

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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH INDEPENDENT AUDITOR'S REPORT

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Index	Page
1. Independent auditor's report	1-5
2. Consolidated statement of financial position	6
3. Consolidated statement of profit or loss and other comprehensive income	7
4. Consolidated statement of changes in equity	8
5. Consolidated statement of cash flows	9
6. Notes to the consolidated financial statements	10 - 52

INDEPENDENT AUDITOR'S REPORT

(1/5)

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

Opinion

We have audited the consolidated financial statements of Saudi Steel Pipes Company – a Saudi Joint Stock Company (the “Company”) and its Subsidiary (collectively referred to as “the Group”), which comprise the consolidated statement of financial position as at December 31, 2020 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

Without qualifying our opinion, we draw attention to the following:

- Note 2 to the accompanying consolidated financial statements; where the accumulated losses of TSM Arabia (the subsidiary) as at December 31, 2020, have exceeded its share capital by SR 141.6 million. The Board of Directors of the Group has passed a resolution to continue TSM Arabia's business and 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.
- Note 28 to the accompanying consolidated financial statements with respect to certain electronic title deeds related to the Group land plots which became inactive due to cancellation by court order which management has learned subsequent to year end.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (Continued)

(2/5)

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

Key audit matter	How the matter was addressed
<i>I- Revenue Recognition – Sale of goods</i>	
<p>During the year ended December 31, 2020, the Group recognized total revenue of SR 508.5 million (2019: SR 671.6 million).</p> <p>The group sales are generally straight forward but requires in various cases the approval and inspection by the customer prior to dispatch of the products.</p> <p>Revenue recognition has been identified as a key audit matter given the significant volume of transactions involved and the factors associated with the revenue recognition and the risk that management may override controls in order to misstate revenue transactions, either by recognizing sales on unapproved products or inappropriate assessments of returns and rejections.</p> <p>The accounting policy for revenue is outlined in Note 3.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Evaluating the design and implementation, and testing the operating effectiveness of relevant key controls over the revenue cycle; - Assess the appropriateness of revenue recognition accounting policies of the Group; - Inspected sales transactions taking place at either side of year-end to assess whether revenue was recognized in the correct period; and - Performed substantive test of details and analytical procedures. - Assessed the completeness and sufficiency of disclosures relating to revenue in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (Continued)

(3/5)

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

Key Audit Matter (Continued)	How the matter was addressed
2- <i>Impairment of non-current assets</i>	
<p>Non-current assets included property plant and equipment as of December 31, 2020 amounted to SR 552.5 million (2019: SR 581.4 million).</p> <p>During the year, the Group management has updated its previous year impairment assessment for some business units and undertaken new impairment assessment for some other business units. Based on the results of the impairment studies, the management has decided that no impairment of the property, plant and equipment is required.</p> <p>In preparing these impairment studies, management assesses the future business plan of the relevant business units and apply valuation models to determine the expected recoverable amount and realizable values for the purpose of impairment assessment.</p> <p>We have considered this matter as a key audit matter because the assessment of the recoverable amount requires a number of key judgments and assumptions in determining the recoverable values for assessing impairment, which include assumptions related to future sales volume, prices, operating assets, growth rates, terminal value, discount rates and other related assumptions.</p> <p>The accounting policy for impairment of non-current assets is outlined in Note 3.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - We assessed the management process for the identification of the indications of impairment and evaluated the design and implementation of the process. - In case of the existence of impairment indicators, we evaluate whether the model used by management to calculate the value in use of the individual assets is in compliance with the requirements of IAS 36. - Validating the assumptions used for estimating the future cash flows, the related discount rates and other related assumptions. - Analyzed the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current economic condition and expected future performance. - Evaluated the whole model calculations by our auditor experts. - We assessed whether the related disclosures are in accordance with the requirements of International Financial Reporting Standards.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the Shareholders of
Saudi Steel Pipes Company (SSPC)
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Dammam, Kingdom of Saudi Arabia

(4/5)

Other Information Included in the Group's 2020 Annual Report

Other information comprises the information included in the Group's annual report, other than the consolidated financial statements and our auditor's report thereon. The management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

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

When we read the annual report, and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements

The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws and the applicable requirements of Companies' regulations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (i.e. Board of Directors) are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used, the reasonableness of accounting estimates and related disclosures made by the management.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

(5/5)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosure in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

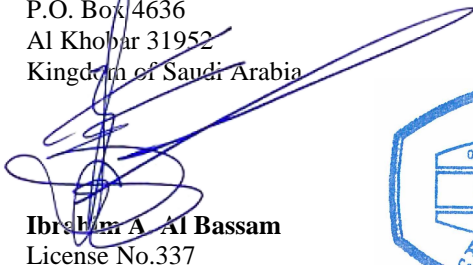
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Group is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

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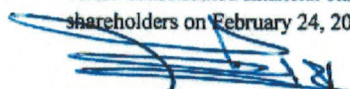
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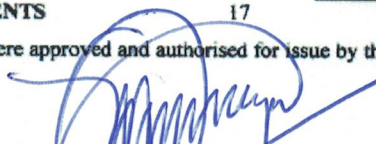
SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)


CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

	Note	December 31, 2020 SR	December 31, 2019 SR
ASSETS			
Non-current assets			
Property, plant and equipment	4	552,537,158	581,420,752
Intangible assets	5	3,699,140	2,766,638
Investments	6	110,192,967	105,421,605
Trade and other receivables - non-current	7	5,235,672	7,385,212
Deferred tax asset	8	11,241,922	8,696,234
		<u>682,906,859</u>	<u>705,690,441</u>
Current assets			
Inventories	9	127,137,204	150,066,124
Trade and other receivables - current	7	151,245,473	223,630,444
Cash and cash equivalents	10	149,054,921	39,506,782
		<u>427,437,598</u>	<u>413,203,350</u>
TOTAL ASSETS		<u>1,110,344,457</u>	<u>1,118,893,791</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	11.1	510,000,000	510,000,000
Share premium	11.2	4,512,330	4,512,330
Statutory reserve	11.2	58,494,224	58,494,224
Other reserves	11.2	(7,014,507)	(6,617,758)
Accumulated losses	11.2	(61,305,010)	(26,828,587)
Treasury shares	11.3	(11,502,225)	(11,502,225)
		<u>493,184,812</u>	<u>528,057,984</u>
LIABILITIES			
Non-current liabilities			
Borrowings – non-current	12	78,630,477	59,804,917
Employees' end of service benefits	13	34,692,686	55,554,419
Trade and other payables- non-current	14	30,000,000	30,000,000
Lease liabilities – non-current	16	6,870,670	6,978,705
Retention payables		633,713	647,113
		<u>150,827,546</u>	<u>152,985,154</u>
Current liabilities			
Trade and other payables – current	14	176,903,201	209,768,831
Borrowings – current	12	287,663,123	227,456,517
Lease liabilities – current	16	1,115,859	625,305
Zakat and income tax	15	649,916	-
		<u>466,332,099</u>	<u>437,850,653</u>
TOTAL LIABILITIES		<u>617,159,645</u>	<u>590,835,807</u>
TOTAL EQUITY AND LIABILITIES		<u>1,110,344,457</u>	<u>1,118,893,791</u>
CONTINGENCIES AND COMMITMENTS			

17
These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on February 24, 2021.


Ahmed Al Debasi
Authorized Director


Mariano Armengol Lamazares
Chief Executive Officer


Mohamed Anwar Alshakhouri
CFO

The accompanying notes form an integral part of these consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

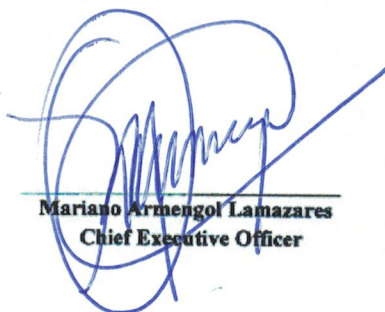
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	December 31, 2020 SR	December 31, 2019 SR
Revenue	23	508,511,974	671,553,134
Cost of revenue	18	(483,871,637)	(658,375,000)
Gross profit		24,640,337	13,178,134
Selling, marketing and distribution expenses	19	(10,031,307)	(14,092,202)
Administrative expenses	20	(45,494,606)	(33,014,809)
Reversal / (allowance) for impairment of trade receivables	7.2	28,561	(892,831)
Other income / (expenses), net	21	222,051	(184,753)
Operating loss		(30,634,964)	(35,006,461)
Share of profit in an associate	6.1	4,771,362	8,939,885
Financial charges	22	(9,336,443)	(14,277,357)
Loss before zakat and income tax		(35,200,045)	(40,343,933)
Zakat and income tax benefit	15	723,622	13,515,346
Loss for the year		(34,476,423)	(26,828,587)
<u>Other comprehensive income (OCI)</u>			
Items that will not be reclassified to profit or loss in subsequent years			
Loss attributable to the re-measurements of employees' end of service benefits	13	(459,228)	(5,530,723)
Deferred tax benefit	8	62,479	974,202
Total other comprehensive loss		(396,749)	(4,556,521)
Total comprehensive loss, net		(34,873,172)	(31,385,108)
<u>Loss per share</u>			
Basic loss per share	25	(0.68)	(0.53)
Diluted loss per share	25	(0.68)	(0.53)

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on February 24, 2021.



Ahmed Al Debasi
Authorized Director



Mariano Armengol Lamazares
Chief Executive Officer




Mohamed Anwar Alshakhouri
CFO

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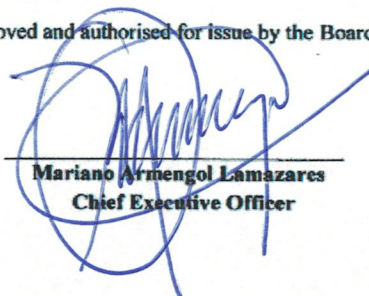
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	Share capital	Share premium	Statutory reserve	Other reserves	Accumulated losses	Treasury shares	Total Equity
	SR	SR	SR	SR	SR	SR	SR
Balance as at January 1, 2019	510,000,000	131,306,055	58,494,224	(2,061,237)	(126,793,725)	(11,502,225)	559,443,092
Net loss for the year	-	-	-	-	(26,828,587)	-	(26,828,587)
Other comprehensive loss for the year	-	-	-	(4,556,521)	-	-	(4,556,521)
Absorption of accumulated losses against share premium (Note 11.2 (a))	-	(126,793,725)	-	-	126,793,725	-	-
Balance as at December 31, 2019	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 year	-	-	-	-	(34,476,423)	-	(34,476,423)
Other comprehensive loss for the year	-	-	-	(396,749)	-	-	(396,749)
Balance as at December 31, 2020	510,000,000	4,512,330	58,494,224	(7,014,507)	(61,305,010)	(11,502,225)	493,184,812

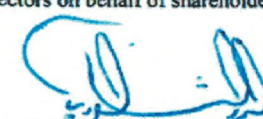
These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on February 24, 2021.



Ahmed Al Debasi
Authorized Director



Mariano Armengol Lamazares
Chief Executive Officer



Mohamed Anwar Alshakhouri
CFO

The accompanying notes form an integral part of these consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2020


	December 31, 2020	December 31, 2019
	SR	SR
<u>Cash flows from operating activities:</u>		
Loss before zakat and income tax	(35,200,045)	(40,343,933)
Adjustments for:		
Depreciation of property, plant and equipment and right of use assets	43,343,345	44,340,595
Amortization of intangible assets	1,617,864	427,013
(Gain) / loss on disposal of property, plant and equipment, net	(598,850)	1,477,565
Property, plant and equipment – written off	-	57,963
(Reversal) / provision for slow moving inventory	(1,435,240)	7,137,070
Reversal of provision for warranty, net	-	(1,517,500)
(Reversal) / allowance for impairment of trade receivables	(28,561)	892,831
Finance charges	9,336,443	14,277,357
Share of profit in an associate	(4,771,362)	(8,939,885)
Employees' end of service benefits	2,249,742	7,565,800
Movement in working capital		
Inventories	24,364,160	44,941,892
Trade and other receivables	75,156,619	(28,391,618)
Deposit with banks	-	3,000,000
Trade and other payables	(43,233,581)	12,891,530
Due to / from related parties	10,440,504	17,001,354
Cash generated from operations	81,241,038	74,818,034
Finance charges paid	(9,807,915)	(11,144,497)
Zakat and income tax paid	(1,109,671)	(1,622,474)
Employees' end of service benefits paid	(23,570,703)	(12,990,777)
Net cash generated from operating activities	46,752,749	49,060,286
<u>Cash flows from investing activities:</u>		
Additions to property, plant and equipment and intangible assets	(15,528,196)	(5,754,342)
Proceeds from sale of property, plant and equipment	877,747	531,131
Net cash used in investing activities	(14,650,449)	(5,223,211)
<u>Cash flows from financing activities:</u>		
Proceeds from / (repayment of) borrowings, net	79,041,422	(27,380,202)
Net payment under lease	(1,595,583)	(449,558)
Net cash generated from / (used in) financing activities	77,445,839	(27,829,760)
Net change in cash and cash equivalents	109,548,139	16,007,315
Cash and cash equivalent at the beginning of the year	39,506,782	23,499,467
Cash and cash equivalents at the end of the year	149,054,921	39,506,782

Significant non-cash transactions (note 10.2)

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on February 24, 2021.



Ahmed Al Debasi
Authorized Director



Mariano Armengol Lamazares
Chief Executive Officer



Mohamed Anwar Alshakhouri
CFO

The accompanying notes form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 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 1400H (corresponding to 10 June 1980G). On 4 Rajab 1430 H (corresponding to 27 June 2009G), 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 consolidated 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 Group operates through the following branches, for which the assets, liabilities and results are included in the accompanying consolidated financial statements:

<u>CR No.</u>	<u>CR Dated (Hijri)</u>	<u>CR Dated (Gregorian)</u>	<u>Operating in</u>
2051007037	8 Rabi Al-Awwal 1401	8 January 1981	Khobar
1010043325	22 Rabi Al-Thani 1402	16 February 1982	Riyadh
4030038355	7 Jumada Al-Thani 1403	22 March 1983	Jeddah
1131012613	11 Muharram 1415	21 June 1994	Buraydah
2050128158	18 Dhul-Hijjah 1440	20 August 2019	Dammam

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 consolidated financial statements as at December 31, 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 Safar 4, 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, which is fully owned by the Group. 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 December 31, 2020, the accumulated losses of TSM Arabia have exceeded its share capital by SR 141.6 million. The Board of Directors of the Group has passed a resolution to continue TSM Arabia's business and 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. BASIS OF PREPARATION

3.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

As required by the Capital Market Authority ("CMA") through its circular dated October 16, 2016 the Group needs to apply the cost model to measure the property, plant and equipment and intangible assets upon adopting the IFRS for three years' period starting from the IFRS adoption date which was later extended till December 31, 2021.

The consolidated financial information has been prepared under the historical cost convention, unless it is allowed by the IFRS to be measured at other valuation method as illustrated in significant accounting policies note.

3.2 Preparation of the consolidated financial statements

The preparation of consolidated 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 consolidated financial statements. The estimates that are significant to the consolidated financial statements are disclosed in note 3.6.21.

3.3 Basis of Consolidation

The consolidated financial statements comprise those of Saudi Steel Pipes Company and of its subsidiary (the Group) as detailed in note 1.

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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 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 Consolidated 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.

Consolidated 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 consolidated financial statements of subsidiary to bring its accounting policies into 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 consolidated 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 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 IFRSs, International Financial Reporting and Interpretation Committee interpretations (IFRIC) and amendments

The following new accounting standards, interpretations and amendments to existing standards have been published by IASB and are mandatory for the accounting period beginning on January 1, 2020 or later.

3.4.1 Standards and amendments issued and applied effective January 1, 2020

Amendments

A number of other new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Group's Financial Statements.

Amendments to standard	Description	Effective for annual years beginning on or after
IAS 1 and IAS 8	Definition of material	January 1, 2020
IFRS 3	Definition of business	January 1, 2020
The Conceptual Framework for Financial Reporting	Amendments to references to Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020
IFRS 16	COVID-19-Related Rent Concessions	June 1, 2020

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. BASIS OF PREPARATION (Continued)

3.4 New IFRSs, International Financial Reporting and Interpretation Committee interpretations (IFRIC) and amendments (Continued)

3.4.2 New standards, amendments and revised IFRS issued but not yet effective

The Group has not applied the following new and revised IFRSs and amendments that have been issued but are not yet effective.

Amendments to standard	Description	Effective for annual years beginning on or after
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
IFRS 3	Reference to the Conceptual Framework	January 1, 2022
IFRS 17	Insurance Contracts	January 1, 2023
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A

Management anticipates that these new interpretations and amendments will be adopted in the Group’s consolidated financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the financial statements of the Group in the year of initial application.

3.5 Change in accounting policy

3.5.1 Change in functional currency

The Group’s Board of Directors has resolved during the year ended December 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 consolidated 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.

3.6 Principal Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been constantly applied to all the years presented, unless otherwise stated.

3.6.1 Financial instruments

3.6.1 (A) Classification of financial assets and financial liabilities

Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The Group classifies its financial assets generally based on the business model in which a financial asset is managed and its contractual cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.1 Financial instruments (Continued)

3.6.1 (A) Classification of financial assets and financial liabilities (Continued)

(i) *Financial assets at amortized cost*

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The Group initially measures its trade receivables at the transaction price given that it does not include any financing component.

Business model assessment

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(ii) *Financial assets at fair value through OCI (FVOCI)*

Debt Instruments

A debt instrument is measured at FVOCI only if it meets both of the following conditions and it is not designated as at FVTPL

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principle and the interest on the principle amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.1 Financial instruments (Continued)

Equity instruments

On the initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis.

The Group does not have any financial asset that is classified at fair value through other comprehensive income.

(iii) *Financial assets at fair value through profit or loss (FVTPL)*

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial assets that are held for trading, if any, and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss (FVTPL) because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR).

3.6.1 (B) Impairment of financial assets

The Group records an allowance for ECLs for all loans and other debt financial assets not held at FVTPL. For Contract assets and Trade and other receivables that do not contain a significant financing component, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. As a practical expedient, the Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

3.6.2 Revenue from Contract with Customers

The Group recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15. This includes:

- a) Identification of a contract with a customer, i.e., agreements with the Group that creates enforceable rights and obligations.
- b) Identification of the performance obligations in the contract, i.e., promises in such contracts to transfer products or services.
- c) Determination of the transaction price which shall be the amount of consideration the Group will expect to be entitled to in exchange for fulfilling its performance obligations (and excluding any amounts collected on behalf of third parties).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.2 Revenue from Contract with Customers (Continued)

- d) Allocation of the transaction price to each identified performance obligation based on the relative stand-alone estimated selling price of the products or services provided to the customer.
- e) Recognition of revenue when/as a performance obligation is satisfied, i.e., when the promised products or services are transferred to the customer and the customer obtains control. This may be over time or at a point in time.

Revenue shall be measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognized. Where there are no specific criteria, above policy will apply and revenue is recorded as earned and accrued.

For sale of goods:

The Group manufactures and sells steel pipes. For such products, performance obligation generally includes one performance obligation and revenue shall be recognized at a point in time when control of the products is transferred to the customer generally on delivery of pipes and considering 5-step approach mentioned previously.

For long term projects:

The Group has determined that for its construction contracts for heat exchangers, pressure vessels, reactors, condensers and pipe spools that are customized on customer requirements. These are normally long term contracts and under these contracts the works are performed and equipment are made to a customer's specification and if contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin.

At the time of entering into a contract, the Group identifies the performance obligations attached to each contract. For this purpose, the Group evaluates the contractual terms and its customary business practices to identify whether there are distinct performance obligations within each contract. The Group determines the transaction price of each contract, for the purpose of determining the transaction price of each aforementioned performance obligations, as the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Having determined the transaction price of the contract, the Group allocates the transaction price to performance obligations in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

The Group recognises revenue upon the satisfaction of performance obligations attached to contracts, which occurs when service obligations mentioned in the contract are met and accepted by the customer in form of acceptance of works completed. The Group recognises revenue from such long-term contracts over time, using an input method to measure progress towards complete satisfaction of the performance obligation by reference to the percentage of completion method. In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue multiplied by the actual completion rate based on the proportion of total contract costs incurred to date and the estimated cost to complete.

The Group receives advances from customers for its long-term projects. Generally, such advances are received in the normal course of business at the start of the project. The Group does not adjust the promised amount of consideration for the effects of a significant financing component as the Group has determined that such advances are received for reasons other than financing the projects. These advances are adjusted against progress billings raised to the customer in accordance with the terms of the contract.

The value of work completed but not billed at the date of consolidated statement of financial position is classified as "contract assets" under current assets in the consolidated statement of financial position. Amounts billed in excess of work completed and advances received at the consolidated statement of financial position date is classified as "contract liabilities" under current liabilities in the consolidated statement of financial position. Invoices are issued according to contractual terms and are usually payable within 30 to 90 days.

Warranty:

The Group generally provides warranties for both steel pipes and process equipment for general repairs of defects that existed at the time of sale, as per contract. As such, most warranties are assurance-type warranties, which the Group accounts for under IAS 37. The Group does not provide any extended warranties and maintenance services to its customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.3 Property, plant and equipment

Property, plant and equipment are carried at the historical cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the consolidated statement of profit or loss, using the straight-line method to allocate the costs of the related assets less their residual values over the following estimated economic useful lives.

Land improvement	30 - 50 years
Buildings and structures	30 -50 years
Machinery and equipment	10 - 40 years
Vehicles	4 - 10 years
Furniture and fixture	4 - 10 years
Office equipment	4 - 10 years
Leased asset	Lease term

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the consolidated statement of profit or loss.

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

The cash generating unit (CGU) at which the impairment assessment and testing is performed, is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Annual review of residual lives and useful lives

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. If expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

Componentization of assets

Property, plant and equipment (PPE) is often composed of various parts with varying useful lives or consumption patterns. These parts are (individually) replaced during the useful life of an asset. Accordingly:

- Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately, except where one significant part has a useful life and a depreciation method that is the same as those of another part of that same item of PPE; in which case, the two parts may be grouped together for depreciation purposes;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.3 Property, plant and equipment (Continued)

Componentization of assets (Continued)

- Under the component approach, the Group does not recognize in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. These costs are recognized in the consolidated statement of profit or loss as incurred. The various components of assets are identified and depreciated separately only for significant parts of an item of PPE with different useful lives or consumption patterns; however, the principles regarding replacement of parts (that is, subsequent cost of replaced part) apply generally to all identified parts, regardless whether they are significant or not.

Capitalization of costs under PPE

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation incurred either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that year.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced.

Borrowing costs related to qualifying assets are capitalized as part of the cost of the qualified assets until the commencement of commercial production.

All other repairs and maintenance are charged to the consolidated statement of profit or loss during the reporting year in which they are incurred. Maintenance and normal repairs which do not extend the estimated economic useful life of an asset or production output are charged to the consolidated statement of profit or loss as and when incurred.

Capital Spare Parts (CSP)

The Group classifies CSPs into critical spare parts (strategic spare parts) and general spare parts using the below guidance:

- A critical spare part is one that is on "stand-by", i.e. probable to be a major item / part critical to be kept on hand to ensure uninterrupted operation of production equipment. They would normally be used only due to a breakdown, and are not generally expected to be used on a routine basis. Depreciation on critical spares commences immediately on the date of purchase.
- General spare parts are other major spare parts not considered critical and are bought in advance due to planned replacement schedules (in line with prescribed maintenance program) to replace existing major spare parts with new parts that are in operation. Such items are considered to be "available for use" only at a future date, and hence depreciation commences when it is installed as a replacement part. The depreciation period for such general capital spares is over the lesser of its useful life, and the remaining expected useful life of the equipment to which it is associated.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.3 Property, plant and equipment (Continued)

Capital work-in-progress

Assets in the course of construction or development are capitalized in the capital work-in-progress (“CWIP”) account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment or intangible assets (depending on the nature of the project), once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work in progress comprises its purchase price, construction / development cost and any other directly attributable to the construction or acquisition of an item of CWIP intended by management. Costs associated with testing the items of CWIP (prior to its being available for use) are capitalized net of proceeds from the sale of any production during the testing period. Capital work-in-progress is not depreciated or amortized.

3.6.4 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, where applicable.

Finite life of intangible assets is amortized over the shorter of their contractual or useful economic lives. They comprise mainly management information systems. The Group amortized these intangible assets over 3-5 years on a straight-line basis assuming a zero residual value.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss when the asset is derecognized.

3.6.5 Investment in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In case the shareholding in an associate do not create significant influence, the Group classify this investment as fair value through profit or loss.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor’s share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate. The Group’s share of post-acquisition profit or loss is recognized in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to “share of profit/ (loss) of associates” in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group’s financial statements only to the extent of unrelated investor’s interests in the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.5 Investment in associates (Continued)

Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the consolidated statement of profit or loss.

3.6.6 Inventories

Inventories are valued at lower of cost and net realizable value (NRV). Cost is determined using the weighted average method. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods comprises raw material cost and standard cost of conversion and other overheads incurred in production process in case result approximate actual cost. Standard costs of conversion are revised regularly, if necessary, in light of current condition. Any write-down to NRV are recorded as an expense and reversal reversed from expenses in consolidated statement of profit or loss in the year in which it occurs.

Net realizable value and provision assessment of inventory

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The NRV assessment to write-down the inventory is normally made on an individual item basis. This would be where items relate to the same product line (which have a similar purpose and end use) are produced and marketed in the same geographical area.

The practice of writing inventories down below cost to net realizable value is consistent with the view under IFRS that assets should not be carried in excess of amounts expected to be realized from their sale.

An allowance is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures. Provision for slow moving and obsolete inventories is assessed by each inventory category as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales.

3.6.7 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with the bank, all of which have original maturities of 90 days or less and are available for use by the Group unless otherwise stated. In the consolidated statement of financial position, based on nature of Group's facility, bank overdraft is presented under line item borrowings.

3.6.8 Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares and treasury shares are classified as equity instruments.

3.6.9 Dividends

Provision or liability is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the Group, on or before the end of the reporting year but not distributed at the end of the reporting year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.10 Functional and presentation currency

Items included in the consolidated financial statements of the Group is measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The functional currency for the Group is US Dollars (USD) and presentation currency is Saudi Riyals (SAR). Figures have been rounded off to the nearest Riyal except where mentioned otherwise.

Transactions and balances

Foreign currency transactions are translated into functional currency at the rates of exchange prevailing at the time of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the exchange rates prevailing at that date. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'Other income/(expenses) – net'.

3.6.11 Borrowings

Borrowings are initially recognized at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition long-term borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in consolidated statement of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are derecognized from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in consolidated statement of profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting year.

General and specific borrowing that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale, as appropriate. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the year in which they are incurred in the consolidated statement of profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.12 Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any premeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and restoration costs. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over underlying asset's useful life. Right-of-use assets are subject to impairment.

3.6.13 Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the year on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Incremental rate is the rate that the individual lessee would pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is premeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments are allocated between principal and finance charges. The finance cost is charged to profit and loss over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability of each year.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of rented properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

3.6.14 Employees benefits

Short term obligation

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting year and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations within accruals in the consolidated statement of financial position.

Employees' end-of-service benefits (EOSB)

The liability or asset recognized in the consolidated statement of financial position in respect of defined benefit. EOSB plan is the present value of the defined benefit obligation at the end of the reporting year. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.14 Employees benefits (Continued)

Employees' end-of-service benefits (EOSB) (Continued)

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Defined benefit costs are categorized as follows:

Service cost

Service costs includes current service cost and past service cost are recognized immediately in consolidated statement of profit or loss.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in consolidated statement of profit or loss as past service costs.

Interest cost

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

Re-measurement gains or losses

Re-measurement gains or losses arising from experience adjustments and changes in actuarial assumptions are recognized in the year in which they occur, directly in other comprehensive income.

Employee share ownership program (ESOP)

The ESOP is an employee benefit plan that designates a specific number of shares in order to distribute them among the SSP's employees who are in service at the time of initial public offering of SSPC's stocks. The Group maintains treasury shares to support this program. These shares are allocated to employees in three different categories namely; free, credit and cash basis. Additionally, a portion of the designated stocks would be reserved for future employees as well as for rewarding employees with free shares against service years.

The Group recognizes the services acquired in a share based payment transaction when services are received. The Group recognizes a corresponding increase in equity when shares actually transferred to employees. The Group offered an option to receive cash equivalent to fair value of eligible shares. To measure the value of services received in this cash-settled share-based payment transactions, the Group measure the services received, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted. This implies that the Group measure the fair value of the services received by reference to the fair value of the equity instruments at end of each reporting year.

3.6.15 Service warranties and provisions

Service warranties

Provision is made for estimated warranty claims in respect of products sold which are still under warranty at the end of the reporting year. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

Provisions

Provisions are recognized when the Group has:

- a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of economic resources will be required to settle the obligation in the future; and
- the amount can be reliably estimated.

If the effect of the time value of money are material, provisions are discounted using a current rate that reflects current market assessments of the time value of money and the risks specific to the liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.15 Service warranties and provisions (Continued)

Where there are a number of similar obligations, (e.g. product warranties, similar contracts or other provisions) the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.6.16 Zakat, income tax and withholding tax

The Saudi Shareholders of the Group are subject to zakat calculated in accordance with the regulations of the General Authority of Zakat and Income Tax (GAZT) computed at 2.5% and the foreign shareholders are subject to income tax at a flat rate of 20% on the taxable income. A provision for zakat and income tax for the Group and zakat related to the Group's subsidiary is charged to the consolidated statement of profit or loss. Differences, if any, at the finalization of final assessments are accounted for when such amounts are determined and settled against any previously provided provisions, if any.

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with accounting and tax depreciation on property and equipment, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with accumulated tax losses only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.17 Selling, marketing and distribution expenses

Selling, marketing and distribution expenses comprise of all costs for selling and marketing the Group's products and include expenses for advertising, marketing fees and other sales related overheads.

3.6.18 Administrative expenses

Administrative expenses include indirect costs not specifically part of cost of sales or the selling, marketing and logistics activity of the Group. Finance income / (expense) is presented as a separate line item in the consolidated statement of profit or loss.

3.6.19 Earnings / (Loss) per share

Basic earnings / (loss) per share

Basic earnings per share is calculated by dividing:

- the profit / (loss) attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial period.

Diluted earnings / (loss) per share

Diluted earnings/ (loss) per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3.6.20 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items compose mainly corporate expenses.

Transactions between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the consolidated statement of profit or loss.

SSPC defines its operating segments as:

• **Steel Pipe Segment**

This include manufacturing of welded steel pipes by high frequency induction welding and galvanizing, coating, threading and bending of the pipes used in oil and gas, water and construction sectors.

• **Process Equipment Segment**

This include design, manufacture, assemble and maintain heavy process equipment for the utilization of oil and gas, power generation, desalination, mining, solar energy and offshore plants.

Both above segments share similar customers including one major customer (for both segments). Also, the Group discloses its segmental results in its consolidated financial statements based on:

- i. Local sales; and
- ii. Export sales

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.21 Critical judgments and estimates

The following critical judgments and estimates have the most significant effect on the amounts recognized in the consolidated financial statements:

- Economic useful lives of property, plant and equipment;
- Lease term
- Zakat and income taxes;
- Impairment of non-financial assets;
- Estimation of defined benefit obligation;
- Allowance for impairment for trade receivables;
- Provision for obsolete, slow moving and damaged inventory; and
- Contingencies.

Economic useful lives of property, plant, equipment

The Group periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment. During the current financial year, there was no material financial effect of revising lease terms to reflect the effect of exercising extension or termination options.

Zakat and income taxes

Management has assessed the zakat and income tax position having regard to the regulations of General Authority of Zakat and Tax (GAZT), decrees issued periodically and conventions. Interpretation of such legislation, decrees, and conventions is not always clear and entails completion of assessment by GAZT.

Impairment of non-financial asset

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Estimation of defined benefit obligation

The cost of defined benefit obligation and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION (Continued)

3.6.21 Critical judgments and estimates (Continued)

Allowance for impairment for trade receivables

The Group assesses on a forward looking basis the Expected Credit Losses (“ECL”) associated with its debt instruments as part of its financial assets, which are carried at amortised cost and FVOCI. For accounts receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables. ECL assessment requires a several estimates related to the categorization of customers, discount rates and a general assessment of the economic conditions in the market. Management use their best estimates and historical trends of customers to assess the receivables provision under ECL model.

Provision for obsolete, slow moving and damaged inventory

Management makes a provision for slow moving, obsolete and damaged inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the consolidated statement of financial position date to the extent that such events confirm conditions existing at the end of year.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

4. PROPERTY, PLANT AND EQUIPMENT

	<u>Note</u>	<u>December 31, 2020</u> SR	<u>December 31, 2019</u> SR
Operating fixed assets	4.1	541,384,229	573,856,241
Right of use assets	4.3	8,435,088	7,564,511
Capital work-in-progress	4.4	2,717,841	-
		<u>552,537,158</u>	<u>581,420,752</u>

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Operating fixed assets

Year ended December 31, 2020

	Land	Land Improvements	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and fixtures	Office and equipment	Leasehold asset	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
<u>At January 1, 2020</u>									
Cost	157,850,000	1,971,257	246,000,227	641,833,089	3,824,834	1,590,305	23,624,856	225,500	1,076,920,068
Accumulated depreciation and impairment	-	(1,535,432)	(128,019,794)	(352,350,283)	(3,211,568)	(1,151,585)	(16,586,916)	(208,249)	(503,063,827)
Net book value	<u>157,850,000</u>	<u>435,825</u>	<u>117,980,433</u>	<u>289,482,806</u>	<u>613,266</u>	<u>438,720</u>	<u>7,037,940</u>	<u>17,251</u>	<u>573,856,241</u>
<u>Cost</u>									
Opening	157,850,000	1,971,257	246,000,227	641,833,089	3,824,834	1,590,305	23,624,856	225,500	1,076,920,068
Transferred from CWIP	-	-	5,659,494	4,187,536	-	-	412,959	-	10,259,989
Disposals	-	-	-	(231,678)	(753,047)	-	-	-	(984,725)
	<u>157,850,000</u>	<u>1,971,257</u>	<u>251,659,721</u>	<u>645,788,947</u>	<u>3,071,787</u>	<u>1,590,305</u>	<u>24,037,815</u>	<u>225,500</u>	<u>1,086,195,332</u>
<u>Accumulated depreciation and impairment</u>									
<u>Accumulated depreciation</u>									
Opening	-	340,987	97,111,642	312,773,578	3,145,026	1,151,585	15,444,195	108,395	430,075,408
For the year	-	18,159	7,874,574	32,184,648	109,019	275,927	1,973,526	17,251	42,453,104
Disposals	-	-	-	(40,611)	(665,217)	-	-	-	(705,828)
	<u>-</u>	<u>359,146</u>	<u>104,986,216</u>	<u>344,917,615</u>	<u>2,588,828</u>	<u>1,427,512</u>	<u>17,417,721</u>	<u>125,646</u>	<u>471,822,684</u>
<u>Accumulated impairment</u>									
Opening	-	1,194,445	30,908,152	39,576,705	66,542	-	1,142,721	99,854	72,988,419
For the year	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>1,194,445</u>	<u>30,908,152</u>	<u>39,576,705</u>	<u>66,542</u>	<u>-</u>	<u>1,142,721</u>	<u>99,854</u>	<u>72,988,419</u>
Total accumulated depreciation and impairment	<u>-</u>	<u>1,553,591</u>	<u>135,894,368</u>	<u>384,494,320</u>	<u>2,655,370</u>	<u>1,427,512</u>	<u>18,560,442</u>	<u>225,500</u>	<u>544,811,103</u>
December 31, 2020	<u>157,850,000</u>	<u>417,666</u>	<u>115,765,353</u>	<u>261,294,627</u>	<u>416,417</u>	<u>162,793</u>	<u>5,477,373</u>	<u>-</u>	<u>541,384,229</u>

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Operating fixed assets (continued)

Year ended December 31, 2019

	Land	Land Improvements	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and fixtures	Office and equipment	Leasehold asset	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
<u>At January 1, 2019</u>									
Cost	157,850,000	1,971,257	239,701,714	648,569,580	5,321,925	4,240,965	25,726,733	225,500	1,083,607,674
Accumulated depreciation and impairment	-	(1,751,191)	(121,082,699)	(324,461,018)	(4,593,011)	(3,493,447)	(19,645,315)	(187,547)	(475,214,228)
Net book value	<u>157,850,000</u>	<u>220,066</u>	<u>118,619,015</u>	<u>324,108,562</u>	<u>728,914</u>	<u>747,518</u>	<u>6,081,418</u>	<u>37,953</u>	<u>608,393,446</u>
<u>Cost</u>									
Opening	157,850,000	1,971,257	239,701,714	648,569,580	5,321,925	4,240,965	25,726,733	225,500	1,083,607,674
Transferred from CWIP	-	-	6,436,013	320,000	36,199	-	3,510,421	-	10,302,633
Additions	-	-	-	363,799	111,435	-	341,496	-	816,730
Disposals and written-off	-	-	(137,500)	(7,420,290)	(1,644,725)	(2,650,660)	(5,953,794)	-	(17,806,969)
	<u>157,850,000</u>	<u>1,971,257</u>	<u>246,000,227</u>	<u>641,833,089</u>	<u>3,824,834</u>	<u>1,590,305</u>	<u>23,624,856</u>	<u>225,500</u>	<u>1,076,920,068</u>
<u>Accumulated depreciation and impairment</u>									
<u>Accumulated depreciation</u>									
Opening	-	322,828	89,283,156	285,008,060	4,526,469	3,493,447	19,504,155	87,694	402,225,809
For the year	-	18,159	7,965,986	33,357,303	98,810	275,030	1,853,920	20,701	43,589,909
Disposals and written-off	-	-	(137,500)	(5,591,785)	(1,480,253)	(2,616,892)	(5,913,880)	-	(15,740,310)
	-	<u>340,987</u>	<u>97,111,642</u>	<u>312,773,578</u>	<u>3,145,026</u>	<u>1,151,585</u>	<u>15,444,195</u>	<u>108,395</u>	<u>430,075,408</u>
<u>Accumulated impairment</u>									
Opening	-	1,194,445	30,908,152	39,576,705	66,542	-	1,142,721	99,854	72,988,419
For the year	-	-	-	-	-	-	-	-	-
	-	<u>1,194,445</u>	<u>30,908,152</u>	<u>39,576,705</u>	<u>66,542</u>	<u>-</u>	<u>1,142,721</u>	<u>99,854</u>	<u>72,988,419</u>
Total accumulated depreciation and impairment	-	<u>1,535,432</u>	<u>128,019,794</u>	<u>352,350,283</u>	<u>3,211,568</u>	<u>1,151,585</u>	<u>16,586,916</u>	<u>208,249</u>	<u>503,063,827</u>
December 31, 2019	<u>157,850,000</u>	<u>435,825</u>	<u>117,980,433</u>	<u>289,482,806</u>	<u>613,266</u>	<u>438,720</u>	<u>7,037,940</u>	<u>17,251</u>	<u>573,856,241</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

- Please refer to note 28 related to subsequent announcement on title deeds of land amounting to SR 157.9 million.
- Operating fixed assets are pledged as security against loans from SIDF and commercial banks.

4.2 Depreciation of operating fixed assets for the year has been allocated as follows:

	Note	December 31, 2020	December 31, 2019
		SR	SR
Cost of revenue	18	41,172,880	42,451,934
Administrative expenses	20	1,280,224	1,137,975
		42,453,104	43,589,909

4.3 Right of use assets

Movement in right of use assets is as follows:

	Note	December 31, 2020	December 31, 2019
		SR	SR
Opening balance		7,564,511	8,315,197
Additions		1,760,818	-
Depreciation for the year	18	(890,241)	(750,686)
Closing balance		8,435,088	7,564,511

4.4 Capital work-in-progress:

	Note	December 31, 2020	December 31, 2019
		SR	SR
Net book value at the beginning of the year		-	7,278,529
Additions during the year		15,528,196	4,937,612
Transferred to operating fixed assets	4.1	(10,259,989)	(10,302,633)
Transferred to intangible assets	5	(2,550,366)	(1,913,508)
Net book value at the end of the year		2,717,841	-

5. INTANGIBLE ASSETS

	December 31, 2020	December 31, 2019
	SR	SR
Cost	11,462,341	9,123,924
Accumulated amortization	(7,763,201)	(6,357,286)
Net book value	3,699,140	2,766,638

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

5. INTANGIBLE ASSETS (Continued)

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
		SR	SR
Cost			
Opening balance		9,123,924	7,210,416
Transferred from CWIP	4.4	2,550,366	1,913,508
Write-off		(211,949)	-
Closing balance		<u>11,462,341</u>	<u>9,123,924</u>
Accumulated amortization			
Opening balance		6,357,286	5,930,273
Charged for the year	20	1,617,864	427,013
Write-off		(211,949)	-
Closing balance		<u>7,763,201</u>	<u>6,357,286</u>
Net book value		<u>3,699,140</u>	<u>2,766,638</u>

6. INVESTMENTS

Investments are classified as follows:

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
		SR	SR
Investment in associate, net	6.1	110,192,967	105,421,605
Investment at fair value through profit or loss	6.2	-	-
		<u>110,192,967</u>	<u>105,421,605</u>

6.1 Investments in associate, net

Movement for investments in associate is as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	SR	SR
Global Pipe Company ("GPC")		
Opening value of investment	105,421,605	96,481,720
Share of profit for the year	4,771,362	8,939,885
	<u>110,192,967</u>	<u>105,421,605</u>
Investment in associate represents the following:		
Cost of acquisition	45,000,000	45,000,000
Capital increase	43,750,000	43,750,000
Share of retained earnings (opening balance)	16,671,605	7,731,720
Share of profit for the year	4,771,362	8,939,885
Net investment value	<u>110,192,967</u>	<u>105,421,605</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

6. INVESTMENTS (Continued)

6.1 Investments in associate, net (Continued)

Summarised statement of financial position of associate

	December 31, 2020	December 31, 2019
	SR	SR
Current assets	509,517,573	449,509,935
Non- current assets	656,265,197	649,945,216
Current liabilities	(850,877,408)	(633,810,456)
Non- current liabilities	(22,463,332)	(188,272,130)
Net assets	292,442,030	277,372,565
Proportion of the Group ownership	35%	35%
Group share of net assets	102,354,711	97,080,398
Goodwill	1,250,000	1,250,000
Adjustments	6,588,256	7,091,207
Group's carrying amount of the investment	110,192,967	105,421,605

Summarised statement of comprehensive income for associate

	December 31, 2020	December 31, 2019
Revenue	288,946,480	478,535,251
Operating income	18,816,389	30,420,149
Net income for the year	15,345,542	20,656,362
Other comprehensive income	(276,077)	(53,310)
Total comprehensive income	15,069,465	20,603,052
Proportion of the Group ownership	35%	35%
Group share of total comprehensive income	5,274,313	7,211,068
Adjustments	(502,951)	1,728,817
Group share of total comprehensive income	4,771,362	8,939,885

6.2 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. On adoption of IFRS 9 this investment has been reclassified from investment available for sale to investment at fair value through profit or loss, considering all required transition affects.

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 has 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

7. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise of the following:

	Note	December 31, 2020 SR	December 31, 2019 SR
Trade receivables	7.1	148,817,204	181,966,732
Contract assets		937,499	34,604,194
Allowance for impairment of trade receivables	7.2	(6,961,690)	(7,586,779)
Trade receivables, net		142,793,013	208,984,147
Due from related parties	24 (A)	1,024,067	1,110,020
Prepayments and advances to suppliers		2,469,860	9,308,981
Employee loans		5,047,697	11,084,428
Other receivables		5,146,508	528,080
		156,481,145	231,015,656
Less: non-current portion of employee loans and other receivables		(5,235,672)	(7,385,212)
Total current portion, net		151,245,473	223,630,444

7.1 Five major customers' balances represent 58.8% (2019: 71.1%) of gross trade receivables. Balance due from one major customer represents 34.1% (2019: 38.7%).

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

	December 31, 2020 SR	December 31, 2019 SR
Opening balance	7,586,779	6,704,798
(Reversal) / allowance for the year	(28,561)	892,831
Utilized against receivables written off	(596,528)	(10,850)
Closing balance	6,961,690	7,586,779

Aging of trade receivables is presented in note 26.2.1.

8. DEFERRED TAX ASSET

Movement on deferred tax asset / liability is as under:

	At January 1, 2020 SR	Statement of profit or loss SR	Statement of other comprehensive income SR	At December 31, 2020 SR
Difference between accounting and tax basis of:				
Property plant and equipment and intangible assets	15,626,854	864,482	-	16,491,336
Deferred tax liability	15,626,854	864,482	-	16,491,336
Employees' end of services benefits	6,749,550	(2,505,772)	62,479	4,306,257
Provision for slow moving inventory	2,861,348	(294,658)	-	2,566,690
Provision for impairment of trade receivables	716,894	19,983	-	736,877
Provision for guarantee	3,849,600	-	-	3,849,600
Accumulated taxable losses	10,145,696	6,128,138	-	16,273,834
Deferred tax asset	24,323,088	3,347,691	62,479	27,733,258
Net deferred tax asset	8,696,234	2,483,209	62,479	11,241,922

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

9. INVENTORIES

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
		SR	SR
Raw material		19,174,290	18,664,852
Goods in transit		2,958,946	6,640,058
Work in progress		32,749,464	64,952,722
Finished goods		45,213,918	26,868,818
By-products		4,358,261	9,152,012
Store, spare and supplies		<u>45,545,623</u>	<u>48,086,200</u>
		150,000,502	174,364,662
Allowance for slow moving inventory	9.1	<u>(22,863,298)</u>	<u>(24,298,538)</u>
		<u>127,137,204</u>	<u>150,066,124</u>

9.1 Movement in provision for slow moving inventory is as follows:

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
		SR	SR
Opening balance		24,298,538	18,084,206
(Reversal) /addition for the year	18	(1,435,240)	7,137,070
Utilized against inventories written off		-	(922,738)
Closing balance		<u>22,863,298</u>	<u>24,298,538</u>

Allowance for slow moving inventory is based on the nature and type of inventories, aging history and future sales expectations based on historical trends and other related factors.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the followings:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	SR	SR
Cash on hand	44,500	61,982
Cash at banks	<u>149,010,421</u>	<u>39,444,800</u>
	<u>149,054,921</u>	<u>39,506,782</u>

10.1 Reconciliation of liabilities arising from financing activities

	<u>December 31, 2019</u>	<u>Loans (paid) / received, net</u>	<u>Interest (paid) / accrued, net</u>	<u>Finance lease liability</u>	<u>Amortization of finance charges</u>	<u>December 31, 2020</u>
	SR	SR		SR	SR	SR
SIDF term loan	107,279,671	(96,608)	928,000	-	119,930	108,230,993
SIDF working capital loan	-	83,830,000	(1,593,000)	-	796,500	83,033,500
Short term Murabaha loan	179,981,763	(4,691,970)	(260,686)	-	-	175,029,107
Finance lease liability	<u>7,604,010</u>	<u>(1,595,583)</u>	-	<u>1,760,819</u>	<u>217,283</u>	<u>7,986,529</u>
	<u>294,865,444</u>	<u>77,445,839</u>	<u>(925,686)</u>	<u>1,760,819</u>	<u>1,133,713</u>	<u>374,280,129</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

10. CASH AND CASH EQUIVALENTS (Continued)

10.2 Significant non-cash transactions

	December 31, 2020	December 31, 2019
	SR	SR
Transfer of capital work in progress to property, plant and equipment	10,259,989	10,302,633
Transfer of capital work in progress to intangible assets	2,550,367	1,913,508
Right of use assets and lease liability	1,760,818	7,571,419
Unwinding of employee loans	679,500	721,293
Absorption of accumulated losses against share premium	-	126,793,725
Right of use adjusted against prepayments	-	743,778
Transferred from EOSB to accrued liabilities	-	2,876,852

11. EQUITY

11.1 Share capital

	Number of shares		Share Capital	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
			SR	SR
Authorized issued and fully paid				
Ordinary shares of SR 10 each				
fully paid in cash	51,000,000	51,000,000	510,000,000	510,000,000

The distribution of shares into Saudi and non-Saudi shareholders is as follows;

	December 31, 2020	December 31, 2019
	SR	SR
Non-Saudi 64.17%	327,251,630	327,251,630
Saudi 35.83%	182,748,370	182,748,370
	510,000,000	510,000,000

Share capital has not been reduced by treasury shares, which has been distributed to Saudi shareholders in the above schedule.

11.2 Premium and other reserves

	Note	December 31, 2020	December 31, 2019
		SR	SR
Share premium	11.2 (a)	4,512,330	4,512,330
Statutory reserve	11.2 (b)	58,494,224	58,494,224
Other reserves	11.2 (c)	(7,014,507)	(6,617,758)
Accumulated losses	11.2 (d)	(61,305,010)	(26,828,587)

11.2 (a) Share premium

The share premium represents excess of issue price over the par value on shares issued to the public at time of initial public offering. Number of shares offered to the public was 16 million shares with price of SR 25 per share with a nominal value of SR 10 per share. Initial expenses for issuing these shares were SR 21 million, which has been deducted from the share premium.

During the year ended December 31, 2018, the shareholders of the Group in their Ordinary General Assembly Meeting held at September 5, 2018 approved the recommendation of the Board of Directors to cover the accumulated losses amounting to SR 87.52 million as of June 30, 2018 by transfer from the share premium to the accumulated losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

11. EQUITY (Continued)

11.2 Premium and other reserves (Continued)

11.2 (a) Share premium (Continued)

As at December 31, 2018, the accumulated losses of the Group had reached to SR 126.8 million. In the meeting of Board of Directors dated March 17, 2019, the board members unanimously resolved to absorb the whole amount of accumulated losses as at December 31, 2018 by transferring the same amount from share premium to accumulated losses. The resolution was later ratified by the shareholders in their general assembly meeting dated May 7, 2019.

11.2 (b) Statutory reserve

In accordance with Company's By-Laws, the Group is required to transfer 10% of net income each year to a statutory reserve until such reserve equals 30% of its share capital. This reserve is not available for distribution to shareholders. No transfer was made during the year due to the losses incurred.

11.2 (c) Other reserves

Other reserves represent the cumulative re-measurement gains or losses arising from experience adjustments and changes in actuarial assumptions used for estimating the employees' end-of-service benefits obligation at end of each financial position date and deferred tax on actuarial reserve.

	December 31, 2020	December 31, 2019
	SR	SR
Actuarial re-measurement losses	(8,051,188)	(7,591,960)
Deferred tax impact on OCI	1,036,681	974,202
	(7,014,507)	(6,617,758)

11.2 (d) Accumulated losses

The distribution of accumulated losses into Saudi and non-Saudi shareholders is as follows:

	December 31, 2020	December 31, 2019
	SR	SR
Saudi share	(27,018,054)	(12,645,230)
Non-Saudi share	(34,286,956)	(14,183,357)
	(61,305,010)	(26,828,587)

11.3 Treasury shares

	2020	2019
As at January 1 and December 31	(11,502,225)	(11,502,225)

The treasury shares held by the Group represent 2.26% of the share capital. Their market value amounts to SR 12.9 million as of December 31, 2020 (2019: 9.5 million). The Group initially acquired 700,000 shares offered to the public for the employee share program at the price of SR 25 per employee share options scheme, subsequently an additional 62,812 shares had been purchased at an average price of SR 29 per share. This employee share program is divided into four types of shares, namely; free shares, credit shares, cash shares and future shares. During the year 2020 and 2019, the Group has not granted shares to employees. The remaining 457,689 shares will be distributed to the employees gradually according to the program. The employee shares program is initially recorded in the balance sheet as a deduction to shareholder's equity and this deduction is reduced upon issuance of shares to employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

12. BORROWINGS

	Current		Non-Current	
	December 31, 2020 SR	December 31, 2019 SR	December 31, 2020 SR	December 31, 2019 SR
Term loans				
Saudi Industrial Development Fund (SIDF)	-	-	108,230,993	107,279,671
Short Term				
SIDF – working capital loan	83,033,500	-	-	-
Murabaha loan	175,029,107	179,981,763	-	-
	258,062,607	179,981,763	108,230,993	107,279,671
Current portion of long term loans	29,600,516	47,474,754	(29,600,516)	(47,474,754)
Total borrowings	287,663,123	227,456,517	78,630,477	59,804,917

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	78,660,786	Long-term	6	Semi-annual	April 2018 to February 2024	Follow-up cost every 6 month
SIDF – II	29,570,207	Long-term	4	Semi-annual	July 2016 to July 2022	Follow-up cost every 6 month
Total long term	108,230,993					
SIDF – working capital loan	83,033,500	Short-term	-	Within 12 months	July 2020 to June 2021	Upfront fee
Murabaha loan	175,029,107	Short-term	-	From 3 to 6 months	-	SIBOR+1.25% to 1.75%
Total short term	258,062,607					
Total borrowings	366,293,600					

During the year, the Group has requested to restructure the loans with Saudi Industrial Development Fund (SIDF), which was approved by SIDF. Hence, the loans are classified according to revised repayment terms of the new contract, which resulted in modification gain of SR 2.4 million (note 22). Further, the Group obtained a short term loan from SIDF amounting to SR 83 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 which has a balance of SR 29.3 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, the acceptance of rescheduling 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

13. EMPLOYEES' END OF SERVICE BENEFITS

The Group carried out actuarial valuations to account for its obligations under defined benefit plan. Following mentioned results are extracted from actuarial valuation.

Movement in employees' end of service benefits during the year is as follows:

	December 31, 2020	December 31, 2019
	SR	SR
Opening balance	55,554,419	58,325,525
Expense charge for the year	2,249,742	7,565,800
Re-measurement loss	459,228	5,530,723
Payments	(23,570,703)	(12,990,777)
Transferred to accrued liabilities for outgoing members	-	(2,876,852)
Closing balance	34,692,686	55,554,419

Charged to consolidated statement of profit or loss for the year:

	December 31, 2020	December 31, 2019
	SR	SR
Service cost	603,824	4,947,959
Interest cost	1,645,918	2,617,841
Cost recognized in profit and loss	2,249,742	7,565,800

Principal actuarial assumptions:

	December 31, 2020	December 31, 2019
Discount factor used	2.25%	2.95%
Salary increase rate	2.25%	2.95%
Rates of employees turnover	Moderate	Moderate
Weighted average duration	10.2 years	9.47 years

Sensitivity analysis on present value of defined benefit obligations plan are as below:

	December 31, 2020		December 31, 2019	
	Percentage	Amount SR	Percentage	Amount SR
Discount rate				
Increase	+ 1 %	31,415,716	+ 0.5 %	53,019,375
Decrease	- 1 %	38,536,991	- 0.5 %	58,291,896
Expected rate of salary				
Increase	+ 1 %	37,032,416	+0.5 %	57,413,505
Decrease	- 1 %	32,612,254	- 0.5 %	53,801,227

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the end-of-service indemnities recognised within the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

14. TRADE AND OTHER PAYABLES

Trade and other payables comprise of the following:

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
		SR	SR
<u>Current</u>			
Trade payables		129,454,634	156,482,724
Due to related parties	24 B	23,862,747	13,508,196
Accrued expenses		11,076,464	19,775,163
VAT payable		5,769,215	1,652,254
Advances from customers		3,316,504	13,608,146
BOD payable remuneration		2,343,309	1,852,738
Retention payable		1,080,328	2,259,097
Other liabilities		-	630,513
		<u>176,903,201</u>	<u>209,768,831</u>
<u>Non-current</u>			
Provision for liability against guarantee to an investee company	14.1	<u>30,000,000</u>	30,000,000
		<u>206,903,201</u>	<u>239,768,831</u>

14.1 The Group had provided a corporate guarantee to one of its investee companies in the past. 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 to be 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, the management believes that guarantee is not expected to be maturing for payment within next twelve months and accordingly, classified as non-current liability.

15. ZAKAT AND INCOME TAX

15.1 Movement in provision for zakat and income tax is as follows:

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
		SR	SR
At the beginning of the year		-	7,415,788
Payments		(1,109,671)	(1,622,474)
Provision charged / (reversed) during the year	15.2	<u>1,759,587</u>	<u>(5,793,314)</u>
At the end of the year		<u>649,916</u>	-

15.2 Components of current zakat and income tax expense / (benefit) for the year:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	SR	SR
Zakat		
Current year	649,916	-
Prior years	1,109,671	(1,811,217)
Income tax		
Prior years	-	(3,982,097)
Total current zakat and income tax expense / (benefit)	<u>1,759,587</u>	<u>(5,793,314)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

15. ZAKAT AND INCOME TAX (Continued)

15.2 Components of current zakat and income tax expense / (benefit) for the year (Continued):

	Note	December 31, 2020 SR	December 31, 2019 SR
Deferred tax			
Increase in deferred tax liability	8	864,482	15,626,854
Increase in deferred tax asset	8	(3,410,170)	(24,323,088)
Net deferred tax benefit		(2,545,688)	(8,696,234)
Total Zakat and income tax benefit		(786,101)	(14,489,548)

Charged zakat and income tax for the year has been allocated as follows:

	December 31, 2020 SR	December 31, 2019 SR
Profit or loss	(723,622)	(13,515,346)
Other comprehensive income	(62,479)	(974,202)
	(786,101)	(14,489,548)

15.3 The zakat and income tax provision for the year based on the following:

	December 31, 2020 SR	December 31, 2019 SR
a) Zakat		
Zakat for holding Company		
Opening share capital	510,000,000	510,000,000
Treasury shares	(11,502,225)	(11,502,225)
Accumulated losses	(26,828,587)	(126,793,733)
Reserves and opening provisions less utilized	122,236,172	243,686,151
Zakatable loans	184,666,225	77,261,836
Closing value of long term assets	(671,362,670)	(673,948,817)
Zakatable loss for the year	(37,984,492)	(50,832,986)
Zakat base	69,224,423	(32,129,774)
Attributable to Saudi Shareholders @ 35.83%	24,803,111	-
Zakat due for Saudi shareholding of the holding Company	649,916	-
Zakat for subsidiary company	-	-
Total Zakat	649,916	-
	December 31, 2020 SR	December 31, 2019 SR
b) Income tax		
Loss before zakat and income tax	(34,947,688)	(40,343,933)
Adjustments	(24,383,454)	(10,489,053)
Taxable loss for the year	(59,331,142)	(50,832,986)
Attributable loss to Non-Saudi shareholders at 64.17%	(38,072,794)	(32,617,995)
Income tax due at 20% of Non-Saudi shareholders	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

15. ZAKAT AND INCOME TAX (Continued)

15.4 Zakat and income tax status

The Holding Company has filed zakat and income tax return for the year ended December 31, 2019 and obtained the required certificate valid until April 30, 2021. The Holding Company was previously inspected and had last assessment up to year 2004. During the year, GAZT issued its assessment orders for the years from 2014 to 2018, the status of those assessments as of December 31, 2020 are as follows:

- **2014:** Settled in December 2020 and charged to the consolidated statement of profit or loss and other comprehensive income resulting an additional zakat liability amounting to SR 208,117.
- **2016 and 2017:** Settled subsequent to year end net additional zakat and tax liabilities amounting to SR 51,785 for the two years. No provision has been established as of December 31, 2020 due to the insignificance of the amount.
- **2015 and 2018:** The total additional zakat and tax liabilities as per GAZT assessments for the two years amount to SR 822,176. Subsequent to year end, the Holding Company filed objections to GAZT assessments for the two years, management estimates the additional final liabilities to be paid for the two years to range from SR 160,000 to SR 200,000, accordingly, no provision has been established as of December 31, 2020 due to the insignificance of the amount.

The subsidiary Company has filed the zakat return for the year ended December 31, 2019 and obtained the required certificate. The GAZT has not issued any assessment to the Subsidiary for the years until December 31, 2019.

16. LEASE LIABILITIES

Commitments for minimum lease payments under lease are as follows:

	December 31, 2020	December 31, 2019
	SR	SR
Within one year	1,355,280	1,509,304
Year two to five	4,509,216	4,198,520
Year five and above	3,193,568	3,094,816
Minimum lease payments	9,058,064	8,802,640
Less: finance charges	(1,071,535)	(1,198,630)
Net minimum lease payments	7,986,529	7,604,010
Non-current portion	6,870,670	6,978,705
Current portion	1,115,859	625,305

During the year, the Group charged SR 0.22 million of interest expense on lease liabilities.

17. CONTINGENCIES AND COMMITMENTS

	December 31, 2020	December 31, 2019
	SR	SR
Letters of credit	3,421,013	40,798,878
Letters of guarantee	149,223,946	164,699,164
Corporate guarantees (note 17.1)	493,092,488	493,879,690
Capital commitments	2,257,270	1,851,961

17.1 The Group and the other shareholders of associate have issued corporate guarantees to secure repayment of loan agreements entered into by GPC, with the Saudi Investment Development Fund, the Saudi British Bank, the National Commercial Bank and Banque Saudi Fransi to finance GPC's capital expenditures and working capital.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

18. COST OF REVENUE

	December 31, 2020	December 31, 2019
	SR	SR
Raw material consumed, net	308,531,604	370,886,741
Stores, spares parts and consumables	36,039,223	54,117,929
Salaries and staff related benefits	57,477,752	109,315,919
Services and subcontractor	8,603,946	18,424,966
Depreciation of fixed assets	41,172,880	42,451,934
Amortization of right of use assets	890,241	750,686
(Reversal) / provision for slow moving inventory	(1,435,240)	7,137,070
Others	18,733,073	25,740,071
Total operating cost	470,013,479	628,825,316
Movement in inventory	13,858,158	29,549,684
Total	483,871,637	658,375,000

19. SELLING, MARKETING AND DISTRIBUTION EXPENSES

	December 31, 2020	December 31, 2019
	SR	SR
Salaries and wages	4,634,746	7,825,520
Local transportation	4,188,635	4,465,875
Freight charges – export	62,900	658,690
Others	1,145,026	1,142,117
	10,031,307	14,092,202

20. ADMINISTRATIVE EXPENSES

	December 31, 2020	December 31, 2019
	SR	SR
Salaries and wages	15,767,239	20,152,199
End of service indemnity cost	19,615,110	788,245
Directors remuneration	1,618,667	2,229,736
Amortization of intangible assets	1,617,864	427,013
Depreciation of fixed assets	1,280,224	1,137,975
Information technology expenses	801,908	2,265,445
Others	4,793,594	6,014,196
	45,494,606	33,014,809

21. OTHER (INCOME) / EXPENSES, NET

	December 31, 2020	December 31, 2019
	SR	SR
Income on inter-company services, net	(827,943)	(510,904)
(Gain) / loss on disposal of property, plant and equipment	(598,850)	1,477,565
Property, plant and equipment written off	-	57,963
Other expense / (income), net	1,204,742	(839,871)
	(222,051)	184,753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

22. FINANCIAL CHARGES, NET

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	SR	SR
Finance cost on bank borrowings	6,520,712	9,233,514
Unwinding of interest on SIDF loans	3,351,949	2,293,164
Modification gain on rescheduling of loans (note – 22.1)	(2,435,519)	-
Follow-up fee on SIDF loans	2,102,800	2,429,800
Unwinding of employee loans	(679,500)	(721,293)
Bank charges including facility fee	258,718	787,048
Finance charge on lease liabilities	217,283	255,124
	<u>9,336,443</u>	<u>14,277,357</u>

22.1 During the year, the Group has requested to restructure the loans with Saudi Industrial Development Fund (SIDF), which was approved by SIDF. Rescheduling the payments as per revised agreement resulted in modification gain of 2.4 million.

23. SEGMENT REPORTING

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 3 of these consolidated financial statements.

Segment analysis of the Group's operations for the year consist of the following:

	<u>Steel pipes</u>	<u>Process equipment</u>	<u>Unallocated</u>	<u>Total</u>
<u>As at December 31, 2020</u>	SR	SR	SR	SR
Non-current assets	554,258,056	18,455,836	110,192,967	682,906,859
Total assets	938,330,389	61,821,101	110,192,967	1,110,344,457
Total liabilities	513,087,450	71,728,888	32,343,307	617,159,645
<u>For the year ended December 31, 2020</u>				
Revenue	474,896,727	33,615,247	-	508,511,974
Cost of revenue	(455,752,822)	(28,118,815)	-	(483,871,637)
Loss for the year	(35,863,246)	(1,362,611)	2,749,434	(34,476,423)
Share of profit in associate	-	-	4,771,362	4,771,362
Unallocated other expenses	-	-	(2,021,928)	(2,021,928)
<u>For the year ended December 31, 2019</u>				
	Steel pipes	Process Equipment	Unallocated	Total
<u>As at December 31, 2019</u>	SR	SR	SR	SR
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	367,013,592	191,969,477	31,852,738	590,835,807
<u>For the year ended December 31, 2019</u>				
Revenue	582,549,301	89,003,833	-	671,553,134
Cost of revenue	(560,880,04)	(97,494,957)	-	(658,375,000)
Loss for the year	(11,257,658)	(22,281,078)	6,710,149	(26,828,587)
Share of profit in associate	-	-	8,939,885	8,939,885
Unallocated other expenses	-	-	(2,229,736)	(2,229,736)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

23. SEGMENT REPORTING (Continued)

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 as at December 31, 2020 and 2019, categorized by these geographic segments is as follows:

	December 31, 2020	December 31, 2019
	SR	SR
Saudi Arabia	496,490,883	654,120,163
Other countries	12,021,091	17,432,971
	508,511,974	671,553,134

Transactions with a major customer

Revenue from one major customer accounted for 59.37% of the total revenue for the year (2019: 52.35%).

24. 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>
Tenaris Saudi Arabia Co. Ltd ("TESA")	Shareholder
Hu Steel Company Ltd.	Shareholder
Rabiah & Nassar Group	Former Shareholder
Saudi Pan Gulf Company	Former affiliate
Chemical Development Company	Affiliate
Dalmine S.P.A	Affiliate
NKK Tubes	Affiliate
S.C. SilcoTub S.A.	Affiliate
Tenaris Global Services Switzerland	Affiliate
Tenaris Global Services Uruguay	Affiliate
Exiros Saudi Arabia Limited	Affiliate
Siderca S.A.I.C.	Affiliate
Global Pipe Company	Associate

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

24. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

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

<u>Related party</u>	<u>Nature of transaction</u>	<u>December 31, 2020</u> SR	<u>December 31, 2019</u> SR
Dalmine S.P.A	Technical services	3,215,353	879,191
Dalmine S.P.A	IT services	619,505	-
Tenaris Saudi Arabia Limited ("TESA")	Services agreement	(2,742,591)	(1,065,618)
Tenaris Saudi Arabia Limited ("TESA")	Trading services	2,213,511	-
Tenaris Saudi Arabia Limited ("TESA")	Purchase	64,266	-
Exiros Saudi Arabia Limited	Services received	1,989,124	-
Exiros Saudi Arabia Limited	Rental services	(74,476)	-
Siderca S.A.I.C.	IT services	1,329,703	796,683
S.C. SilcoTub S.A.	Purchases	1,278,998	15,705,000
S.C. SilcoTub S.A.	IT services	108,346	-
Hu Steel Company Ltd.	Service rendered	366,207	389,674
Tenaris Global Services Uruguay	Purchase	260,173	240,385
NKK Tubes	Purchase	37,734	-
Tenaris Global Services Switzerland	Expense on behalf	-	71,494
Rabiah & Nassar Group	Sales	-	181,527
Saudi Pan Gulf	Sales	-	809,926

A) Balances receivable from related parties are as follows:

	<u>December 31, 2020</u> SR	<u>December 31, 2019</u> SR
Tenaris Saudi Arabia Limited ("TESA")	938,419	1,110,020
Exiros Saudi Arabia Limited	85,648	-
	<u>1,024,067</u>	<u>1,110,020</u>

B) Balances payable to related parties are as follows:

	<u>December 31, 2020</u> SR	<u>December 31, 2019</u> SR
S.C. SilcoTub S.A.	13,152,446	11,760,000
Dalmine S.P.A.	5,036,740	879,191
Tenaris Saudi Arabia Limited ("TESA")	2,620,279	-
Siderca S.A.I.C.	2,118,801	796,683
Exiros Saudi Arabia Limited	557,246	-
Tenaris Global Services Uruguay	260,165	-
Tenaris Global Services Switzerland	79,336	72,322
Tenaris NKK Tubes	37,734	-
	<u>23,862,747</u>	<u>13,508,196</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

24. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

C) Remuneration of directors and key management personnel

	December 31, 2020		December 31, 2019	
	Directors SR	Key management personnel SR	Directors SR	Key management personnel SR
Board Remuneration	1,618,667	-	2,229,736	-
Salaries and wages	-	2,685,788	-	2,536,842
Allowances	-	1,152,609	-	1,048,646
Bonus	-	88,363	-	1,000
End of service	-	133,750	-	147,813
Others	-	980,720	-	-
	1,618,667	5,041,230	2,229,736	3,734,301

Board Remuneration payable amounted to SR 2.3 million – note 14 (2019: 1.8 million).

25. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. 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 for the year are represented as follows:

	December 31, 2020 SR	December 31, 2019 SR
Basic loss per share	(0.68)	(0.53)
Loss for the year	(34,476,423)	(26,828,587)
Weighted average number of outstanding shares	50,542,311	50,542,311
Diluted loss per share	(0.68)	(0.53)
Loss for the year	(34,476,423)	(26,828,587)
Weighted average number of outstanding shares, considering the effect of dilutive shares	51,000,000	51,000,000
Reconciliation of weighted average number of outstanding shares		
Number of issued shares	51,000,000	51,000,000
<u>Less:</u> Treasury shares- shares kept for ESOP	(762,812)	(762,812)
<u>Add:</u> Weighted average number of shares issued to employees	305,123	305,123
Number of outstanding shares	50,542,311	50,542,311
Weighted average number of outstanding shares	50,542,311	50,542,311

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

26. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to the following financial risks from its use of the financial instruments:

- Credit risk and concentration of credit risk
- Liquidity risk
- Market risk (including interest rate risk and Foreign currency exchange risk)

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

26.1 Financial instruments by category

	December 31, 2020	December 31, 2019
	SR	SR
Financial assets at amortized cost:		
Trade receivables, net	142,793,013	208,984,147
Employee loans	5,047,697	11,084,428
Other receivables	5,146,508	528,080
Due from related parties	1,024,067	1,110,020
Cash and cash equivalents	149,054,921	39,506,782
Total financial assets	303,066,206	261,213,457
	December 31, 2020	December 31, 2019
	SR	SR
Financial liabilities at amortized cost:		
Borrowings	366,293,600	287,261,434
Trade and retention payables	131,168,675	159,388,934
Provision for liability against guarantee to an investee company	30,000,000	30,000,000
Due to related parties	23,862,747	13,508,196
Accrued expenses	11,076,464	19,775,163
Lease liabilities	7,986,529	7,604,010
BOD payable remuneration	2,343,309	1,852,738
Other liabilities	-	630,513
Total financial liabilities	572,731,324	520,020,988

The Group has no financial liability at fair value through profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

26. FINANCIAL RISK MANAGEMENT (Continued)

26.2 Risk management of financial instruments

The Group reviews and agrees policies for managing each of the risks and these policies are summarized below:

26.2.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Group has policies in place to minimize its exposure to credit risk. The maximum exposure to credit risk at the reporting date is as follows:

	December 31, 2020	December 31, 2019
	SR	SR
Trade receivables, net	142,793,013	208,984,147
Employee loans	5,047,697	11,084,428
Other receivables	5,146,508	528,080
Due from related parties	1,024,067	1,110,020
Bank balances	149,010,421	39,444,800
	303,021,706	261,151,475

Due to Group's long standing relations with counterparties and after giving due consideration to their financial standing, the management does not expect non-performance by these counter parties on their obligations to the Group except when trade receivables considered doubtful.

The Group's management determines the credit risk by regularly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' aging analysis. In monitoring the customers' credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a restricted customer list, and future credit sales are made only with approval of the Board of Directors, otherwise payment in advance is required. The group assess the recoverable amount of its receivables to ensure adequate allowance for impairment is made.

The Group is potentially subject to concentration of credit risk as outstanding account receivable from one of major customer represents 34.1% (2019: 38.7%) of total receivable balance. However, the Group does not believe significant credit risk exist as the customer is trust worthy and has a good credit history with the Group.

Receivables are classified as past due if they are outstanding for more than ninety days. The aging of trade debts as at the consolidated statement of financial position date is as under:

	Carrying amount	Not Due	Past due			Provision
			90-180 Days	Up to 1 year	Above 1 year	
	SR	SR	SR	SR	SR	SR
2020						
Trade receivables	142,793,013	102,296,283	40,206,353	3,190,787	4,061,280	(6,961,690)
2019						
Trade receivables	208,984,147	142,306,437	40,734,525	27,157,474	6,372,490	(7,586,779)

Employee loans include certain amounts secured by mortgages of properties owned by employees such as land, building and vehicles for those who do not have sufficient end of service benefit balance that cover the loan balance.

Bank balances are held with banks with good credit ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

26. FINANCIAL RISK MANAGEMENT (Continued)

26.2.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 30 days. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings, this is further discussed in the 'interest rate risk' section below.

The Group's financial current liabilities consist of the current portion of bank facilities; trade accounts payable and accrued expenses and other liabilities. These liabilities are expected to be settled within 12 months of the consolidated statement of financial position date and the Group expects to have adequate funds available to do so.

The table below summarizes the maturity profile of the Group's financial liabilities based on undiscounted contractual cash payments:

	Carrying amount	Contractual cash flows	Less than 3 months	3 to 12 Months	1 to 5 Years
	SR	SR	SR	SR	SR
December 31, 2020					
Interest-bearing loans and lease liabilities	374,280,129	378,185,562	153,900,731	136,382,049	87,902,782
Trade and retention payable	131,168,675	131,168,675	129,454,634	1,080,328	633,713
Provision for liability against guarantee to an investee company	30,000,000	30,000,000	-	-	30,000,000
Due to related parties	23,862,747	23,862,747	23,862,747	-	-
Accrued expenses	11,076,464	11,076,464	11,076,464	-	-
BOD payable remuneration	2,343,309	2,343,309	2,343,309	-	-
Total financial liabilities	572,731,324	576,636,757	320,637,885	137,462,377	118,536,495
December 31, 2019					
Interest-bearing loans and lease liabilities	294,865,444	296,286,534	49,366,016	175,722,683	71,197,835
Trade and retention payable	159,388,934	159,388,934	158,741,821	-	647,113
Provision for liability against guarantee to an investee company	30,000,000	30,000,000	-	-	30,000,000
Accrued expenses	19,775,163	19,775,163	19,775,163	-	-
Due to related parties	13,508,196	13,508,196	13,508,196	-	-
BOD payable remuneration	1,852,738	1,852,738	1,852,738	-	-
Other liabilities	630,513	630,513	630,513	-	-
Total financial liabilities	520,020,988	521,442,078	243,874,447	175,722,683	101,844,948

As at December 31, 2020 the Group's current liabilities exceeded its current assets. The Group is managing its future cash flow requirements through cash inflows from operations and un-availed credit facilities. As at the year end, the Group has liquid assets of SR 297.8 million (2019: SR 253.8 million) and un-availed borrowing facilities of SR 109.8 million (2019: SR 24.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

26. FINANCIAL RISK MANAGEMENT (Continued)

26.2.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments due to fluctuation in the related financial instruments value. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

i) Fair value and cash flow commission rate risk

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's consolidated financial positions and cash flows. The Group is exposed to commission rate risk on its interest bearing assets and liabilities mainly bank facilities and other borrowings. Management limits the Group's interest rate risk by monitoring changes in interest rates. Management monitors the changes in interest rates and believes that the cash flow and fair value interest rate risk to the Group is not significant.

The Group's receivables and payables carried at amortized cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will significantly fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

ii) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not exposed to fluctuations in foreign exchange rates during its ordinary course of business, since all significant transactions of the Group during the year are in Saudi Riyals and US Dollars and there are no significant risks related to balances stated at US Dollars since the exchange of Saudi Riyal pegged to US Dollar. The Group's exposure to currency risk arising from currencies that are not pegged to USD (e.g. Euro, GBPs etc.) is not material.

26.2.4 Fair values of financial instruments

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group's financial assets consist of cash and cash equivalents, accounts receivables and some other assets, while its financial liabilities consist of borrowings, lease liabilities, trade and retention payables, some accrued expenses and other liabilities. The fair values of financial instruments are not materially different from their carrying values.

The carrying value of financial assets not measured at fair value have a reasonable approximation to its fair value. All financial liabilities are at amortized cost and their fair value is a reasonable approximation of fair value.

26.2.5 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or obtain / repay financing from / to financial institutions.

Consistent with others in the industry, the Group manages its capital risk by monitoring its debt levels and liquid assets and keeping in view future investment requirements and expectations of the shareholders. Debt is calculated as total of long term finance and short term borrowings. Total capital employed comprises shareholders' equity as shown in the consolidated statement of financial position under 'share capital and reserves' and net debt (net of cash and cash equivalent).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

26. FINANCIAL RISK MANAGEMENT (Continued)

The salient information relating to capital risk management of the Group as of December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
	SR	SR
Total debt	374,280,129	294,865,444
Less: Cash and bank balances	(149,054,921)	(39,506,782)
Net debt	225,225,208	255,358,662
Total equity	493,184,812	528,057,984
Total capital employed	718,410,020	783,416,646
Gearing ratio	31.35%	32.60%

27. 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 a negative EBITDA of SR (23.3) million in the first half of 2020 (“1H 2020”) compared to a positive SR 15.5 million in the first half of 2019 (“1H 2019”). Adjusted EBITDA (excluding non-recurring charges) amounted to SR (7.8) million in 1H 2020. In addition, net loss for 1H 2020 amounted to SR (44.8) million compared to SR (9.8) million in 1H 2019.

The Group ramped up its operations 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 throughout the second half of 2020 (“2H 2020”). 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 recovery of the Group results and a positive EBITDA of SR 37.6 million in 2H 2020 compared to negative SR (5.7) million in second half 2019 (“2H 2019”). Adjusted EBITDA (excluding non-recurring charges) amounted to SR 41.7 million in 2H 2020. In addition, 2H 2020 recorded a net profit amounting to SR 10.3 million compared to net loss of SR (17.0) million in 2H 2019.

On an annual basis, the Group recorded an increased EBITDA of SR 14.3 million in 2020 compared to SR 9.8 million in 2019, evidencing an improvement in spite of COVID-19 impact and oil prices collapse during 2020. Adjusted EBITDA (excluding non-recurring charges) increased to SR 33.9 million in 2020 compared to SR 12.2 million in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

28. SUBSEQUENT EVENTS

Subsequent to the year end, the Group has learned through the Ministry of Justice's online portal that the electronic title deeds to certain land plots of the Group had become inactive due to cancellation by court order. The affected land plots, with a total surface of 811,284 square meters, are located in Dammam and were purchased from a private entity on February 13, 2010, pursuant to a written purchase agreement duly executed by the Group in full compliance with the laws of the Kingdom of Saudi Arabia. The affected land plots, which were not subject to any building obligation, are not part of the production facility of the Group and have been partially used as a warehouse.

The affected land plots have a carrying value on the Group's consolidated financial statements of SR 157.9 million. As of the date hereof, neither the cancellation nor the court order have been notified to Group or otherwise been made public, and the legal basis for the court order is unknown. The Group is currently assessing the effects of the court order and the available alternatives to protect the land and reinstate the title deeds. At this time, it is not possible to predict the outcome of this matter.

In the opinion of the management, there have been no other significant subsequent events, except for disclosed aforesaid that would have a material impact on the consolidated financial position of the Group as reflected in these consolidated financial statements.

29. RECLASIFICATIONS

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

30. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on February 24, 2021 corresponding to Rajab 12, 1442.