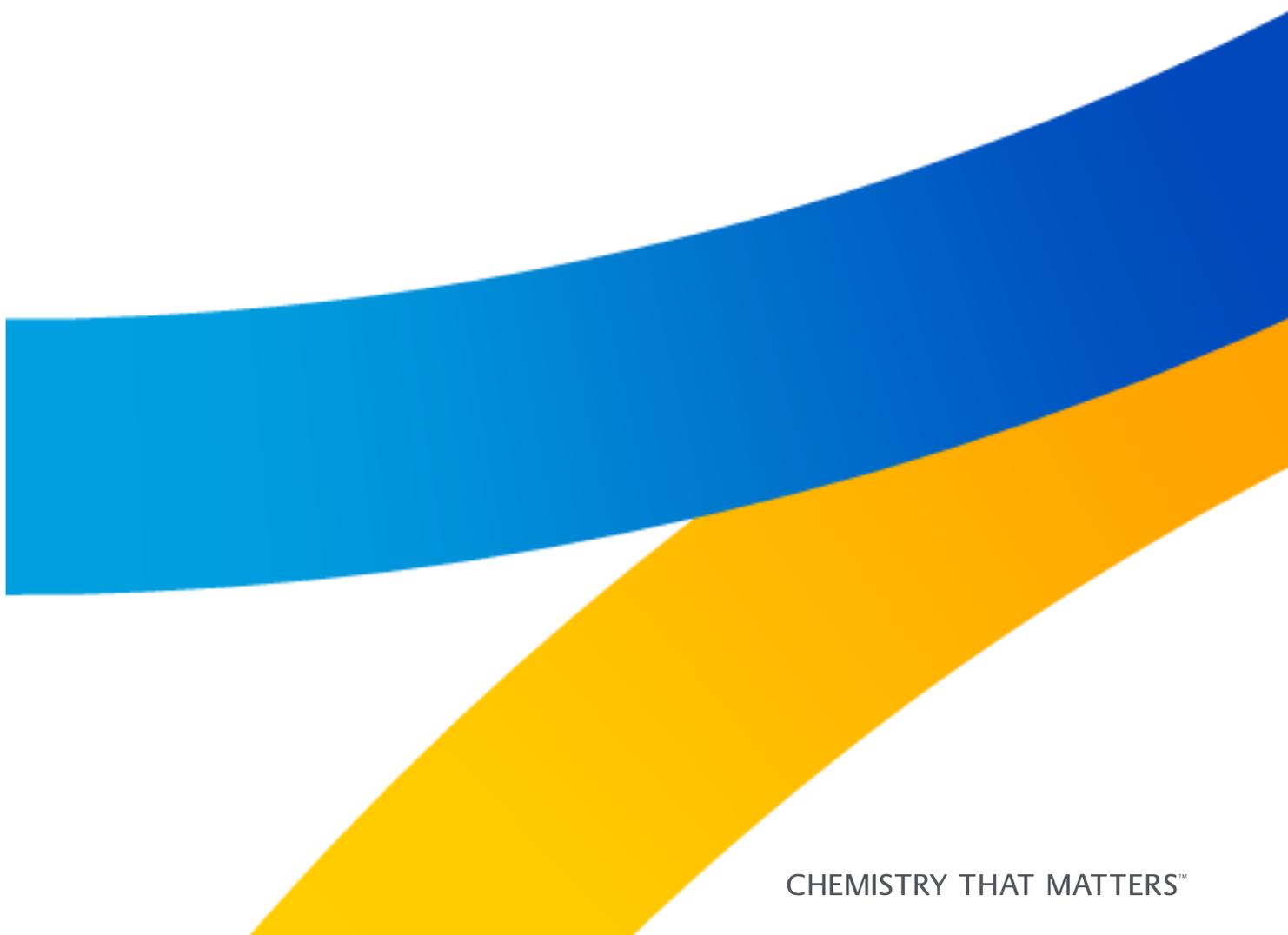




SABIC CAPITAL B.V.

Annual report

31 December 2019



SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

GENERAL INFORMATION

Directors

T.G. Brierley

P.G.H.M. Dorn (appointed 17 March 2020)

M.R. De Groot (resigned 2 March 2020)

Supervisory Board

A.S. Al-Fageeh

T.D. Leveille

K.A. Al-Garni

Registered Office

Zuidplein 216

1077 XV Amsterdam

The Netherlands

Auditors

Ernst & Young Accountants LLP, The Netherlands

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Report by the Board of Directors

General

SABIC Capital B.V. (“the Company”), a direct, wholly-owned subsidiary of SABIC Luxembourg S.à r.l., has two wholly-owned subsidiaries: SABIC Capital I B.V. and SABIC Capital II B.V. (together with the Company, “the Group”). The Company is part of a group of companies owned by Saudi Basic Industries Corporation (“SABIC”), Riyadh, Kingdom of Saudi Arabia (“KSA”), a global manufacturer of chemicals and other basic materials. The Group is mainly engaged in global financing activities and corporate financial services for SABIC’s subsidiaries in Europe, Middle-East and Africa (“EMEA”), Asia, and the Americas (the “International Subsidiaries”).

Business

Financial review

The Group’s net income for the year ended 31 December 2019 amounted to 3,149 compared to 2,138 in 2018. The Group’s income is mainly determined through a market spread on its financing and services activities for SABIC’s International Subsidiaries.

Investments

The value of the Group’s investment in SABIC International Holdings B.V. (“SABIC International”) decreased in 2019 compared to 2018 with 314,626 mainly as a result of deterioration in the expected result for SABIC International in the coming years, causing a change in expected timing of dividend distribution.

Refinancing and available funds

In 2019, the Group repaid 10,000 to a related party and the 3,000,000 loan from SABIC was extended with 12 months at a fixed rate of 2.61%. In 2020, the Eurobond, the 3,000,000 loan from SABIC and the 40,000 loan from a related party are expiring. It is management’s intend to align the refinancing with the ultimate outcome of the underlying strategic initiative. The strategic initiative will be further implemented at the International Subsidiaries and therefore does not impact the Group directly.

At the end of 2019, there were no drawings under the multi-currency revolving credit facility leaving an unused balance of 2,000,000 (2018: 1,900,000).

The total unused amount of bank overdraft facilities and money market facilities at the end of 2019 amounted to 471,970 (2018: 474,360).

Corporate governance

The Group applies corporate governance standards that promote transparency, accountability and competence. The Company’s corporate governance structure consists of a board of managing directors (the “Managing Board”) and a board of supervisory directors (“the Supervisory Board”). The Supervisory Board consist of senior executives of SABIC. The Managing Board has the overall responsibility for managing the Company and overseeing the management of the Group companies in alignment with SABIC’s overall goals and objectives. The Managing Board meets on a regular basis during the year. The Supervisory Board meets twice a year as a minimum and more if required.

The composition of the Managing Board and Supervisory Board does not (yet) meet the target criteria as set by legislation regarding gender diversity whereby at least 30 percent of the positions are held by men and at least 30 percent by women. In accordance with the “apply-or-explain”-rule in said legislation, the Managing Board and Supervisory Board herewith express their full recognition of the benefits of diversity, including gender balance. In the future, members of the Managing Board and Supervisory Board will continue to be selected on the basis of wide ranging experience, backgrounds, skills, gender, knowledge and insights.

Risk appetite and management

Risk appetite

As part of SABIC’s global Enterprise Risk Management assessment, the Group assesses its internal and external risks regularly, and provides necessary remedial action plans for material risks identified. The Group operates under SABIC’s global policies and guidelines, assessing its risks and developing action plans, which are reviewed and followed up as necessary in light of risk evaluations. Overall, the Group is willing to accept risks that are assessed as low.

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The Group's risk appetite is set as part of SABIC's 2025 strategy focus as well as internal policies such as the Code of Ethics, company values, authority schedules, treasury and other corporate policies and varies per goal and objective and type of risk:

- Strategic risks: Regarding SABIC's 2025 strategy, the Group is prepared to take reasonable risk in order to achieve its performance goals and objectives.
- Operational risks: These are related to financial activities, see Financial risks.
- Financial risks: the Group, as part of SABIC globally, takes proper actions to maintain a strong cash position and to support its parent's best in class credit ratings. Our financial risk management is explained in more detail in Note 20 of the consolidated financial statements.
- Compliance risks: the Group does not allow any of its employees to take any compliance risk and takes appropriate measures in the event of any breach of its Code of Ethics.

Major risks

Management has assessed the following major mostly financing related risks, related to the Group, which have not significantly changed over the last few years:

Volatility in interest rates, market risk, credit risk and liquidity risk

The Group provides financing to its International Subsidiaries by obtaining funds through equity contributions and loans from related parties as well as from external banking and capital markets, to fund their investments, capital expenditures and normal operations. Overall, management of the Group believes it has limited exposure to market risk, credit risk and liquidity risks on its financing activities as a result of its operating model, whereby funding obtained externally, are either fully (e.g. loans and bonds) or through limited recourse (e.g. cash pools) guaranteed by SABIC. Foreign exchange risk is also limited as the cash outflows or loans issued are almost completely offset by cash in-flows or loans received.

In addition, the Group is exposed to the following risks as part of SABIC:

Volatility in the global economy

SABIC's growth is to a large extent dependent on the growth of the global Gross Domestic Product ("GDP"). As the recovery of the global economy remains fragile, any decline in global GDP growth could have a decreasing effect on SABIC's financial results. SABIC is mitigating the impact of any volatility in the global economy through an efficient operational cost focus and to strive for sufficient feedstock availability in the regions it is operating.

Doing business in an international environment

SABIC is a global business with operations in more than 50 countries and has its foundation in Saudi Arabia. SABIC is therefore exposed to unfavorable geo-political, social or economic developments as well as developments in local laws and regulations which could adversely impact the business. To mitigate these risks, SABIC is carefully monitoring the international political, economic and legislative environment.

Compliance with laws and regulations

SABIC's international footprint requires to stay up to date with continuous change and expansion of laws and regulations. Non-compliance with laws and regulations could result in liabilities to SABIC. To mitigate these risks SABIC is actively monitoring its compliance exposures globally and is educating and training all of its employees annually on its Code of Ethics.

National and international taxation is changing rapidly, e.g. as a result of the actions developed by the Organization for Economic Co-operation and Development (OECD) at the request of the G20 to prevent Base Erosion and Profit Shifting (BEPS) in previous years and the 2018 US Tax Reform Act. SABIC's Global Tax function ensures SABIC is ready for these changes by providing strategic and operational support to manage tax risks for the business, while promoting growth in areas that include operating models, intercompany transactions, merger and acquisitions and the relationship with tax authorities. By building and maintaining robust compliance processes and a strong compliance culture the Group is fostering the highest ethical standards.

Internal Control Systems

The Group's internal control system is designed to provide reasonable assurance to the management and the Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of its financial statements. However, all internal control systems, no matter how well designed, have its limitations. Therefore, even

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those systems and controls determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparations and presentation.

Human resources

As of 31 December 2019, the Group had 36 (2018: 44) employees directly employed within the Netherlands.

Company outlook

The global economy in 2020 is expected to be entirely impacted by the pandemic outbreak of the Corona virus (COVID-19), which started in China and is spreading over Europe and the United States quickly. The economic impact of COVID-19 is therefore expected to be severe and is likely to turn the global economy in 2020 into a recession depending on how long it will take governments to contain the spread of COVID-19 and their ability to support the local economy to recover from it. Management is continuously assessing the potential impact for the Group. The short-term impact is considered to be minor as the loans are secured and cash management process of the cash pool allows to allocate cash between legal entities. To ensure execution continuity of the Group's core activities, employees are able to complete their tasks from home office. The long-term impact of this crisis is yet quite uncertain and therefore no explicit statement can be made for the mid and long-term.

Management is actively managing the timely availability of funding to support any financing needs of the International Subsidiaries. For 2020, management believes it currently has sufficient cash availability with the International Subsidiaries as well as the ability to generate additional cash in 2020, to meet the International Subsidiaries' near term operational funding needs and regular capital expenditure commitments. For large projects or strategic investments, to support SABIC's international growth, the Group has the availability of its unused multi-currency revolving credit facility as well as the possibility to borrow additional funds externally depending on the availability of funds in the banking and capital markets and the support of SABIC. The Group's ability to borrow externally remains strong due to the guarantees from SABIC.

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Amsterdam, 9 April 2020

Signed by:



T.G. Brierley



P.G.H.M. Dorn

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Consolidated Financial Statements

31 December 2019

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Consolidated Statement of Income

	Notes	For the years ended	
		31 December	
		2019	2018
Interest income	3	497,832	398,075
Financial income	3	15,100	34,513
Financial expense	4	(507,079)	(429,316)
Operating income		5,853	3,272
Selling, general and administrative income/(expense)	5	108	412
Income before tax		5,961	3,684
Income tax expense	6	(2,812)	(1,546)
Net income for the year		3,149	2,138
<i>Attributable to:</i>			
Owner of the Company		3,149	2,138
Net income for the year		3,149	2,138

See accompanying Notes to the Consolidated Financial Statements

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Consolidated Statement of Comprehensive Income

	Note	For the years ended	
		31 December	
		2019	2018
Net income for the year		3,149	2,138
<i>Other comprehensive income:</i>			
Net (loss)/gain from equity instruments designated at FVOCI	8	(314,626)	(94,940)
Total other comprehensive (loss)/income that will not be reclassified to statement of income in subsequent periods		(314,626)	(94,940)
Total comprehensive (loss)/income, net of tax		(311,477)	(92,802)
<i>Attributable to:</i>			
Owner of the Company		(311,477)	(92,802)
Total comprehensive (loss)/income, net of tax		(311,477)	(92,802)

See accompanying Notes to the Consolidated Financial Statements

SABIC Capital B.V.

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Consolidated Statement of Financial Position

	Notes	At 31 December	
		2019	2018
Assets			
Non-current assets			
Property and equipment		62	124
Right of use assets	7	1,300	—
Equity instruments	8	2,232,014	2,546,640
Other financial assets	9	6,325,502	7,223,450
Deferred tax assets		765	649
		<u>8,559,643</u>	<u>9,770,863</u>
Current assets			
Other financial assets	9	4,849,442	3,979,083
Other receivables	10	45,603	76,198
Derivatives	11	—	8,006
Cash and cash equivalents	12	2,124,385	1,286,529
		<u>7,019,430</u>	<u>5,349,816</u>
Total assets		<u>15,579,073</u>	<u>15,120,679</u>
Equity and liabilities			
Equity			
Equity attributable to owner of the Company	13	2,260,125	2,571,602
		<u>2,260,125</u>	<u>2,571,602</u>
Non-current liabilities			
Interest-bearing loans and borrowings	14	6,311,747	7,302,020
Employee benefits		467	348
		<u>6,312,214</u>	<u>7,302,368</u>
Current liabilities			
Current liabilities, interest-bearing	14	6,975,713	5,185,516
Trade and other payables	15	31,021	53,201
Derivatives	16	—	7,992
		<u>7,006,734</u>	<u>5,246,709</u>
Total liabilities		<u>13,318,948</u>	<u>12,549,077</u>
Total equity and liabilities		<u>15,579,073</u>	<u>15,120,679</u>

See accompanying Notes to the Consolidated Financial Statements

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Consolidated Statement of Changes in Equity

Attributable to owner of the Company

	<u>Issued capital*</u>	<u>Share premium</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Fair value financial assets through OCI</u>	<u>Total Equity</u>
Balance as at 31 December 2017	<u>23</u>	<u>1,332,115</u>	<u>22,906</u>	<u>80</u>	<u>1,310,854</u>	<u>2,665,978</u>
Adoption of IFRS 9	<u>—</u>	<u>—</u>	<u>(1,574)</u>	<u>—</u>	<u>—</u>	<u>(1,574)</u>
Balance as at 1 January 2018	<u>23</u>	<u>1,332,115</u>	<u>21,332</u>	<u>80</u>	<u>1,310,854</u>	<u>2,664,404</u>
Net loss equity instrument designated at FVOCI (note 8)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(94,940)</u>	<u>(94,940)</u>
Net income for the year	<u>—</u>	<u>—</u>	<u>2,138</u>	<u>—</u>	<u>—</u>	<u>2,138</u>
Total comprehensive loss for the year, net of tax	<u>—</u>	<u>—</u>	<u>2,138</u>	<u>—</u>	<u>(94,940)</u>	<u>(92,802)</u>
Balance as at 31 December 2018	<u>23</u>	<u>1,332,115</u>	<u>23,470</u>	<u>80</u>	<u>1,215,914</u>	<u>2,571,602</u>
Net loss equity instrument designated at FVOCI (note 8)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(314,626)</u>	<u>(314,626)</u>
Net income for the year	<u>—</u>	<u>—</u>	<u>3,149</u>	<u>—</u>	<u>—</u>	<u>3,149</u>
Total comprehensive loss for the year, net of tax	<u>—</u>	<u>—</u>	<u>3,149</u>	<u>—</u>	<u>(314,626)</u>	<u>(311,477)</u>
Balance as at 31 December 2019	<u>23</u>	<u>1,332,115</u>	<u>26,619</u>	<u>80</u>	<u>901,288</u>	<u>2,260,125</u>

*Issued capital amounts to € 18,000.

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Consolidated Statement of Cash Flows

	Notes	For the years ended	
		31 December	
		2019	2018
<i>Operating activities</i>			
Net income for the year		3,149	2,138
<i>Add back non-cash items in net income</i>			
Interest revenue and expense, net		(11,620)	(9,396)
Amortization of debt issuance costs		5,519	5,477
Loss on impairment		248	647
Income tax expense		2,812	1,546
<i>Non-cash adjustment to reconcile the result before tax to net cash flows</i>			
Depreciation property and equipment		648	63
Movement in other non-current assets, liabilities and other, net		(53)	(356)
Net foreign exchange gain/(loss)		13,655	(7,156)
<i>Changes in Group funding:</i>			
Proceeds of funding to related parties		893,012	5,303,709
Repayments of funding from related parties		(10,584)	(5,010,000)
Proceeds from third party funding		80,000	7,087,660
Repayments of third party funding		(180,000)	(7,157,500)
Debt issuance costs paid		(709)	(6,750)
Interest received		497,131	384,672
Interest paid		(482,761)	(377,026)
Guarantee fee received		33,969	15,645
Guarantee fee paid		(33,969)	(15,645)
Right of use lease payments		(703)	—
<i>Change in working capital:</i>			
Current receivables		7,215	(3,776)
Current liabilities – non-interest-bearing		(2,308)	(3,016)
Others		14	5
Income tax paid		(1,651)	(1,400)
Net cash provided by operating activities		813,014	209,541
Net increase in cash and cash equivalents		813,014	209,541
Net foreign exchange (loss)/gain on cash and cash equivalents		(13,589)	7,492
Cash and cash equivalents (including overdrafts) at 1 January	12	1,012,243	795,210
Cash and cash equivalents (including overdrafts) at 31 December	12	1,811,668	1,012,243

See accompanying Notes to the Consolidated Financial Statements

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Notes to the Consolidated Financial Statements

1. General information

SABIC Capital B.V. (“the Company”) was incorporated on 3 September 2008 as a private company with limited liability (“besloten vennootschap met beperkte aansprakelijkheid”) in accordance with Dutch law and is registered at the trade register of the Chamber of Commerce in the Netherlands on 4 September 2008, with registration number 14105349. The Company having its legal seat in Amsterdam, Zuidplein 216, the Netherlands, is a direct, wholly owned subsidiary of SABIC Luxembourg S.à r.l.

The Company has two wholly owned subsidiaries: SABIC Capital I B.V. and SABIC Capital II B.V. (together with the Company, “the Group”) with Amsterdam as principal place of business. The Company is an indirect subsidiary of Saudi Basic Industries Corporation (“SABIC”) a Saudi Arabian joint stock company based in Riyadh, Kingdom of Saudi Arabia (“KSA”). SABIC is engaged in the manufacturing, marketing and distribution of chemicals and other basic materials in global markets.

The primary purpose of the Group is to provide financing and corporate financial services for SABIC subsidiary entities in Europe, Middle-East and Africa, Asia, and the Americas (“International Subsidiaries”). The Group’s financing is ensured through equity contributions, loans from related parties and third party financing. The Group has guarantees supporting its external financing from SABIC to receive sufficient funds to ensure compliance with all of its payment obligations to creditors. The Group’s corporate financial services consist of treasury, tax and group reporting and accounting services, which are charged out to the beneficiary SABIC entities.

The financial statements of the Company for the year ended 31 December 2019 were approved on 9 April 2020 and are subject to adoption by the Annual General Meeting of the Shareholder.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations as adopted by the International Accounting Standards Board (“IASB”) and endorsed by the European Union (“EU”). In accordance with Article 2:402 of the Dutch Civil Code, the company only statement of income is presented in a condensed form.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments, which are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services at the date of inception.

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

The Group has categorized its financial assets and liabilities into a three-level fair value hierarchy, based on the degree to which the inputs to fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 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

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2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and the entities controlled by the Company. Control is considered achieved when the Company has power over its subsidiaries together with exposure, or rights, to variable returns from its involvement with the subsidiaries and lastly the ability to use its power over the subsidiaries to affect its returns. Generally, there is a presumption that a majority of voting rights results in control. The Company re-assesses whether or not it controls its subsidiaries if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Profit or loss and each component of other comprehensive income are attributed to the equity owner of the Company. All intra-group assets and liabilities, equity, income, expenses and cash flows related to transactions between members of the Group are eliminated in full on consolidation.

The Group's consolidated companies at 31 December 2019 are disclosed in the *Other Information* section.

2.3 Significant accounting judgements, estimates and assumptions

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

These estimates and assumptions are based upon historical experience and various other factors that are believed to be relevant 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 if the revision affects only that period, or in the revision period and future periods if the changed estimates affect both current and future periods.

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

- Capital management, financial instruments risk management and policies (Note 20)
- Sensitivity analyses disclosures (Note 20)

The key assumptions and critical judgments concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond control of the Group. Such changes are reflected in the assumptions when they occur.

Equity instruments (Note 8)

These equity instruments are designated at Fair value through other comprehensive income ("FVOCI") where the fair value recognized in the consolidated statement of financial position cannot be derived from active markets. This is determined using a discounted cash flow model. The input for certain parameters is taken from observable pricing in markets, but where this is not feasible, a degree of judgment by management is required in assessing fair values. Changes in assumptions about these factors could affect the fair value of these equity instruments.

Incremental borrowing rate for lease agreements (Note 7 and Note 14)

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

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Determining the lease term of contracts with renewal and termination options (Note 7 and Note 14)

Management determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

2.4 Changes in accounting policies

IFRS 16 'Leases'

The Group has adopted IFRS 16 from its mandatory adoption date 1 January 2019 using the modified retrospective transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives have not been restated.

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

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

As at 1 January 2019, the Group has recognised lease liabilities amounting to 2,245 and associated right-of-use assets amounting to 1,914 in relation to contracts that have been concluded as leases under the principles of IFRS 16. The liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The associated right-of-use assets are measured at the amount equal to the lease liabilities, adjusted by the amount of prepayments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The Group's weighted average incremental borrowing rate applied to the lease liabilities was 0.6%.

The following table shows the reconciliation of operating lease commitments under IAS 17 "Leases" to the lease liabilities under IFRS 16 on 1 January 2019:

	1 January 2019
Operating lease commitment disclosed as at 31 December 2018	2,706
Less: restatement operation lease commitment	(509)
Less: discount using the Group's IBR	(27)
Add: contracts reassessed as lease agreements	75
Lease liabilities recognised as at 1 January 2019	2,245

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 'Income Taxes' ("IAS 12") and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable results, tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

2.5 IFRS issued but not yet effective

The IFRS standards and interpretations that are issued and relevant for the Group, but not yet effective, up to the date of issuance of the Group's financial statements are elaborated below. These standards will be adopted by the Group, when they become effective.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current

The Amendments in 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They clarify that:

- the classification of liabilities as current or non-current should be assessed on rights that are in existence at the end of the reporting period.
- Settlement refers to the transfer to the counterparty of cash, equity instruments or others assets or services

The Amendments are effective from annual periods beginning on or after 1 January 2022 and should be applied retrospectively. The Group does not expect any effect on its consolidated financial statements.

Other new and amended standards and interpretations issued, but not yet effective, are not considered applicable to the Group now and in the foreseeable future.

2.6 Summary of significant accounting policies

Foreign currencies

The Group's consolidated financial statements are presented in US Dollars, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements are measured using that functional currency.

Transactions 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. Differences arising on settlement or translation of monetary items are recognized in the consolidated statement of income, with the exception of monetary items that are designated as part of the hedge of the Group's net investment of an operation. These are recognized in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

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translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or statement of income are also recognized in other comprehensive income or statement of income, respectively).

The principal exchange rates against the US Dollar of the Company's main foreign currency, used in preparing the consolidated financial statements of financial position and statements of income, are:

	Statement of Financial Position		Statement of Income	
	Exchange rate at 31 December 2019	Exchange rate at 31 December 2018	Average exchange rate 2019	Average exchange rate 2018
Euro	1.12	1.14	1.12	1.18

Current versus non-current classification

An asset (liability) is classified as current when it is expected to be realized (settled) within 12 months after the balance sheet date, except for derivatives designated as a hedge, which are classified consistent with the underlying hedged item.

Interest income and financial income and expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as debt instruments, interest income or expense is recorded using the effective interest rate ("EIR"). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income (or expense) is included in financial income (or expense) in the consolidated statement of income. Premiums, discounts and transaction costs on loans are carried as an adjustment to interest expenses, spread over the term of the loans concerned.

Expenses

The Group provides treasury, tax and group financial and accounting services to SABIC. All costs related to the services provided are recharged to the service beneficiaries.

Eligible (direct) employees participate in defined contribution pension plans. Obligations for contributions to defined contribution plans are recognized in the consolidated statement of income when due.

Taxation

Income tax expense represents the sum of the tax currently payable.

Deferred income tax

Deferred income tax assets and liabilities are recognized, using the balance sheet method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount due are those that are enacted or substantively enacted at the balance sheet date in the Netherlands. Current income tax relating to items recognized directly in equity is recognized in the consolidated statement of changes in equity and not in consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Comprehensive income (loss)

The consolidated statement of comprehensive income consists of net income (loss), foreign currency translation adjustments, a change in fair value of equity instruments designated at FVOCI and a change in fair value of derivative instruments.

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Equipment

Equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on a straight-line basis over the useful life

Financial assets

Classification of financial assets is based on the Group's business model for managing its financial assets and the contractual terms of the cash flows, whereby the Group classifies its financial assets as:

- financial assets measured at amortized cost; or
- financial assets measured at fair value

Gains or losses of assets measured at fair value will be recognized either through the consolidated statement of income or through the consolidated statement of OCI.

Initial measurement

Financial assets are initially measured at their fair value plus transaction costs. Transaction costs of financial assets carried at fair value through income statement are recognized in the consolidated statement of income, when incurred. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows meet the requirements as solely payment of principal and interest.

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

Subsequent measurement

Debt instruments

The Group recognized its debt instruments at amortized cost. Financial assets recognized at amortized cost are assets held for collection of contractual cash flows, where those cash flows represent Solely Payments of Principal and Interest ("SPPI"), are measured at amortized cost. A gain or loss on a debt investment subsequently measured at amortized cost, and not part of a hedging relationship, is recognized in the consolidated statement of income when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the EIR method. This category includes trade receivables and loans granted.

Equity instruments

The Group measures all equity instruments at fair value through OCI. These investments are irrevocably designated at fair value through OCI as the Group considers these investments to be strategic in nature. Dividends from such investments continue to be recognized in the consolidated statement of income as other income when the Group's right to receive payments is established. There shall be no subsequent reclassification of changes in fair value through the consolidated statement of income.

De-recognition

A financial asset or a part of a financial asset is de-recognized 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.

Impairment

The Group based its assessment of ECL on historical observed default rates, based on credit ratings. The Group assessed that the impact of forward looking information is not material. At reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The Group recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash

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flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Cash and cash equivalents

Cash and cash equivalents comprise of cash at banks and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Because of the short term nature of cash and cash equivalents, the Group recognizes these at its contractual par amount. The Group holds these balances in order to collect contractual cash flows. Cash and cash equivalents meet the business model and SPPI test and are therefore classified and measured at amortized cost. The expected credit losses are considered insignificant.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as other financial liabilities measured at amortized cost using the EIR method, which include other non-current liabilities and trade and other payables.

All financial liabilities are recognized initially when the Group becomes party to contractual provisions and obligations under the financial instrument. The liabilities are recorded at fair value, and in the case of loans and borrowings and payables, the proceeds received net of directly attributable transaction costs.

Subsequent measurement

Other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in consolidated statement of income when the liabilities are de-recognized as well as through the EIR amortization process.

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

Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the consolidated statement of income. The Company does not apply hedge accounting.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognized at cost, being the fair value of the proceeds received, net of transactions costs. Subsequently, interest-bearing loans and borrowings are stated at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium. Interest expenses are accrued and recorded in the consolidated statement of income for each period.

Deferred debt issuance costs represent an adjustment to the initial carrying amount of debt. These costs are amortized over the life of the debt and increase the amount of effective interest expense recognized on the debt.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount 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, or to realize the assets and settle the liabilities simultaneously. The Group applies

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netting of financial assets and liabilities, such as current accounts, where offsetting is justified by a formal agreement, provided these criteria are met.

Provisions

General

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 management of 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 any provision is presented in the consolidated statement of income net of any reimbursement.

If the effect of the time value of money is significant, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Employee benefits

Other employee benefits that are expected to be settled fully within 12 months after the end of the reporting period are presented as current liabilities. Provisions for other long-term employee benefits are measured at present value, using actuarial assumptions and methods. Any actuarial gains and losses are recognized in the consolidated statement of income in the period in which they arise.

Statement of cash flows

The Group uses the indirect method to prepare the consolidated statement of cash flows. Cash flows in foreign currencies are translated at average exchange rates. Exchange rate differences affecting cash items are presented separately in the consolidated statement of cash flows. In line with the Group's operating model, movements and transactions related to loans and receivables are included in the cash flows from operating activities. For the purpose of preparing the Group's consolidated statement of cash flows, the cash and cash equivalents include bank overdrafts, which are presented under interest-bearing loans and borrowings in current liabilities in the Group's statement of financial position.

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3. Interest and financial income

The consolidated statement of income includes the following financial income for the year ended 31 December:

	<u>2019</u>	<u>2018</u>
Interest income related parties	462,894	379,891
Interest income third parties	34,938	18,184
Financial income related parties	15,100	34,513
Total interest and financial income	<u>512,932</u>	<u>432,588</u>

Included in financial income from related parties is a guarantee fee to cover the guarantee support fee payable to SABIC (see also Note 4). Interest income consists of income based on effective interest rate.

4. Financial expense

The consolidated statement of income includes the following financial expense for the year ended 31 December:

	<u>2019</u>	<u>2018</u>
Interest expense related parties	373,676	236,862
Interest expense third parties	110,796	150,140
Guarantee support fee owed to SABIC	15,100	34,513
Loss on impairment	248	647
Other financial-related expenses	7,259	7,154
Total financial expenses	<u>507,079</u>	<u>429,316</u>

5. Selling, general and administrative expense

Included in the selling, general and administrative expense are the following amounts by nature of expense for the year ended 31 December:

	<u>2019</u>	<u>2018</u>
Wages and salaries, pension costs and social security and benefit charges	(9,447)	(9,454)
Other external expenses	(4,922)	(9,640)
Cost recharged to other SABIC companies	14,477	19,506
Total selling, general and administrative expense	<u>108</u>	<u>412</u>

As of 31 December 2019, the Company had 36 employees directly employed within the Netherlands (2018: 44). The Group provides treasury, tax and financial reporting services to SABIC parent as well the International Subsidiaries. The total incurred cost included in wages and salaries, pension costs and social security and benefit charges are subsequently charged out to the entities which benefit from the provided services. The contribution into the defined contribution plan amounted to 1,018 (2018: 949).

6. Corporate income tax

The companies in the Group are part of a Dutch fiscal unity headed by the Company. The regulations for a Dutch fiscal unity stipulate that all companies included in the fiscal unity are jointly and severally liable for all tax liabilities due by the tax parent company until the tax unity ceases. The Company's individual corporate income tax is calculated on a stand-alone basis.

The taxable income is subject to an advance pricing agreement with the Dutch Tax Authorities, under which a compliant taxable margin is declared in the annual corporate income tax return.

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In 2019, the tax charge recorded in the consolidated statement of income amounted to 2,812 (2018: 1,546). The effective tax rate of 47% (2018: 42%) is higher than the domestic income tax charge of 25% (2018: 25%) mainly caused by foreign income taxes without domestic tax relief and permanent adjustments to taxable profit.

7. Right of use assets

	Buildings	Others	Total
Cost:			
Balance at 31 December 2018	—	—	—
IFRS 16 implementation	1,553	361	1,914
Balance at 1 January 2019	1,553	361	1,914
Disposals	—	(28)	(28)
Balance at 31 December 2019	1,553	333	1,886
Depreciation:			
Depreciation	(480)	(106)	(586)
Balance at 31 December 2019	(480)	(106)	(586)
Net Book value 31 December 2018	—	—	—
Net Book value 31 December 2019	1,073	227	1,300

8. Equity instruments designated at FVOCI

The consolidated statement of financial position includes the following for the year ended 31 December:

	2019	2018
Preference shares from a related party	2,232,014	2,546,640
Total equity instruments designated at FVOCI	2,232,014	2,546,640

Preference shares

In December 2008, SABIC Capital II B.V. made a contribution for an amount of € 1,028 million on the cumulative preference shares of SABIC International Holdings B.V. ("SABIC International"), a related party, with a coupon of 8.5%, representing 5.05% of the shares of SABIC International. The contribution consists of 7,982,000 cumulative preference shares with a par value of € 1 per share. The change of the fair value of the cumulative preference shares as at 31 December 2019 for an amount of 314,626 (2018: 94,940 decrease) is recorded through the consolidated statement of comprehensive income. Due to SABIC International negative retained earnings position, no dividends have been distributed to the Group as preferred shareholder. The accumulated undistributed dividend, related to the cumulative preference shares, amounts to 1,076,233 as of 31 December 2019 (2018: 999,277).

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9. Other financial assets

Other financial assets consist of loans to SABIC International and SABIC US Holdings LP, which are subsequently provided to the International Subsidiaries.

Other financial assets comprise of the following at 31 December:

	EIR 2019	Maturity	2019	2018
Loan to SABIC International	2.50%	2019	—	10,000
Loan to SABIC International	3.90%	2019	—	3,000,000
Loan to SABIC International	3.00%	2020	40,000	40,000
Loan to SABIC International	3.33%	2020	839,775	857,700
Loan to SABIC International	2.72%	2020	3,000,000	—
Loan to SABIC International	5.50% – 5.70%	2021	1,797,001	1,797,001
Loan to SABIC International	4.22%	2023	1,000,000	1,000,000
Loan to SABIC IP US LLC	4.80%	2023	1,000,000	1,000,000
Loan to SABIC International	4.26%	2028	1,531,495	1,531,495
Loan to SABIC IP US LLC	5.32%	2028	1,000,000	1,000,000
Cash pool with related parties	Floating inter day %+ 50 bps		969,667	969,083
Total loans to related parties			11,177,938	11,205,279
Allowance for expected credit loss			(2,994)	(2,746)
Total loans to related parties including ECL			11,174,944	11,202,533
Less:				
Current portion of loans to SABIC International			3,879,775	3,010,000
Cash pool with related parties			969,667	969,083
Total current other financial assets			4,849,442	3,979,083
Total non-current other financial assets			6,325,502	7,223,450

All loans with a maturity ending in 2019 were repaid or refinanced on their respective due dates. The 3,000,000 loan was extended with one year without settlement in cash.

Loans to SABIC International

The Group has entered into multiple interest-bearing cash deposits agreements provided to SABIC International. These agreements bear interest mostly on a fixed rate.

Loan to SABIC International 2020

In January 2018, the Group entered into a specific intercompany loan facility amounting to 3,000,000, with SABIC International, in order to fund a strategic investment initiative of the SABIC International. At the end of 2019, the loan was extended with one year. It is management's intend to align the refinancing with the ultimate outcome of the underlying strategic initiative. The strategic initiative will be further implemented at the International Subsidiaries and therefore does not impact the Company directly.

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Loan to SABIC International 2021

During August and November 2011, the Group entered into loans provided to SABIC International in the amount of 2,321,313, in the aggregate. These borrowings mature on 31 December 2021 and the interest rates are fixed varying from 5.50% to 5.70% and payable at every quarter. Interest payments (for an amount of 65,943) for the 3rd and 4th quarter 2012 were capitalized to the loan amount.

Loan to SABIC IP US LLC 2023

In October 2018, the Group used the USD Bond issuances to on-lend to SABIC IP US LLC, a related party.

Loans to SABIC International 2028

From December 2008 through April 2010, the Group entered into loans to on-lend to SABIC International. These loans were refinanced during 2018 for their nominal amount including capitalized interest (84,967). There was no settlement in cash. All these borrowings have a maturity date 29 March 2028 with a fixed interest rates of 4.26% and payable at every quarter.

Cash pool with related parties

The Group serves as the head of a global cash pool for the International Subsidiaries to provide sufficient funding for their operational cash flows. An amount of 568,789 (2018: 443,726) was netted as there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis. The gross balance amounts to 1,538,456 (2018: 1,412,809).

10. Other receivables

Other receivables consist of the following as at 31 December:

	2019	2018
Accrued interest from related parties	26,970	27,579
Receivables from related parties	17,448	29,116
Accrued interest	1,286	—
Accrued guarantee support fee from related parties	—	18,868
Others	(101)	635
Total other receivables	45,603	76,198

The receivables from related parties are non-interest bearing and relate mainly to cost recharges to other SABIC entities. The accrued interest from related parties relate to loans granted to SABIC International and SABIC IP US LLC.

The Company has assessed the estimated credit loss on these other receivables as immaterial.

11. Derivatives

Derivatives relate to the Group foreign currency hedge programs used to manage the non-functional currency exposure that exists at its international subsidiaries. Current receivable derivatives consist of the following as at 31 December:

	2019	2018
Third parties	—	7,907
Related parties	—	99
Total derivatives	—	8,006

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12. Cash and cash equivalents including bank overdrafts

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	<u>2019</u>	<u>2018</u>
Cash at banks and on hand	1,004,385	1,286,529
Short-term deposits	1,120,000	—
Cash and cash equivalents	2,124,385	1,286,529
Bank overdrafts	(312,717)	(274,286)
Total cash and cash equivalents including bank overdrafts	<u>1,811,668</u>	<u>1,012,243</u>

As the Group serves as the head of a global cash pool for the International Subsidiaries, cash and cash equivalent balances (including bank overdrafts) fluctuate over the year.

13. Equity attributable to owner of the Company

At 31 December 2019 and 2018, issued capital amounts to € 18,000 distributed over 18,000 ordinary shares with a par value of € 1 per share. The authorized share capital amounts to € 90,000 consisting of 90,000 ordinary shares with a par value of € 1 per share.

Included in the retained earnings is the un-appropriated result for 2019 for an amount of 3,149, which is at the disposal of the General Meeting of Shareholders. The fair value financial assets reserve is a legal reserve in accordance with Dutch law and is not available for distribution.

Dividends paid

The Company distributed no dividends to its parent in 2019 (2018: nil).

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14. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings consist of the following as at 31 December:

	EIR 2019	Maturity	2019	2018
Eurobond	2.94 %	2020	838,149	854,178
Multi-currency revolving credit facility	Libor/Euribor + 25 bps	2022	(1,074)	97,851
US Dollar Bond	4.14%	2023	995,050	993,962
US Dollar Bond	4.66%	2028	988,392	987,533
Bank overdrafts			312,717	274,286
Lease liabilities	0.61% average		1,488	—
Total third party loans and borrowings			3,134,722	3,207,810
Loans from related party SABCAP	1.98%	2019	—	10,000
Loans from related party SABCAP	2.39%	2020	40,000	40,000
Loans from related party SABIC	3.85%	2019	—	3,000,000
Loans from related party SABIC	2.61%	2020	3,000,000	—
Loans from related party SABIC	5.47% – 5.67%	2021	1,797,002	1,797,002
Loans from related party SABIC	4.19%	2023	1,000,000	1,000,000
Loans from related party SABIC	4.21%	2028	1,531,494	1,531,494
Cash pool with related parties	Floating inter day % -10 bps		2,784,242	1,901,230
Total Loans from related parties and borrowings			10,152,738	9,279,726
Total interest-bearing loans and borrowings			13,287,460	12,487,536
Less:				
Current portion of loans from related parties			3,040,000	3,010,000
Cash pool with related parties			2,784,242	1,901,230
Current portion of third party loans			838,149	—
Bank overdrafts			312,717	274,286
Lease liabilities			605	—
Current liabilities, interest-bearing			6,975,713	5,185,516
Total non-current interest-bearing loans and borrowings			6,311,747	7,302,020

The 3,000,000 loan with a maturity ending in 2019, was extended with one year on its due date. There was no settlement in cash. The loan in the amount of 10,000 was repaid on its due date.

It is management's intend to align the refinancing with the ultimate outcome of the underlying strategic initiative. The strategic initiative will be further implemented at the International Subsidiaries and therefore does not impact the Group directly.

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Money market

At the end of 2019 and 2018, this facility was not used. The unused amount of the Money market facilities amounted to 211,970 at the end of December 2019 (2018: 214,360).

US Dollar Bonds

In October 2018, the Group issued two new US Dollar bonds on the Irish Stock Exchange, guaranteed by SABIC. The first US Dollar bond is a 1,000,000 five-year bond with a coupon of 4.00%, which matures on 10 October 2023. The EIR, including amortization of debt issuance cost, is 4.14%, excluding the guarantee fee to be paid to SABIC. The second US Dollar bond is a 1,000,000 ten-year bond with a coupon of 4.50% which matures on 10 October 2028. The EIR, including amortization of debt issuance cost, is 4.66%, excluding the guarantee fee to be paid to SABIC. The fixed interest on these bonds is payable semi-annually.

Eurobond 2020

In November 2013, the Group issued a €750 million seven-year bond with a coupon of 2.75%, which matures on 20 November 2020. The EIR, including amortization of debt issuance cost, is 2.94%, excluding the guarantee fee to be paid to SABIC. The fixed interest on this bond is payable annually.

Multi-currency revolving credit facility

Since 2015, the Group has a 2,000,000 revolving credit facility with interest rate of Libor +25 bps for a period of 5 years. The existing agreement formally ends 9 December 2020 and includes an extension option for a period of 2 years. The Group has the intention to extend the period with 2 years in accordance with the agreement. The facility is not drawn and therefore fully available as at 31 December 2019, capitalized financing fees amount 1,074 (2018: 2,150).

Bank overdrafts

Bank overdrafts relate to overdraft positions of certain companies within the Group's cash pool arrangements with external banks. The unused amount of the bank overdrafts facilities amounted to 260,000 at the end of December 2019 (2018: 260,000).

Loans from related party SABCAP

The Group has entered into multiple interest-bearing cash deposits agreements with SABCAP, a related party. These agreements bear interest on a fixed rate, payable quarterly.

Loans from related party SABIC 2019

At the end of December, the 3,000,000 loan from SABIC, the ultimate parent, with a fixed interest rate of 3.85% was extended for one year with a fixed interest rate of 2.61%. The fixed interest on this loan is payable every quarter end. It is management's intend to align the refinancing with the ultimate outcome of the underlying strategic initiative.

Loans from related party SABIC 2021

The fixed interest on these loans is payable every quarter end. Interest payments (for an amount of 65,943) of the 3rd and 4th quarter 2012 were capitalized as part of the outstanding principal loan amount.

Loans from related party SABIC 2023

In June 2013, the Group received two new loans from SABIC amounting to 1,000,000 with a fixed interest rate, payable every quarter end.

Loans from related party SABIC 2028

These borrowings bear fixed rates, payable every quarter end. These loans were refinanced during 2018 for their nominal amount including prior year's capitalized interest (85,308). There was no settlement in cash.

Cash pool with related parties

Since 2012, the Group serves as the head of a global cash pool for the International Subsidiaries, to provide sufficient funding for their operational cash flows. An amount of 568,789 (2018: 443,726) was netted as there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis which can be demonstrated. The gross balance amounts to 3,353,031 (2018: 2,344,956).

Lease liabilities

Lease liabilities relate to buildings, vehicles and other materials.

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Cash flows

The changes in the liabilities arising from financing activities (excluding overdrafts), including both changes arising from cash flows and non-cash changes, are as follows:

	1 January 2019	Cash flows	Amortized Debt fees	Foreign exchange movement	31 December 2019
Fixed rate borrowings	10,214,169	(10,709)	4,445	(17,818)	10,190,087
Floating rate borrowings	1,999,081	783,012	1,075	—	2,783,168
Total	12,213,250	772,303	5,520	(17,818)	12,973,255

In the table below are the carrying amounts of the lease liabilities included under interest-bearing loans and borrowings and the movements during the period:

	2019
1 January 2019	2,245
accretion of interest	12
disposals	(25)
payments	(703)
Foreign currency movement	(41)
Lease liabilities recognised as at 31 December 2019	1,488

	1 January 2018	Cash flows	Amortized Debt fees	Foreign exchange movement	31 December 2018
Fixed rate borrowings	6,281,194	3,970,910	3,730	(41,665)	10,214,169
Floating rate borrowings	2,959,220	(961,888)	1,749	—	1,999,081
Total	9,240,414	3,009,022	5,479	(41,665)	12,213,250

15. Trade and other payables

Trade and other payables consist of the following as at 31 December:

	2019	2018
Accrued interest	21,775	21,930
Accrued interest intercompany	4,989	1,434
Employee related	1,916	2,179
Trade payables	1,588	5,383
Payable to related parties	540	858
Guarantee fee payable to SABIC	—	18,868
Others	213	2,549
Total trade and other payables	31,021	53,201

Accrued interest relates to interest to be paid on the Eurobond and the US dollar bonds.

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

16. Derivatives

Derivatives relate to the Group's foreign currency hedge programs used to manage the non-functional currency exposure that exists at its International Subsidiaries.

Current payable derivatives consist of the following as at 31 December:

	<u>2019</u>	<u>2018</u>
Third parties	—	102
Related parties	—	7,890
Total derivatives	—	7,992

17. Commitments and Contingencies

Financial indebtedness and guarantees

On 14 February 2009 and 24 November 2010, the Group entered into a guarantee agreement with SABIC, whereby SABIC guarantees that sufficient funds will be available to meet any payment obligation. Such undertaking is not limited in time or amount. In addition, third party lenders to the Group and holders of securities issued by the Group have received direct guarantees from SABIC.

The regulations for a Dutch tax unity stipulate that all companies included in the tax unity are jointly and severally liable for all tax liabilities due by the tax parent company until the tax unity ceases. The Group is also included in a Dutch Value Added Tax ("VAT") tax unity headed by SABIC International.

The Group has provided bank guarantees in the amount of 49,371 on behalf of the International Subsidiaries as at 31 December 2019 (2018: 44,982). The expected credit loss on these bank guarantees are considered insignificant.

18. Related party transactions

During 2019 and 2018, the Group had regular and non-recurring business transactions with the International Subsidiaries. These companies are referred to as related parties. The majority of the transactions presented in the consolidated statement of income and the consolidated statement of financial position are with SABIC, SABIC International and SABIC US Holdings LP.

All relations and transactions with related parties, including but not limited to service fees for treasury, tax and group reporting activities, financial income and financial expenses, have been included as follows in the consolidated statement of income and the consolidated statement of financial position for the year ended 31 December:

Consolidated Statement of income:

	<u>2019</u>	<u>2018</u>
Interest income related parties	462,894	379,891
Financial income related parties	15,100	34,513
Financial expense related parties	(373,676)	(236,862)
Guarantee support fee expense	(15,100)	(34,513)
Cost recharged to related parties	14,477	19,506

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Consolidated Statement of financial position:

	<u>2019</u>	<u>2018</u>
Equity instruments designated at FVOCI	2,232,014	2,546,640
Other financial assets – loans to related parties	6,325,502	7,223,450
Other financial assets – current	4,849,442	3,979,083
Receivables from related parties	17,448	29,116
Accrued interest from related parties	26,970	27,579
Accrued guarantee support fee from related parties	—	18,868
Assets derivatives from related parties	—	99
Loans from related parties	(4,328,496)	(4,368,496)
Current liabilities, interest-bearing	(5,824,242)	(4,911,230)
Accrued interest to related parties	(4,989)	(1,434)
Guarantee fee	—	(18,868)
Payables to related parties	(540)	(858)
Liabilities derivatives to related parties	—	(7,890)

Terms and conditions of transactions with related parties

The transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances, excluding loans and borrowings, at year-end are unsecured, interest free and settlement occurs in cash.

There have been no guarantees provided or charged on for any related party receivables or payables, other than disclosed in Note 17. For the year ended 31 December 2019, the Group has recognized 2,994 as impairment of other financial assets relating to amounts owed by related parties to comply with IFRS 9 requirements (2018: 2,746). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

19. Management remuneration

Remuneration for the years ended 31 December of key management can be detailed as follows:

	<u>2019</u>	<u>2018</u>
Salary	593	611
Short term incentives	235	238
Long term incentives	192	217
Pension and other post-employment benefits	130	127
Others	74	87
Total management remuneration	<u>1,224</u>	<u>1,280</u>

The Directors of the Company did not receive any remuneration for their services in 2019 (2018: nil).

20. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings and other payables contracted to raise funding to provide further funding to the International Subsidiaries. The Group's financial assets include loans to related parties and other receivables and cash and short-term deposits that arrive directly from its financing activities.

The Group has limited exposure to market risk, credit risk and liquidity risk on its financing activities due to its operating model. The Group manages these risks for SABIC's International Subsidiaries financing activities. The Group ensures that its financial risk-taking activities are governed by appropriate policies and procedures and those financial risks are identified, measured and managed in accordance with SABIC's global treasury policies and SABIC risk profile.

The management of the Group reviews and manages each of these risks, which are summarized below.

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

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 prices comprise three types of risk: interest rate risk, currency risk and other price risk. Financial instruments affected by market risk include loans and borrowings and equity instruments designated at FVOCI.

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 manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's policy is to maintain between 50% and 100% of its borrowings at fixed rates. To manage this, the Group may enter into interest rate swaps, in which the group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

As at the end of 2019 and 2018, the Group had only limited exposure to the risk of changes in market interest rates as all the Group loans received and provided carried fixed interest rates, except for cash and cash equivalents, the multi-currency revolving credit facilities, the term loan, the cash pool and the short-term loan facility. The interest rate risk for the Group is limited as all loans are back-to-back using the same interest rate plus a spread for the interest on the loan receivables.

The interest exposure on the cash and cash equivalents, cash pool and bank overdrafts, if any, amounts to 2,906 (2018: 19,904). The interest rate is based on one month LIBOR.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before tax and equity.

	<u>Increase (decrease) in basis points</u>	<u>Effect on income (loss) before taxation*</u>
One month LIBOR 31 December 2018 versus 31 December 2019	(74)	22
1% change	100	(29)

* Effect on equity equals effect on income before taxation.

Foreign currency risk

The Group operates in international markets and is primarily exposed to foreign exchange risk arising from loans and its investment in unquoted preference shares in a related party, which all relate to EUR exposures. Foreign exchange risk arising from loans denominated in EUR is limited to the Group as the cash outflows or loans issued, are almost completely offset by cash inflows or loans received. The effect of a reasonable change in income (loss) before taxation is assessed as not material. An increase in foreign exchange of 1% will result in an increase in investment in unquoted preference shares by 22,320.

The Group serves as the head of a global cash pool for the International Subsidiaries to provide their operations with sufficient funding for their operational cash flows. The Group's exposure to foreign currency risks regarding cash balances is limited as these are offset within the cash pool structure with the International Subsidiaries.

Other price risk

The Group holds an equity interest in SABIC International. The fair value of these unquoted preference shares has been estimated using a discounted cash flow model. The valuation requires management to make certain assumptions about the model inputs including credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for this unquoted equity investments. Increasing the yield rate with 1% will result in a decrease of the fair value of the equity interest with approximately 302,199 (2018: 266,128).

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All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Credit and counterparty risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or contract, resulting in a financial loss. The Group is exposed to credit risk from its financing activities, including loans to other SABIC companies, deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group has a policy to manage exposure to counterparty risk represented by possible defaults on financial instruments by monitoring the concentration of risk that it has with any individual bank or counterparty and through the use of minimum credit quality standards for accepting counterparties.

As at 31 December 2019, the Group has financing activities mainly with SABIC International and SABIC US Holdings LP. With respect to loans issued to related parties, the Group acts as an intermediate between SABIC or the capital markets, and the related party companies, whereby it bears a pre-defined and limited credit risk.

With respect to loans between the Group and SABIC International, for which the Group has borrowed a corresponding amount from SABIC, individual limitation of recourse letters have been entered into between the three companies, whereby, among others, the Group's exposure to a default of the borrower under the loan agreement is limited to the maximum amount of 2,239 (€ 2 million).

With respect to the issuance of the fixed rate bonds and loans, SABIC has issued a direct guarantee for the lenders.

Liquidity risk

The Group monitors its risk of a shortage of funds using forecasting models to model impacts of operational activities on overall liquidity availability. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of various sources of liquidity.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2019 and 2018, respectively, based on undiscounted contractual payments:

	Within 1 year	Between 1 and 5 years	More than 5 years	Total
<i>At 31 December 2019</i>				
Third party loans and borrowings (Note 14)	947,869	1,300,000	1,180,000	3,427,869
Loan from related parties (Note 14)	3,330,011	3,264,992	1,743,347	8,338,350
Cash pool with related parties	2,784,242	—	—	2,784,242
Bank overdraft	312,717	—	—	312,717
Other payables	31,021	—	—	31,021
<i>At 31 December 2018</i>				
Third party loans and borrowings	109,337	2,323,228	1,225,000	3,657,565
Loan from related parties	3,338,054	3,449,552	1,809,193	8,596,799
Cash pool with related parties	1,901,230	—	—	1,901,230
Bank overdraft	274,286	—	—	274,286
Other payables	53,201	—	—	53,201

For several loans, interest is capitalized and added to the principal loan amount and, as from that moment, also becomes interest bearing. The maturity of the interest bearing loans and borrowings is in line with the maturity of the financial assets.

Capital management

Capital represents equity attributable to the owners of the Group. The primary objective to the Group's capital management is to support SABIC's business and maximize shareholder value without any further specific targets. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objective, policies or processes in 2019.

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Fair values

The Group has categorized its financial assets and liabilities into a three-level fair value hierarchy, based on the nature of the inputs used in determining fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value measurements of equity instruments designated at FVOCI can be categorized as Level 3. All other fair value measurements of financial assets and liabilities reported in the financial statements can be categorized as Level 2, except for the Eurobond and US Dollar bond which can be categorized as Level 1.

Reconciliation of fair value measurements of Level 3 financial instruments:

The Company carries unquoted preference shares from a related party as an equity instrument designated at FVOCI classified as Level 3 within the fair value hierarchy. The fair value of the unquoted preference shares has been estimated using a discounted cash flow model. The valuation requires management to make certain assumptions about the model inputs including credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

The reconciliation of the fair value through 31 December 2018 is as follows:

1 January 2018	2,641,580
Total gain recognized in other comprehensive income	(94,940)
31 December 2018	2,546,640
Total loss recognized in other comprehensive income	(314,626)
31 December 2019	2,232,014

The discount rate applied by the Group for the discounted cash flow model was determined by reference to preference shares dividend yield rates as applicable for a peer group of companies for SABIC International which decreased by 2 bps to 5.89% in 2019. The Company used business performance forecasts to estimate future availability of distributable dividends from SABIC International, starting from 2026 onwards.

Management has assumed that, in order to determine the fair value of its cumulative preference shares, dividends will be distributed when SABIC International will have positive dividend reserves (retained earnings and other reserves) associated with the cumulative preference shares. Ultimately, dividend distributions are in accordance with the Articles of Association of SABIC International and at the discretion of its shareholder. If the dividend distribution was one year later, the fair value of the equity instrument designated at FVOCI would increase with approximately 124,000 (2018: 142,108).

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements as at 31 December:

	Carrying amount		Fair value	
	2019	2018	2019	2018
Financial assets				
Cash and cash equivalents	2,124,385	1,286,529	2,124,385	1,286,529
Other receivables	45,603	76,198	45,603	76,198
Derivatives	—	8,006	—	8,006
Equity investments designated at FVOCI	2,232,014	2,546,640	2,232,014	2,546,640
Other financial assets	6,325,502	7,223,450	6,928,807	7,563,322
Other financial assets - current	4,849,442	3,979,083	4,923,391	4,039,321
Financial liabilities				
Other payables	31,021	53,201	31,021	53,201
Derivatives	—	7,992	—	7,992
Interest bearing loans and borrowings	6,311,747	7,302,020	6,911,126	7,645,185
Current liabilities, interest-bearing	6,975,713	5,185,516	7,020,417	5,210,424

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All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

The fair value of the financial assets and liabilities is included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, other receivables and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of the fixed rate financial assets and fixed rate borrowing is based on interest rate quotations in active markets at the balance sheet date. The fair value of unquoted instruments, other financial assets, loans from banks and other financial indebtedness, obligations under finance leases, interest bearing liabilities as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities.
- The fair value of equity instruments designated at FVOCI, loans from banks and other financial indebtedness, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currency available for debt or similar terms and remaining maturities.

21. Subsequent events

The global economy in 2020 is expected to be entirely impacted by the pandemic outbreak of the Corona virus (COVID-19), which started in China and is spreading over Europe and the United States quickly. The economic impact of COVID-19 is therefore expected to be severe and is likely to turn the global economy in 2020 into a recession depending on how long it will take governments to contain the spread of COVID-19 and their ability to support the local economy to recover from it. Management is continuously assessing the potential impact for the Group. The short-term impact is considered to be minor as the loans are secured and cash management process of the cash pool allows to allocate cash between legal entities. To ensure execution continuity of the Group's core activities, employees are able to complete their tasks from home office. The long-term impact of this crisis is yet quite uncertain and therefore no explicit statement can be made for the mid and long-term.

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Company Only Financial Statements

31 December 2019

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Company Only Balance Sheet

	Notes	At 31 December	
		2019	2018
Assets			
Non-current assets			
Property, plant and equipment		62	124
Right of use assets		1,300	—
Financial assets	2	2,273,257	2,582,734
Deferred tax assets		117	86
		<u>2,274,736</u>	<u>2,582,944</u>
Current assets			
Other receivables	3	20,236	36,168
		<u>20,236</u>	<u>36,168</u>
Total assets		<u>2,294,972</u>	<u>2,619,112</u>
Equity and liabilities			
Equity			
Issued capital	4	23	23
Share premium	4	1,332,115	1,332,115
Retained earnings		23,470	21,332
Fair value financial assets through OCI		901,288	1,215,914
Other reserves		80	80
Net income		3,149	2,138
		<u>2,260,125</u>	<u>2,571,602</u>
Non-current liabilities			
Interest-bearing loans and borrowings		884	—
Employee benefits		467	348
		<u>1,351</u>	<u>348</u>
Current liabilities			
Current liabilities, interest-bearing	5	29,195	36,276
Trade and other payables	6	4,301	10,886
		<u>33,496</u>	<u>47,162</u>
Total liabilities		<u>34,847</u>	<u>47,510</u>
Total equity and liabilities		<u>2,294,972</u>	<u>2,619,112</u>

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

See accompanying Notes to the Financial Statements

Company Only Statement of Income

	Notes	At 31 December	
		2019	2018
Income from subsidiaries, after tax	2	5,149	2,432
Other expenses, after tax		(2,000)	(294)
Net income		3,149	2,138

See accompanying Notes to the Financial Statements

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Notes to the Company Only Financial Statements

1. General

The financial statements of SABIC Capital B.V. ('the Company'), have been prepared in accordance with Part 9, Book 2 of the Dutch Civil Code, making use of the IFRS principles as adopted by the EU and as applied in the consolidated financial statements (ex. Article 2:362 par. 8, Dutch Civil Code) as presented on page 14 to 21.

Assets and liabilities are valued in accordance with the accounting policies as set out in the notes to the consolidated financial statements, except for the financial fixed assets. The financial fixed assets are valued at net asset value. This also applies to the method used to calculate the results.

In conformity with Article 2:402 of the Dutch Civil Code the company only statement of income is presented in a condensed form.

2. Financial assets

	2019	2018
Balance as at 31 December	2,582,734	2,676,816
Adoption of IFRS 9	—	(1,574)
Balance as at 1 January	2,582,734	2,675,242
Net (loss)/gain equity instruments designated at FVOCI	(314,626)	(94,940)
Income from subsidiaries	5,149	2,432
Total financial assets	2,273,257	2,582,734

The Company's direct wholly owned subsidiaries are SABIC Capital I B.V. and SABIC Capital II B.V.

3. Other receivables

Other receivables consist of the following as at 31 December:

	2019	2018
Accounts receivable from related parties	20,339	35,533
Income tax receivable	(266)	(455)
Others	163	1,090
Total other receivables	20,236	36,168

4. Equity

The issued and paid-in capital amounts to € 18,000 distributed over 18,000 ordinary shares with a par value of € 1 per share. The authorized share capital amounts to € 90,000 divided into 90,000 ordinary shares with a par value of € 1 per share.

The fair value adjustment reserve is a legal reserve and not available for distribution. For details see the consolidated statement of changes in equity and Note 13 of the consolidated financial statements.

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

5. Current liabilities, interest-bearing

Interest-bearing loans and borrowings consist of the following as at 31 December:

	<u>EIR 2019</u>	<u>Maturity</u>	<u>2019</u>	<u>2018</u>
Lease liabilities	0.6% average		605	—
Cash pool with related parties	Floating inter day % -10 bps		28,590	36,276
Total current liabilities, interest-bearing			29,195	36,276

6. Trade and other payables

Trade and other payables consist of the following as at 31 December:

	<u>2019</u>	<u>2018</u>
Employee related	1,916	2,179
Trade payables	1,588	5,383
Other liabilities owed to related parties	587	858
Others	210	2,466
Total trade and other payables	4,301	10,886

7. Management remuneration

For the remuneration of the Board of Directors reference is made to Note 19 of the consolidated financial statements. The Board of Directors of the Company and the key management of the Group are the same.

8. Auditor's fee

Ernst & Young Accountants LLP's fee charged to the Company amounted to 46 (2018: 45).

9. Related party transactions

During the years 2019 and 2018, the Company has had regular and non-recurring business transactions with companies owned by the ultimate parent company. These companies are referred to as related parties.

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

All relations and transactions with related parties, including but not limited to service fees for treasury, tax and group reporting and accounting activities, financial income and financial expenses, have been included as follows in the consolidated statement of income and the consolidated statement of financial position:

Company Only Statement of income:

	<u>2019</u>	<u>2018</u>
Income from subsidiaries, after tax	5,149	2,432
Costs recharged to related parties	14,477	19,506
Financial expense	1,026	873

Company Only balance sheet:

	<u>2019</u>	<u>2018</u>
Receivables from related parties	20,339	35,533
Cash pool with related parties	(28,590)	(36,276)
Other liabilities owed to related parties	(587)	(858)

10. Appropriation of result for the year

Awaiting the decision of the General Meeting of Members, the result for the year is separately included in equity as an unappropriated result.

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Amsterdam, 9 April 2020

Directors SABIC Capital B.V.

Supervisory Board SABIC Capital B.V.



T.G. Brierley

A.S. Al-Fageeh



P.G.H.M. Dorn

T.D. Leveille

K.A. Al-Garni

SABIC Capital B.V.

All amounts are in thousands of USD, except for volumes of shares, share par values and number of employees

Other Information

List of Consolidated and Non-consolidated Companies

Consolidated companies:

<u>Company</u>	<u>Registered office</u>	<u>% of ownership</u>
SABIC Capital I B.V.	Amsterdam (NL)	100%
SABIC Capital II B.V.	Amsterdam (NL)	100%

Non-consolidated companies:

<u>Company</u>	<u>Registered office</u>	<u>% of ownership</u>
SABIC International Holdings B.V.	Sittard (NL)	5.05% preference shares

Appropriation of Result

According to Article 14 of the Articles of Association of the Company, the result for the year is at the disposal of the General Meeting of the Shareholder.

Independent auditors report

To: the shareholder, the supervisory board and the board of directors of SABIC Capital B.V.

Report on the audit of the Financial Statements 2019 included in the Annual Report

Our opinion

We have audited the Financial Statements 2019 of SABIC Capital B.V. (the Company) based in Amsterdam. The Financial Statements include the Consolidated Financial Statements and the Company Only Financial Statements.

In our opinion:

- The accompanying Consolidated Financial Statements give a true and fair view of the financial position of SABIC Capital B.V. as at 31 December 2019 and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying Company Only Financial Statements give a true and fair view of the financial position of SABIC Capital B.V. as at 31 December 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The Consolidated Financial Statements comprise:

- The Consolidated Statement of Financial Position as at 31 December 2019
- The following statements for 2019: the Consolidated Statement of Income and Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The Company Only Financial Statements comprise:

- The Company Only Balance Sheet as at 31 December 2019
- The Company Only Statement of Income for 2019
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the “Our responsibilities for the audit of the Financial Statements” section of our report.

We are independent of SABIC Capital B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	\$9 million (2018: \$8.5 million)
Benchmark applied	2% of financial income
Explanation	Based on our professional judgment we have considered an activity-based measure as the appropriate basis to determine materiality. Given the nature of the business we consider financial income to be the most relevant measure for the users of the financial statements, in line with prior year's assessment.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of \$0.450 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

SABIC Capital B.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of SABIC Capital B.V.

We have performed full scope audit procedures ourselves at all entities included in the group. By performing the procedures mentioned above at group entities, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the Financial Statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters are consistent with prior year.

Risk	Our audit approach	Key observations
<p>Financing activities - As disclosed in note 1, 9 and 14 in the Consolidated Financial Statements the company's primary activities are the financing of the SABIC entities outside the Kingdom of Saudi Arabia. The company's financing is structured through equity contributions, intercompany loans and third party financing. Considering the significance of the agreements, the collectability risk and compliance to the advanced pricing agreement, the financing activities are considered a key audit matter.</p>	<p>Our audit procedures included assessing the contractual arrangements, recalculation of the financial income and financial expense. Furthermore, we performed procedures on management's assessment of expected credit losses related to financial assets and compliance with the advanced pricing agreement.</p> <p>For the 2019 audit, we paid specific attention to the refinancing of the maturing internal loan. This loan from a related party was extended without settlement. We verified that the accounting treatment and valuation of the refinanced loan is in line with the underlying agreement.</p> <p>Furthermore, we verified the correct accounting treatment and compliance with transfer pricing requirements of the related refinanced financial assets.</p>	<p>Overall, the positions in relation to the Company's financing activities are appropriately recorded in the financial statements and disclosures in conformity with EU-IFRS.</p>

Risk	Our audit approach	Key observations
	<p>In addition, we assessed the adequacy of the company's disclosure in the notes of the Consolidated Financial Statements.</p>	
<p>Valuation of preference shares - As disclosed in note 8 and 20 of the Consolidated Financial Statements, the company has preference shares with a coupon of 8.5% in a related party, SABIC International Holdings B.V. The fair value of these unquoted preference shares is estimated using a discounted cash flow model.</p> <p>This requires management to make a number of estimations and assumptions, including the discount rate and future profitability. Considering the estimations and significant assumptions made by management, the valuation of preference shares was considered a key audit matter.</p>	<p>We performed audit procedures in testing management calculation and assumptions in the estimate. This included assessing the discount rate and review of future profitability to estimate future availability of distributable dividends.</p> <p>In addition, we assessed the adequacy of the company's disclosure in the notes of the Financial Statements.</p>	<p>Based on our audit procedures performed, we concluded that management appropriately accounted for the preference shares and made the required disclosures in the financial statements.</p>

Emphasis of matter relating to Corona developments

The developments surrounding the Corona (Covid-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a Going Concern. The financial statements and our auditor's report thereon are snapshots. The situation changes on a daily basis giving rise to inherent uncertainty. The impact of these developments on SABIC Capital B.V. is disclosed in the Report by the Board of Directors in the 'Company outlook' section and the disclosure about events after the reporting period included in note 21. We draw attention to these disclosures. Our opinion is not modified in respect of this matter.

Report on other information included in the Annual Report

In addition to the Financial Statements and our auditor's report thereon, the Annual Report contains other information that consists of:

- The Report by the Board of Directors
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the Financial Statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the Financial Statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the Financial Statements.

Management is responsible for the preparation of the other information, including the Report by the Board of Directors in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged as auditor of SABIC Capital B.V. as of the audit for the year 2009 and have operated as statutory auditor ever since that financial year.

Description of responsibilities for the Financial Statements

Responsibilities of management and the supervisory board for the Financial Statements

Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the Financial Statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the Financial Statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the Financial Statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the Financial Statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the Financial Statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the Financial Statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the Financial Statements, including the disclosures
- Evaluating whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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

We provide the supervisory board 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 the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. 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, not communicating the matter is in the public interest.

Eindhoven, 9 April 2020

Ernst & Young Accountants LLP

Signed by J.R. Frentz