



Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Saudi Arabian Mining Company (Ma'aden) (the "Company") and its subsidiaries (together the "Group") as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020;
- the consolidated statement of financial position as at that date;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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

Independence

We are independent of the Group in accordance with the code of professional 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.

Our audit approach

Overview

Key audit matter

- Impairment assessment of property, plant and equipment, mine properties, capital work-in-progress, right-of-use assets and finite-lived intangible assets

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

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

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.

Key audit matter	How our audit addressed the Key audit matter
<p>Impairment assessment of property, plant and equipment, mine properties, capital work-in-progress, right-of-use assets and finite-lived intangible assets</p> <p>As at 31 December 2020, the Group has property, plant and equipment of Saudi Riyals 61,884,484,039, mine properties of Saudi Riyals 10,672,155,147, capital work-in-progress of Saudi Riyals 4,666,875,538, right-of-use assets of Saudi Riyals 1,463,774,682 and finite-lived intangible assets of Saudi Riyals 158,809,894. As at 31 December 2020, property, plant and equipment is stated net of an impairment loss amounting to Saudi Riyals 3,303,750,000 (31 December 2019: Saudi Riyals 3,303,750,000).</p> <p>At each reporting date, the Group reviews for impairment of the carrying amount of these assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.</p> <p>The determination of the recoverable amounts, being the higher of value-in-use and fair value less costs of disposal, requires management to identify and then estimate the recoverable amounts for the assets or the cash generating unit ("CGU") to which the assets belong. Recoverable amounts, in case of value-in-use, are based on management's view of key internal value driver inputs as well as external market conditions such as future commodity prices as set out in the approved business plans. It also requires management to make estimates of future business growth, growth rates beyond the approved business plans period till the period the plants reach their capacity, terminal growth rates and to determine the most appropriate discount rates.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> ▪ Understood and evaluated the appropriateness of management's identification of the CGUs. ▪ Assessed management's identification of impairment indicators, as well as indicators of impairment reversal, including the conclusions reached. We also evaluated the design and implementation of key controls over the impairment assessment process comprising of impairment indicators identification and estimation of recoverable amounts. ▪ Evaluated the reasonableness of management's assumptions and estimates used to determine the recoverable amounts of the CGUs where impairment indicators have been identified. This included: <ul style="list-style-type: none"> (i) Assessing the methodology used by management to estimate the value-in-use by checking, on a sample basis, the accuracy and appropriateness of the input data in the discounted cash flow models to supporting documentation, such as the approved business plans. We considered the reasonableness of business plans by comparing the business plans to the historical results and the market data, particularly with respect to sales pricing, and comparing the current year's actual results with its forecast. We also inquired with management to understand the basis for the assumptions used in the business plans;

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Key audit matter	How our audit addressed the Key audit matter
<p>Specific assets or the CGUs, to which the assets belong, where we focused our procedures included the following:</p> <p>Ma’aden Rolling Company (Rolling mill and Automotive sheet CGUs)</p> <p>Management determined that the recoverable amounts of both CGUs were approximately equal to the carrying values resulting in no impairment loss or reversal of a previously recognized impairment loss to be recognized as at 31 December 2020.</p> <p>Ma’aden Wa’ad Al Shamal Phosphate Company</p> <p>Management determined that the recoverable amount was higher than the carrying value resulting in no impairment loss to be recognized as at 31 December 2020.</p> <p>We considered this as a key audit matter as the assessment of the recoverable amounts of the assets or the CGUs to which the assets belong requires estimation and judgement primarily around production profiles, useful life of assets, commodity prices, future economic and market conditions, growth rates (including terminal growth rates) and discount rates.</p> <p>Refer to Note 4.11 to the consolidated financial statements for the accounting policy relating to the impairment of these assets, Note 6.1 for the disclosure of significant accounting estimates and judgements and Note 19 for the disclosure of matters related to impairment of property, plant and equipment, mine properties, capital work-in-progress, right-of-use assets and finite-lived intangible assets.</p>	<p>(i) Assessing the appropriateness of the discounted cash flow projections in the calculation of the value-in-use, testing the reasonableness of key assumptions such as the future business growth in the business plans period, growth rates beyond the approved business plans period, terminal growth rates and discount rates based on our knowledge of the business and industry by, for example, comparing the assumptions to historical results and published market and industry outlook data and other relevant information. Our internal valuation experts were engaged to assist us in the review of the methodology underlying the value-in-use calculations and to assess the reasonableness of discount rates and growth rates;</p> <p>(ii) Testing management’s discounted cash flow models used in the calculation of the value-in-use for mathematical accuracy and logical integrity of the underlying calculations; and</p> <p>(iii) Performing sensitivity analysis over key assumptions in the calculation of the value-in-use in order to assess the potential impact of a range of possible outcomes.</p> <ul style="list-style-type: none"> ▪ Assessed the adequacy and appropriateness of the related disclosures in the accompanying consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises information included in the Group's 2020 annual report, but does not include the consolidated financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

When we read the Group's 2020 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 issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of 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, i.e. the 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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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



Ma’aden Phosphate Plant - Al Jalameed

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 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.

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