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

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
<u>FOR THE YEAR ENDED DECEMBER 31, 2023</u>

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2023

INDEX

Head office: Moon Tower - 8 Floor
P.O. Box 8736, Riyadh 11492
Unified Number : 92 002 4254
Fax : +966 11 278 2883

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Saudi Steel Pipes Company
(A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Saudi Steel Pipes Company (the "Company") and its subsidiaries (collectively referred to as "the "Group") which comprise the consolidated statement of financial position as at December 31, 2023 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policies 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, 2023, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting standards endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the requirements of International Code of Ethics for Professional Accounts (including International Independence Standards), endorsed in the Kingdom of Saudi Arabia (the "Code"), that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 31 to the accompanying consolidated financial statements. Electronic title deeds related to certain plots of land recorded by the Group became inactive due to a cancellation by the Court order, which management became aware of during the year 2021. Our opinion is not modified with respect of this matter.

Key Audit Matters

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

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Independent Auditors' Report for the audit of Saudi Steel Pipes Company (A Saudi Joint Stock Company) Consolidated Financial Statements for the year ended December 31, 2023 (Continued)

Key audit matters (Continued)

Key audit matter	*How the matter was addressed*
1- Revenue Recognition – Sale of goods	
During the year ended December 31, 2023, the Group recognized total revenue of SR 1,334.7 million (2022: SR 747.6 million). The Group sales require in various cases the approval and inspection by the customer prior to dispatch of the products. 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 record the revenue before satisfying the performance obligation, by recognizing revenue before transfer of control. Refer to Material accounting policies in note 4 for revenue, and note 21 for more details on revenue.	We have performed the following procedures to address this matter - Assessed the appropriateness of the Group's accounting policies for recognition and measurement of revenue in line with the requirements of relevant accounting standard; - Assessed the design and implementation, of relevant key controls over the revenue cycle; - Performed the cut-off test to ensure that the revenue is recorded in the appropriate year; - Tested on sample basis individual sales transactions and traced them to sales invoices, delivery note and other related documents. Further in respect of the samples tested, we checked that the revenue has been recognized as per the shipping terms; - Obtained a confirmation on the total revenue from one of the related parties, which represents 23.8% of the total revenue; - Assessed the completeness and sufficiency of disclosures relating to revenue in the consolidated financial statements.
2- Valuation and existence of inventory	
Inventories as at December 31, 2023 amounted to SR 639.2 million (December 31, 2022: SR 254.3 million) constitute around 31% (December 31, 2022: 24%) of the total assets of the Group. Inventories are stated at lower of cost or net realizable value. At each reporting date, management performed physical verification and reviews the valuation of inventories and writes down the cost of inventories that are forecasted to be sold below cost. We considered this as a key audit matter due to the significance of the inventory balance, its existence and the estimates related to the valuation of inventories. Refer to Material accounting policies in note 4 for Inventories policy, and note 11 for more details on Inventories.	We have performed the following procedures to address this matter - Assessed the appropriateness of the Group's accounting policies for recognition and measurement of inventories in line with the requirements of relevant accounting standard; - Observed on a sample basis the inventory count performed by the Group. - Selected a sample of inventory items and compared the quantities we counted to the quantities recorded. - Made enquiries regarding obsolete inventory items and looked at the condition of items counted. - Tested the valuation of finished goods inventories on sample basis by comparing their costs to their net realizable value; - Assessed the accuracy and completeness of the inventory aging provided by the management and evaluated the adequacy of allowance for obsolete / slow-moving inventories; - Assessed the adequacy of the disclosures in the Group's consolidated financial statements as per the applicable accounting standard.

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Independent Auditors' Report for the audit of Saudi Steel Pipes Company (A Saudi Joint Stock Company) Consolidated Financial Statements for the year ended December 31, 2023 (Continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual Report of the Group, 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 ("TCWG") for the Consolidated Financial Statements

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

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

Those Charged with Governance, in particular the Company's 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 that are 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 management.

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Independent Auditors' Report for the audit of Saudi Steel Pipes Company (A Saudi Joint Stock Company) Consolidated Financial Statements for the year ended December 31, 2023 (Continued)

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 exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's 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, actions taken to eliminate threats or safeguards applied.

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

For Dr. Mohamed Al-Amri & Co.

Maher T. Al-Khatieb
Certified Public Accountant
Registration No. 514

Dammam, on 22 Shabaan 1445 (H)
Corresponding to: 03 March 2024 G

د. محمد العمري وشركاه - محاسبون قانونيون
شركة مهنية رقم ٣٢٣/١١/٦٦/٢
س.ت ٢٠٥٠١٠٥٨٢٢
Dammam
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023

	Note	December 31, 2023 SR	December 31, 2022 SR
ASSETS			
Non-current assets			
Property, plant and equipment, net	6	**1,055,012,099**	453,910,003
Right-of-use assets, net	7	**11,015,120**	5,767,916
Intangible assets, net	8	**94,926**	145,691
Investment in an associate	9.1	-	114,140,390
Trade and other receivables – non-current	12	**2,792,101**	3,244,825
Deferred tax asset	10	**11,711,058**	12,859,081
		1,080,625,304	590,067,906
Current assets			
Inventories, net	11	**639,187,494**	254,310,061
Trade and other receivables, net	12	**115,486,215**	114,730,725
Cash and cash equivalents	13	**209,165,190**	79,332,267
		963,838,899	448,373,053
TOTAL ASSETS		**2,044,464,203**	1,038,440,959
EQUITY AND LIABILITIES			
Equity			
Share capital	14.1	**510,000,000**	510,000,000
Share premium	14.2	**4,512,330**	4,512,330
Statutory reserve	14.2	**75,799,387**	58,494,224
Other reserves	14.2	**(6,516,336)**	(4,820,282)
Retained earnings / (accumulated losses)	14.2	**149,578,747**	(6,167,721)
Treasury shares	14.3	**(11,502,225)**	(11,502,225)
Equity attributable to the shareholders of the Company		**721,871,903**	550,516,326
Non-controlling interests	14.4	**171,995,970**	-
Total equity		**893,867,873**	550,516,326
LIABILITIES			
Non-current liabilities			
Borrowings – non-current	15	**142,275,000**	99,335,476
Employees' end of service benefits	19	**42,490,172**	29,963,005
Lease liabilities	16	**7,917,099**	4,328,249
Trade and other payables – non-current	17	**30,000,000**	30,000,000
		222,682,271	163,626,730
Current liabilities			
Borrowings -current	15	**386,192,329**	123,965,564
Lease liabilities	16	**2,339,130**	1,067,581
Trade and other payables	17	**519,348,067**	190,071,479
Zakat and income tax	18	**20,034,533**	9,193,279
		927,914,059	324,297,903
TOTAL LIABILITIES		**1,150,596,330**	487,924,633
TOTAL EQUITY AND LIABILITIES		**2,044,464,203**	1,038,440,959

Mohammad AbdulAziz Al Shayea	Renwar Berzinji	Mohammed Anwar Alshakhouri
Authorized Director	**Chief Executive Officer**	**Chief Financial Officer**

The accompanying notes 1 to 32 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, 2023

	Note	December 31, 2023	December 31, 2022
		SR	SR
Revenue	21	**1,334,708,124**	747,622,847
Cost of revenue	22	**(1,051,357,874)**	(640,460,479)
Gross profit		**283,350,250**	107,162,368
Administrative expenses	23	**(37,685,426)**	(23,198,585)
Selling, marketing and distribution expenses	24	**(28,611,509)**	(16,544,510)
Allowance for expected credit loss	12.2	**(2,044,329)**	(580,391)
Other income, net	25	**10,205,414**	2,672,985
Operating income		**225,214,400**	69,511,867
Share of profit in an associate	9.1	**3,119,168**	9,174,384
Finance charges, net	26	**(36,966,718)**	(13,814,223)
Gain on bargain purchase	5	**40,330,649**	-
Loss on derecognition of an equity interest in an associate	5	**(9,675,029)**	-
Interest income		**2,384,285**	-
Profit before zakat and income tax		**224,406,755**	64,872,028
Zakat and income tax expense	18	**(6,944,933)**	(9,981,529)
Profit for the year from continuing operations		**217,461,822**	54,890,499
Loss from discontinued operations	27.1	**(200,412)**	(684,855)
Net profit for the year		**217,261,410**	54,205,644
Other comprehensive income			
(Loss) / gain from the re-measurement of employees' end of service benefits	19	**(2,116,806)**	1,235,994
Deferred tax income / (expense)	18	**207,626**	(158,603)
Other comprehensive income from discontinued operations	27.1	**-**	29,057
Total other comprehensive (loss) / income for the year		**(1,909,180)**	1,106,448
Total comprehensive income for the year		**215,352,230**	55,312,092
Net profit for the year attributable to:			
Shareholders of the Company		**173,051,631**	54,205,644
Non-controlling interests		**44,209,779**	-
Total comprehensive income for the year attributable to:			
Shareholders of the Company		**171,355,577**	55,312,092
Non-controlling interests		**43,996,653**	-
Earnings / (loss) per share attributable to the Shareholders of the Company:			
Continuing operations:			
Basic earnings per share	28	**3.428**	1.086
Diluted earnings per share	28	**3.397**	1.076
Discontinued operations:			
Basic loss per share	28	**(0.004)**	(0.014)
Diluted loss per share	28	**(0.004)**	(0.013)

Mohammad AbdulAziz Al Shayea	Renwar Berzinji	Mohammed Anwar Alshakhouri
Authorized Director	Chief Executive Officer	Chief Financial Officer

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023

	Share capital SR	Share premium SR	Statutory reserve SR	Other reserves SR	Retained earnings / (Accumulated losses) SR	Treasury shares SR	Total SR	Non-controlling interests SR	Total equity SR
Balance as at January 1, 2022	510,000,000	4,512,330	58,494,224	(5,926,730)	(60,373,365)	(11,502,225)	495,204,234	-	495,204,234
Net profit for the year	-	-	-	-	54,205,644	-	54,205,644	-	54,205,644
Other comprehensive income	-	-	-	1,106,448	-	-	1,106,448	-	1,106,448
Total comprehensive income	-	-	-	1,106,448	54,205,644	-	55,312,092	-	55,312,092
Balance as at December 31, 2022	510,000,000	4,512,330	58,494,224	(4,820,282)	(6,167,721)	(11,502,225)	550,516,326	-	550,516,326
At acquisition	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**127,999,317**	**127,999,317**
Net profit for the year	**-**	**-**	**-**	**-**	**173,051,631**	**-**	**173,051,631**	**44,209,779**	**217,261,410**
Other comprehensive income	**-**	**-**	**-**	**(1,696,054)**	**-**	**-**	**(1,696,054)**	**(213,126)**	**(1,909,180)**
Total comprehensive income	**-**	**-**	**-**	**(1,696,054)**	**173,051,631**	**-**	**171,355,577**	**43,996,653**	**215,352,230**
Transfer to statutory reserve	**-**	**-**	**17,305,163**	**-**	**(17,305,163)**	**-**	**-**	**-**	**-**
Balance as at December 31, 2023	**510,000,000**	**4,512,330**	**75,799,387**	**(6,516,336)**	**149,578,747**	**(11,502,225)**	**721,871,903**	**171,995,970**	**893,867,873**

Mohammad AbdulAziz Al Shayea	**Renwar Berzinji**	**Mohammed Anwar Alshakhouri**
Authorized Director	**Chief Executive Officer**	**Chief Financial Officer**

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SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	December 31, 2023	December 31, 2022
	SR	SR
Cash flows from operating activities:		
Profit / (loss) before zakat and income tax:		
– continuing operations	**224,406,755**	64,872,028
– discontinued operations	**(130,407)**	(408,557)
Adjustments for:		
Depreciation of property, plant and equipment	**53,801,524**	39,373,976
Depreciation of right-of-use assets	**2,169,791**	1,139,964
Amortization of intangible assets	**374,694**	2,043,857
Gain on disposal of property, plant and equipment	**(45,177)**	(20,784)
Property, plant and equipment – written off	**-**	114,462
Allowance for expected credit loss	**2,044,329**	257,967
Allowance / (reversal) of provision for inventories	**4,077,955**	(3,477,844)
Share of profit in an associate	**(3,119,168)**	(9,174,384)
Provision for employees' end of service benefits	**5,005,411**	3,430,581
Finance charges	**36,966,718**	13,814,358
Gain on bargain purchase	**(40,330,649)**	-
Loss on derecognition of an equity interest in associate	**9,675,029**	-
Interest income	**(151,333)**	-
	294,745,472	111,965,624
Movement in working capital		
Inventories	**(200,223,460)**	(132,603,501)
Trade and other receivables	**146,062,302**	81,940,896
Trade and other payables	**77,593,838**	19,014,275
Due to / from related parties	**46,594,590**	(74,569,942)
Cash generated from operations	**364,772,742**	5,747,352
Zakat and income tax paid	**(13,330,519)**	(2,542,347)
Employees' end of service benefits paid	**(4,127,229)**	(1,740,812)
Finance charges paid	**(31,957,404)**	(13,618,701)
Net cash generated from / (used in) operating activities	**315,357,590**	(12,154,508)
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash acquired	**(15,407,083)**	-
Additions to property, plant and equipment and intangible assets	**(7,789,635)**	(1,774,503)
Proceeds from sale of property, plant and equipment	**384,214**	64,564
Net cash used in investing activities	**(22,812,504)**	(1,709,939)
Cash flows from financing activities:		
Repayment of borrowings, net	**(160,150,006)**	(4,262,382)
Payment of lease liabilities	**(2,562,157)**	(1,908,303)
Net cash used in financing activities	**(162,712,163)**	(6,170,685)
Net change in cash and cash equivalents	**129,832,923**	(20,035,132)
Cash and cash equivalents at the beginning of the year	**79,332,267**	99,367,399
Cash and cash equivalents at the end of the year	**209,165,190**	79,332,267

Significant non-cash transactions (note 13.2)

Mohammad AbdulAziz Al Shayea	**Renwar Berzinji**	**Mohammed Anwar Alshakhouri**
Authorized Director	**Chief Executive Officer**	**Chief Financial Officer**

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Steel Pipes Company (the Company or SSPC) was initially incorporated as a limited liability company in the Kingdom of Saudi Arabia under the commercial registration number 2050009144 dated 27 Rajab 1400 (corresponding to 11 June 1980). On 4 Rajab 1430 (corresponding to 27 June 2009), the Company's legal status was transformed from a limited liability company to joint stock company (listed in the stock exchange).

As described in note 2, the consolidated financial statements include the financial statements of the Company and its subsidiaries Titanium and Steel Manufacturing Company Limited (TSM Arabia) and Global pipe company (GPC) (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 31463, 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:

CR No.	CR Dated (Hijri)	CR Dated (Gregorian)	Operating in
2051007037	8 Rabi Al-Awwal 1401	15 January 1981	Khobar
1010043325	22 Rabi Al-Thani 1402	17 February 1982	Riyadh
4030038355	7 Jumada Al-Akhir 1403	22 March 1983	Jeddah
1131012613	11 Muharram 1415	21 June 1994	Buraydah
2050128158	18 Dhul-Hijjah 1440	19 August 2019	Dammam

The following CRs were cancelled during the year 1131012613, 2051007037 and 4030038355. Also, the CR number 1010043325 was expired during the year.

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, 2023 include the financial statements of the Company and its following subsidiary:

Name of consolidated subsidiary	Principal activity	Effective ownership 2023	Effective ownership 2022
Titanium and Steel Manufacturing Company Limited (“TSM Arabia”)	Manufacture Stationary process equipment	**100%**	100%
Global Pipe Company (“GPC”) - (note 5)	Production of welded Pipes	**57.27%**	35.00%

TSM Arabia

TSM Arabia was formed under commercial registration number 2050073985 dated 4 Safar 1432H (corresponding to January 8, 2011) to produce stationary process equipment such as heat exchangers and pressure vessels. The subsidiary’s total share capital is SR 32 million of which the Group owns 100%. As of December 31, 2023, the accumulated losses of TSM Arabia exceeded its share capital by SR 123.5 million (December 31, 2022: SR 123.3 million). Further, during 2021, TSM Arabia sold its main operating assets, which include buildings, machinery and equipment and other assets, for a selling price of SR 36.4 million.

2. STRUCTURE OF THE GROUP (CONTINUED)

GPC

GPC is a closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 2055011330 dated 20 Muharram 1431H (corresponding to January 6, 2010 G) GPC is located in Jubail industrial city and is engaged in the production of welded pipes with different sizes and diameters, stainless steel pipes, 3-D pipe fittings, Aluminum alloy pipes, high-density welded pipes and diameters (refer to note 5).

3. BASIS OF PREPARATION

3.1 Statement of compliance

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

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 4.24.

3.3 Basis of Consolidation

The consolidated financial statements comprise those of Saudi Steel Pipes Company and of its subsidiaries (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.

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.

3. BASIS OF PREPARATION (CONTINUED)

3.3 Basis of Consolidation (Continued)

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.

Material 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 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS

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, 2023 or later.

New standards, interpretations and amendments effective from January 1, 2023

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 consolidated financial statements.

Amendments to standard	Description	Effective for annual years beginning on or after
IAS 8	Amendments - Definition of accounting estimates	January 1, 2023
IAS 1, IFRS practice statement 2	Amendments - Disclosure of Accounting Policies	January 1, 2023
IAS 12	Amendments - Deferred Tax Related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
IFRS 17	Insurance Contracts	January 1, 2023

3. BASIS OF PREPARATION (CONTINUED)

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

The Group has not early 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 16	Amendments - Liability in a Sale and Leaseback	January 1, 2024
IAS 1	Amendments - Classification of Liabilities as Current or Non-Current	January 1, 2024
IAS 1	Amendments - Non-current Liabilities with Covenants	January 1, 2024
IAS 7	Amendments - Supplier Finance Arrangements	January 1, 2024
IAS 21	Amendments - Lack of Exchangeability	January 1, 2025

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 consolidated financial statements of the Group in the year of initial application.

4. MATERIAL ACCOUNTING POLICIES

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

4.1 Financial instruments

(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.

(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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.1 Financial instruments (Continued)

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

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.

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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.1 Financial instruments (Continued)

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

(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).

(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.

4.2 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).
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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.2 Revenue from Contract with Customers (continued)

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.

<u>For sale of goods:</u>
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-steps approach mentioned previously.

<u>Warranty:</u>
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.

4.3 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	10 -50 years
Machinery and equipment	5 - 40 years
Vehicles	4 - 10 years
Furniture and fixture	4 - 10 years
Office equipment	4 - 10 years

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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.3 Property, plant and equipment (Continued)

Annual review of residual lives and useful lives (Continued)

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;

• 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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.3 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. Capital work-in-progress is not depreciated or amortized.

4.4 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 derecognition 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.

4.5 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 equal 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.

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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.6 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 is 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.

4.7 Cash and cash equivalent

Cash at bank comprise of cash at banks, cash in hand and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Group without any restrictions.

4.8 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.

4.9 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.

4.10 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

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.10 Functional and presentation currency (Continued)

Transactions and balances (Continued)

borrowings and cash at banks 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’.

4.11 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.

4.12 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.

4.13 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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.13 Lease liabilities (Continued)

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.

4.14 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.

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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.14 Employees benefits (Continued)

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.

4.15 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.

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.

4.16 Zakat, income tax and withholding tax

The Saudi Shareholders of the Group are subject to zakat calculated in accordance with the regulations of the Zakat, Tax and Custom Authority (ZATCA) 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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.16 Zakat, income tax and withholding tax (Continued)

Deferred tax (Continued)

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, plant 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.

4.17 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.

4.18 Administrative expenses

Administrative expenses include indirect costs not specifically part of cost of revenue 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.

4.19 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

As per IFRS 10, at the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value with the exception of liabilities related to employee benefit arrangements which are recognized and measured in accordance with IAS 19 - “Employee benefits”.

The Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value any resulting gain/loss is recognized in profit or loss. The fair value of previously held interest in the acquiree is then derecognized and included in a calculation of bargain purchase.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net identifiable assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.19 Business combination (continued)

The initial accounting for a business combination can be determined provisionally by the end of the measurement period (not exceeding 12 months from the acquisition date) and the business combination is accounted for using provisional amounts. Adjustments to provisional amounts and the recognition of newly identified asset and liabilities are made within the 'measurement period' where they reflect new information obtained about facts and circumstances that were in existence at the acquisition date.

4.20 Non-controlling interests

For Business combinations the Group has the choice, on a transaction-by-transaction basis, to initially recognise any non-controlling interest in the acquiree which is a present ownership interest and entitles its holders to a proportionate share of the entity's net assets in the event of liquidation at either acquisition date fair value or, at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

4.21 Discontinued operations and non-current assets held for sale

The results of discontinued operations are presented separately in the consolidated statement of profit and loss and other comprehensive income. Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This is the case when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and the sale is considered to be highly probable.

A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan has been initiated. Further, the asset (or disposal group) has been actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one-year from the date that it is classified as held for sale.

Non-current assets held for sale are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of the disposal group continued to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

4.22 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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.23 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 includes 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 industrial and construction sectors.

• Process Equipment Segment
This includes 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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.24 Critical judgments and estimates

Judgements
In the process of applying the Group accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(i) 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.

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

(i) Economic useful lives of property, plant and 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.

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

(iii) 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.

(iv) 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.

(v) 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 amortized 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.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.24 Critical judgments and estimates (Continued)

Estimates and assumptions (Continued)

(vi) 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.

5. GLOBAL PIPE COMPANY ("GPC") ACQUISITION

Acquisition and price determination
On May 17, 2023, the Company further acquired 22.27% of the shares of GPC for a purchase price of $6.3 million (equivalent to SR 23.6 million) paid in cash. The Company already owned 35% interest in GPC. Following completion of this transaction, the Company holds 57.27% interest in GPC and thereby it became a subsidiary of the Company. The Group has finalized the allocation of purchase consideration to the identifiable assets and liabilities acquired which has resulted in a bargain purchase amounting to SR 40.3 million.

The Company has started to consolidate GPC's balances and results of operations from May 17, 2023. Had the transaction been consummated on January 1, 2023, then the Company's unaudited pro forma net income would not have changed materially.

The allocation of the fair values determined for the assets and liabilities arising from the acquisition is as follows:

Fair value of acquired assets and liabilities as of the acquisition date (May 17, 2023):	**SR '000**
Assets	
Property, plant and equipment	**647,582**
Right-of-use assets	**5,443**
Intangible assets	**194**
Inventories	**188,732**
Trade and other receivables	**186,241**
Cash and cash equivalents	**8,231**
	1,036,423
Liabilities	
Borrowings	**(460,649)**
Lease liabilities	**(5,106)**
Customer advances	**(108,800)**
Employee's benefits	**(9,532)**
Trade and other Payables	**(134,270)**
Deferred tax liabilities	**(12,951)**
Zakat and income tax	**(5,561)**
	(736,869)
Fair value of identified net assets	**299,554**

5. GLOBAL PIPE COMPANY ("GPC") ACQUISITION (CONTINUED)

Loss on derecognition of GPC as an associate at acquisition date

The Company accounted for this transaction as a step-acquisition whereby the Company's ownership interest in GPC held before the acquisition, which amounted to SR 117.3 million, was remeasured to fair value at that date. As a result, the Company recorded a loss of approximately SR 9.7 million resulting from the difference between the carrying amount of its previously held interest in GPC and the fair value which is presented separately in the consolidated statement of profit or loss and other comprehensive income.

Loss on derecognition	**SR '000**
Fair value of previously held interest	**107,585**
Carrying value	**(117,260)**
FV loss resulted from the derecognition of associate	**(9,675)**

Gain on bargain purchase	**SR '000**
Fair value of consideration paid	**23,639**
Fair value of previously held interest	**107,585**
Fair value of NCI at acquisition	**127,999**
Total consideration	**259,223**
Fair value of identified net assets	**299,554**
Gain on bargain purchase	**40,331**

The Company acquired 22.27% of total assets and liabilities shown above, amounting to approximately SR 299.6 million. As a result of the acquisition, the Company recognized a bargain purchase gain for approximately SR 40.3 million which is presented separately in the consolidated statement of profit or loss and other comprehensive income.

Acquisition-related costs for the year ended 2022 were not material and for the year ended December 31, 2023 amounted to SR 1.2 million and were included in administrative expenses.

As consequence of this acquisition the Company additionally assumed a portion of EEW's corporate guarantees. The total exposure under these guarantees amounted to SR 268 million based on debt amounts as of December 31, 2023.

Net Cash Acquired

For the purpose of consolidated statement of cash flows, net cash acquired (or net additional investment made in GPC) amounted to SR 15.41 million was derived by taking the difference between cash and cash equivalent of GPC acquired amounted to SR 8.23 million and cash consideration paid amounted to SR 23.63 million.

6. PROPERTY, PLANT AND EQUIPMENT, NET

	Note	**December 31, 2023**	December 31, 2022
		SR	SR
Operating fixed assets, net	6.1	**819,957,944**	453,910,003
Capital work-in-progress	6.3	**235,054,155**	-
		1,055,012,099	453,910,003

6. PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

6.1 Operating fixed assets, net

Year ended December 31, 2023

	Land	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and Fixtures	Office and Equipment	Total
	SR	SR	SR	SR	SR	SR	SR
Cost							
At January 1, 2023	157,850,000	214,661,266	603,569,361	2,220,115	1,590,305	19,938,123	999,829,170
Acquired in business combination	6,150,000	209,572,750	416,653,320	20,947,491	1,226,232	4,807,800	659,357,593
Additions	-	-	961,378	-	-	-	961,378
Transferred from CWIP	-	479,928	-	-	-	3,795	483,723
Disposals	-	-	-	(1,218,000)	-	-	(1,218,000)
At December 31, 2023	164,000,000	424,713,944	1,021,184,059	21,949,606	2,816,537	24,749,718	1,659,413,864
Accumulated depreciation and impairment							
Accumulated depreciation							
At January 1, 2023	-	111,508,987	391,755,350	1,976,426	1,567,946	18,110,458	524,919,167
Acquired in business combination	-	5,241,749	215,350,469	15,353,991	999,583	3,668,400	240,614,192
Charge for the year	-	12,748,629	38,449,923	721,186	100,869	1,780,917	53,801,524
Disposals	-	-	-	(878,963)	-	-	(878,963)
At December 31, 2023	-	129,499,365	645,555,742	17,172,640	2,668,398	23,559,775	818,455,920
Accumulated impairment							
At January 1, 2023	-	6,995,357	14,004,643	-	-	-	21,000,000
At December 31, 2023	-	6,995,357	14,004,643	-	-	-	21,000,000
Total accumulated depreciation and impairment	-	136,494,722	659,560,385	17,172,640	2,668,398	23,559,775	839,455,920
Net Carrying amounts							
December 31, 2023	164,000,000	288,219,222	361,623,674	4,776,966	148,139	1,189,943	819,957,944

6. PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

6.1 Operating fixed assets, net (Continued)

Year ended December 31, 2022

	Land	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and Fixtures	Office and Equipment	Total
	SR	SR	SR	SR	SR	SR	SR
Cost							
At January 1, 2022	157,850,000	217,513,601	603,192,534	2,347,934	1,590,305	20,987,303	1,003,481,677
Transferred from CWIP	-	604,297	1,407,578	-	-	217,589	2,229,464
Disposals	-	-	-	(127,819)	-	-	(127,819)
Written off/adjustment	-	(3,456,632)	(1,030,751)	-	-	(1,266,769)	(5,754,152)
At December 31, 2022	157,850,000	214,661,266	603,569,361	2,220,115	1,590,305	19,938,123	999,829,170
Accumulated depreciation and impairment							
Accumulated depreciation							
At January 1, 2022	-	104,523,347	362,585,596	2,017,361	1,554,326	17,030,706	487,711,336
Charge for the year	-	7,856,951	29,654,613	43,104	13,620	1,805,688	39,373,976
Disposals	-	-	-	(84,039)	-	-	(84,039)
Written off/adjustment	-	(871,311)	(484,859)	-	-	(725,936)	(2,082,106)
At December 31, 2022	-	111,508,987	391,755,350	1,976,426	1,567,946	18,110,458	524,919,167
Accumulated impairment							
At January 1, 2022	-	9,633,872	14,489,771	-	-	433,941	24,557,584
Written off/adjustment	-	(2,638,515)	(485,128)	-	-	(433,941)	(3,557,584)
At December 31, 2022	-	6,995,357	14,004,643	-	-	-	21,000,000
Total accumulated depreciation and impairment	-	118,504,344	405,759,993	1,976,426	1,567,946	18,110,458	545,919,167
Net Carrying amounts							
December 31, 2022	157,850,000	96,156,922	197,809,368	243,689	22,359	1,827,665	453,910,003

6. PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

- The operating fixed assets include plots of land with a total carrying value of SR 157.9 million, for which the electronic title deeds become inactive due to cancellation by a court order as referred in note 31.
- Operating fixed assets amounting to SR 651.2 million are pledged as collateral against loans from SIDF.

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

	Note	December 31, 2023	December 31, 2022
		SR	SR
Cost of revenue	22	**51,417,067**	38,184,195
Administrative expenses	23	**2,384,457**	1,125,819
Depreciation from discontinued operation	27.2	**-**	63,962
		53,801,524	39,373,976

6.3 Capital work-in-progress

Movement in capital work-in-progress is as follows:

	Note	December 31, 2023	December 31, 2022
		SR	SR
Opening balance		**-**	652,335
Acquired in business combination		**228,840,000**	-
Additions during the year		**6,828,257**	1,774,503
Transferred to operating fixed assets	6.1	**(483,723)**	(2,229,464)
Transferred to intangible assets	8	**(130,379)**	(197,374)
Closing balance		**235,054,155**	-

The capital work in progress mainly includes the project under construction in GPC amounting to SR 234.9 million related to a new production line which is substantially completed at the reporting date. The new production line is under testing and commissioning phase and GPC management is expected to start the operations during 2024.

7. RIGHT-OF-USE ASSETS, NET

Movement in right-of-use assets is as follows:

	Land and buildings	Vehicles	Total
	SR	**SR**	**SR**
Cost			
At January 1, 2023	**7,471,167**	**2,020,328**	**9,491,495**
Acquired in business combination	**5,442,792**	**-**	**5,442,792**
Additions during the year	**-**	**1,784,124**	**1,784,124**
Lease modification	**-**	**190,079**	**190,079**
December 31, 2023	**12,913,959**	**3,994,531**	**16,908,490**
Accumulated Depreciation			
At January 1, 2023	**2,721,404**	**1,002,175**	**3,723,579**
Charge for the year	**990,147**	**1,179,644**	**2,169,791**
December 31, 2023	**3,711,551**	**2,181,819**	**5,893,370**
Net Carrying amounts			
December 31, 2023	**9,202,408**	**1,812,712**	**11,015,120**

- The total amount of the depreciation of right-of-use assets has been presented under the cost of revenue.

7. RIGHT-OF-USE ASSETS, NET (CONTINUED)

	Land and buildings	Vehicles	Total
	SR	SR	SR
Cost			
At January 1, 2022	7,471,167	1,760,816	9,231,983
Additions during the year	-	272,585	272,585
Adjustments	-	(13,073)	(13,073)
December 31, 2022	7,471,167	2,020,328	9,491,495
Accumulated Depreciation			
At January 1, 2022	2,041,052	542,563	2,583,615
Charge for the year	680,352	459,612	1,139,964
December 31, 2022	2,721,404	1,002,175	3,723,579
Net Carrying amounts			
December 31, 2022	4,749,763	1,018,153	5,767,916

8. INTANGIBLE ASSETS, NET

	Note	**December 31, 2023**	December 31, 2022
		SR	SR
Cost			
Opening balance		**9,344,639**	9,147,265
Transferred from CWIP	6.3	**130,379**	197,374
Acquired in business combination		**4,351,137**	-
Closing balance		**13,826,155**	9,344,639
Accumulated amortization			
Opening balance		**9,198,948**	7,155,091
Acquired in business combination		**4,157,587**	
Charged for the year	23	**374,694**	2,043,857
Closing balance		**13,731,229**	9,198,948
Net book value		**94,926**	145,691

9. INVESTMENTS, NET

Investments are classified as follows:

	Note	**December 31, 2023**	December 31, 2022
		SR	SR
Investment in an associate	9.1	**-**	114,140,390
Investment at fair value through profit or loss	9.2	**-**	-
		-	114,140,390

9.1 Investment in an associate, net

Movement in investment in an associate is as follows:

	December 31, 2023	December 31, 2022
Global Pipe Company ("GPC")	**SR**	SR
Opening carrying amount of investment	**114,140,390**	104,966,006
Share of profit for the period / year	**3,119,168**	9,174,384
Derecognition of associate (note 5)	**(117,259,558)**	-
	-	114,140,390

9. INVESTMENTS, NET (CONTINUED)

9.2 Investment at fair value through profit or loss

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

In 2016, 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 2017, a further assessment was made by management with respect to this investment and the Board of Directors decided to impair the remaining balance of this investment of SR 23.6 million, as the fair value of the investment was considered to be nil. In 2019, shareholders of CDC decided to start procedures for liquidation.

Movement for Investment at fair value through profit or loss "FVTPL" is as follows:

	December 31, 2023	December 31, 2022
Chemical Development Company Limited ("CDC")	**SR**	SR
Opening fair value of investment	**-**	-
Changes in fair value during the year	**-**	-
	-	-
Investment at FVTPL represents the following:		
Cost of acquisition	**75,950,000**	75,950,000
Changes in fair value – in prior years	**(75,950,000)**	(75,950,000)
Net balance at the end of year	**-**	-

10. DEFERRED TAX ASSET

Movement on deferred tax asset / liability is as under:

December 31, 2023:

	January 01, 2023	**Acquired in business combination**	**Statement of profit or loss**	**Statement of other comprehensive income**	**December 31, 2023**
	SR	**SR**	**SR**	**SR**	**SR**
Difference between accounting and tax basis of:					
Property plant and equipment, right-of-use asset and intangible assets	**(12,953,114)**	**-**	**1,444,489**	**-**	**(11,508,625)**
Acquired in business combination	**-**	**(12,951,012)**	**12,951,012**	**-**	**-**
Deferred tax liability	**(12,953,114)**	**(12,951,012)**	**14,395,501**	**-**	**(11,508,625)**
Employees' end of services benefits	**3,844,853**	**-**	**41,583**	**207,626**	**4,094,062**
Allowance for slow moving inventory	**2,081,276**	**-**	**520,179**	**-**	**2,601,455**
Allowance for impairment of trade receivables	**640,421**	**-**	**286,237**	**-**	**926,658**
Provision for guarantee	**3,849,600**	**-**	**-**	**-**	**3,849,600**
Lease liability	**692,393**	**-**	**20,492**	**-**	**712,885**
Accumulated tax losses	**14,703,652**	**-**	**(3,668,629)**	**-**	**11,035,023**
Deferred tax asset	**25,812,195**	**-**	**(2,800,138)**	**207,626**	**23,219,683**
Net deferred tax asset	**12,859,081**	**(12,951,012)**	**11,595,363**	**207,626**	**11,711,058**

10. DEFERRED TAX ASSET (CONTINUED)

December 31, 2022:

	January 01, 2022	Statement of profit or loss	Statement of other comprehensive income	December 31, 2022
	SR	SR	SR	SR
Difference between accounting and tax basis of:				
Property plant and equipment, right-of-use asset and intangible assets	(14,608,878)	1,655,764	-	(12,953,114)
Deferred tax liability	(14,608,878)	1,655,764	-	(12,953,114)
Employees' end of services benefits	3,772,583	230,873	(158,603)	3,844,853
Allowance for slow moving inventory	2,578,622	(497,346)	-	2,081,276
Allowance for impairment of trade receivables	577,615	62,806	-	640,421
Provision for guarantee	3,849,600	-	-	3,849,600
Lease liability	878,308	(185,915)	-	692,393
Accumulated tax losses	16,652,645	(1,948,993)	-	14,703,652
Deferred tax asset	28,309,373	(2,338,575)	(158,603)	25,812,195
Net deferred tax asset	13,700,495	(682,811)	(158,603)	12,859,081

11. INVENTORIES, NET

	Note	**December 31, 2023**	December 31, 2022
		SR	SR
Raw material		**280,274,077**	83,914,046
Work in progress		**112,629,404**	70,541,171
Finished goods		**74,082,546**	58,157,372
Goods in transit		**123,852,901**	4,120,941
Scrap material		**1,982,887**	1,154,696
Stores, spares and supplies		**86,883,533**	55,188,734
		679,705,348	273,076,960
Allowance for slow moving inventory	11.1	**(40,517,854)**	(18,766,899)
		639,187,494	254,310,061

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

	Note	**December 31, 2023**	December 31, 2022
		SR	SR
Opening balance		**18,766,899**	22,244,743
Acquired in business combination		**17,673,000**	-
Allowance / (reversal) during the year – continued operation	22	**4,077,955**	(3,875,826)
Allowance during the year – discontinued operation		**-**	397,982
Closing balance		**40,517,854**	18,766,899

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

12. TRADE AND OTHER RECEIVABLES, NET

Trade and other receivables comprise the following:

	Note	December 31, 2023	December 31, 2022
		SR	SR
Trade receivables		**78,320,962**	44,857,735
Allowance for expected credit loss (ECL)	12.2	**(7,235,477)**	(4,990,813)
Trade receivables, net		**71,085,485**	39,866,922
Due from related parties	20A	**27,631,968**	65,615,128
Employee loans		**3,404,104**	3,271,259
Prepayments and advances to suppliers		**8,617,274**	2,926,695
Other receivables		**7,539,485**	4,014,678
Value added tax (VAT)		**-**	2,280,868
		118,278,316	117,975,550
Less: non-current portion of employee loans and other receivables		**(2,792,101)**	(3,244,825)
Total current portion, net		**115,486,215**	114,730,725

12.1 Five major customers' balances represent 83.6% (2022: 34.1%) of gross trade receivables.

12.2 Movement in the allowance for ECL of trade receivables is as follows:

	December 31, 2023	December 31, 2022
	SR	SR
Opening balance for the year	**4,990,813**	4,823,785
Acquired in business combination	**1,245,624**	-
Allowance for the year – continuing operations	**2,044,329**	580,391
Reversal for the year – discontinued operations	**-**	(322,424)
Utilized against receivables written off – Continuing operations	**(1,045,289)**	(90,939)
Closing balance for the year	**7,235,477**	4,990,813

Aging of trade receivables is presented in note 30.2.1.

13. CASH AND CASH EQUIVALENTS

	December 31, 2023	December 31, 2022
	SR	SR
Cash at bank	**183,808,146**	79,332,267
Term deposits	**25,168,182**	-
Cash in hand	**188,862**	-
	209,165,190	79,332,267

13.1 Reconciliation of liabilities arising from financing activities:

	December 31, 2022	**Acquired in business combination**	**Loans (paid) / received, net**	**Interest (paid) / Accrued and others, net**	**December 31, 2023**
	SR	**SR**	**SR**	**SR**	**SR**
SIDF I	44,577,166	-	(30,000,000)	616,877	15,194,043
SIDF II	73,609,035	-	(18,750,000)	1,742,528	56,601,563
MTL Murabaha loan	39,486,234	-	(11,250,000)	5,535	28,241,769
Short term Murabaha loans	65,628,605	185,353,143	(48,732,836)	2,550,061	204,798,973
SIDF III	-	96,125,600	(38,000,000)	(486,295)	57,639,305
Long term Murabaha loans	-	179,169,133	(13,417,170)	239,713	165,991,676
Lease liability	5,395,830	5,106,018	(587,957)	342,338	10,256,229
	228,696,870	**465,753,894**	**(160,737,963)**	**5,010,757**	**538,723,558**

13.2 Significant non-cash transactions

	December 31, 2023	December 31, 2022
	SR	SR
Transfer of capital work in progress to operating fixed assets	**483,723**	2,229,464
Write off of right-of-use asset against lease liability	**-**	13,072
Transfer of capital work in progress to intangible assets	**130,379**	197,374

14. EQUITY

14.1 Share capital

	Number of shares		Share Capital	
	December 31, 2023	December 31, 2022	**December 31, 2023**	December 31, 2022
Authorized, issued and fully paid			**SR**	SR
Ordinary shares of SR 10 each fully paid in cash	**51,000,000**	51,000,000	**51,000,000**	510,000,000

Share capital has not been reduced by treasury shares.

14.2 Share premium, reserves and retained earnings

	Note	**December 31, 2023**	December 31, 2022
		SR	SR
Share premium	14.2 (a)	**4,512,330**	4,512,330
Statutory reserve	14.2 (b)	**75,799,387**	58,494,224
Other reserves	14.2 (c)	**(6,516,336)**	(4,820,282)
Retained earnings / (accumulated losses)	14.2 (d)	**149,578,747**	(6,167,721)

14.2 (a) Share premium

Share premium represents excess of issue price over the par value of shares issued to the public at time of initial public offering. Number of shares offered to the public was 16 million shares at a 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 have 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 on 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.

In a meeting of Board of Directors dated March 17, 2019, the board unanimously resolved to absorb the whole amount of accumulated losses as at December 31, 2018 amounting to SR 126.8 million 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.

14.2 (b) Statutory reserve

In accordance with the 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.

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, 2023	December 31, 2022
	SR	SR
Actuarial re-measurement losses	**(7,441,494)**	(5,537,814)
Deferred tax impact on OCI	**925,158**	717,532
	(6,516,336)	(4,820,282)

14. EQUITY (CONTINUED)

14.2 Premium, reserves and retained earnings (Continued)

14.2 (d) Retained earnings / (accumulated losses)

	December 31, 2023	December 31, 2022
	SR	SR
Retained earnings / (accumulated losses)	**149,578,747**	(6,167,721)

14.3 Treasury shares

	December 31, 2023	December 31, 2022
	SR	SR
Treasury shares	**(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 16.6 million as of December 31, 2023 (2022: 8.2 million). These shares were initially acquired from shares offered to the public for an employee share program.

14.4 Non-controlling interest

The tables below show details of non-wholly-owned subsidiary of the Group that have material non-controlling interests as at December 31, 2023:

Name of subsidiary	**Voting rights held by non-controlling interest**
Global Pipe Company	**42.73%**
Statement of financial position	
Non-current assets	**643,045,209**
Current assets	**556,866,453**
Total assets	**1,199,911,662**
Non-current liabilities	**140,350,683**
Current liabilities	**657,042,911**
Total liabilities	**797,393,594**
Statement of comprehensive income	
Revenue	**541,178,263**
Expenses	**(438,213,945)**
Total comprehensive income	**102,964,318**
Statement of cash flows	
Cash flows from operating activities	**141,127,595**
Cash flows from investing activities	**(6,657,114)**
Cash flows from financing activities	**(56,082,356)**
Net cash inflow from acquisition	**78,388,125**

The Company has chosen to recognize the non-controlling interest at the proportionate share of the acquiree's net identifiable assets.

15. BORROWINGS

	December 31, 2023	December 31, 2022
	SR	SR
Non-current borrowings	**142,275,000**	99,335,476
Current borrowings	**386,192,329**	123,965,564
Total borrowings	**528,467,329**	223,301,040
Term loans		
Saudi Industrial Development Fund (SIDF) – I	**15,194,043**	44,577,166
The Saudi Investment Bank (SAIB)	**28,241,769**	39,486,234
SIDF – II	**56,601,563**	73,609,035
Saudi Awwal Bank (SAB)	**145,865,920**	-
Banque Saudi Fransi (BSF)	**20,125,756**	-
SIDF – III	**57,639,305**	-
	323,668,356	157,672,435
Current portion – term loans	**(181,393,356)**	(58,336,959)
	142,275,000	99,335,476
Short term financing		
Murabaha financing	**204,798,973**	65,628,605
Current portion – term loans	**181,393,356**	58,336,959
	386,192,329	123,965,564

Loan	**Balance in SR**	**Type of loan**	**Number of remaining installments**	**Payment term**	**Period**	**Mark up**
SIDF – I	**15,194,043**	Capital Expenditure	1	Semi-annual	April 2018 to February 2024	Upfront fee + Follow-up cost
SAIB	**28,241,769**	Working Capital	10	Quarterly	September 2022 to June 2026	SIBOR+Margin
SIDF – II	**56,601,563**	Working Capital	3	Other	September 2022 to September 2024	Upfront fee + Follow-up cost
Saudi Awwal Bank (SAB)	**145,865,920**	Capital Expenditure	11	Quarterly	December 2017 to December 2026	SIBOR+Margin
Banque Saudi Fransi (BSF)	**20,125,756**	Capital Expenditure	12	Monthly	December 2010 to December 2024	SIBOR+Margin
SIDF – III	**57,639,305**	Capital Expenditure	4	Semi-annual	December 2012 to August 2025	Upfront fee + Follow-up cost
Total term loans	**323,668,356**					
Murabaha financing	**204,798,973**	Working Capital	-	6 to 12 months	-	SIBOR+Margin
Total short-term financing	**204,798,973**					
Total borrowings	**528,467,329**					

These borrowing facility agreements are subject to certain financial and non-financial covenants. The SIDF III loan pertaining to GPC had breached one of the covenants and GPC obtained the waiver from SIDF. The term loans pertaining to GPC is secured by promissory notes, mortgage over GPC's plants and equipment and the personal guarantees from GPC shareholders.

16. LEASE LIABILITIES

The contractual maturity of lease liabilities are as follows:

	December 31, 2023	December 31, 2022
	SR	SR
Within one year	**2,714,190**	1,233,804
Years two to five	**5,838,349**	3,786,966
Years five and above	**3,372,475**	928,208
Minimum lease payments	**11,925,014**	5,948,978
Less: finance charges	**(1,668,785)**	(553,148)
Net minimum lease payments	**10,256,229**	5,395,830
Non-current portion	**7,917,099**	4,328,249
Current portion	**2,339,130**	1,067,581

17. TRADE AND OTHER PAYABLES

	Note	**December 31, 2023** **SR**	December 31, 2022 SR
Current			
Trade payables		**268,259,465**	147,565,897
Accrued expenses		**16,913,069**	12,401,774
Due to related parties	20B	**26,822,853**	18,211,423
BOD remuneration payable		**4,743,178**	3,503,466
Advances from customers		**170,047,766**	7,645,169
Retention payable		**-**	743,750
Value added Tax (VAT) payable		**32,561,736**	-
		519,348,067	190,071,479
Non-current			
Provision for liability against corporate guarantee	17.1	**30,000,000**	30,000,000
		549,348,067	220,071,479

17.1 The Group had provided a corporate guarantee to one of its investee companies in prior years. Investment in this company has been fully impaired in previous years due to the company's inactive status and its future viability in light of the existing circumstances at the date of impairment, where investment was deemed unrecoverable. Shareholders of the investee decided not to support the company and accordingly, have been assessing various options in this regard. Based on these circumstances and the status of the company, the Group's Board of Directors considered that the contingent liability in respect of the guarantee may crystalize and, accordingly, a full provision for a liability amounting to SR 30 million was made in prior years. Based on the latest information available, management believes the guarantee is not expected to be maturing for payment within the next twelve months and accordingly, is classified as a non-current liability.

18. ZAKAT AND INCOME TAX

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

	Note	**December 31, 2023** **SR**	December 31, 2022 SR
At the beginning of the year		**9,193,279**	2,160,610
Acquired in business combination		**5,561,472**	-
Provision charged during the year – continuing operations	18.2	**18,540,296**	9,298,718
Provision charged during the year – discontinued operation	27.1	**70,005**	276,298
Payments		**(13,330,519)**	(2,542,347)
At the end of the year		**20,034,533**	9,193,279

18.2 Components of current zakat and income tax expense for the year:

	December 31, 2023 **SR**	December 31, 2022 SR
Zakat and income tax		
Current year	**19,108,134**	9,193,279
Prior years	**(567,838)**	105,439
Total current zakat and income tax expense	**18,540,296**	9,298,718

18. ZAKAT AND INCOME TAX (CONTINUED)

18.2 Components of current zakat and income tax expense for the year (continued):

	Note	December 31, 2023	December 31, 2022
Deferred tax		**SR**	SR
Decrease in deferred tax liability	10	**(14,395,501)**	(1,655,764)
Decrease in deferred tax asset	10	**2,592,512**	2,497,178
Net deferred tax (benefit) / expense		**(11,802,989)**	841,414
Total Zakat and income tax expense		**6,737,307**	10,140,132

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

	December 31, 2023	December 31, 2022
	SR	SR
Profit or loss	**6,944,933**	9,981,529
Other comprehensive (income) / loss	**(207,626)**	158,603
	6,737,307	10,140,132

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

	December 31, 2023	December 31, 2022
	SR	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	**(6,167,721)**	(60,373,365)
Reserves and opening provisions less utilized	**154,903,318**	158,187,678
Zakatable loans	**99,375,000**	268,022,990
Closing value of long-term assets	**(562,273,980)**	(590,870,782)
Zakatable profit for the year	**105,090,726**	55,935,668
Zakat base	**289,425,118**	329,399,964
Attributable to Saudi Shareholders (35.83%)	**103,701,020**	118,024,007
Zakat due for Saudi shareholding of the holding Company	**2,648,498**	3,042,281

	December 31, 2023	December 31, 2022
	SR	SR
b) Income tax		
Income tax for holding Company		
Profit before zakat and income tax	**158,089,988**	64,872,028
Adjustments	**(43,749,045)**	(968,877)
Utilization of carry forward tax losses	**(28,585,235)**	(15,975,788)
Taxable profit for the year	**85,755,708**	47,927,363
Attributable profit to non-Saudi shareholders at 64.17%	**55,029,438**	30,754,989
Income tax due at 20% for non-Saudi shareholders of holding Company	**11,005,888**	6,150,998

18. ZAKAT AND INCOME TAX (CONTINUED)

18.4 Zakat and income tax status

The Holding Company has filed zakat and income tax return for the year ended December 31, 2022 and obtained the required certificate valid until April 30, 2024. The Holding Company was previously inspected and had last assessment up to 2018, and the ZATCA has not issued its assessment orders for the years 2019 to 2022.

TSM Arabia (subsidiary) has filed the zakat return for the year ended December 31, 2022 and obtained the required certificate. During 2021, ZATCA issued its assessment order for the year 2015 with an additional zakat liability amounting to SR 42,056, which was settled and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2021. The ZATCA has not issued any assessment to the subsidiary for the years from 2016 to 2022.

GPC (subsidiary) has filed the zakat return for the year ended December 31, 2022 and obtained the required certificate. The subsidiary was previously inspected and had last assessment up to 2018, out of which only 2017 remains open for which a provision has already been established and the finalization of the assessment is under discussion with the ZATCA. The assessment orders for the years 2019 to 2022 have not been issued by the ZATCA.

19. EMPLOYEES' END OF SERVICE BENEFITS

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

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

	December 31, 2023	December 31, 2022
	SR	SR
Opening balance	**29,963,005**	29,538,287
Acquired in business combination	**9,532,179**	-
Expense charge for the year	**5,005,411**	3,430,581
Re-measurement loss / (gain) – continuing operations	**2,116,806**	(1,235,994)
Re-measurement gain - discontinued operation	**-**	(29,057)
Payments	**(4,127,229)**	(1,740,812)
Closing balance	**42,490,172**	29,963,005

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

	December 31, 2023	December 31, 2022
	SR	SR
Service cost	**3,357,408**	2,625,249
Interest cost	**1,648,003**	805,332
Expense recognized in profit and loss	**5,005,411**	3,430,581

Principal actuarial assumptions:

	December 31, 2023	December 31, 2022
Discount factor used per annum	**4.65%**	4.60%
Salary increase rate per annum	**5.00%**	4.60%
Rates of employee turnover	**Heavy**	Heavy
Weighted average duration	**5.46 years**	5.50 years

19. EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

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

	December 31, 2023		December 31, 2022	
	Percentage	**Amount**	Percentage	Amount
		SR		SR
Discount rate				
Increase	**+ 1 %**	**40,144,832**	+ 1 %	28,395,926
Decrease	**- 1 %**	**45,116,668**	- 1 %	31,704,576
Expected rate of salary				
Increase	**+ 1 %**	**44,514,299**	+ 1 %	31,057,234
Decrease	**- 1 %**	**41,190,518**	- 1 %	28,953,545

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 recognized within the consolidated statement of financial position.

20. RELATED PARTY 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 in a normal course of business and are authorized by management.

Company	**Relationship**
Tenaris Saudi Arabia Limited	Shareholder
Husteel Company Ltd.	Shareholder
Chemical Development Company	Investee
Dalmine S.P.A.	Affiliate
Tenaris Global Services Far East Pte Ltd.	Affiliate
Tenaris Solutions East SRL	Affiliate
Tenaris Global Services Uruguay	Affiliate
Exiros Saudi Arabia Limited	Affiliate
Siderca S.A.I.C.	Affiliate
Tenaris Connections B.V.	Affiliate
Testing and Technical Solutions	Affiliate
S.C. SilcoTub S.A.	Affiliate

20 . RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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

Related party	Nature of transaction	December 31, 2023	December 31, 2022
		SR	SR
Sales and services provided by the Group:			
Tenaris Global Services Uruguay	Sales, net	**234,912,996**	341,559,943
Tenaris Saudi Arabia Limited	Services agreements	**3,702,524**	4,254,068
Tenaris Saudi Arabia Limited	Services, net	**3,180,706**	-
Tenaris Global Services Far East Pte Ltd.	Services agreements	**-**	32,603
Purchases and Services received by the Group:			
Dalmine S.P.A.	Technical services received	**64,703**	121,105
Dalmine S.P.A.	IT services	**1,147**	-
Tenaris Global Services Uruguay	Purchases	**7,249,374**	3,953,171
Siderca S.A.I.C.	Fees	**205**	-
Siderca S.A.I.C.	IT services	**29,857**	21,305
Exiros Saudi Arabia Limited	Services received	**2,816,227**	2,161,254
Testing and Technical Solutions	Technical services received	**205**	-
Husteel Company Ltd.	Services	**138,976**	79,657
Tenaris Connections B.V.	Technical services received	**-**	2,142
Tenaris Connections B.V.	Royalties	**-**	69,860
S.C. SilcoTub S.A.	IT services	**-**	46,899
Tenaris Solutions East SRL	IT services	**-**	45,268
Tenaris Saudi Arabia Limited	Technical services	-	14,112,549

A) Amounts receivable from related parties are as follows:

	December 31, 2023	December 31, 2022
	SR	SR
Tenaris Global Services Uruguay	**18,568,055**	59,911,283
Tenaris Saudi Arabia Limited	**9,000,884**	4,914,039
Tenaris Global Services Far East Pte Ltd.	**63,029**	63,161
Global Pipe Company	**-**	726,645
	27,631,968	65,615,128

B) Amounts payable to related parties are as follows:

	December 31, 2023	December 31, 2022
	SR	SR
Tenaris Global Services Uruguay	**7,829,942**	1,131,591
Tenaris Saudi Arabia Limited	**17,364,247**	15,856,849
Exiros Saudi Arabia Limited	**1,253,915**	1,065,681
Siderca S.A.I.C.	**167,833**	138,160
Dalmine S.P.A.	**87,612**	19,142
Husteel Company Ltd.	**119,304**	-
	26,822,853	18,211,423

20. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

C) Remuneration of directors and key management personnel:

	December 31, 2023		December 31, 2022	
	Directors SR	**Key management personnel SR**	Directors SR	Key management personnel SR
Board remuneration	**2,383,192**	**-**	2,348,000	-
Salaries and wages	**-**	**2,732,739**	-	1,994,017
Allowances	**-**	**748,441**	-	1,033,936
Bonus	**-**	**1,054,727**	-	446,219
End of service	**-**	**175,179**	-	230,473
	2,383,192	**4,711,086**	2,348,000	3,704,645

Board Remuneration payable amounted to SR 4.7 million – note 16 (2022: 3.5 million).

21. SEGMENTAL REPORTING

During 2021, the Group sold the main operating fixed assets of its wholly owned subsidiary TSM Arabia. With TSM Arabia being classified as discontinued operations, the Process equipment segment has been ceased to be presented as a separate operating segment and accordingly, SSPC and GPC constitute 100% of the revenue and operations of the Group.

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 operations are conducted mainly in the Kingdom of Saudi Arabia.

The selected financial information covering the revenue for the year ended December 31, categorized by these geographic segments is as follows:

	December 31, 2023	December 31, 2022
	SR	SR
Saudi Arabia	**1,010,162,202**	377,971,198
Other countries	**324,545,922**	369,651,649
	1,334,708,124	747,622,847

The Group recognizes a revenue at a point in time.

Transactions with major customers

Revenue from one major customer and one major related party accounted for 76% of the total revenue for the year (2022:77%).

22. COST OF REVENUE

	December 31, 2023	December 31, 2022
	SR	SR
Raw material consumed, net	**774,222,954**	489,623,428
Stores, spares parts and consumables	**81,647,884**	78,821,306
Salaries and staff related benefits	**76,655,837**	47,397,267
Depreciation of property, plant and equipment	**51,417,067**	38,184,195
Depreciation of right-of-use assets	**2,169,791**	1,139,964
Allowance / (reversal) for slow moving inventory	**4,077,955**	(3,875,826)
Other	**38,781,899**	28,210,233
Total operating cost	**1,028,973,387**	679,500,567
Movement in finished goods and work in process	**22,384,487**	(39,040,088)
Total	**1,051,357,874**	640,460,479

23. ADMINISTRATIVE EXPENSES

	December 31, 2023	December 31, 2022
	SR	SR
Salaries and wages	**21,688,647**	11,199,471
Indemnity cost	**1,496,438**	606,555
Directors’ remuneration	**2,383,192**	2,348,000
Amortization of intangible assets	**374,694**	2,043,857
Depreciation of property, plant and equipment	**2,384,457**	1,125,819
Information technology expenses	**1,062,851**	1,171,369
Other	**8,295,147**	4,703,514
	37,685,426	23,198,585

24. SELLING, MARKETING AND DISTRIBUTION EXPENSES

	December 31, 2023	December 31, 2022
	SR	SR
Salaries and wages	**9,463,067**	5,986,844
Transportation and freight	**16,879,185**	10,308,341
Other	**2,269,257**	249,325
	28,611,509	16,544,510

25. OTHER INCOME, NET

	December 31, 2023	December 31, 2022
	SR	SR
Income from related party services, net	**5,013,146**	2,274,198
Gain on disposal of property, plant and equipment	**45,177**	20,784
Other, net	**5,147,091**	378,003
	10,205,414	2,672,985

26. FINANCE CHARGES, NET

	December 31, 2023	December 31, 2022
	SR	SR
Finance cost on borrowings	**32,320,155**	10,871,838
Unwinding of employee loans	**-**	(222,162)
Bank charges including facility fee	**4,304,174**	2,964,588
Finance charge on lease liabilities	**342,389**	199,959
	36,966,718	13,814,223

27. DISCONTINUED OPERATIONS

During the prior year, the Group sold the main operating fixed assets of its wholly owned subsidiary TSM Arabia and ceased its operations. Accordingly, TSM Arabia has been presented as discontinued operations in the consolidated financial statements.

27.1 Components of income and expenses, related to discontinued operations are set out below;

	December 31, 2023	December 31, 2022
	SR	SR
Revenue	**-**	-
Cost of revenue	**-**	-
Gross profit	**-**	-
Administrative expenses	**(35,000)**	(385,051)
Other expense, net	**(95,407)**	(345,795)
Reversal for expected credit loss	**-**	322,424
Operating loss	**(130,407)**	(408,422)
Finance charges	**-**	(135)
Loss before zakat and tax	**(130,407)**	(408,557)
Zakat and income tax expense	**(70,005)**	(276,298)
Net loss for the year	**(200,412)**	(684,855)
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent years		
Gain from the re-measurements of employees' end of service benefits	**-**	29,057
Total other comprehensive income	**-**	29,057
Total comprehensive loss	**(200,412)**	(655,798)
<u>Loss per share from discontinued operations:</u>		
Basic loss per share	**(0.004)**	(0.014)
Diluted loss per share	**(0.004)**	(0.013)

27. DISCONTINUED OPERATIONS (CONTINUED)

27.2 Depreciation for the year for discontinued operations has been allocated as follows;

	December 31, 2023	December 31, 2022
	SR	SR
Administrative expenses	**-**	63,962
	-	63,962
Cash flows from discontinued operation		
Net cash generated from / (used in) operating activities	**1,263,687**	(74,290)
Net cash generated from investing activities	**-**	53,194
Net cash generated from financing activities	**-**	-
Net cash flows for the year	**1,263,687**	(21,096)

28. EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share is calculated by dividing the earnings / (losses) attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. With regard to diluted earnings / (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 conversion of treasury shares into ordinary shares.

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

	December 31, 2023	December 31, 2022
	SR	SR
Net profit / (loss) for the year:		
From continuing operations	**173,252,043**	54,890,499
From discontinued operations	**(200,412)**	(684,855)
	173,051,631	54,205,644
Basic earnings / (loss) per share:		
From continuing operations	**3.428**	1.086
From discontinued operations	**(0.004)**	(0.014)
Weighted average number of outstanding shares	**50,542,311**	50,542,311
Diluted earnings / (loss) per share:		
From continuing operations	**3.397**	1.076
From discontinued operation	**(0.004)**	(0.013)
Adjusted weighted average number of outstanding shares	**51,000,000**	51,000,000
Reconciliation of weighted average number of outstanding shares		
Weighted average number of outstanding shares	**50,542,311**	50,542,311
Add: Treasury shares	**457,689**	457,689
Adjusted weighted average number of outstanding shares	**51,000,000**	51,000,000

29. CONTINGENCIES AND COMMITMENTS

	December 31, 2023	December 31, 2022
	SR	SR
Letters of guarantee	**167,355,850**	137,413,575
Corporate guarantees (note 29.1)	**415,865,834**	315,117,200
Letters of credit	**100,536,629**	-

29.1 The Company and the other shareholders of GPC have issued corporate guarantees to secure repayment of loans obtained by GPC from SIDF, the Saudi Awwal Bank and Banque Saudi Fransi to finance GPC's capital expenditures and working capital**.**

30. 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.

30.1 Financial instruments by category

	December 31, 2023	December 31, 2022
	SR	SR
Financial assets at amortized cost:		
Trade receivables, net	**71,085,485**	39,866,922
Employee loans	**3,404,104**	3,271,259
Other receivables	**7,539,485**	4,014,678
Due from related parties	**27,631,968**	65,615,128
Cash and cash equivalents	**209,165,190**	79,332,267
Total financial assets	**318,826,232**	192,100,254

	December 31, 2023	December 31, 2022
	SR	SR
Financial liabilities at amortized cost:		
Borrowings	**528,467,329**	223,301,040
Trade and retention payables	**268,259,465**	148,309,647
Liability against corporate guarantee	**30,000,000**	30,000,000
Due to related parties	**26,822,853**	18,211,423
Accrued expenses	**16,913,069**	12,364,770
Lease liabilities	**10,256,229**	5,395,830
Board remuneration payable	**4,743,178**	3,540,470
Total financial liabilities	**885,462,123**	441,123,180

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

30.2 Risk management of financial instruments

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

30.2.1 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, 2023	December 31, 2022
	SR	SR
Trade receivables, net	**71,085,485**	39,866,922
Employee loans	**3,404,104**	3,271,259
Other receivables	**7,539,485**	4,014,678
Due from related parties	**27,631,968**	65,615,128
Cash and cash equivalents	**209,165,190**	79,332,267
	318,826,232	192,100,254

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 71% (2022: 10%) of the 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 exceed their credit term, which varies from 30 to 90 days. The aging of trade debts as at the consolidated statement of financial position date is as under:

			Past due			
	Carrying amount	**Not Due**	**90-180 Days**	**Up to 1 year**	**Above 1 year**	**ECL Provision**
	SR	**SR**	**SR**	**SR**	**SR**	**SR**
December 31, 2023						
Trade receivables	**71,085,485**	**52,581,170**	**18,497,527**	**312,852**	**6,929,413**	**(7,235,477)**
December 31, 2022						
Trade receivables	39,866,922	20,791,024	19,202,487	1,059,092	3,805,132	(4,990,813)

Employee loans and other receivables include certain amounts secured by mortgages of properties owned by employees such as land, building and vehicles.

Bank balances are held with banks with good credit ratings.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

30.2 Risk management of financial instruments (Continued)

30.2.2 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, 2023					
Interest-bearing loans and lease liabilities	**538,723,558**	**544,430,719**	**217,572,868**	**175,149,033**	**151,708,818**
Trade payable	**268,259,465**	**268,259,465**	**268,259,465**	**-**	**-**
Provision for liability against corporate guarantee	**30,000,000**	**30,000,000**	**-**	**-**	**30,000,000**
Due to related parties	**26,822,853**	**26,822,853**	**26,822,853**	**-**	**-**
Accrued expenses	**16,913,069**	**16,913,069**	**16,913,069**	**-**	**-**
Board remuneration payable	**4,743,178**	**4,743,178**	**-**	**4,743,178**	**-**
Total financial liabilities	**885,462,123**	**891,169,284**	**529,568,255**	**179,892,211**	**181,708,818**
December 31, 2022					
Interest-bearing loans and lease liabilities	228,696,870	229,931,614	82,538,386	43,303,054	104,090,174
Trade and retention payable	148,309,647	148,309,647	148,309,647	-	-
Provision for liability against corporate guarantee	30,000,000	30,000,000	-	-	30,000,000
Due to related parties	18,211,423	18,211,423	18,211,423	-	-
Accrued expenses	12,401,774	12,401,774	12,401,774	-	-
Board remuneration payable	3,503,466	3,503,466	-	3,503,466	-
Total financial liabilities	441,123,180	442,357,924	261,461,230	46,806,520	134,090,174

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

30.2 Risk management of financial instruments (Continued)

30.2.3 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.

30.2.4 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.

30.2.5 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).

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

30.2 Risk management of financial instruments (Continued)

30.2.5 Capital risk management (Continued)

The salient information relating to capital risk management of the Group as of December 31, 2023 and 2022 were as follows:

	December 31, 2023	December 31, 2022
	SR	SR
Total debt	**538,723,558**	228,696,870
Less: Cash and cash equivalents	**(209,165,190)**	(79,332,267)
Net debt	**329,558,368**	149,364,603
Total equity	**893,867,873**	550,516,326
Total capital employed	**1,223,426,241**	699,880,929
Gearing ratio	**26.94%**	21.34%

31. STATUS OF INACTIVE LAND DEEDS

In prior periods, the Group learned through the Ministry of Justice’s online portal that the electronic title deeds to plots of land owned by the Group had become inactive due to cancellation by a court order.

These plots of land, with a total surface area of 811,284 square meters, are located in Dammam, and were purchased from a private entity in February 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 plots are not part of the production facility of the Group, had previously been partially used as a warehouse, and 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 the Group or otherwise been made public by the authorities, and the legal basis for the court order is unknown. On May 4, 2021, the Group filed a petition with an ad-hoc newly created special committee at the Saudi Ministry of Justice, seeking to have its title deeds reinstated. At this time, it is not possible to predict the outcome of this matter.

32. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on February 24, 2024.