

SAUDI STEEL PIPES COMPANY (SSPC)
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE THREE MONTHS AND NINE MONTHS PERIOD ENDED
SEPTEMBER 30, 2020
WITH INDEPENDENT AUDITOR'S REVIEW REPORT

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020
WITH INDEPENDENT AUDITOR'S REVIEW REPORT**

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**INDEPENDENT AUDITOR'S REVIEW REPORT ON THE
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**The Shareholders of
Saudi Steel Pipes Company (SSPC)
(A Saudi Joint Stock Company)
Dammam, Kingdom of Saudi Arabia**

(1/2)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Saudi Steel Pipes Company (the "Company"), a Saudi Joint Stock Company, and its Subsidiary (collectively referred to as "the Group") as of September 30, 2020 and the related condensed consolidated interim statement of profit or loss and other comprehensive income for the three months and nine months period then ended and the condensed consolidated interim statements of changes in equity and cash flows for the nine months period then ended, and a summary of significant accounting policies and other explanatory notes (the "condensed consolidated interim financial statements"). Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting (IAS 34)" as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", that is endorsed in the Kingdom of Saudi Arabia. A review of the condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

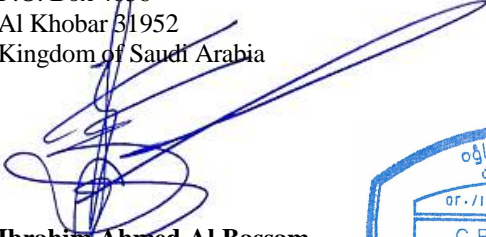
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

**INDEPENDENT AUDITOR'S REVIEW REPORT ON THE
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)****The Shareholders of
Saudi Steel Pipes Company (SSPC)**

(2/2)

Emphasis of Matter

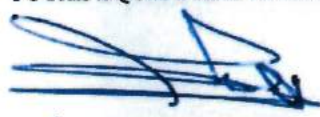
Without qualifying our conclusion, we draw attention to note 2 to the accompanying condensed consolidated interim financial statements; where the accumulated losses of TSM Arabia (the subsidiary) as of September 30, 2020 have exceeded its share capital by SR 141.2 million (December 31, 2019: SR 140.2 million). The Board of Directors of the Group has resolved to provide sufficient financial support to enable TSM Arabia to meet its financial obligations as and when they fall due. Accordingly, the subsidiary's financial statements were prepared on a going concern basis. Additionally, the subsidiary was in breach of its loan facilities financial covenants. The management of the subsidiary is in the process of taking the necessary remedial actions to resolve the breach including obtaining the required waiver documents. Accordingly, the loans are continued to be classified as per their original terms of payment.

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Ibrahim Ahmed Al Bassam
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November 4, 2020

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2020

	Note	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
ASSETS			
Non-current assets			
Property, plant and equipment	4	558,659,218	581,420,752
Intangible assets		3,995,227	2,766,638
Investments	5	110,445,325	105,421,605
Trade and other receivables - non-current	6	5,652,624	7,385,212
Deferred tax asset		11,558,261	8,696,234
		<u>690,310,655</u>	<u>705,690,441</u>
Current assets			
Inventories		201,133,556	150,066,124
Trade and other receivables	6	198,590,471	223,630,444
Cash and cash equivalents		41,710,304	39,506,782
		<u>441,434,331</u>	<u>413,203,350</u>
TOTAL ASSETS		<u>1,131,744,986</u>	<u>1,118,893,791</u>
EQUITY AND LIABILITIES			
Equity			
Share capital		510,000,000	510,000,000
Share premium		4,512,330	4,512,330
Statutory reserve		58,494,224	58,494,224
Actuarial reserves		(5,475,927)	(6,617,758)
Accumulated losses		(62,042,527)	(26,828,587)
Treasury shares		(11,502,225)	(11,502,225)
		<u>493,985,875</u>	<u>528,057,984</u>
LIABILITIES			
Non-current liabilities			
Borrowings – non-current	7	27,248,855	59,804,917
Employees' end of service benefits		33,943,422	55,554,419
Trade and other payables- non-current	9	30,000,000	30,000,000
Lease liabilities – non-current	8	6,395,736	6,978,705
Retention payables		647,113	647,113
		<u>98,235,126</u>	<u>152,985,154</u>
Current liabilities			
Trade and other payables	9	191,351,909	209,768,831
Borrowings – current	7	346,821,071	227,456,517
Lease liabilities – current	8	821,474	625,305
Zakat and income tax		529,531	-
		<u>539,523,985</u>	<u>437,850,653</u>
TOTAL LIABILITIES		<u>637,759,111</u>	<u>590,835,807</u>
TOTAL EQUITY AND LIABILITIES		<u>1,131,744,986</u>	<u>1,118,893,791</u>



Ahmed Al Debasi
Authorized Director



Mariano Armengol Lamazares
Chief Executive Officer




Mohamed Anwar Alshakhouri
CFO

The accompanying notes 1 through 17 form an integral part of these condensed consolidated interim financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020

	Note	Three Months Period Ended		Nine Months Period Ended	
		September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
		(Un-audited) SR	(Un-audited) SR	(Un-audited) SR	(Un-audited) SR
Revenue	10	156,547,598	157,800,700	351,522,020	514,958,514
Cost of revenue	10	(133,232,087)	(157,675,219)	(336,099,153)	(501,421,222)
Gross profit		23,315,511	125,481	15,422,867	13,537,292
Selling, marketing and distribution expenses		(2,157,834)	(3,603,195)	(7,303,338)	(10,276,892)
Administrative expenses		(9,130,001)	(7,712,469)	(40,490,660)	(23,155,666)
Other income / (expenses), net		109,222	(1,588,817)	265,520	89,291
Reversal / (allowance) for impairment of trade receivables	6	986,389	539,797	(985,267)	573,950
Operating profit / (loss)		13,123,287	(12,239,203)	(33,090,878)	(19,232,025)
Share of profit in an associate	5	1,409,165	1,311,591	5,023,720	6,121,043
Finance charges		(3,096,880)	(3,157,602)	(8,745,813)	(10,721,950)
Profit / (loss) before zakat and income tax		11,435,572	(14,085,214)	(36,812,971)	(23,832,932)
Zakat and income tax (expense) / benefit	12	(1,860,123)	(36,277)	1,599,031	(129,038)
Profit / (loss) for the period		9,575,449	(14,121,491)	(35,213,940)	(23,961,970)
Other Comprehensive income:					
<i>Item that will not be reclassified to statement of profit or loss</i>					
Employees' end of service re-measurement		1,309,920	-	1,309,920	-
Deferred tax		(168,089)	-	(168,089)	-
Other comprehensive income for the period		1,141,831	-	1,141,831	-
Total comprehensive income / (loss)		10,717,280	(14,121,491)	(34,072,109)	(23,961,970)
Earning / (loss) per share					
Basic earning / (loss) per share	13	0.189	(0.279)	(0.697)	(0.474)
Diluted earning / (loss) per share	13	0.188	(0.277)	(0.690)	(0.470)


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SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020**

	Share capital	Share premium	Statutory reserve	Actuarial reserves	Accumulated losses	Treasury shares	Total equity
	SR	SR	SR	SR	SR	SR	SR
Balance as at January 1, 2019 (Audited)	510,000,000	131,306,055	58,494,224	(2,061,237)	(126,793,725)	(11,502,225)	559,443,092
Net income for the period	-	-	-	-	(23,961,970)	-	(23,961,970)
Absorption of accumulated losses	-	(126,793,725)	-	-	126,793,725	-	-
Balance as at September 30, 2019 (Un-audited)	510,000,000	4,512,330	58,494,224	(2,061,237)	(23,961,970)	(11,502,225)	535,481,122
Balance as at January 1, 2020 (Audited)	510,000,000	4,512,330	58,494,224	(6,617,758)	(26,828,587)	(11,502,225)	528,057,984
Net loss for the period	-	-	-	-	(35,213,940)	-	(35,213,940)
Other comprehensive income	-	-	-	1,141,831	-	-	1,141,831
Balance as at September 30, 2020 (Un-audited)	510,000,000	4,512,330	58,494,224	(5,475,927)	(62,042,527)	(11,502,225)	493,985,875



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Chief Executive Officer



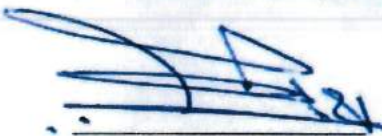
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SAUDI STEEL PIPES COMPANY
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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020

	September 30, 2020 (Un-audited) SR	September 30, 2019 (Un-audited) SR
<u>Cash flows from operating activities:</u>		
Loss before zakat and income tax	(36,812,971)	(23,832,932)
Adjustments for:		
Depreciation of property, plant and equipment and right of use assets	32,521,580	33,359,127
Amortization of intangible assets	1,121,672	237,572
(Gain) / loss on disposal of property, plant and equipment	(280,180)	1,527,810
Property, plant and equipment – Witten off / adjustments	-	1,886,723
Allowance / (reversal) for impairment of trade receivables	985,267	(573,950)
(Reversal) / provision for inventories	(817,674)	1,181,095
Reversal of provision for warranty	-	(1,517,500)
Share of profit in an associate	(5,023,720)	(6,121,043)
Write off of inventory	-	7,031,358
Employees' end of service benefits	1,615,539	5,731,059
Finance charges	8,745,813	10,721,950
	<u>2,055,326</u>	<u>29,631,269</u>
Movement in working capital		
Inventories	(50,249,758)	19,248,138
Deposits with banks	-	3,000,000
Trade and other receivables	24,734,407	(23,353,405)
Trade and other payables	(25,908,686)	(7,767,731)
Due to / from related parties	8,544,651	6,348,795
Cash (used in) / generated from operations	<u>(40,824,060)</u>	<u>27,107,066</u>
Zakat and income tax paid	(901,554)	(1,622,474)
Employees' end of service benefits paid	(21,916,616)	(7,275,232)
Finance cost paid	(8,505,430)	(10,471,050)
Net cash (used in) / generated from operating activities	<u>(72,147,660)</u>	<u>7,738,310</u>
<u>Cash flows from investing activities:</u>		
Additions to property, plant and equipment and intangible assets	(11,919,800)	(4,533,560)
Proceeds from sale of property, plant and equipment	471,247	473,964
Net cash used in investing activities	<u>(11,448,553)</u>	<u>(4,059,596)</u>
<u>Cash flows from financing activities:</u>		
Addition / (repayment) of borrowings, net	86,726,309	(22,497,719)
Repayment of lease liability	(926,574)	-
Net cash generated from / (used in) financing activities	<u>85,799,735</u>	<u>(22,497,719)</u>
Net change in cash and cash equivalents	<u>2,203,522</u>	<u>(18,819,005)</u>
Cash and cash equivalent at the beginning of the period	39,506,782	23,499,467
Cash and cash equivalents at the end of the period	<u>41,710,304</u>	<u>4,680,462</u>
<u>Non-cash transactions</u>		
Addition in right of use / lease liability	381,574	7,571,419
Prepaid expenses adjusted against right of use	-	743,778
Absorption of losses against share premium	-	126,793,725
Transfer of due from related parties balances to trade receivables	-	7,078,836


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The accompanying notes 1 through 17 form an integral part of these condensed consolidated interim financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Steel Pipes Company (“the Company” or “SSPC”) was initially incorporated as a limited liability company in the Kingdom of Saudi Arabia under the commercial registration number 2050009144 dated 27 Rajab 1400 (corresponding to 10 June 1980). On 4 Rajab 1430 (corresponding to 27 June 2009), the Company's legal status was transformed from a limited liability company to joint stock company (listed in the stock exchange).

As described in note 2, the condensed consolidated interim financial statements include the financial statements of the Company and its subsidiary Titanium and Steel Manufacturing Company Limited (“TSM Arabia”) (collectively referred to as “the Group”).

The Group's authorized and issued share capital after the initial public offering is SR 510 million divided into 51 million shares at SR 10 per share.

The Group's registered office is located at P.O Box 11680, Postal Code 31326, Dammam, Kingdom of Saudi Arabia.

The principal activities of the Group are the manufacturing and wholesale of black and galvanized steel pipes, production of ERW/HFI galvanized and threaded steel pipes and seamless pipes, pipes with three-layer external coating by polyethylene and polypropylene in different diameters, pipes with epoxy coating inside, bended pipes in different diameters, space frame, and submerged arc welded pipes, wholesale of pipes, tubes and hollow shapes from iron and steel, ferrous and non-ferrous metal pipes and accessories, locks, hinges and other hand tools, wholesale of other metal accessories, locks, hinges and hand tools, wholesale of other construction and metal materials.

2. STRUCTURE OF THE GROUP

The condensed consolidated interim financial statements as at September 30, 2020 include the financial statements of the Company and its following subsidiary (collectively referred to as “the Group”):

<u>Name of consolidated subsidiary</u>	<u>Principal activity</u>	<u>Effective ownership</u>	
		<u>2020</u>	<u>2019</u>
Titanium and Steel Manufacturing Company Limited (“TSM Arabia”)	Manufacture Stationary process equipment	100%	100%

Titanium and Steel Manufacturing (TSM Arabia)

TSM Arabia was formed under commercial registration number 2050073985 dated 4 Safar 1432H (corresponding to January 8, 2011 G) to produce stationary process equipment such as heat exchangers and pressure vessels. The subsidiary's total share capital is SR 32 million of which the Group owns 100%. Initially, the Group owned 70 % of share capital of TSM Arabia. On February 22, 2016, the Group signed an agreement with TSM Tech Company to acquire remaining 30% shareholding in TSM Arabia. The legal formalities associated with the acquisition were completed and the articles of association of the subsidiary were amended accordingly.

As of September 30, 2020, the accumulated losses of TSM Arabia exceeded its share capital by SR 141.2 million (December 31, 2019: SR 140.2 million). Furthermore, the Board of Directors of the Group has resolved to provide sufficient financial support to enable TSM Arabia to meet its financial obligations as and when they fall due. Accordingly, the subsidiary's financial statements were prepared on a going concern basis.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020**

3. BASIS OF PREPARATION

3.1 Statement of compliance

These condensed consolidated interim financial statements of the Group for the three months and nine months period ended September 30, 2020 has been prepared in accordance with the requirements of International Accounting Standard 34 - "Interim Financial Reporting" that are endorsed in Saudi Arabia and other standards and pronouncement that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") and should be read in conjunction with the Group's latest annual consolidated financial statements for the year ended December 31, 2019 ("latest annual financial statements"). These condensed consolidated interim financial statements do not include all of the information required for a complete set of IFRS financial statements. However, accounting policies and selected explanatory notes are included to reflect events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the latest annual consolidated financial statements.

3.2 Preparation of the condensed consolidated interim financial statements

The condensed consolidated interim financial information has been prepared under the historical cost convention, unless it is allowed by the IFRS to be measured at other valuation method.

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in condensed consolidated interim financial statements. The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the latest annual consolidated financial statements as at December 31, 2019.

Items included in the condensed consolidated interim financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The Group's Board of Directors has resolved during the period ended September 30, 2020 to change the Group's functional currency from Saudi Riyal to USD. The change was made to reflect that USD is the predominant currency in the Group and mainly influence the sales price for its goods and services and purchase costs of its raw materials. As such, change in functional currency has no material impact on the measurement of assets, liabilities or equity. The condensed consolidated interim financial statements continued to be presented in Saudi Riyals (SR) which is the presentation currency. As the USD and Saudi Riyal exchange rate are pegged to each other, the translations did not result in any material adjustments. Figures have been rounded off to the nearest Riyal except where mentioned otherwise.

3.3 Basis of Consolidation

The condensed consolidated interim financial statements comprise those of Saudi Steel Pipes Company and of its subsidiary (the Group) as detailed in note 2.

Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020**

3. BASIS OF PREPARATION (Continued)

3.3 Basis of Consolidation (Continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the condensed consolidated interim statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Condensed consolidated interim statement of profit or loss and each component of other comprehensive income are attributed to the shareholders of the Group. Total comprehensive income of subsidiary is attributed to the shareholders of the Group.

When necessary, adjustments are made to the condensed consolidated interim financial statements of subsidiary to bring its accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in the condensed consolidated interim statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to consolidated statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.4 New Standards, Amendment to Standards and Interpretations:

There are no new standards issued, however, there are number of amendments to standards, which are effective from 1 January 2020;

- i- The definition of materiality (Amendments to IAS 1 and IAS 8)
- ii- The definition of a business (Amendments to IFRS 3)
- iii- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

These amendments do not have a material effect on the Group's condensed consolidated interim financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

Carrying amounts of:

	Note	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Operating fixed assets	4.1	545,893,806	573,856,241
Capital work-in-progress	4.3	5,467,110	-
Right of use	4.4	7,298,302	7,564,511
		558,659,218	581,420,752

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Operating fixed assets

		September 30, 2020	December 31, 2019
	<u>Note</u>	(Un-audited)	(Audited)
		SR	SR
Net book value at beginning of period / year		573,856,241	608,393,446
Additions during the period / year	4.2	-	816,730
Transferred from CWIP	4.2, 4.3	4,102,429	10,302,633
Disposals and write offs, net		(191,067)	(2,066,659)
Depreciation charge during the period / year		(31,873,797)	(43,589,909)
Net book value at the end of the period / year		<u>545,893,806</u>	<u>573,856,241</u>

4.2 Additions to operating fixed assets during the period / year (including transfers from capital work-in-progress) are as follows:

		September 30, 2020	December 31, 2019
		(Un-audited)	(Audited)
		SR	SR
Building and structures		1,351,740	6,436,013
Machinery and equipment		2,489,777	683,799
Vehicles		-	147,634
Office and electrical equipment		260,912	3,851,917
		<u>4,102,429</u>	<u>11,119,363</u>

4.3 Capital work-in-progress

		September 30, 2020	December 31, 2019
		(Un-audited)	(Audited)
		SR	SR
Net book value at beginning of period / year		-	7,278,529
Additions during the period / year		11,919,800	4,937,612
Transferred to operating fixed assets		(4,102,429)	(10,302,633)
Transferred to intangible assets		(2,350,261)	(1,913,508)
Net book value at the end of the period / year		<u>5,467,110</u>	<u>-</u>

4.4 Right of use

Movement in right of use is as follows:

		September 30, 2020	December 31, 2019
		(Un-audited)	(Audited)
		SR	SR
Opening balance – carrying value		7,564,511	8,315,197
Addition during the period / year		381,574	-
Depreciation charged during the period / year		(647,783)	(750,686)
Closing balance		<u>7,298,302</u>	<u>7,564,511</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020

5. INVESTMENTS

	Note	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Investment in an associate, net	5.1	110,445,325	105,421,605
Investment at fair value through profit or loss	5.2	-	-
		110,445,325	105,421,605

5.1 Investment in an associate, net

Movement for investment in an associate is as follows:

	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Global Pipe Company ("GPC")		
Opening value of investment	105,421,605	96,481,720
Share of income for the period / year	5,023,720	8,939,885
	110,445,325	105,421,605
Investment in an associate represents the following:		
Cost of acquisition	45,000,000	45,000,000
Loan contribution toward capital increase	43,750,000	43,750,000
Share of accumulated earnings (opening balance)	16,671,605	7,731,720
Share of net income for the period / year	5,023,720	8,939,885
Net investment value	110,445,325	105,421,605

Global Pipe Company ("GPC")

Global Pipe Company Limited (GPC) is a closed joint stock company. The Company was a limited liability company up-to December 17, 2017 and its legal structure has been changed to closed joint stock on December 18, 2017. It is owned by the Group, EEW Company of Germany ("EEW") and other Saudi shareholders. GPC is engaged in producing various types of large welded pipes up to 60 inches' diameter and large structural tubular pipes. The initial total share capital of GPC was SR 125 million of which, Saudi Steel Pipes owns 35%, which was later increased to SR 250 million.

5.2 Investment at fair value through profit or loss

Investment at fair value through profit or loss represented a 20% share in Chemical Development Company Limited (CDC), a holding company whose purpose is to develop strategic industrial projects.

In year 2016, and based on an impairment study, SR 43 million of this investment was impaired and adjusted against the consolidated statement of profit or loss for the year ended December 31, 2016. During the year 2017, a further assessment was made by management with respect to this investment, taking in consideration the current status of the Company and its future viability and accordingly in 4th quarter, Board of Directors had decided to impair the remaining balance of this investment of SR 23.6 million, as the investment amount in light of the existing circumstances is deemed to be unrecoverable.

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6. TRADE AND OTHER RECEIVABLES

	Note	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Trade receivables		185,324,247	181,966,732
Revenue recognized in excess of billings		5,320,940	34,604,194
Allowance for impairment of trade receivables	6.1	(8,170,551)	(7,586,779)
Trade receivables, net		182,474,636	208,984,147
Due from a related party	11 A	57,133	1,110,020
Prepayments and advances to suppliers		6,859,645	9,308,981
Employee loans		5,421,172	11,084,428
Other receivables		9,430,509	528,080
		204,243,095	231,015,656
Less: non-current portion of employee loans and other receivables		(5,652,624)	(7,385,212)
Total current portion, net		198,590,471	223,630,444

6.1 Movement in the allowance for impairment of trade receivables is as follows:

	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Opening balance	7,586,779	6,704,798
Allowance for the period / year	985,267	892,831
Utilization	(401,495)	(10,850)
Closing balance	8,170,551	7,586,779

7. BORROWINGS

	Current		Non-Current	
	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Term loans				
Saudi Industrial Development Fund (SIDF)	-	-	109,315,214	107,279,671
Short term				
SIDF working capital loan	82,635,249	-	-	-
Murabaha loan	182,119,463	179,981,763	-	-
	264,754,712	179,981,763	109,315,214	107,279,671
Current portion of long term loans	82,066,359	47,474,754	(82,066,359)	(47,474,754)
Total borrowings	346,821,071	227,456,517	27,248,855	59,804,917

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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7. BORROWINGS (Continued)

The term of finances are as under:

Loan Name	Balance In SR	Type of loan	Number of remaining installments	Payment term	Period	Mark up
SIDF – I	80,484,051	Long-term	7	Semi-annual	April 2018 to March 2022	Follow-up cost every 6 month
SIDF – II	28,831,163	Long-term	7	Semi-annual	July 2017 to July 2022	Follow-up cost every 6 month
Total term loans	109,315,214					
SIDF – working capital loan	82,635,249	Short-term	-	Within 12 months	July 2020 to June 2021	Upfront fee
Murabaha loan	182,119,463	Short-term	-	From 3 to 6 months	-	SIBOR+1.25% to 1.75%
Total borrowings	374,069,926					

During the period ended September 30, 2020, Ministry of Industry announced the deferral and rescheduling of the loan installment that are due in 2020 for medium and large factories. The Group has requested to restructure the loans with Saudi Industrial Development Fund (SIDF), which is currently under approval. Hence, the loans are classified according to original repayment terms of the contract. Further, Group obtained a short term loan from SIDF amounting to SR 82 million to meet its working capital requirements.

These borrowings facility agreements are subject to certain financial and non-financial covenants. The Group is complying with all the covenants except for a long-term loan obtained by the subsidiary that has a balance of SR 28 million. The management is in the process of taking the necessary remedial actions to resolve the breach, including obtaining the required waiver documents. The management expects, based on its current negotiations and its experience with SIDF, that the breach will not result in loan to be payable on demand. Accordingly, loans are continued to be classified as per their original terms of payment.

8. LEASE LIABILITIES

Commitment for minimum lease payments under leases is as follows:

	September 30, 2020 (Un-audited)	December 31, 2019 (Audited)
	SR	SR
Within one year	1,040,030	1,509,304
Years two to five	3,669,216	3,409,216
Years five and above	3,562,816	3,884,120
Minimum lease payments	8,272,062	8,802,640
Less: finance charges	(1,054,852)	(1,198,630)
Net minimum lease payments	7,217,210	7,604,010
Non-current portion	6,395,736	6,978,705
Current portion	821,474	625,305

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9. TRADE AND OTHER PAYABLES

	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Current		
Trade payables	143,413,002	156,482,724
Due to related parties (Note 11 B)	20,999,960	13,508,196
Accrued expenses and other liabilities	15,691,100	24,217,925
Advances from customers	2,871,158	13,608,146
VAT payable	8,376,689	1,951,840
	<u>191,351,909</u>	<u>209,768,831</u>
Non-current		
Provision for liability against guarantee to an investee company (Note 9.1)	<u>30,000,000</u>	<u>30,000,000</u>
	<u>221,351,909</u>	<u>239,768,831</u>

9.1 The Group had provided a corporate guarantee to one of its investee companies in prior years. Investment in this Company has been fully impaired in previous years due to the Company's inactive status and its future viability in light of the existing circumstances at the date of impairment, where investment was deemed unrecoverable. Shareholders of the investee has decided not to support the company and accordingly, are assessing various options in this regard. Based on these circumstances and the existing status of the Company, the Group's Board of Directors accordingly considered the whole guarantee balance amounting to SR 30 million, to be a liability on the Group and hence charged the whole amount to the Group's consolidated statement of profit or loss and other comprehensive income in prior years. Based on the latest information available, the management believes that guarantee is not expected to be maturing for payment within next twelve months and accordingly, was classified as non-current liability.

10. SEGMENTAL REPORTING

The accounting policies used by the Group in reporting segments internally are the same as explained in annual consolidated financial statements for the year ended December 31, 2019.

The Group's operations consist of the following operating segments:

	Steel pipes SR	Process equipment SR	Unallocated SR	Total SR
<u>As at September 30, 2020</u> <u>(Un-audited)</u>				
Non-current assets	560,797,515	19,067,815	110,445,325	690,310,655
Total assets	955,353,723	65,945,938	110,445,325	1,131,744,986
Total liabilities	530,644,313	75,131,491	31,983,307	637,759,111
<u>For the nine months period ended</u> <u>September 30, 2020 (Un-audited)</u>				
Revenue	320,171,625	31,350,395	-	351,522,020
Cost of revenue	(309,141,965)	(26,957,188)	-	(336,099,153)
(Loss) / profit for the period	(37,606,301)	(1,038,102)	3,430,463	(35,213,940)
Share of profit in an associate	-	-	5,023,720	5,023,720
Unallocated other expenses	-	-	(1,593,257)	(1,593,257)

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10. SEGMENTAL REPORTING (Continued)

	Steel pipes	Process equipment	Unallocated	Total
	SR	SR	SR	SR
<u>As at December 31, 2019</u> <u>(audited)</u>				
Non-current assets	579,928,485	20,340,351	105,421,605	705,690,441
Total assets	924,286,305	89,185,881	105,421,605	1,118,893,791
Total liabilities	457,270,930	101,712,139	31,852,738	590,835,807
<u>For the nine months period ended</u> <u>September 30, 2019 (Un-audited)</u>				
Revenue	442,725,224	72,233,290	-	514,958,514
Cost of revenue	(421,933,755)	(79,487,467)	-	(501,421,222)
(Loss) / profit for the period	(10,516,281)	(17,444,360)	3,998,671	(23,961,970)
Share of profit in an associate	-	-	6,121,043	6,121,043
Unallocated other expenses	-	-	(2,122,372)	(2,122,372)

Geographical segment

A geographical segment is a Group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments. The Group's operation is conducted mainly in the Kingdom of Saudi Arabia. The selected financial information covering the revenue for the nine months period ended September 30, categorized by these geographic segments is as follows:

	September 30, 2020	September 30, 2019
	(Un-audited)	(Un-audited)
	SR	SR
Saudi Arabia	343,868,258	499,053,784
Other countries	7,653,762	15,904,730
	351,522,020	514,958,514

TRANSACTIONS WITH A MAJOR CUSTOMER

Revenue from one major customer accounted for 59% of the total revenue for the nine months period ended September 30, 2020 (60% for the nine months period ended September 30, 2019).

11. RELATED PARTIES' TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties consist of the shareholders, directors and businesses in which shareholders and directors, individually or combined, have significant influence. The Group's transactions with related parties are entered at arm's length basis in a normal course of business and are authorized by the management.

<u>Company</u>	<u>Relationship</u>
Rabiah & Nassar Group	Former shareholder
Saudi Pan Gulf Company	Former affiliate
Hu Steel Company Ltd.	Shareholder
Global Pipe Company	Associate
Chemical Development Company	Affiliate
Exiros Saudi Arabia	Affiliate
Tenaris Saudi Arabia Co. Ltd ("TESA")	Shareholder
Dalmine S.P.A	Affiliate
Silco Tube	Affiliate
Tenaris Global Services Switzerland	Affiliate
Tenaris Global Services Uruguay	Affiliate
Tenaris Siderca	Affiliate

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11. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

The significant transactions with related parties during the period are as follows:

Related party	Nature of transaction	Nine months period ended September 30, 2020	Nine months period ended September 30, 2019
		(Un-audited) SR	(Un-audited) SR
Dalmine S.P.A	Technical services	2,584,880	-
Dalmine S.P.A	IT services	541,047	-
Silco Tube	Purchases	1,278,998	3,945,000
Silco Tube	IT services	108,346	-
Tenaris Saudi Arabia Co. Ltd ("TESA")	Services agreement	1,927,173	554,773
Tenaris Saudi Arabia Co. Ltd ("TESA")	Purchase	64,266	-
Tenaris Saudi Arabia Co. Ltd ("TESA")	Trading services	750,803	-
Tenaris Siderca	IT services	1,277,067	-
Exiros Saudi Arabia	Services received	1,504,562	-
Exiros Saudi Arabia	Office rent	57,132	-
Rabiah & Nassar Group	Sales	-	181,527
Saudi Pan Gulf	Sales	-	809,926
Hu Steel Company Ltd.	Service rendered	-	590,111

A) Balance receivable from a related party is as follows:

	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Tenaris Saudi Arabia Co. Ltd	57,133	1,110,020

B) Balances payable to related parties are as follows:

	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
Silco Tube	13,148,172	11,760,000
Dalmine S.P.A.	4,005,118	879,191
Tenaris Siderca	2,066,401	796,683
Tenaris Saudi Arabia Co. Ltd	937,329	-
Exiros Saudi Arabia	771,446	-
Tenaris Global Services Switzerland	71,494	72,322
	20,999,960	13,508,196

C) Remuneration of directors and key management personnel

	September 30, 2020 (Un-audited)		September 30, 2019 (Un-audited)	
	Directors SR	Key management personnel SR	Directors SR	Key management personnel SR
Board remuneration	1,207,927	-	1,733,994	-
Salaries and wages	-	2,398,352	-	1,833,650
Allowances	-	1,328,193	-	580,210
End of service	-	123,908	-	145,404
	1,207,927	3,850,453	1,733,994	2,559,264

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12. ZAKAT AND INCOME TAX BENEFIT / (EXPENSE)

	September 30, 2020 (Un-audited) SR	September 30, 2019 (Un-audited) SR
Current zakat and income tax	(1,431,085)	(129,038)
Deferred tax	3,030,116	-
	1,599,031	(129,038)

13. EARNING / (LOSS) PER SHARE

Basic earning / (loss) per share is calculated by dividing the earnings attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. With regard to diluted earning / (loss) per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, which includes issuance of Employee Share Option Program (ESOP) and conversion of treasury shares into ordinary shares.

Earning / (loss) per share are represented as follows:

	Three Months Period Ended		Nine Months Period Ended	
	September 30, 2020 (Un-audited)	September 30, 2019 (Un-audited)	September 30, 2020 (Un-audited)	September 30, 2019 (Un-audited)
Basic earning / (loss) per share	0.189	(0.279)	(0.697)	(0.474)
Profit / (loss) for the period	9,575,449	(14,121,491)	(35,213,940)	(23,961,970)
Weighted average number of outstanding shares	50,542,311	50,542,311	50,542,311	50,542,311
Diluted earning / (loss) per share	0.188	(0.277)	(0.690)	(0.470)
Profit / (loss) for the period	9,575,449	(14,121,491)	(35,213,940)	(23,961,970)
Weighted average number of outstanding shares	51,000,000	51,000,000	51,000,000	51,000,000
Reconciliation of Weighted average number of outstanding shares				
Number of issued shares	51,000,000	51,000,000	51,000,000	51,000,000
<u>Less:</u> Treasury shares - shares kept for the employee share program	(762,812)	(762,812)	(762,812)	(762,812)
<u>Add:</u> Weighted average number of shares issued to employees	305,123	305,123	305,123	305,123
Weighted average number of outstanding shares	50,542,311	50,542,311	50,542,311	50,542,311

14. SIGNIFICANT EVENTS

The global propagation of the (SARS-COV-2) coronavirus (“COVID-19”) earlier in 2020 and the consequent declaration of COVID-19 as a global pandemic by the World Health Organization, has seen most countries, including the Kingdom of Saudi Arabia, implementing several necessary control measures, including, without limitation, travel and business activity restrictions, curfews and a variety of other health and safety protocols. The result was a global economic slowdown, and a complex energy industry environment with unprecedented oversupply.

The Group’s operations, and those of its main suppliers and customers, have been severely affected by the repercussions of COVID-19 and the collapse in oil prices witnessed during the three months of Q2 2020 (“2Q 2020”). In particular, during the months of April and May 2020, the lockdown imposed on Qatif and Dammam 2nd Industrial City (where the Group’s facilities are located) and the resulting restrictions imposed on the mobility of workforce and on the activity in the industrial facilities, had a significant impact on the Group’s operations and financial results. This resulted in the recognition of a negative EBITDA of SR (16.95) million in Q2 2020,

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14. SIGNIFICANT EVENTS (Continued)

The Group ramped up its operations in the three months of Q3 2020 (“3Q 2020”) after the lockdown measures imposed during Q2 2020 were lifted, such ramp up was supported by secured orders and raw materials to cover the majority of existing backlogs and sustain the Group’s operations and plant load for the remaining of the current financial year. In addition, a comprehensive action plan was implemented by management to introduce productivity and efficiency measures which includes several actions to optimize structural costs and preserve liquidity while delivering on efficiency opportunities without compromising its long-term strategic goals, prioritizing of direct orders, monitoring general expenses, managing credit and collection processes, implementing work-sharing programs, and applying to announced government support initiatives. This resulted in a positive EBITDA of SR 24.41 million in Q3 2020, compared to a negative EBITDA of SR (1.15) million in the three months of Q3 2019.

In full compliance with all local regulatory measures and international best practices, the Group’s priority has been to safeguard the health and safety of its employees, customers and suppliers. In such context, the Group adopted several measures during Q2 2020 and continue to observe social distancing protocols, temperature checkpoints, mandatory facemasks and other preventive and detective measures closely monitored by a crisis management committee led by the Chief Executive Officer/Managing Director with direct oversight by the Group’s board of directors.

Due to the continued uncertainties around the extent and duration of COVID-19 and their effect on the energy industry, the Group is unable to determine the expected impact on the Group’s future business and financial outlook.

15. SUBSEQUENT EVENT

In the opinion of the management, there have been no significant subsequent events since the period end that would have a material impact on the financial position of the Group as reflected in these condensed consolidated interim financial statements.

16. PRIOR YEAR RECLASIFICATIONS

Certain comparative figures for year 2019 have been reclassified to conform to the presentation in the current period.

17. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue on November 4, 2020 corresponding to Rabi Al Awal 18, 1442H.