

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

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

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

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
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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 June 30, 2020 and the related condensed consolidated interim statement of profit or loss and other comprehensive income for the three months and six months period then ended and the condensed consolidated interim statements of changes in equity and cash flows for the six 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)" that is 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 June 30, 2020 have exceeded its share capital by SR 141.3 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.


**Al Bassam & Co.**  
P.O. Box 4636  
Al Khobar 31952  
Kingdom of Saudi Arabia

**Ibrahim Ahmed Al Bassam**  
Certified Public Accountant  
License No. 337  
Dhul Hijjah 15, 1441H  
August 05, 2020

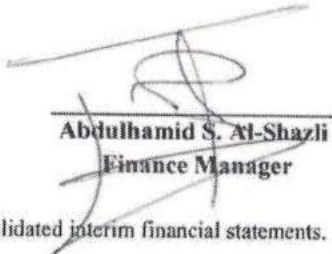


CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION  
AS AT JUNE 30, 2020

|   | Note | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR |
|---|------|--|---|
| <b>ASSETS</b>                             |      |  |   |
| <b>Non-current assets</b>                 |      |  |   |
| Property, plant and equipment             | 4    | 566,348,902                            | 581,420,752                             |
| Intangible assets                         |      | 3,300,658                              | 2,766,638                               |
| Investments                               | 5    | 109,036,160                            | 105,421,605                             |
| Trade and other receivables - non-current | 6    | 6,046,984                              | 7,385,212                               |
| Deferred tax asset                        |      | 13,555,388                             | 8,696,234                               |
|   |      | <u>698,288,092</u>                     | <u>705,690,441</u>                      |
| <b>Current assets</b>                     |      |  |   |
| Inventories                               |      | 227,715,366                            | 150,066,124                             |
| Trade and other receivables               | 6    | 133,393,167                            | 223,630,444                             |
| Cash and cash equivalents                 |      | 11,163,438                             | 39,506,782                              |
|   |      | <u>372,271,971</u>                     | <u>413,203,350</u>                      |
| <b>TOTAL ASSETS</b>                       |      | <u>1,070,560,063</u>                   | <u>1,118,893,791</u>                    |
| <b>EQUITY AND LIABILITIES</b>             |      |  |   |
| <b>Equity</b>                             |      |  |   |
| 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                        |      | (6,617,758)                            | (6,617,758)                             |
| Accumulated losses                        |      | (71,617,976)                           | (26,828,587)                            |
| Treasury shares                           |      | (11,502,225)                           | (11,502,225)                            |
|   |      | <u>483,268,595</u>                     | <u>528,057,984</u>                      |
| <b>LIABILITIES</b>                        |      |  |   |
| <b>Non-current liabilities</b>            |      |  |   |
| Borrowings – non-current                  | 7    | 36,927,361                             | 59,804,917                              |
| Employees' end of service benefits        |      | 40,677,417                             | 55,554,419                              |
| Trade and other payables- non-current     | 9    | 30,000,000                             | 30,000,000                              |
| Lease liabilities – non-current           | 8    | 6,514,008                              | 6,978,705                               |
| Retention payables                        |      | 647,113                                | 647,113                                 |
|   |      | <u>114,765,899</u>                     | <u>152,985,154</u>                      |
| <b>Current liabilities</b>                |      |  |   |
| Trade and other payables                  | 9    | 241,103,143                            | 209,768,831                             |
| Borrowings – current                      | 7    | 229,088,431                            | 227,456,517                             |
| Lease liabilities – current               | 8    | 933,995                                | 625,305                                 |
| Zakat and income tax                      |      | 1,400,000                              | -                                       |
|   |      | <u>472,525,569</u>                     | <u>437,850,653</u>                      |
| <b>TOTAL LIABILITIES</b>                  |      | <u>587,291,468</u>                     | <u>590,835,807</u>                      |
| <b>TOTAL EQUITY AND LIABILITIES</b>       |      | <u>1,070,560,063</u>                   | <u>1,118,893,791</u>                    |

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Armengol Lamazares  
Chief Executive Officer

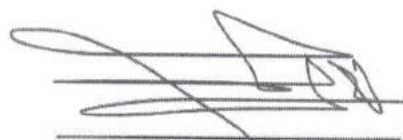
  
Abdulhamid S. Al-Shazli  
Finance Manager

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 SIX MONTHS PERIOD ENDED JUNE 30, 2020

|  | Note | Three Months Period Ended |                     | Six Months Period Ended |                    |
|--|------|---------------------------|---------------------|-------------------------|--------------------|
|  |      | June 30,<br>2020          | June 30,<br>2019    | June 30,<br>2020        | June 30,<br>2019   |
|  |      | (Un-audited)<br>SR        | (Un-audited)<br>SR  | (Un-audited)<br>SR      | (Un-audited)<br>SR |
| Revenue  | 10   | 72,630,200                | 161,845,868         | 194,974,422             | 357,157,814        |
| Cost of revenue  | 10   | (85,013,976)              | (160,961,788)       | (202,867,066)           | (343,746,003)      |
| <b>Gross (loss) / profit</b>                               |      | <b>(12,383,776)</b>       | <b>884,080</b>      | <b>(7,892,644)</b>      | <b>13,411,811</b>  |
| Selling, marketing and distribution expenses               |      | (2,140,624)               | (2,939,753)         | (5,145,504)             | (6,673,697)        |
| Administrative expenses                                    |      | (12,595,901)              | (8,351,133)         | (31,360,659)            | (15,443,195)       |
| Other income, net  |      | 191,563                   | 1,399,880           | 156,298                 | 1,678,106          |
| (Allowance) / reversal for impairment of trade receivables | 6    | (1,220,458)               | (591,333)           | (1,971,656)             | 34,153             |
| <b>Operating loss</b>                                      |      | <b>(28,149,196)</b>       | <b>(9,598,259)</b>  | <b>(46,214,165)</b>     | <b>(6,992,822)</b> |
| Share of profit in an associate                            | 5    | 3,576,735                 | 1,745,596           | 3,614,555               | 4,809,451          |
| Finance charges  |      | (2,507,803)               | (2,381,637)         | (5,648,933)             | (7,564,347)        |
| <b>Loss before zakat and income tax</b>                    |      | <b>(27,080,264)</b>       | <b>(10,234,300)</b> | <b>(48,248,543)</b>     | <b>(9,747,718)</b> |
| Zakat and income tax                                       | 12   | 60,875                    | 69,182              | 3,459,154               | (92,761)           |
| <b>Loss for the period</b>                                 |      | <b>(27,019,389)</b>       | <b>(10,165,118)</b> | <b>(44,789,389)</b>     | <b>(9,840,479)</b> |
| Other comprehensive income                                 |      | -                         | -                   | -                       | -                  |
| <b>Total comprehensive loss</b>                            |      | <b>(27,019,389)</b>       | <b>(10,165,118)</b> | <b>(44,789,389)</b>     | <b>(9,840,479)</b> |
| <u>Loss per share</u>                                      |      |                           |                     |                         |                    |
| Basic loss per share                                       | 13   | (0.535)                   | (0.201)             | (0.886)                 | (0.195)            |
| Diluted loss per share                                     | 13   | (0.530)                   | (0.199)             | (0.878)                 | (0.192)            |

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Armengol Lamazares  
Chief Executive Officer


  
Abdulhamid S. Al-Shazli  
Finance Manager

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SAUDI STEEL PIPES COMPANY  
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS PERIOD ENDED JUNE 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                | -             | -             | -                 | -                  | (9,840,479)        | -               | (9,840,479)  |
| Absorption of accumulated losses         | -             | (126,793,725) | -                 | -                  | 126,793,725        | -               | -            |
| Balance as at June 30, 2019 (Un-audited) | 510,000,000   | 4,512,330     | 58,494,224        | (2,061,237)        | (9,840,479)        | (11,502,225)    | 549,602,613  |
| 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                  | -             | -             | -                 | -                  | (44,789,389)       | -               | (44,789,389) |
| Balance as at June 30, 2020 (Un-audited) | 510,000,000   | 4,512,330     | 58,494,224        | (6,617,758)        | (71,617,976)       | (11,502,225)    | 483,268,595  |

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Arnengol Lamazares  
Chief Executive Officer


  
Abdalhamid S. Al-Shazli  
Finance Manager

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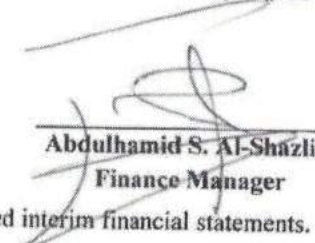
SAUDI STEEL PIPES COMPANY  
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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020

|   | June 30, 2020<br>(Un-audited)<br>SR | June 30, 2019<br>(Un-audited)<br>SR |
|---|-------------------------------------|-------------------------------------|
| <b>Cash flows from operating activities:</b>                          |                                     |                                     |
| Loss before zakat and income tax                                      | (48,248,543)                        | (9,747,718)                         |
| <b>Adjustments for:</b>   |                                     |                                     |
| Depreciation of property, plant and equipment and right of use assets | 21,687,770                          | 22,329,486                          |
| Amortization of intangible assets                                     | 666,925                             | 161,916                             |
| (Gain) / loss on disposal of property, plant and equipment            | (280,180)                           | 10,092                              |
| Property, plant and equipment – Witten off / adjustments              | -                                   | 1,029,698                           |
| Allowance / (reversal) for impairment of trade receivables            | 1,971,656                           | (34,153)                            |
| (Reversal) / provision for inventories                                | (2,753,069)                         | 824,916                             |
| Share of profit in an associate                                       | (3,614,555)                         | (4,809,451)                         |
| Write off of inventory  | -                                   | 7,031,358                           |
| Employees' end of service benefits                                    | 3,524,071                           | 3,816,139                           |
| Finance cost  | 5,648,933                           | 7,564,347                           |
|   | <u>(21,396,992)</u>                 | <u>28,176,630</u>                   |
| <b>Movement in working capital</b>                                    |                                     |                                     |
| Inventories   | (74,896,173)                        | 20,653,966                          |
| Deposits with banks   | -                                   | 3,000,000                           |
| Trade and other receivables   | 89,048,750                          | 21,957,271                          |
| Trade and other payables  | 27,108,923                          | (7,395,657)                         |
| Due to / from related parties   | 4,780,488                           | 4,775,083                           |
| <b>Cash generated from operations</b>                                 | <u>24,644,996</u>                   | <u>71,167,293</u>                   |
| Zakat and income tax paid   | -                                   | (1,622,474)                         |
| Employees' end of service benefits paid                               | (18,401,073)                        | (4,147,482)                         |
| Finance cost paid   | (4,199,379)                         | (7,433,331)                         |
| <b>Net cash generated from operating activities</b>                   | <u>2,044,544</u>                    | <u>57,964,006</u>                   |
| <b>Cash flows from investing activities:</b>                          |                                     |                                     |
| Additions to property, plant and equipment and intangible assets      | (7,626,358)                         | (2,868,894)                         |
| Proceeds from sale of property, plant and equipment                   | 471,247                             | 200,490                             |
| <b>Net cash used in investing activities</b>                          | <u>(7,155,111)</u>                  | <u>(2,668,404)</u>                  |
| <b>Cash flows from financing activities:</b>                          |                                     |                                     |
| Repayment of borrowings, net  | (22,596,777)                        | (64,273,646)                        |
| Repayment of lease liability  | (636,000)                           | (103,550)                           |
| <b>Net cash used in financing activities</b>                          | <u>(23,232,777)</u>                 | <u>(64,377,196)</u>                 |
| <b>Net change in cash and cash equivalents</b>                        | <u>(28,343,344)</u>                 | <u>(9,081,594)</u>                  |
| Cash and cash equivalent at the beginning of the period               | 39,506,782                          | 23,499,467                          |
| <b>Cash and cash equivalents at the end of the period</b>             | <u>11,163,438</u>                   | <u>14,417,873</u>                   |
| <b>Non-cash transactions</b>  |                                     |                                     |
| Addition in right of use / lease liability                            | 381,574                             | 7,571,419                           |
| Prepaid expenses adjusted against right of use                        | -                                   | 743,778                             |
| Transfer of due from related parties balances to trade receivables    | -                                   | 7,078,836                           |

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Armengol Lamazares  
Chief Executive Officer

  
Abdulhamid S. Al-Shazli  
Finance Manager

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)

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

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**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 June 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 June 30, 2020, the accumulated losses of TSM Arabia exceeded its share capital by SR 141.3 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 SIX MONTHS PERIOD ENDED JUNE 30, 2020**

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**3. BASIS OF PREPARATION**

**3.1 Statement of compliance**

These condensed consolidated interim financial statements of the Group for the three months and six months period ended June 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 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 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 March 31, 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.

**SAUDI STEEL PIPES COMPANY**  
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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS AND SIX MONTHS PERIOD ENDED JUNE 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 | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR |
|--------------------------|------|--|---|
| Operating fixed assets   | 4.1  | 556,062,440                            | 573,856,241                             |
| Capital work-in-progress | 4.3  | 2,768,697                              | -                                       |
| Right of use             | 4.4  | 7,517,765                              | 7,564,511                               |
|                          |      | <u>566,348,902</u>                     | <u>581,420,752</u>                      |

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**4. PROPERTY, PLANT AND EQUIPMENT (Continued)**

**4.1 Operating fixed assets**

|  |          | June 30,<br>2020<br><u>(Un-audited)</u><br>SR | December 31,<br>2019<br><u>(Audited)</u><br>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 | 3,656,716                                     | 10,302,633                                     |
| Disposals and write offs, net                  |          | <u>(191,067)</u>                              | <u>(2,066,659)</u>                             |
| Depreciation charge during the period / year   |          | <u>(21,259,450)</u>                           | <u>(43,589,909)</u>                            |
| Net book value at the end of the period / year |          | <u><u>556,062,440</u></u>                     | <u><u>573,856,241</u></u>                      |

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

|                                 |  | June 30,<br>2020<br><u>(Un-audited)</u><br>SR | December 31,<br>2019<br><u>(Audited)</u><br>SR |
|---------------------------------|--|---|--|
| Building and structures         |  | 1,292,734                                     | 6,436,013                                      |
| Machinery and equipment         |  | 2,334,145                                     | 683,799  |
| Vehicles                        |  | -   | 147,634  |
| Office and electrical equipment |  | <u>29,837</u>                                 | <u>3,851,917</u>                               |
|                                 |  | <u><u>3,656,716</u></u>                       | <u><u>11,119,363</u></u>                       |

**4.3 Capital work-in-progress**

|  |  | June 30,<br>2020<br><u>(Un-audited)</u><br>SR | December 31,<br>2019<br><u>(Audited)</u><br>SR |
|--|--|---|--|
| Net book value at beginning of period / year   |  | -   | 7,278,529                                      |
| Additions during the period / year             |  | 7,626,358                                     | 4,937,612                                      |
| Transferred to operating fixed assets          |  | <u>(3,656,716)</u>                            | <u>(10,302,633)</u>                            |
| Transferred to intangible assets               |  | <u>(1,200,945)</u>                            | <u>(1,913,508)</u>                             |
| Net book value at the end of the period / year |  | <u><u>2,768,697</u></u>                       | <u><u>-</u></u>                                |

**4.4 Right of use**

Movement in right of use is as follows:

|   |  | June 30,<br>2020<br><u>(Un-audited)</u><br>SR | December 31,<br>2019<br><u>(Audited)</u><br>SR |
|---|--|---|--|
| Opening balance – carrying value              |  | 7,564,511                                     | 8,315,197                                      |
| Addition during the period / year             |  | 381,574                                       | -  |
| Depreciation charged during the period / year |  | <u>(428,320)</u>                              | <u>(750,686)</u>                               |
| Closing balance                               |  | <u><u>7,517,765</u></u>                       | <u><u>7,564,511</u></u>                        |

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**5. INVESTMENTS**

|   | Note | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR |
|---|------|--|---|
| Investment in an associate, net                 | 5.1  | 109,036,160                            | 105,421,605                             |
| Investment at fair value through profit or loss | 5.2  | -                                      | -                                       |
|   |      | <b>109,036,160</b>                     | <b>105,421,605</b>                      |

**5.1 Investment in an associate, net**

Movement for investment in an associate is as follows:

|                                       | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR |
|---------------------------------------|--|---|
| <b>Global Pipe Company ("GPC")</b>    |  |   |
| Opening value of investment           | 105,421,605                            | 96,481,720                              |
| Share of income for the period / year | 3,614,555                              | 8,939,885                               |
|                                       | <b>109,036,160</b>                     | <b>105,421,605</b>                      |

**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       | 3,614,555          | 8,939,885          |
| Net investment value                            | <b>109,036,160</b> | <b>105,421,605</b> |

**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 | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR |
|---|------|--|---|
| Trade receivables                             |      | 120,454,499                            | 181,966,732                             |
| Revenue recognized in excess of billings      |      | 11,604,816                             | 34,604,194                              |
| Allowance for impairment of trade receivables | 6.1  | (9,558,435)                            | (7,586,779)                             |
| Trade receivables, net                        |      | 122,500,880                            | 208,984,147                             |
| Due from a related party                      | 11 A | 554,921                                | 1,110,020                               |
| Prepayments and advances to suppliers         |      | 8,197,698                              | 9,308,981                               |
| Employee loans                                |      | 8,186,652                              | 11,084,428                              |
| Other receivables                             |      | -                                      | 528,080                                 |
|   |      | 139,440,151                            | 231,015,656                             |
| Less: non-current portion of employee loans   |      | (6,046,984)                            | (7,385,212)                             |
| Total current portion, net                    |      | 133,393,167                            | 223,630,444                             |

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

|                                 | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR |
|---------------------------------|--|---|
| Opening balance                 | 7,586,779                              | 6,704,798                               |
| Allowance for the period / year | 1,971,656                              | 892,831                                 |
| Utilization                     | -                                      | (10,850)                                |
| Closing balance                 | 9,558,435                              | 7,586,779                               |

7. BORROWINGS

|  | Current                                |   | Non-Current                            |   |
|--|--|---|--|---|
|  | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR |
| <b>Term loans</b>                        |  |   |  |   |
| Saudi Industrial Development Fund (SIDF) | -                                      | -                                       | 108,477,718                            | 107,279,671                             |
| <b>Short term</b>                        |  |   |  |   |
| Overdraft                                | -                                      | -                                       | -                                      | -                                       |
| Murabaha loan                            | 157,538,074                            | 179,981,763                             | -                                      | -                                       |
|  | 157,538,074                            | 179,981,763                             | 108,477,718                            | 107,279,671                             |
| Current portion of long term loans       | 71,550,357                             | 47,474,754                              | (71,550,357)                           | (47,474,754)                            |
| Total borrowings                         | 229,088,431                            | 227,456,517                             | 36,927,361                             | 59,804,917                              |

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7. BORROWINGS (Continued)

The term of finances are as under:

| Loan Name               | Balance<br>In SR   | Type of loan | Number of<br>remaining<br>installments | Payment<br>term       | Period                      | Mark up                         |
|-------------------------|--------------------|--------------|--|-----------------------|-----------------------------|---------------------------------|
| SIDF – I                | 79,763,126         | Long-term    | 7                                      | Semi-annual           | April 2018 to<br>March 2022 | Follow-up cost<br>every 6 month |
| SIDF – II               | 28,714,592         | Long-term    | 7                                      | Semi-annual           | July 2017 to<br>July 2022   | Follow-up cost<br>every 6 month |
| <b>Total SIDF</b>       | <b>108,477,718</b> |              |  |                       |                             |                                 |
| Murabaha loan           | 157,538,074        | Short-term   | -                                      | From 3 to 6<br>months | -                           | SIBOR+1.25%<br>to 1.75%         |
| <b>Total borrowings</b> | <b>266,015,792</b> |              |  |                       |                             |                                 |

During the period ended June 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.

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:

|                            | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR |
|----------------------------|--|---|
| Within one year            | 1,074,704                              | 1,509,304                               |
| Years two to five          | 3,702,216                              | 4,198,520                               |
| Years five and above       | 3,785,720                              | 3,094,816                               |
| Minimum lease payments     | 8,562,640                              | 8,802,640                               |
| Less: finance charges      | (1,114,637)                            | (1,198,630)                             |
| Net minimum lease payments | 7,448,003                              | 7,604,010                               |
| Non-current portion        | 6,514,008                              | 6,978,705                               |
| Current portion            | 933,995                                | 625,305                                 |

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9. TRADE AND OTHER PAYABLES

|   | June 30,<br>2020<br>(Un-audited)<br>SR | December 31,<br>2019<br>(Audited)<br>SR |
|---|--|---|
| <b><u>Current</u></b>   |  |   |
| Trade payables  | 147,492,960                            | 156,482,724                             |
| Due to related parties (Note 11 B)  | 17,733,585                             | 13,508,196                              |
| Accrued expenses and other liabilities                                      | 70,554,112                             | 24,217,925                              |
| Advances from customers   | 4,646,052                              | 13,608,146                              |
| VAT payable   | 676,434                                | 1,951,840                               |
|   | <u>241,103,143</u>                     | <u>209,768,831</u>                      |
| <b><u>Non-current</u></b>   |  |   |
| Provision for liability against guarantee to an investee company (Note 9.1) | <u>30,000,000</u>                      | <u>30,000,000</u>                       |
|   | <u>271,103,143</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 financial statements for the year ended December 31, 2019.

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

|   | <u>Steel pipes</u><br>SR | <u>Process<br/>equipment</u><br>SR | <u>Unallocated</u><br>SR | <u>Total</u><br>SR |
|---|--------------------------|------------------------------------|--------------------------|--------------------|
| <b><u>As at June 30, 2020</u></b><br><b><u>(Un-audited)</u></b>                           |                          |                                    |                          |                    |
| Non-current assets  | 569,830,208              | 19,421,724                         | 109,036,160              | 698,288,092        |
| Total assets  | 891,181,111              | 70,342,792                         | 109,036,160              | 1,070,560,063      |
| Total liabilities   | 409,608,011              | 174,222,725                        | 3,460,732                | 587,291,468        |
| <b><u>For the six months period ended</u></b><br><b><u>June 30, 2020 (Un-audited)</u></b> |                          |                                    |                          |                    |
| Revenue   | 169,856,717              | 25,117,705                         | -                        | 194,974,422        |
| Cost of revenue   | (180,291,502)            | (22,575,564)                       | -                        | (202,867,066)      |
| (Loss) / profit for the period  | (46,679,409)             | (1,096,338)                        | 2,986,358                | (44,789,389)       |
| Share of profit in an associate   | -                        | -                                  | 3,614,555                | 3,614,555          |
| Unallocated other expenses  | -                        | -                                  | (628,197)                | (628,197)          |



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**10. SEGMENTAL REPORTING (Continued)**

|   | Steel pipes   | Process<br>equipment | Unallocated | Total         |
|---|---------------|----------------------|-------------|---------------|
|   | SR            | SR                   | SR          | SR            |
| <u>As at December 31, 2019</u><br><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   | 397,013,592   | 191,969,477          | 1,852,738   | 590,835,807   |
| <u>For the six months period ended</u><br><u>June 30, 2019 (Un-audited)</u> |               |                      |             |               |
| Revenue   | 315,497,089   | 41,660,725           | -           | 357,157,814   |
| Cost of revenue   | (297,394,121) | (46,351,882)         | -           | (343,746,003) |
| (Loss) / profit for the period  | (1,371,244)   | (12,122,689)         | 3,653,454   | (9,840,479)   |
| Share of profit in an associate   | -             | -                    | 4,809,451   | 4,809,451     |
| Unallocated other expenses  | -             | -                    | (1,155,997) | (1,155,997)   |

**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 six months period ended June 30, categorized by these geographic segments is as follows:

|                 | June 30,<br>2020<br>(Un-audited) | June 30,<br>2019<br>(Un-audited) |
|-----------------|----------------------------------|----------------------------------|
|                 | SR                               | SR                               |
| Saudi Arabia    | 190,188,839                      | 346,988,322                      |
| Other countries | 4,785,583                        | 10,169,492                       |
|                 | <u>194,974,422</u>               | <u>357,157,814</u>               |

**TRANSACTIONS WITH A MAJOR CUSTOMER**

Revenue from one major customer accounted for 51.22% of the total revenue for the period (57.78 % for six months period ended June 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:

| <u>Related party</u>                  | <u>Nature of transaction</u> | Six months<br>period ended<br>June 30, 2020<br>(Un-audited) | Six months<br>period ended<br>June 30, 2019<br>(Un-audited) |
|---------------------------------------|------------------------------|---|---|
|                                       |                              | SR  | SR  |
| Dalmine S.P.A                         | Technical services           | 1,867,596   | -   |
| Dalmine S.P.A                         | IT services                  | 395,495   | -   |
| Silco Tube                            | Purchases                    | 951,732   | 2,970,000   |
| Silco Tube                            | IT services                  | 103,198   | -   |
| Tenaris Saudi Arabia Co. Ltd ("TESA") | Services agreement           | 1,296,598   | -   |
| Tenaris Siderca                       | IT services                  | 272,117   | -   |
| Exiros Saudi Arabia                   | Services received            | 1,020,000   | -   |
| Rabiah & Nassar Group                 | Sales                        | -   | 181,527   |
| Saudi Pan Gulf                        | Sales                        | -   | 809,926   |
| Hu Steel Company Ltd.                 | Service rendered             | -   | 171,905   |

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

|                              | June 30,<br>2020<br>(Un-audited) | December 31,<br>2019<br>(Audited) |
|------------------------------|----------------------------------|-----------------------------------|
|                              | SR                               | SR                                |
| Tenaris Saudi Arabia Co. Ltd | 554,921                          | 1,110,020                         |

B) Balances payable to related parties are as follows:

|                                     | June 30,<br>2020<br>(Un-audited) | December 31,<br>2019<br>(Audited) |
|-------------------------------------|----------------------------------|-----------------------------------|
|                                     | SR                               | SR                                |
| Silco Tube                          | 12,815,757                       | 11,760,000                        |
| Dalmine S.P.A.                      | 3,142,282                        | 879,191                           |
| Tenaris Siderca                     | 1,061,451                        | 796,683                           |
| Exiros Saudi Arabia                 | 642,600                          | -                                 |
| Tenaris Global Services Switzerland | 71,495                           | 72,322                            |
|                                     | 17,733,585                       | 13,508,196                        |

C) Remuneration of directors and key management personnel

|                    | June 30, 2020 (Un-audited) |                                      | June 30, 2019 (Un-audited) |                                      |
|--------------------|----------------------------|--------------------------------------|----------------------------|--------------------------------------|
|                    | Directors<br>SR            | Key<br>management<br>personnel<br>SR | Directors<br>SR            | Key<br>management<br>personnel<br>SR |
| Board remuneration | 1,231,000                  | -                                    | 1,155,997                  | -                                    |
| Salaries and wages | -                          | 1,765,464                            | -                          | 1,344,936                            |
| Allowances         | -                          | 994,543                              | -                          | 609,933                              |
| End of service     | -                          | 92,256                               | -                          | 221,002                              |
|                    | 1,231,000                  | 2,852,263                            | 1,155,997                  | 2,175,871                            |

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**12. ZAKAT AND INCOME TAX BENEFIT / (EXPENSE)**

|                              | June 30,<br>2020<br>(Un-audited)<br>SR | June 30,<br>2019<br>(Un-audited)<br>SR |
|------------------------------|--|--|
| Current zakat and income tax | (1,400,000)                            | (92,761)                               |
| Deferred tax                 | 4,859,154                              | -                                      |
|                              | <u>3,459,154</u>                       | <u>(92,761)</u>                        |

**13. LOSS PER SHARE**

Basic 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 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.

Loss per share are represented as follows:

|  | Three Months Period Ended        |                                  | Six Months Period Ended          |                                  |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|  | June 30,<br>2020<br>(Un-audited) | June 30,<br>2019<br>(Un-audited) | June 30,<br>2020<br>(Un-audited) | June 30,<br>2019<br>(Un-audited) |
| <b>Basic loss per share</b>  | <b>(0.535)</b>                   | <b>(0.201)</b>                   | <b>(0.886)</b>                   | <b>(0.195)</b>                   |
| Loss for the period  | (27,019,389)                     | (10,165,118)                     | (44,789,389)                     | (9,840,479)                      |
| Weighted average number of outstanding shares                          | 50,542,311                       | 50,542,311                       | 50,542,311                       | 50,542,311                       |
| <b>Diluted loss per share</b>  | <b>(0.530)</b>                   | <b>(0.199)</b>                   | <b>(0.878)</b>                   | <b>(0.193)</b>                   |
| Loss for the period  | (27,019,389)                     | (10,165,118)                     | (44,789,389)                     | (9,840,479)                      |
| Weighted average number of outstanding shares                          | 51,000,000                       | 51,000,000                       | 51,000,000                       | 51,000,000                       |
| <b>Reconciliation of Weighted average number of outstanding shares</b> |                                  |                                  |                                  |                                  |
| Number of issued shares  | 51,000,000                       | 51,000,000                       | 51,000,000                       | 51,000,000                       |
| Less: Treasury shares - shares kept for the employee share program     | (762,812)                        | (762,812)                        | (762,812)                        | (762,812)                        |
| Add: Weighted average number of shares issued to employees             | 305,123                          | 305,123                          | 305,123                          | 305,123                          |
| <b>Weighted average number of outstanding shares</b>                   | <b>50,542,311</b>                | <b>50,542,311</b>                | <b>50,542,311</b>                | <b>50,542,311</b>                |

**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 past few months. 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, compared to a positive EBITDA of SR 1.6 million in Q2 2019.

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

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**14. SIGNIFICANT EVENTS (Continued)**

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 alternative working arrangements including, without limitation, remote working requirements for the majority of its employees, restricted onsite access to essential operational personnel, and maintaining personnel levels at minimum at the Group's facilities to observe social distancing protocols. Such efforts were overseen by a crisis management committee led by the Chief Executive Officer/Managing Director with direct oversight by the Group's board of directors. None of the alternative working arrangements has adversely affected the Group's financial reporting systems and internal controls over financial reporting.

In addition, in order to mitigate the impact of the expected lower sales and production levels caused by COVID-19, management implemented a comprehensive action plan to introduce productivity and efficiency measures. The action plan includes, containing cash through working capital and capital expenditure control without affecting 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 such as SANED, VAT payment deferrals, commercial loans roll-over, and utility bills discounts. This resulted in the reporting positive and improved free cash flows of SR 30.24 million in Q2 2020, compared to 28.88 million in Q2 2019.

As at the date of issuing these financial statements, the Group's industrial facilities are operating back at normal pre-COVID-19 levels. The Group has 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. Moreover, the Group has improved its cash flows by obtaining during the second quarter of 2020 a new credit facility to finance its oil and gas pipe operations.

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 RECLASSIFICATIONS**

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 August 05, 2020 corresponding to Dhul Hijjah 15, 1441H.