secured by the assignment of residual proceeds of plant and equipment, charge and assignment over secured project documents, charge and assignment over offshore project bank accounts, pledge and assignment over onshore project bank accounts (2017: same). The loan is repayable in 22 successive semi-annual installments varying from 3% to 8% of the facilities utilized, commenced from 15 June 2013. Accordingly, the portion of loan payable before 1 January 2020 has been classified under current liabilities. The facilities are subject to interest at LIBOR plus 0.06%

18.3 The Group obtained a term loan facility of SR 3,000 million (2017: SR 3,000 million) from PIF which was fully drawn at the reporting date (2017: fully drawn) . The loan is secured by assignment of residual proceeds of plant and equipment, charge and assignment over secured project documents, charge and assignment over offshore project bank accounts, pledge and assignment over onshore project bank accounts (2017: same). The loan is repayable in 15 half yearly installments. The first two installments were 1% each, and the remaining 13 installments at the rate of 7% to 9% of the entire loan utilized, commenced from 31 December 2013. Accordingly, the portion of loan payable before 1 January 2020 has been classified under current liabilities. The loan is subject to interest at LIBOR plus 0.5% along with an upfront fee of 0.5% of the principal amount of loan.

18.4 The Company also obtained two loan facilities of SR 600 million each (2017: SR 600 million each) from SIDF for financing the construction of the petrochemical plant. At the reporting date both facilities were fully drawn (2017: fully drawn). The loans are secured by liens on the Company's plant and equipment for the Ethylene, Metathesis, 1-Hexene, and Polyethylene units, and assignment of insurance proceeds and technology rights (2017: same). The loans are repayable in 14 half yearly installments at the rate varying from 4.17% to 8.33% of the facilities utilized, commenced from 18 December 2013. Accordingly, the portion of loan payable before 1 January 2020 has been classified under current liabilities. The loans were subject to an upfront fee of 7.5% of the principal amount of two loan facilities.

18 TERM LOANS (continued)

18.5 Following are the combined aggregate amounts of next five years' maturities of the term loans at the consolidated statement of financial position date:

Years	2018 SR "000"	2017 SR "000"
2018	-	1,368,027
2019	1,374,772	1,374,772
2020	1,263,867	1,263,867
2021	783,268	783,268
2022	956,960	956,960
2023	1,853,462	2,259,039
Total	6,232,329	8,005,933

18.6 The Group is required to comply with certain covenants under all the loan facility agreements mentioned above.

19 NON-CONTROLLING PARTNER'S SUBORDINATED LOAN

	2018 SR "000"	2017 SR "000"
Non-controlling partner's subordinated loan	413,927	817,988

Non-controlling partner's subordinated loan is repayable subject to certain covenants being met under the terms of the commercial loan facilities.

19.1 The movement in non-controlling partner's subordinated loan was as follows:

	2018 SR "000"	2017 SR "000"
At 1 January	817,988	985,931
Notional interest charge for the year (note 28)	42,189	37,434
Remeasurement gain	-	(8,502)
Payment during the year	(446,250)	(196,875)
At 31 December	413,927	817,988

20 SUKUK

On 25 Sha'aban 1435H (corresponding to 23 June 2014), the Company issued Sukuk amounting to SR 1.2 billion at par value of SR 1 million each without discount or premium. The Sukuk issuance bears a variable rate of return at SIBOR plus 1.7% margin, payable semi-annually. The Sukuk are due at par value on its maturity date of 20 Shawwal 1440H (corresponding to 23 June 2019). Consequently, the Sukuk considered as of 31 December 2018 as a current liability.

On 19 Ramadan 1439H (corresponding to 3 June 2018), the Board of Directors resolved to re-purchase the issued Sukuk. Accordingly, the Company re-purchased part of the issued sukuk amounting to SR 122 million.

In accordance with the Sukuk agreement dated 25 Sha'ban 1435H (corresponding to 23 June 2014), an amount of SR 16.5 million was deposited as a cash margin held by Riyad Capital Company in an open account on behalf of the Sukukholders' Agent (note 11).

21 EMPLOYEES' BENEFITS

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at reporting date in respect of employees' benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the unfunded defined benefit obligation are as follows:

	2018	2017
Discount rate	**4.5%**	3.7%
Expected rate of salary increase	**4.0%**	5.0%

The present values of the defined benefit obligations at reporting date were computed using the actuarial assumptions set out above.

	2018 **SR "000"**	2017 SR "000"
Present value of defined benefit obligation	**191,238**	150,518
Re-measurement gain (loss) on defined benefit plans	**(28,151)**	14,861
Balance as at 31 December	**163,087**	165,379

21.1 Re-measurement (gain) loss on defined benefit plans arose due to the followings:

	2018 **SR "000"**	2017 SR "000"
Actuarial losses arising from changes in demographic assumptions	**6,442**	-
Actuarial (gains) losses arising from changes in financial assumptions	**(48,846)**	9,071
Experience adjustments	**14,253**	5,790
Net benefit (gain) loss	**(28,151)**	14,861

21.2 Movement in the present value of defined unfunded benefit obligation is as follows:

	2018 **SR "000"**	2017 SR "000"
At 1 January	**165,379**	126,140
Net benefits charge for the year	**30,749**	27,826
Benefits paid	**(4,890)**	(3,448)
Re-measurement (gain) loss on defined benefit plans	**(28,151)**	14,861
At 31 December	**163,087**	165,379

21 EMPLOYEES' BENEFITS (continued)

21.3 The quantitative sensitivity analysis for significant assumptions as at the reporting date is as follows:

	Increase/ (decrease)	2018 SR "000"	2017 SR "000"
Discount rate	0.25%	(5,442)	(5,760)
	(0.25%)	5,739	6,083
Expected rate of salary increase	0.25%	5,753	(6,049)
	(0.25%)	(5,480)	5,648

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

21.4 The following payments are expected contributions to the defined benefit plan in future years:

	2018 SR "000"	2017 SR "000"
Within the next 12 months (next annual reporting period)	5,304	5,273
Between 2 and 5 years	31,986	31,983
Beyond 5 years	64,372	68,490
Total expected payments	101,662	105,746

21.5 The average duration of the defined benefit plan obligation at the end of the reporting period is 15.2 years (2017: 15.4 years).

22 ACCRUED EXPENSES AND OTHER PAYABLES

	2018 SR "000"	2017 SR "000"
Accrued expenses	438,188	256,106
Advances from customers	63,645	54,660
Other payables	103,371	77,733
	605,204	388,499

22.1 Terms and conditions of the financial liabilities:

- Other payables are non-interest bearing and have an average term of six months.

23 ZAKAT AND INCOME TAX PROVISIONS

The Group is subject to zakat and income tax in accordance with the regulation of the General Authority of Zakat and Income Tax ("GAZT"). Provisions for zakat and tax are charged to the consolidated statement of income and other comprehensive income. The Company and its subsidiary (Saudi Polymers Company) are filing separate zakat and income tax declarations with GAZT.

	2018 SR "000"	2017 SR "000"
Income tax related to non-controlling partner (non-Saudi partner) in Saudi Polymers Company		
Current tax	97,126	43,958
Deferred tax	35,015	54,825
	132,141	98,783
Zakat related to National Petrochemical Company	54,753	71,503
Zakat related to Saudi Polymers Company	43,867	42,660
	98,620	114,163
Zakat and income tax charge	230,761	212,946

The major components of income tax expense and zakat for the year ended 31 December are as follows:

23.1 Income Tax

	2018 SR "000"	2017 SR "000"
Current income tax charge (note 23.2)	97,108	43,958
Adjustment in respect of current income tax of previous year	18	-
	97,126	43,958
Deferred tax		
Relating to origination and reversal of temporary differences	35,015	54,825
Income tax reported in the consolidated statement of income and other comprehensive income	132,141	98,783

23.2 Current income tax expense

The current income tax expense for the year ended 31 December 2018 is calculated at income tax rate of 20 % (2017: 20%).

23 ZAKAT AND INCOME TAX PROVISIONS (continued)

23.3 **Effective income tax rate reconciliation**

	2018 SR "000"	2018 %	2017 SR "000"	2017 %
Accounting profit related to Saudi Polymers Company ("SPCO") before tax attributable to non-controlling partner in SPC (non-Saudi partner)	611,499		478,430	
Tax at the applicable rate to the income related to non-controlling partner in SPCO (non-Saudi partner)	122,300	20%	95,686	20%
Tax effect on the deferred income tax rate and the expense that are not deductible for tax purposes	9,841	1.6%	3,097	0.6%
Tax charged during the year in consolidated statement of income and other comprehensive income	132,141	21.6%	98,783	20.60%

23.4 **Deferred tax**

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Major components of deferred tax liability and asset of SPCO at the year end were:

	2018 SR "000"	2017 SR "000"
Deferred tax liability		
Property, plant and equipment	755,595	753,244
Total deferred tax liability	755,595	753,244
Deferred tax assets		
Employees' benefits	10,826	11,116
Taxable loss carry forward	433,714	466,088
Total deferred tax asset	444,540	477,204
Net deferred tax liability	311,055	276,040

23.5 **Zakat**

Charge for the year

The zakat charge relating to the Group consists of:

	2018 SR "000"	2017 SR "000"
Charge for the year	98,620	114,163

The differences between the financial and the zakatable results are mainly due to adjustments for certain costs/claims based on the relevant fiscal regulations.

23 ZAKAT AND INCOME TAX PROVISIONS (continued)

23.6 **Movement in the zakat and income tax provisions and Deferred tax liabilities are as follows:**

	Zakat and income tax provisions			*Deferred tax liabilities, net*
	Current tax	*Zakat* *31 December 2018*	*Total*	
	SR "000"	SR "000"	SR "000"	SR "000"
At 1 January	43,958	436,544	480,502	276,040
Charge for the year	97,126	98,620	195,746	35,015
Payments during the year	(76,959)	(13,612)	(90,571)	-
At 31 December	64,125	521,552	585,677	311,055

	Zakat and income tax provisions			*Deferred tax liabilities, net*
	Current tax	*Zakat* *31 December 2017*	*Total*	
	SR "000"	SR "000"	SR "000"	SR "000"
At 1 January	-	387,648	387,648	221,215
Charge for the year	43,958	114,163	158,121	54,825
Reversal for zakat provision no longer required	-	(65,000)	(65,000)	-
Payments during the year	-	(267)	(267)	-
At 31 December	43,958	436,544	480,502	276,040

23.7 ***Status of assessments***

Status of assessments of National Petrochemical Company (Petrochem)

The Company has filed its Zakat and Income Tax returns with the General Authority of Zakat and Tax ("GAZT") up to 2017. The Company has finalised its zakat status with the General Authority of Zakat and Tax ("GAZT") for all years up to 31 December 2010 on a standalone basis. Number of additional liability have been issued by GAZT as follows:

The GAZT raised assessments for the years from 2011 to 2013 claiming additional zakat liability of SR 95.5 million. The Company has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC"). The Company received revised zakat assessments for the years from 2011 to 2013 from the GAZT claiming additional zakat liability of SR 5.74 million. The Company accepted and paid SR 3.47 million and filed an appeal for the remaining balance SR 2.27 million with the Higher Appeal Committee ("HAC") and the HAC's hearing is awaited.

23 ZAKAT AND INCOME TAX PROVISIONS (continued)

23.7 Status of assessments (continued)

Status of assessments of National Petrochemical Company (Petrochem)

The GAZT raised an assessments for the years from 2014 to 2016 claiming additional zakat liability of SR 204.2 million. The Company has filed an appeal against the additional zakat liability with the Preliminary Appeal Committee ("PAC") and the PAC's hearing is awaited. The assessments for 2017 still under GAZT's review.

The Company's management believes that the provision made in the consolidated statements of financial position is adequate to cover any additional zakat liability that may arise from the GAZT.

Status of assessments of Saudi Polymers Company

The subsidiary has filed its zakat and income tax returns with the General Authority of Zakat and Tax (the "GAZT") up to 2017. The assessment for the period ended 31 December 2008 has been finalised with the GAZT with nil liability. The assessments for the years from 2009 through 2017 have not yet been raised by the GAZT.

Zakat base has been computed based on the managements' understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations. The assessments to be raised by the GAZT could be different from the declarations filed by the Companies in Saudi Arabia.

Status of assessments of Gulf Polymers Distribution Company FZCO

The subsidiary registered in the Dubai Airport Free Zone and the subsidiary is exempted from income tax.

24 COST OF SALES

	2018 SR "000"	2017 SR "000"
Cost of material consumed	3,903,299	2,983,389
Depreciation (note 7)	1,104,585	892,509
Utilities, supplies and services	560,359	564,783
Cost of support services recharged by affiliates (note 12)	266,850	341,674
Employee's benefits expense	231,053	194,576
Contract services	64,560	48,585
Other	62,765	27,210
Royalty (note 12)	51,488	47,565
	6,244,959	5,100,291

25 SELLING AND DISTRIBUTION EXPENSES

	2018 SR "000"	2017 SR "000"
Marketing fees (note 12)	317,231	272,415
Rent and maintenance	81,934	80,888
Freight and distribution	60,821	51,311
Employee's benefits expense	7,575	8,003
Other	4,057	7,549
	471,618	420,166

26 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 SR "000"	2017 SR "000"
Cost of support services recharged by affiliates (note 12)	127,219	133,482
Employee's benefits expense	24,332	24,495
Remunerations of board of directors and key personnel	20,424	16,656
Depreciation (note 7)	10,839	20,982
Bank charges	6,488	5,369
Professional fees	3,017	2,115
Other	12,682	14,054
	205,001	217,153

27 OTHER INCOME, NET

	2018 SR "000"	2017 SR "000"
Oil insurance claim	**186,786**	-
Commission income	**58,346**	32,622
Foreign currency exchange (loss) gains	**(19,740)**	38,254
Reversal for zakat provision no longer required (notes 23)	**-**	65,000
Other, net	**6,256**	21,318
	231,648	157,194

28 FINANCE COSTS

	2018 SR "000"	2017 SR "000"
Interest on term loans	**203,160**	175,688
Interest on Sukuk	**49,692**	46,551
Interest on non-controlling partner's subordinated loan (note 19)	**42,189**	37,434
Discounting of employees' loans granted during the year	**7,984**	5,310
Amortization of transaction costs on term loans (note 18)	**5,400**	8,414
Other service charges	**948**	848
Total finance costs	**309,373**	274,245

29 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net income for the year attributable to shareholders of the Company by the weighted average number of shares during the year.

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

	For the year ended 31 December **2018**	2017
Net income attributable to shareholders of the Company (SR '000)	**1,165,382**	888,303
Weighted average number of ordinary shares ('000)	**480,000**	480,000
Basic and diluted earnings per share attributable to the shareholders of the Company	**2.43**	1.85

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

30 CAPITAL COMMITMENTS

The Group has authorised future capital expenditure amounting to SR 135 million (31 December 2017: SR 105 million) relating to certain expansion projects.

31 CONTINGENCIES

During 2010, the Company and the non-controlling partner in Saudi Polymers Company (a consolidated subsidiary) resolved to increase the capital of Saudi Polymers Company by SR 3,394 million, which will cause the non-controlling partner to incur additional costs; the management of the Company has agreed to compensate the non-controlling partner by making annual payments in the future based on the future earnings of Saudi Polymers Company, considering the non-distributable cash as a result of the proposed capital increase.

The Group's bankers has issued guarantees, on behalf of the Group, amounting to SR 389 million (31 December 2017: SR 389 million) relating to uplift of feedstock for plant from a supplier.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

32.1 Market risk

Market risk is the risk that the fair value of 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, foreign currency risk and commodity price risk. Financial instruments affected by market risk include loans and borrowings as well as bank balances. The sensitivity analysis in the following sections relate to the position as at 31 December in 2018 and 31 December 2017.

(a) 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 exposure to the risk of changes in market interest rates relates to sukuk and long-term debt obligations with floating interest rates. The interest rate risk is partially mitigated by interest income, which Group earns at floating interest rates from its bank deposits.

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

	Increase/ decrease in basis points	Effect on profit before tax SR '000
2018	**-50**	**97,253**
	+50	**(97,253)**
2017	-50	94,809
	+50	(94,809)

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.1 **Market risk (continued)**

(b) Foreign Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group deals mainly in Saudi Riyal (SR) and US $. As the SR is pegged to the US $, balances in US $ are not considered to represent significant currency risk.

(c) Commodity price risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including naphtha, benzene, natural gas and electricity. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices to manage the risk. The risk is partially mitigated by fluctuations in the commodity prices of the Group's finished products (i.e. Polypropylene and Polyethylene).

32.2 **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its cash and cash equivalents, short term deposits, trade receivables, amounts due from related parties and employees' loans as follows:

	2018 SR "000"	2017 SR "000"
Employees' loans	**156,208**	139,709
Amounts due from related parties	**221,326**	228,510
Trade receivables	**1,035,382**	1,108,947
Short term investments – bank deposits	**-**	648,000
Cash and cash equivalents	**3,251,537**	2,265,819
	4,664,453	4,390,985

The Group manages its credit risk with respect to the customers by dealing with customers having reliable credit history, securing high quality collateral when necessary and by monitoring outstanding balances and with respect to banks by only dealing with reputable banks.

32.3 **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet financial commitments associated with financial instruments. Liquidity risk may result from an inability to realize financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis and ensuring that available of bank facilities, as and if requested. The Group's terms of contracts require amounts to be paid within 30-90 days of the date of billings. Trade payables are normally settled within 30-45 days of billing date or receipt of a correctly rendered invoice.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.3 **Liquidity risk (continued)**

The table below summarizes the maturities of the Group's undiscounted financial liabilities at reporting date, based on contractual payment dates and current market interest rates.

	On requested	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
			31 December 2018			
	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"
Term loans	-	-	1,374,772	4,857,557	-	6,232,329
Non-controlling partner's subordinated loan	-	-	-	413,927	-	413,927
Sukuk	-	-	1,078,000	-	-	1,078,000
Trade payables	-	37,962	-	-	-	37,962
Accrued expenses and other payables	-	-	605,204	-	-	605,204
Amounts due to related parties	209,581	-	-	-	-	209,581
	209,581	37,962	3,057,976	5,271,484	-	8,577,003

	On requested	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
			31 December 2017			
	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"	SR "000"
Term loans	-	-	1,368,027	4,597,682	2,040,224	8,005,933
Non-controlling partner's subordinated loan	-	-	-	-	817,988	817,988
Sukuk	-	-	-	1,200,000	-	1,200,000
Trade payables	-	218,967	-	-	-	218,967
Accrued expenses and other payables	-	388,499	-	-	-	388,499
Amounts due to related parties	237,363	-	-	-	-	237,363
	237,363	607,466	1,368,027	5,797,682	2,858,212	10,868,750

32.4 **Excessive risk concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

32.5 **Capital management**

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

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, term loans, trade and accrued expenses and other payables and Sukuk, less bank balances.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

***32.5* Capital management (continued)**

	2018 SR "000"	2017 SR "000"
Term loans	**6,232,329**	8,005,933
Sukuk	**1,078,000**	1,200,000
Trade payables	**37,962**	218,967
Accrued expenses and other payables	**605,204**	388,499
Less: cash and cash equivalents	**(3,251,537)**	(2,265,819)
Net debt	**4,701,958**	7,547,580
Non-controlling partner's subordinated loan	**413,927**	817,988
Equity	**11,388,612**	9,833,841
Total equity and non-controlling partner's subordinated loan	**11,802,539**	10,651,829
Capital and net debt	**16,504,497**	18,199,409
Gearing ratio	**40%**	71%

33 FAIR VALUES OF FINANCIAL INSTRUMENTS

The management assessed that the fair values of bank balances, short term deposits, trade and other receivables, trade and other payables approximate their carrying values largely due to the short-term maturities of these financial instruments.

The management has assessed the fair value of employee loans and non-controlling partner's subordinated loan based on level 3 hierarchy, which is not materially different from their respective carrying values.

The fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

34 SEGMENT INFORMATION

In respect of performance appraisal and allocation of resources, the Group's management is of the opinion that all activities and operations of the Group comprise one single operating segment, the petrochemical sector. Therefore, financial reports are issued only for geographical segments.

Geographical segments

Operating assets are located in the Kingdom of Saudi Arabia. The sales are geographically distributed as follows:

	2018 %	2017 %
Domestic/Middle East	**19**	17
Asia	**51**	51
Europe/Africa	**30**	32
	100	100

35 SUBSEQUENT EVENTS

In the opinion of the management, there have been no significant subsequent events since the period ended 31 December 2018 that would have a material impact on the consolidated financial position of the Group as reflected in these consolidated financial statements.

36 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.