

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

The Saudi Arabian Amiantit Company

(A Saudi Joint Stock Company)

Dammam, Kingdom of Saudi Arabia

Opinion

We have audited the consolidated financial statements of The Saudi Arabian Amiantit Company (a Saudi Joint Stock Company) ("the Company" or "SAAC") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"), as 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter listed below, our description on how our audit have addressed this matter is set out below:

Key audit matter	How the matter was addressed in our audit
<p>1) Borrowings – compliance with loans’ covenants</p> <p>The Group has loans as at December 31, 2022 amounting to SR 1,140.6 million (2021: SR 1,126.2 million) fully payable within 1 year.</p> <p>These loans are subject to compliance with certain loans covenants, which includes maintenance of certain financial ratios and other conditions.</p> <p>We considered borrowings of the Group as a key audit matter due to the requirements to comply with above mentioned covenants and the significance of the balances reflected in the consolidated statement of financial position.</p> <p>Refer to note 4.1.1 and 31 to the consolidated financial statements for the status of Group’s borrowing with regards to compliance with covenants.</p>	<p>We have performed the following procedures for assessing the Group’s compliance with loans covenants:</p> <ul style="list-style-type: none"> • Obtained loans agreements and understood the key terms and condition of loans including loan covenants; • Checked the accuracy of the maturity of loans as presented in these consolidated financial statements in accordance with loans terms and conditions; • Obtained and agreed borrowing confirmation to the balances appearing in the consolidated statement of financial position; • Assessed the compliance with loan covenants; • Reviewed the adequacy of the related disclosures as presented in the accompanying consolidated financial statements; and • Reviewed correspondence with the lending banks for rescheduling of loans terms and conditions.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
<p>2) Change in accounting policy from cost model to fair value/valuation model</p> <p>As at 31 December 2022 the land (within property, plant and equipment) , and investment properties amounted to SR 580 million and SR 11 million respectively, as reported in note 26, 28, 44 to the financial statement which are restated by the adoption of fair value model instead of cost modal during the year.</p> <p>This change in accounting policy from cost model to fair value model has resulted a prior year adjusted by SR 375 million refer to note 44.</p> <p>The group management appointed Independent external valuator for assessing the fair value of lands as per new accounting policy. The valuation uses common valuation techniques and methods, which are based on assumption and estimates that relate to several factor that impact fair value of the lands (within property, plant and equipment), and investment properties.</p> <p>We considered this as a key audit matter as the adoption of the fair value model instead of cost model requires significant judgement by management and also involves key estimates, also the significant impact on the group records due to the changing of the accounting policy of property, plant and equipment, and investment properties.</p> <p>Refer to property, plant and equipment (note 26), investment properties (note 28) and change in accounting policy from cost model to fair value/valuation model (note 44).</p>	<p>We performed the following procedures in respect of change in accounting policy:</p> <ul style="list-style-type: none"> • obtained an understanding of the group’s accounting policies related to the fair value model instead of cost model for the land (within property, plant and equipment), and investment properties; • Assessed the real estate evaluators’ independence, objectivity, and experience; • Compared the fair value of the lands category within property, plant and equipment, and investment properties at the year end to the valuation results included in the real estate evaluators report; • Ensured that proper valuation technique and methodology are adopted by real estate evaluators; • Obtained the title deeds for the lands (within property, plant and equipment), and investment properties and discussed the current status of these with management; and • We assessed the adequacy of the Group’s disclosures on change in accounting policy.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
<p>3) Impairment review of property, plant and equipment</p> <p>As at December 31, 2022, the net book value of property, plant and equipment amounted to SR 563.8 million. During the year 2022, management of the group Identified that there are indications regarding reversal of impairment to property, plant and equipment and decided to appoint independent External expert for performing the impairment assessment. The management of the group recognized impairment reversal in financial statements for the year ended 31 December, 2022.</p> <p>We considered this as a key audit matter because the assessment of the recoverable amount of CGUs requires significant management judgment which in turn could significantly impact the consolidated financial statements by net amount SR36.6 million.</p> <p>Refer to note 4.2.2 details significant accounting estimates and note 26 details disclosures on property, plant and equipment.</p>	<p>We performed the following procedures in respect of the impairment of property, plant and equipment:</p> <ul style="list-style-type: none"> • We obtained an understanding of the Group’s structure and CGUs; • We assessed management’s process for the identification of impairment reversal; • We reviewed the report of the independent external expert who performed the following: <ul style="list-style-type: none"> - Assessed the appropriateness of the methodology used by management for the calculation of recoverable amounts; - Assessed the reasonableness of management assumptions; and - Ensured the accuracy of management calculations. • We assessed the adequacy of the Group’s disclosures on impairment reversal.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
<p>4) Revenue recognition</p> <p>The Group has recognized revenue of SR 508.8 million during the year ended December 31, 2022. The revenue earned is recognized as the following.</p> <p>At a point in time when control over goods is transferred to the customer generally on delivery of goods to the customers, and over a period of time when the related services are performed.</p> <p>Accordingly, this requires management to establish the fact that, in accordance with IFRS 15;</p> <p>Control over goods is transferred at the time of dispatch, and for fixed-price contracts, revenue is recognized based on the 'percentage of completion' method which measures actual costs incurred to the end of the reporting period as a proportion of the total costs to be incurred.</p> <p>The terms that define when control is transferred to the customer as well as high volume and value of transactions give rise to the risk that revenue is not recognized in the correct time and period.</p> <p>Accordingly, due to the significant risk associated with revenue recognition in accordance with terms of IFRS 15 'Revenue' it was considered as a key audit matter.</p> <p>Refer to the important accounting policies mentioned in note No. 3-3-1 for the policy related to revenue recognition and note No. 7 for more details related to revenue.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> • Assessed Group's revenue recognition policy and its compliance to the requirements of the IFRS; • Assessed the design and implementation of internal controls related to revenue recognition; • Performed substantive testing of the revenue recorded during the year using sampling techniques; • Performed revenue analysis in order to establish any unusual trends; and • Performed procedures to determine if the revenue was recorded in the correct period.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
<p>5) Impairment review of trade receivables (ECL) and contract assets</p> <p>As at December 31, 2022, the Group's gross trade receivable balance was SR 859.3 million (2021: SR 895.8 million) and contract assets balance was SR306.8 million (2021: SR 340.4 million) with an impairment loss provision of SR 308.9 million (2021: SR 333.1 million) million at 31 December 2022.</p> <p>The Group assesses at each reporting date whether the trade receivables (carried at amortized cost) are credit-impaired. The Group's management has applied a simplified ECL model to determine the allowance for impairment of trade receivables. The ECL model involves the use of variance assumptions, macro-economic factors and study of historical trends relating to Group trade receivables and contract assets collection experience.</p> <p>We considered these as key audit matters as management applies significant judgements in determining an appropriate impairment loss allowance for trade receivables and contract assets.</p>	<p>Our audit procedures related to impairment loss on trade receivables and contract assets included the following:</p> <ul style="list-style-type: none"> • Assessed the design and implementation and tested the operative effectiveness of key controls related to Group's processes over establishing and monitoring the impairment; • Tested key assumptions including those used to calculate the likelihood of default, by comparing to historical data and challenge these assumptions. We also considered the incorporation of forward looking macro-economic factors to reflect the impact of future events on expected credit losses. We also tested the arithmetical accuracy of the model; • Assessed the adequacy of the Group's disclosures in terms of applicable accounting standards; and • Obtained a third-party lawyer's letter confirming the probability of default and capability to pay customer wise that were used to calculate impairment loss allowance in respect of trade receivables under litigation.

INDEPENDENT AUDITOR'S REPORT (continued)**Other information**

Management is responsible for the other information. The other information comprises the information included in the Group's annual report but does not include the consolidated financial statements and our auditor's report thereon. The 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 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 annual report, and we conclude that there is 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 these consolidated financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws and applicable requirements of company's regulations, and for such internal controls as management determines are 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 have no realistic alternative but to do so.

Those charged with governance (i.e. Board of directors) 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 ISAs as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, as 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's responsibilities for the audit of the Consolidated Financial Statements (continued)

- 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.

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

For Al-Kharashi & Co.



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Riyadh:

February 2, 2023 G
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