ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Arabian Pipes Company
(Saudi Joint Stock Company)
Riyadh - Kingdom of Saudi Arabia

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Arabian Pipes Company ("the Company") which comprise the statement of financial position as at December 31, 2020, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Qualified Opinion

1- As disclosed within Note 8.4 and Note 32.1 of the accompanying financial statements, during 2020, the Company's management, while performing system automation of inventories – goods in transit, identified certain discrepancies. As a result, the management reduced its inventories – goods in transit and recognized adjustment amounting to Saudi Riyal (SR) 105.98 million by increasing the opening accumulated losses of the year ended December 31, 2019. Furthermore, as disclosed within Note 8.2 and Note 32.2 of the accompanying financial statements, during 2020, the Company's management, while performing physical count of inventories – raw materials, identified certain discrepancies. As a result, the management reduced its inventories – raw materials and recognized adjustment amounting to SR 18.95 million by increasing the opening accumulated losses of the year ended December 31, 2019.

   As of the date of approval of these financial statements, due to the unavailability of supporting documentation, we are unable to verify if the adjustments amounting to SR 105.98 million and SR 18.95 million relating to inventories for goods in transit and raw materials, respectively, pertains to the opening accumulated losses as of December 31, 2019, or to the subsequent year(s). Accordingly, we are unable to determine whether any impact is required to be recognized within the statement of profit or loss for the years ended December 31, 2019, and 2020, and in the carrying values of inventories for goods in transit and raw materials and ultimately accumulated losses of the Company as of December 31, 2018 or December 31, 2019.

2- As disclosed within Note 8.5 of the accompanying financial statements, the management has performed an assessment for the impairment of the Company's inventory - raw material as of December 31, 2020. Based on the results of this assessment, a provision for impairment amounting to SR 58.75 million, is recognized during the year ended December 31, 2020. However, the management had not performed an assessment for the impairment of the Company's inventory - raw material as of December 31, 2019, and has not reflected the resulting impact, if any, in the statement of financial position and statement of profit or loss for the year ended December 31, 2019. Accordingly, we are unable to determine whether any adjustment to carrying value of inventories – raw material, their related allowance for impairment and accumulated losses of the Company as of December 31, 2019, and the impairment charge for the year ended December 31, 2020, is necessary.

Riyadh \ Tel: +966 11 206 5333 Fax: +966 11 206 5444
P.O.Box 69658 Riyadh 11557

Jeddah \ Tel: +966 12 652 5333 Fax: +966 12 652 2894
P.O Box 15651 Jeddah 21454

AL Khobar \ Tel: +966 13 893 3378 Fax: +966 13 893 3349
P.O.Box 4636 AL Khobar 31952

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of Arabian Pipes Company
(Saudi Joint Stock Company)
Riyadh - Kingdom of Saudi Arabia

Basis for Qualified Opinion (Continued)

3- As disclosed within Note 10 of the accompanying financial statements, as of December 31, 2020, the Company's prepayments and other receivables include prepaid others amounting to SR 29.40 million. We have not been provided with the breakdown for this balance, nor have we received the supporting documents for verification of the movement and the closing balance as of December 31, 2020. Accordingly, as of the date of approval of these financial statements we were unable to satisfy ourselves through alternate audit procedures in respect of existence, completeness, rights and obligations, and valuation of the prepaid others and consequently whether any impact is required to be recognized within the statements of financial position and profit or loss as of and for the year ended December 31, 2020 with respect to this balance.

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 Financial Statements" section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainties Related to Going Concern
We draw attention to Note 2.3 to the accompanying financial statements, which states that as of December 31, 2020, the accumulated losses represent 77.75% (December 31, 2019: 28.92%) of the Company's share capital, and as of the same date, the Company's current liabilities exceeded its current assets by SR 134.11 million mainly on account of reclassification of loans due to breach of covenants per the banking facilities agreements as of December 31, 2020. These events and conditions indicate a material uncertainty on the Company's ability to continue as a going concern. However, subsequent to the year ended December 31, 2020, the loans have been restructured and various strategic options, including capital restructuring, were considered by the Board of Directors to address the Company's going concern. Among such strategic options, on June 8, 2021, the Company's Board of Directors recommended capital restructuring through absorption of losses through capital reduction from SR 400 million to SR 100 million followed with a rights issue of SR 300 million. The capital restructuring recommendation is subject to the Company's shareholders' and regulatory approvals.

Furthermore, the Company's management has also made a business plan approved by the Board of Directors dated June 8, 2021, to conclude on its ability to continue as a going concern and is satisfied that it shall continue its operations in the foreseeable future. Accordingly, the financial statements has been prepared on the going concern basis and do not include any adjustments, which may be required, if the Company is not able to continue as a going concern.

Our opinion is not qualified in respect of these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of Arabian Pipes Company
(Saudi Joint Stock Company)
Riyadh - Kingdom of Saudi Arabia

Other Matter
The financial statements for the year ended December 31, 2019 were audited by another auditor with an unqualified opinion issued dated March 18, 2020.

Other Information
Other information consists of the information included in the annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
Valuation of Inventories As at December 31 2020, the Company's inventories balance was SR 428.1 million net of provision for impairment of SR 79.4 million. Inventories are valued at lower of cost or net realizable value ("NRV") and provision is made by the Company, where necessary. Further, at each reporting date, management reviews the valuation of inventories and costs of inventory is written down where inventory is forecasted to be realized below cost. We consider this as a key audit matter due to the significant judgments and key assumptions applied by the management in determining the valuation of inventories. *Refer to Note 4.2 of the financial statements for accounting policy and Note 8 for the related disclosures in the accompanying financial statements.*	Our audit was focused on NRV of inventories existed at year-end, due to the estimates involved in calculating the NRV and comparing it with provision recorded by management. We have verified the procedures performed by management and have performed an assessment of the Inventory valuation review process. We performed the following audit procedures: • We reviewed the estimate of costing method and accounting policy that is used by the Company in valuation of its inventories. • We attended the physical inventory count of the Company's inventory and analyzed the condition of damaged and obsolete inventories. • We reviewed the historical inventory provisioning and the level of inventory write-offs during the year; • We compared the NRV with the moving average cost and provision recorded by the management to conclude whether the inventory is recorded at lower of cost and NRV. • Due to the unavailability of accurate aging reports, we reviewed the management assessment of replacement cost method for the non-moving tems and verified the realizable value for raw materials that had a moving average.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of Arabian Pipes Company
(Saudi Joint Stock Company)
Riyadh - Kingdom of Saudi Arabia

Responsibilities of Management and Those Charged with Governance for the Financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws and for such internal control as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of Arabian Pipes Company
(Saudi Joint Stock Company)
Riyadh - Kingdom of Saudi Arabia

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements
Based on the information that has been made available to us while performing our audit procedures, except for the matters disclosed within the Material Uncertainties Related to Going Concern Section of this report, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

For Al-Bassam & Co.

Ibrahim Ahmed Al Bassam
Certified Public Accountant
License No. 337

Riyadh on: 6 Thul Qi'dah 1442 H
Corresponding to: 16 June 2021 G

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محاسبون قانونيون
رقم الترخيص ٥٢٠/١١/٣٢٣
C.R.1010385804
license 520/11/323
Al-Bassam & Co.
Certified Public Accountants

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
(All amounts are in Saudi Riyal "000" unless otherwise stated)

	Note	As at 31 December 2020	2019 (Restated)	1 January 2019 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment	6	354,824	374,420	373,394
Right-of-use assets	7	21,970	21,833	-
		376,794	396,253	373,394
Current assets				
Inventories	8	428,144	488,053	426,970
Trade receivables	9	71,228	64,336	145,837
Prepayments and other receivables	10	45,883	42,237	43,000
Cash and cash equivalents	11	20,046	19,968	13,499
		565,301	614,594	629,306
TOTAL ASSETS		942,095	1,010,847	1,002,700
EQUITY AND LIABILITIES				
EQUITY				
Share capital	12	400,000	400,000	400,000
Statutory reserve	13	120,000	120,000	159,427
General reserve		-	-	31,438
Actuarial loss on employee's post-employment benefits		(2,647)	(1,322)	(94)
Accumulated losses	32	(311,012)	(115,672)	(216,785)
TOTAL EQUITY		206,341	403,006	373,986
LIABILITIES				
Non-current liabilities				
Long-term borrowings	14	-	7,165	-
Lease liabilities	7	18,252	17,945	-
Employees' post-employment benefits	16	18,088	14,622	11,649
		36,340	39,732	11,649
Current liabilities				
Long-term borrowings – current portion	14	77,717	69,861	80,000
Lease liabilities – current portion	7	2,195	2,295	-
Short-term borrowings	15	501,842	394,494	405,503
Due to related parties	17	1,211	1,546	291
Notes and trade payables	18	99,813	85,970	116,222
Accrued and other payables	19	12,695	6,297	7,584
Provision for zakat	20	3,941	7,646	7,465
		699,414	568,109	617,065
TOTAL LIABILITIES		735,754	607,841	628,714
TOTAL EQUITY AND LIABILITIES		942,095	1,010,847	1,002,700
Contingencies	21			

The accompanying notes 1 to 34 form part of these financial statements.

Humoud Al Hamzah	Ahmed Ali Al-Lohaidan	Yousef Saleh Aba AlKhail
CFO	CEO	Board Chairman

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts are in Saudi Riyal "000" unless otherwise stated)

	Note	2020	2019 (Restated)
Revenue	22	369,289	741,085
Cost of revenue	23	(441,343)	(644,612)
GROSS (LOSS) / PROFIT		(72,054)	96,473
Selling and distribution expenses	24	(9,227)	(12,203)
General and administrative expenses	25	(29,640)	(21,615)
(Provision) / reversal on inventory	8	(59,246)	2,080
Impairment on trade receivable	9	(3,979)	-
Other income	26	3,864	801
OPERATING (LOSS) / PROFIT		(170,282)	65,536
Finance cost	27	(24,156)	(30,794)
(LOSS) / PROFIT BEFORE ZAKAT		(194,438)	34,742
Zakat		(902)	(4,494)
NET(LOSS) / PROFIT FOR THE YEAR		(195,340)	30,248
(Loss) / Earnings per share (SR)			
-Basic	28	(4.9)	0.76
-Diluted	28	(4.9)	0.76

The accompanying notes 1 to 34 form part of these financial statements.

Humoud Al Hamzah	**Ahmed Ali Al-Lohaidan**	**Yousef Saleh Aba AlKhail**
CFO	**CEO**	**Board Chairman**

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts are in Saudi Riyal "000" unless otherwise stated)

	Note	2020	2019 (Restated)
NET(LOSS) / PROFIT FOR THE YEAR		(195,340)	30,248
OTHER COMPREHENSIVE LOSS			
Items that will not be reclassified to profit or loss			
Remeasurement loss on employees' post-employment benefits	16	(1,325)	(1,228)
Total other comprehensive loss		(1,325)	(1,228)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(196,665)	29,020

The accompanying notes 1 to 34 form part of these financial statements.

Humoud Al Hamzah CFO	Ahmed Ali Al-Lohaidan CEO	Yousef Saleh Aba AlKhail Board Chairman

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts are in Saudi Riyal "000" unless otherwise stated)

	Note	Share capital	Statutory reserve	General reserve	Accumulated losses (Restated)	Actuarial loss on employee's post-employment benefits	Total equity
Balance as at 1 January 2019 – before adjustment		400,000	159,427	31,438	(91,852)	(94)	498,919
Impact of prior year adjustment	32.1, 32.2	-	-	-	(124,933)	-	(124,933)
Balance as at 1 January 2019 – restated		400,000	159,427	31,438	(216,785)	(94)	373,986
Net profit for the year		-	-	-	28,705	-	28,705
Impact of previous year adjustment	32.3	-	-	-	1,543	-	1,543
Net profit for the year - restated		-	-	-	30,248	-	30,248
Other comprehensive loss for the year		-	-	-	-	(1,228)	(1,228)
Transferred to accumulated losses	1.1	-	(39,427)	(31,438)	70,865	-	-
Balance as at 1 January 2020 – restated		**400,000**	**120,000**	-	**(115,672)**	**(1,322)**	**403,006**
Net loss for the year		-	-	-	**(195,340)**	-	**(195,340)**
Other comprehensive loss for the year		-	-	-	-	**(1,325)**	**(1,325)**
Balance as at 31 December 2020		**400,000**	**120,000**	-	**(311,012)**	**(2,647)**	**206,341**

The accompanying notes 1 to 34 form part of these financial statements.

Humoud Al Hamzah	**Ahmed Ali Al-Lohaidan**	**Yousef Saleh Aba AlKhail**
CFO	**CEO**	**Board Chairman**

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts are in Saudi Riyal "000" unless otherwise stated)

	Note	2020	2019 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) / profit before zakat		(194,438)	34,742
Adjustments for:			
Depreciation on property, plant and equipment	6	27,829	26,226
Depreciation on right-of-use assets	7	1,754	1,893
Loss on disposal of property, plant and equipment	6	67	-
Write-off for inventory	8	87,008	-
Provision for inventory	8	59,246	(2,080)
Impairment on trade receivable	9	3,979	-
Provision for employees' post-employment benefits	16	2,349	2,174
Finance cost	27	24,156	30,794
Loan modification gain	15	(3,756)	-
Movement in working capital			
Inventories		(86,345)	(59,003)
Trade receivables		(10,871)	81,501
Prepayments and other receivables		(3,646)	763
Due to related parties		(335)	583
Notes and trade payables		13,843	(30,252)
Accrued and other payables		6,398	(746)
Cash (used in) / generated from operating activities		(72,762)	86,595
Zakat paid	20	(4,607)	(4,313)
Employees' post-employment benefits paid	16	(208)	(429)
Net cash (used in) / generated from operating activities		(77,577)	81,853
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(8,300)	(27,252)
Net cash used in investing activities		(8,300)	(27,252)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings		532,694	611,657
Repayment of short-term borrowings		(422,871)	(625,509)
Financial charges paid		(21,289)	(30,810)
Lease liabilities paid	7	(2,579)	(3,470)
Net cash generated from / (used in) financing activities		85,955	(48,132)
Net change in cash and cash equivalents		78	6,469
Cash and cash equivalents at beginning of the year	11	19,968	13,499
Cash and cash equivalents at end of the year	11	20,046	19,968

The accompanying notes 1 to 34 form part of these financial statements.

Humoud Al Hamzah	**Ahmed Ali Al-Lohaidan**	**Yousef Saleh Aba AlKhail**
CFO	**CEO**	**Board Chairman**

(All amounts are in Saudi Riyal "000" unless otherwise stated)

1. LEGAL STATUS AND OPERATIONS

Arabian Pipes Company is a Saudi Joint Stock Company ("the Company") was formed according to Ministry of Commerce Decree No. 922 dated 18 Thul-Qi'dah 1411H corresponding to 1 June 1991. The Company is registered in the Kingdom of Saudi Arabia ("KSA") under Commercial Registration No. 1010085734 dated 14 Safar 1412H corresponding to 25 August 1991.

The main activities of the Company are the production of steel tubes longitudinally welded for pipelines and for the purposes of construction, trade, marketing, bending and forming a toothing pipe and pipe coating inside and outside and doing the business of buying and selling pipes and fittings and accessories and the implementation of the extension of pipelines.

The Company operates under industrial license for Riyadh plant No. 434 dated 12 Thul-Qi'dah 1405H and amended by industrial license No. 2196 dated 16 Rajab 1436H and industrial license for Jubail plant No. 1109 dated 12 Thul-Qi'dah 1419H and amended by industrial license No. 2195 dated 16 Rajab 1436H and industrial license for coating factory No. 479 dated 26 Safar 1436H.

The accompanying financial statements include the accounts of the Company's head office and branches as follows:

S. No	Factory name	C.R. No.	Date
1	*Riyadh factory	1010188732	27 Jumada I 1424
2	Jubail factory	2055007048	21 Rabi Thani 1426

*The Commercial Registration is expired.

The Company's Head Office is located at the following address:
P.O Box 42734
Riyadh 11551
Kingdom of Saudi Arabia

1.1. The Company's shareholders during their meeting dated 23 June 2019, approved to transfer the statutory reserve and general reserve amounting to SR 39.43 million and SR 31.44 million, respectively, to the Company's retained earnings.

2. BASIS OF PREPARATION

2.1. STATEMENT OF COMPLIANCE

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

2.2. BASIS OF MEASUREMENT

These financial statements are prepared under the historical cost method except for employees' post-employment benefits recognized at the present value of future obligations using the Projected Unit Credit Method.

2. BASIS OF PREPARATION (CONTINUED)

2.3. GOING CONCERN

As of December 31, 2020, the accumulated losses represent 77.75% (December 31, 2019: 28.92%) of the Company's share capital, and as of the same date, the Company's current liabilities exceeded its current assets by SR 134.11 million mainly on account of reclassification of loans due to breach of covenants as of December 31, 2020. These conditions indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. The Saudi Arabia Regulations for Companies require that in such situations, any official of the corporation and or the auditor, as may have come to his knowledge, notify the chairman thereof, and the chairman immediately notify the Board which must – within fifteen days of its knowledge – call an extraordinary General Assembly meeting within forty five days from the date of knowledge of such losses, to consider whether to increase or decrease the capital – in accordance to the provisions of these Regulations - to the extent required for reducing losses below half of the paid-in capital or whether to dissolve the corporation before the expiry of the term specified in its bylaws.

However, subsequent to the year ended December 31, 2020, the loans have been restructured (See Notes 14 and 33) and various strategic options, including capital restructuring, were considered by the Board of Directors to address the Company's going concern. Among such strategic options, on June 8, 2021, the Company's Board of Directors recommended capital restructuring through absorption of losses through capital reduction from SR 400 million to SR 100 million followed with a rights issue of SR 300 million. The capital restructuring recommendation is subject to the Company's shareholders' and regulatory approvals.

Furthermore, the Company's management has also made a business plan approved by the Board of Directors dated June 8, 2021, to conclude on its ability to continue as a going concern and is satisfied that it shall continue its operations in the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis and do not include any adjustments, which may be required, if the Company is not able to continue as a going concern.

2.4. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements have been presented in Saudi Riyals (SR) which is the Company's functional and presentation currency. All financial information presented in SR has been rounded to the nearest SR, unless otherwise mentioned.

3. NEW AMENDED STANDARDS AND INTERPRETATIONS

3.1. NEW AMENDED STANDARDS AND INTERPRETATIONS THAT ARE EFFECTIVE:

Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
c) There is no substantive change to other terms and conditions of the lease

In the current financial year, the Company has applied the amendment to IFRS 16 from its effective date.

3. NEW AMENDED STANDARDS AND INTERPRETATIONS (CONTINUED)

3.1. NEW AMENDED STANDARDS AND INTERPRETATIONS THAT ARE EFFECTIVE (CONTINUED):

Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16 (Continued)

In the current year, the Company has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 1 and IAS 8	Definition of material	January 1, 2020	The amendments provided a new definition of material and clarified that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.
IFRS 3	Definition of business	January 1, 2020	The amendment clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.
Revised Conceptual Framework for Financial Reporting	Amendments to references Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020	The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020	A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

3. NEW AMENDED STANDARDS AND INTERPRETATIONS (CONTINUED)

3.2. NEW AND REVISED IFRS STANDARDS AND AMENDMENTS IN ISSUE BUT NOT YET EFFECTIVE:

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021	These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.
IAS 37	Onerous Contracts – Cost Fulfilling a Contract	January 1, 2022	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.

(All amounts are in Saudi Riyal "000" unless otherwise stated)

3. NEW AMENDED STANDARDS AND INTERPRETATIONS (CONTINUED)

3.2. NEW AND REVISED IFRS STANDARDS AND AMENDMENTS IN ISSUE BUT NOT YET EFFECTIVE (CONTINUED):

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022	IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements IFRS 9: The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference.
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of 'testing whether an asset is functioning properly'.
IFRS 3	Reference to the Conceptual Framework	January 1, 2022	The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.

3. NEW AMENDED STANDARDS AND INTERPRETATIONS (CONTINUED)

3.2. NEW AND REVISED IFRS STANDARDS AND AMENDMENTS IN ISSUE BUT NOT YET EFFECTIVE (CONTINUED):

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary.

Management anticipates that these new standards interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these interpretations and amendments may not result in material impact on the financial statements of the Company in the period of initial application.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

In preparing these financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS (CONTINUED)

Critical judgments in applying the Company's accounting policies
The following are the critical judgments, apart from those involving estimations described below, that the management has made in the process of applying the Company's accounting policies and have the most significant effect on the amounts recognized in the financial statements.

COVID-19 assessment
On 11 March 2020, the World Health Organization ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia, in particular, has implemented closure of borders, released social distancing guidelines and enforced countrywide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic.

Collectively, these current events and the prevailing conditions require the Company to analyze the likely impact of these events on the Company's business operations. The Board of Directors and the management of the Company evaluated the situation and, accordingly activated its business continuity planning and other risk management practices to manage the potential business disruption COVID-19 outbreak had on its operations and financial performance. Under the current situation, the scale and duration of this outbreak and its impact on credit, market and operational risks still remains uncertain and the Board of Directors and management of the Company is continuously evaluating the evolving situation in liaison with the regulatory authorities. The related further quantification of impact cannot be ascertained at this point.

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Also, see Note 2.3

Determination of discount rate for present value calculations
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the tenure of the agreement and the individual risks of the underlying assets. The discount rate calculation is based on the specific circumstances of the Company.

Actuarial valuation of employees' post-employment benefits
The cost of the post-employment benefits ("employee benefits") under the defined benefit plan is determined using the projected unit credit method. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and rate of employee turnover. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS (CONTINUED)

Critical judgments in applying the Company's accounting policies (continued)

Fair value measurement and valuation process
Certain Company's assets and liabilities are measured at fair value for financial reporting purposes. The Company's management is responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified experts to perform the valuation.

Useful lives of property, plant and equipment
As described in note 5, the Company estimates the useful lives of property, plant and equipment at the end of each annual reporting period. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

Provision for zakat
Management has assessed the zakat position having regard to the local zakat legislation, decrees issued periodically and conventions. Interpretation of such legislation decrees and conventions are not always clear and entail completion of assessment by the Zakat, Tax and Customs Authority ("ZATCA").

5. SIGNIFICANT ACCOUNTING POLICIES

5.1. Property, Plant and Equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment in value, except for land and capital work in progress which are stated at cost and are not depreciated. Capital work in progress represent costs relating directly to the new projects in progress and are capitalized as property, plant and equipment when the project is completed. However, depreciation on such assets under construction commences when the asset becomes available for use.

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company and amount can be measured reliably.

Finance costs on borrowings to finance the construction of the qualifying assets, are capitalized during the period of time that is required to substantially complete and prepare the qualifying asset for its intended use.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/components have a useful life different than other parts and are required to be replaced at different intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in the statement of profit or loss as incurred.

Depreciation is calculated from the date the item of property, plant and equipment are available for its intended use or in respect of self-constructed assets, from the date such assets are ready for the intended use.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.1. Property, Plant and Equipment (continued)

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Asset class	Years
Building	33
Plant and equipment	10-25
Furniture and fixtures	3.33-5
Vehicles	5
Computer hardware and software	3.33-5

If there is an indication that there has been a significant change in useful life or residual value of an item, the depreciation is revised prospectively to reflect the new estimates.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Items such as spare parts, stand-by equipment and servicing equipment, if any, are recognized in accordance with this IFRS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

5.2. Inventories

Inventories are valued at the lower of cost and net realizable value, and the cost is determined on a weighted average basis. The cost of finished and semi-manufactured goods includes the cost of raw materials, labor and indirect industrial expenditures that contribute to the conversion of raw materials to a final product. Net realizable value consists of the estimated selling price during the normal course of business, net of the additional production costs to complete and any other cost required to complete the sale. The Company reviews the carrying amount of the inventories on a regular basis. Where necessary the inventory is reduced to the net realizable value or a provision for obsolete is established in the event of any change in the pattern of use or physical form of the related inventory.

Management estimates the net realizable value of inventories, taking into account the most reliable evidence at the time the estimates are used and establishes a provision for obsolete inventory. These estimates take into account changes in replacement cost, the demand for goods and technological changes, quality and price fluctuations. Accordingly, the Company considers these factors and takes them into account to calculate the provision for obsolete, slow moving and defective inventories.

Spare parts are valued at lower of cost or net realizable value. Cost is determined on the weighted average cost basis. An allowance for obsolete and slow-moving items, if any, is estimated at each reporting date.

5.3. Cash and Cash Equivalents

Cash and cash equivalents include bank balances and deposits with original maturities of three months or less, if any. It also includes bank overdrafts which form an integral part of the Company's cash management and are likely to fluctuate from overdrawn to positive balances.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4. Impairment of Non-Financial Assets

At each reporting date, the Company assesses whether there is any indication that any asset (property, plant and equipment) may be impaired. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statement of profit or loss.

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 recoverable amount is sensitive to the discount rate used for the DCF (Discounted Cashflow) model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to its selling price less costs to complete and sell, and an impairment loss is recognized immediately in the statement of profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income or loss.

5.5. Equity reserves

Share capital represents the nominal (par) value of shares that have been issued. Retained earnings include all current and prior period retained profits. All transactions with owners of the Company are recorded separately within equity.

5.6. Statutory Reserve

In accordance with its By-laws and the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net profit for the year to a statutory reserve until such reserve equals 30% of its share capital. This Statutory Reserve is not available for distribution to shareholders. However, it may be used for Capital restructuring after obtaining shareholders and regulatory approvals.

5.7. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

5.8. Onerous contracts

Present obligations arising under onerous contracts, if any, are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of fulfilling the obligations under the contract exceed the economic benefits expected to be received under it.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.9. Contingent liabilities

All contingent liabilities arising from past events that will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not fully controlled by the Company or all current liabilities arising from past events but are not proven for the following reasons:

1) There is no possibility that the flow of external resources inherent in economic benefits will be required to settle the obligation
2) The amount of the obligation cannot be measured reliably they should all be assessed at the date of each financial position and disclosed in the Company's financial statements within the contingent liabilities.

5.10. Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The borrowings are classified as a current liability when the remaining maturity is less than 12 months.

5.11. Zakat

The Company is subject to zakat in accordance with Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia. Zakat is provided on the accrual basis. The zakat charge is computed on the higher of the zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

5.12. Employee Benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves, air fare, child education allowance, furniture allowance that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

Employees' post-employment benefits

The liability or asset recognized in the statement of financial position in respect of defined benefit. The plan is the present value of the defined benefit obligation at the end of the reporting period. 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 include current service cost and past service cost are recognized immediately in the 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 the statement of profit or loss as past service costs.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.12. Employee Benefits

Defined benefit costs are categorized as follows: (continued)

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 benefits expense in the 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 period in which they occur, directly in other comprehensive income.

5.13. Foreign Currencies

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in the statement of comprehensive income.

5.14. Financial instruments

5.14.1. Financial assets

5.14.1.1. Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, Fair value through other comprehensive income "FVOCI" or Fair value through profit and loss "FVTPL". However, the Company as of the reporting date only holds financial asset carried at amortized cost and FVTPL.

a) 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.

b) Financial assets at FVOCI

Equity instruments

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

c) Financial assets at FVTPL

All other financial assets are classified as measured at FVTPL (for example equity held for trading and debt securities not classified neither as amortized cost or FVOCI).

In addition, on initial recognition, the Company 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.14. Financial instruments (continued)

5.14.1. Financial assets (continued)

5.14.1.2. De-recognition of financial assets

A financial asset or a part of a financial asset is de-recognized when:

- The right to receive cash flows from the asset have expired, or
- The Company has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement: and either:
  a) The Company has transferred substantially all the risks and rewards of the asset, or
  b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset

5.14.1.3. Impairment of financial assets

The Company assesses on a forward-looking basis the life expected credit losses associated with its financial assets carried at amortized cost.

The Company applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition of receivables.

The Company uses a provision matrix in the calculation of the expected credit losses on receivables to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix was developed considering the probability of default and loss given default which was derived from historical data of the Company and is adjusted to reflect the expected future outcome which includes macro-economic factors.

Other instruments are considered as low risk and a Company use a provisional matrix in calculating the expected credit losses.

A financial asset is written off only when:
(i) that is past due, and
(ii) there is no reasonable expectation of recovery

Where financial assets are written off, the Company continues to engage in enforcement activities to attempt to recover the receivables due. Where recoveries are made, after write-off, are recognized in the statement of profit or loss.

5.14.2. Financial liabilities

5.14.2.1. Initial recognition

Financial liabilities are recognized initially at fair value and in the case of borrowings, the fair value of the consideration received less directly attributable transaction costs.

5.14.2.2. Subsequent measurements

After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.14. Financial instruments (continued)

5.14.2. Financial liabilities (continued)

5.14.2.3. Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

5.14.3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

5.14.4. Fair value hierarchy of financial instruments

The Company classifies the fair value of its financial instruments in the following hierarchy, based on the inputs used in their valuation:

Level 1
The fair value of financial instruments quoted in active markets is based on their quoted closing price at the statement of financial position date. Examples include exchange-traded commodity derivatives and other financial assets such as investments in equity and debt securities.

Level 2
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters for interest rates, yield curves or foreign exchange rates, dealer quotes for similar instruments and use of comparable arm's length transactions.

Level 3
The fair value of financial instruments that are measured on the basis of entity-specific valuations using inputs that are not based on observable market data (unobservable inputs).

5.14.5. Effective interest method

The effective interest method is a method of calculating the amortized cost of financial asset and liability and of allocating interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.15. Leases

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.15. Leases (continued)

The Company as lessee (continued)
If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in statement of comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contract that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

5.16. Finance costs

Finance costs directly attributable to the acquisition, construction or production of a qualifying as-set are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other finance costs are expensed in the period in which they are incurred and reported as 'financial charge'. Finance costs consist of interest and other costs incurred by the Company in connection with the borrowing of funds.

5.17. Revenue Recognition

Revenue represents the fair value of the consideration received or receivable for goods sold, net of returns, trade discounts and volume rebates.

Revenue is measured based on the consideration specified in a contract with a customer and is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company's revenue generating activities are as follows:

a) Revenue from Sale of Goods
Revenue from the sale of goods is recognized in the statement of profit or loss when the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.17. Revenue Recognition (continued)

b) Sales Return
When a contract with a customer provides a right of return of the goods within a specified period, the Company accounts for the right of return when requested by the customer and contractual conditions are met.

No element of financing component is deemed present as the sales are made either on cash or on credit term consistent with market practice.

5.18. Selling, Distribution, General and Administration Expenses

Selling, Distribution, General and Administration Expenses include direct and indirect costs not specifically part of Cost of Sales. Allocations between Cost of Sales and Selling, Distribution, General and Administration Expenses, when required, are made on a consistent basis. The Company recognizes the marketing support from vendors in the selling and distribution expenses on an accrual basis.

5.19. Government grant

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized under other income in the statement of profit or loss for the period in which they become receivable.

5.20. Earnings per share

The Company presents basic and diluted earnings per share (if any) for the common share. Basic earnings per share are calculated from net profit or loss by dividing the profit or loss attributable to ordinary equity holders of the Company by the weighted average number of common shares outstanding during the year, adjusted by the number of ordinary shares repurchased or issued during the year. Diluted earnings per share are adjusted by the profit or loss attributable to common equity holders of the Company and the weighted average number of shares outstanding during the year with the effect of all of the common shares that are likely to be issued.

5.21. Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the shareholders of the Company.

Interim dividends are recorded as liability in the period in which they are approved by the Board of Directors.

(All amounts are in Saudi Riyal "000" unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Plant and equipment	Furniture and fixtures	Vehicles	Computer hardware and software	Capital work in progress	2020	2019	1 Jan 2019
Cost										
January 1	5,676	90,630	710,782	5,210	1,813	6,162	8,741	**829,014**	801,762	795,508
Additions	-	-	7,548	-	430	273	49	**8,300**	27,252	7,190
Disposals	-	-	(12,512)	(98)	(295)	(1,407)	-	**(14,312)**	-	(936)
December 31	**5,676**	**90,630**	**705,818**	**5,112**	**1,948**	**5,028**	**8,790**	**823,002**	**829,014**	**801,762**
Accumulated depreciation										
January 1	-	38,084	403,753	4,942	1,813	6,002	-	**454,594**	428,368	402,647
Charge for the year	-	2,637	24,920	35	29	208	-	**27,829**	26,226	26,657
Disposal	-	-	(12,454)	(98)	(295)	(1,398)	-	**(14,245)**	-	(936)
December 31	-	**40,721**	**416,219**	**4,879**	**1,547**	**4,812**	-	**468,178**	**454,594**	**428,368**
Net book value										
December 31 2020	**5,676**	**49,909**	**289,599**	**233**	**401**	**216**	**8,790**	**354,824**		
December 31 2019	5,676	52,546	307,029	268	-	160	8,741		374,420	
January 1 2019	5,676	55,141	304,103	337	-	66	8,071			373,394

- The Company's buildings and constructions in the cities of Riyadh and Jubail include buildings constructed on land leased from government agencies, ending in 1456H (2034). The net book value of buildings constructed on leased land amounted to SR 49.90 million as at 31 December 2020 (31 December 2019: SR 52.5 million).

- All of the Company's property, plant and equipment are mortgaged to the Saudi Industrial Development Fund against the long-term loan (see Note 14)

(All amounts are in Saudi Riyal "000" unless otherwise stated)

7. RIGHT-OF-USE-ASSETS AND LEASE LIABILITIES

7.1. Right-of-use assets

	As at 31 December		
Land and Building - Cost	**2020**	**2019**	**1 Jan 2019**
Cost			
January 1	**23,726**	-	-
Additions	**1,891**	23,726	-
December 31	**25,617**	23,726	-
Accumulated depreciation			
January 1	**1,893**	-	-
Charge for the year	**1,754**	1,893	-
December 31	**3,647**	1,893	-
Net book value			
December 31 2020	**21,970**		
December 31 2019		21,833	-

7.2. Lease liabilities

	As at 31 December		
	2020	**2019**	**1 Jan 2019**
Balance at beginning of the year	**20,240**	-	-
Additions during the year	**1,891**	22,606	-
Financial charge for the year	**895**	1,104	-
Lease payments during the year	**(2,579)**	(3,470)	-
Balance at the end of the year	**20,447**	20,240	-

	As at 31 December		
	2020	**2019**	**1 Jan 2019**
Current	**2,195**	2,295	-
Non-current	**18,252**	17,945	-
	20,447	20,240	-

Set out below, are the amounts recognized in the statement of profit or loss:

	2020	**2019**
Depreciation expense of right-of-use assets	**1,754**	1,893
Lease financial cost (included in finance cost)	**895**	1,104
Expense relating to short-term leases (included in Statement of profit or loss)	-	-
Expense relating to leases of low-value assets that are not short-term leases	-	-
Expense relating to variable lease payments not included in lease liabilities	-	-
Total amounts recognized in profit or loss	**2,649**	2,997

The rate applied is 5% (2019: 5%) for all the leases of the Company based on varying lease terms.

(All amounts are in Saudi Riyal "000" unless otherwise stated)

7. RIGHT-OF-USE-ASSETS AND LEASE LIABILITIES (CONTINUED)

7.2. Lease liabilities (Continued)

	As at 31 December
	2020
Year 1	2,518
Year 2	2,021
Year 3	1,968
Year 4	1,968
Year 5 onwards	20,803
Total undiscounted lease liabilities	29,278
Less: Finance cost	(8,831)
	20,447

8. INVENTORIES

		As at 31 December		
	Notes	**2020**	**2019**	**1 Jan 2019**
Finished goods, net	8.1	**215,685**	188,662	158,383
Raw materials, net	8.2, 8.5	**174,361**	102,760	100,087
Work in progress, net	8.3	**51,441**	103,962	102,827
Spare parts		**45,347**	51,212	53,132
Goods in transit, net	8.4	**19,026**	35,821	12,106
Office supplies		**1,428**	1,260	1,383
Scrap inventory, net	8.3	**228**	24,502	21,258
		507,516	508,179	449,176
Less: provision for inventory	8.5	**(79,372)**	(20,126)	(22,206)
		428,144	488,053	426,970

8.1. During the year, the management performed physical count of inventories – finished goods identified amount to be written-off of SR 6.84 million as of 31 December 2020. The Board of Directors approved the write-off dated June 8, 2021. Accordingly, balances are presented net of write-off and the charge is recognized within the cost of revenue.

8.2. While performing physical count of inventories – raw materials, the management identified certain discrepancies. As a result, the management identified an amount to be written-off of SR 18.95 million pertaining to years prior to 2018. Accordingly, the Board of Directors approved the write-off dated June 8, 2021 its inventories – raw materials and recognized adjustment amounting to Saudi Riyal SR 18.95 million by increasing the opening accumulated losses of the year ended December 31, 2019. Also, see Note 32.2,

Furthermore, while performing physical count of inventories – raw materials, the management identified certain discrepancies. As a result, the management identified an amount to be written-off of SR 1.51 million. Accordingly, balances are presented net of write-off and the charge is recognized within the cost of revenue.

8.3. During the year, the management performed valuation of its work in progress account and scrap inventory and identified amount to be written-off of SR 52.25 million and SR 26.42 million, respectively as of 31 December 2020. The Board of Directors approved the write-off dated June 8, 2021. Accordingly, balances are presented net of write-off and the charge is recognized within the cost of revenue.

(All amounts are in Saudi Riyal "000" unless otherwise stated)

8. INVENTORIES (CONTINUED)

8.4. Goods in transit represents inventory that has been shipped by the supplier but not yet received by the Company. During the year, the management performed reconciliation of goods in transit account and identified a total adjustment of SR 105.98 million. The impact has been recognized in the opening accumulated losses of the year ended 31 December 2019. Also, see Note 32.1.

8.5. During the year ended December 31, 2020, the management performed an assessment for the impairment of the raw materials and finished goods. Based on the results of the assessment, an impairment amounting to SR 58.75 million and SR 0.50 million for raw materials and finished goods respectively, is recognized as of December 31, 2020.

Movement in provision for inventory is as follows:

	As at 31 December		
	2020	**2019**	**1 January 2019**
Balance at the beginning of the year	**20,126**	22,206	21,543
Provision / (reversal) made during the year	**59,246**	(2,080)	663
Balance at the end of the year	**79,372**	20,126	22,206

9. TRADE RECEIVABLES

		As at 31 December		
	Note	**2020**	**2019**	**1 January 2019**
Trade receivables	9.1	**87,923**	77,052	158,553
Less: allowance for impairments	9.2	**(16,695)**	(12,716)	(12,716)
		71,228	64,336	145,837

9.1. Aging of trade receivables is as follows:

	As at 31 December		
	2020	**2019**	**1 January 2019**
1-30 days	**71,228**	59,917	123,124
31-90 days	-	-	18,733
91-365 days	-	439	-
Over 1 year	**16,695**	16,696	16,696
	87,923	77,052	158,553

9.2. Movement in allowance for impairments of trade receivables is as follows:

	As at 31 December		
	2020	**2019**	**1 January 2019**
Allowance at the beginning of the year	**12,716**	12,716	4,000
Allowance made during the year	**3,979**	-	8,716
Allowance at the end of the year	**16,695**	12,716	12,716

(All amounts are in Saudi Riyal "000" unless otherwise stated)

10. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2020	**2019**	**1 January 2019**
Prepaid others	**29,396**	33,198	28,667
Advance payment to supplier	**13,764**	8,767	13,764
Staff receivable	**2,723**	272	569
	45,883	42,237	43,000

11. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2020	**2019**	**1 January 2019**
Cash in banks			
- Local currency	**18,195**	14,589	13,283
- Foreign currency	**1,851**	5,379	216
	20,046	19,968	13,499

Cash in banks are maintained in current accounts and the Company doesn't earn income on these balances.

12. SHARE CAPITAL

The Company's issued and paid capital as at 31 December 2020 is SR 400 million (31 December 2019: SR 400 million) divided into 40 million shares issued and paid (31 December 2019: 40 million shares) with a par value of SR 10 per share.

13. STATUTORY RESERVE

The Company is required to transfer at least 10% of its net profit each year to statutory reserve until such reserve equals to 30% of its share capital. This reserve is not available for distribution to the shareholders.

14. LONG-TERM BORROWINGS

	As at 31 December		
	2020	**2019**	**1 January 2019**
Saudi Industrial Development Fund (SIDF) – non-profit bearing	**77,717**	77,026	80,000
Current portion	**(77,026)**	(69,861)	(80,000)
Accrued charge	**(691)**	-	-
Total current portion	**(77,717)**	(69,861)	(80,000)
Non-current portion	-	7,165	-

14.1. The Company obtained loan from the SIDF amounting to SR 113.4 million for the construction of the Jubail Pipe Production Plant. The loan is secured by mortgaging the buildings, machinery, and equipment of the Company's factories (see Note 6).

On 9 March 2015, SIDF agreed to reschedule the remaining balance as of that date, amounting to SR 83 million in ten semi-annual instalments.

On 9 December 2019, the Company obtained an additional loan amounting to SR 7.165 million for a period of 5 years.

As of the year ended 31 December 2020, the management of the Company re-negotiated the repayment of the current balance outstanding amounting to SR 77,026 million in 8 instalments.

(All amounts are in Saudi Riyal "000" unless otherwise stated)

14. LONG-TERM BORROWINGS (CONTINUED)

These borrowings are Interest-free and are repayable in semi-annual installments over the period of five years.

The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 31 December 2020, the Company was not in compliance with certain covenants of the financing agreements accordingly the arrangements were classified as current as of the same date. However, subsequent to year ended 31 December 2020, this facility is restructured, please see Note 33.

15. SHORT-TERM BORROWINGS

	As at 31 December		
	2020	**2019**	**1 January 2019**
Short-term borrowings	**497,313**	387,864	397,859
Accrued finance cost	**4,529**	6,630	7,644
	501,842	394,494	405,503

15.1. The Company has obtained borrowings from the following institutions:

		As at 31 December		
	Note	**2020**	**2019**	**1 January 2019**
Riyad Bank	15.2	**190,000**	199,290	47,220
Al Rajhi Bank		**165,382**	163,924	184,611
Alawwal Bank		**146,460**	31,280	173,672
		501,842	394,494	405,503

15.2. The Company has a short-term borrowing from Ministry of Finance amounting to SR 120 million, which is disbursed to the Company through Riyad Bank. The borrowing is obtained to meet the working capital requirements of the Company. The borrowing is repayable within the period of 360 days from the date of utilization.

During the year ended 31 December 2020, Ministry of Finance rescheduled the repayments of the loan by deferring and extending the tenure of the instalments by 12-months from due date of February 2020. The accounting impact of these changes in terms of the borrowings have been assessed and accounted for as per the requirements of IFRS 9 as a modification in terms of the arrangements. Modification gain amounting to SR 4.680 million was recognized in the statement of profit or loss under other income.

During August 2020, the Company received further clarification on the modification from Ministry of Finance where due fees amounting to SR 1.050 million was deferred for a maximum 3 months, only. Accordingly, the modification gain was reduced by SR 0.924 million, in the statement of profit or loss.

15.3. The Company has obtained borrowings from local banks for the purpose of financing working capital needs. These bank facilities bear finance cost at market prevailing rates.

15.4. The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 31 December 2020, and 2019, the Company was not in compliance with certain covenants of the financing agreements.

(All amounts are in Saudi Riyal "000" unless otherwise stated)

16. EMPLOYEES' POST-EMPLOYMENT BENEFITS

16.1. During the year the actuarial valuations of the defined benefit obligations were carried out under the Projected Unit Credit Method using the following significant assumptions:

	As at 31 December		
	2020	**2019**	**1 January 2019**
The present value of the defined obligation	**18,088**	14,622	11,649

	As at 31 December		
	2020	**2019**	**1 January 2019**
- Rate of change in salary (% per annum)	**3.15%**	3.15%	4%
- Discount rate	**2.00%**	4.65%	4.15%

16.2. Change in present value of defined benefit obligation

	As at 31 December		
	2020	**2019**	**1 January 2019**
Opening balance	**14,622**	11,649	11,548
Service Cost:			
Current Service Cost	**1,892**	1,642	2,441
Interest on defined benefit obligations	**457**	532	436
Benefits paid during the year	**(208)**	(429)	(2,870)
Remeasurement losses	**1,325**	1,228	94
Closing balance	**18,088**	14,622	11,649

16.3. Amount recognized in the statement of profit or loss for the year ended

	2020	**2019**
Service Cost	**1,892**	1,642
Net Interest on Net Defined Benefit Liability / (Asset)	**457**	532
	2,349	2,174

16.4. Amount recognized in the statement of other comprehensive income for the year ended

	2020	**2019**
Actuarial losses due to change in financial assumptions	**1,378**	-
Actuarial (gains) losses due to change in demographic assumptions	**(641)**	1,050
Actuarial losses due to change in experience assumptions	**588**	178
	1,325	1,228

16.5. Sensitivity Analysis of significant actuarial assumptions

	Change in assumption	**Increase / (decrease) in present value of employees' post-employment benefit liability**	
		Amount	**%**
Discount Rate	**+1%**	**16,880**	**-6.68%**
Discount Rate	**-1%**	**19,461**	**7.59%**
Long-Term Salary	**+1%**	**19,436**	**7.45%**
Long-Term Salary	**-1%**	**16,880**	**-6.68%**
Withdrawal rate	**+10%**	**17,932**	**-0.87%**
Withdrawal rate	**-10%**	**18,262**	**0.96%**
Mortalility rate	**+1 Year**	**18,083**	**-0.03%**
Mortality rate	**-1 Year**	**18,094**	**0.03%**

(All amounts are in Saudi Riyal "000" unless otherwise stated)

16. EMPLOYEES' POST-EMPLOYMENT BENEFITS (CONTINUED)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. 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 liability of all schemes recognized within the statement of financial position.

16.6. Maturity profile:

	As at 31 December 2020
Year 1	1,391
Year 2	2,327
Year 3	1,411
Year 4	1,398
Year 5	1,720
Year 6 onwards	12,780
Total undiscounted defined benefit obligation	21,027
Less: Finance cost	(2,939)
	18,088

The weighted average duration of the defined benefit obligation is 7.10 years.

	As at 31 December 2020
Current portion	
Post-employment benefit payment	1,364
Non-current portion	
Post-employment benefit payment	16,724
	18,088

17. RELATED PARTY TRANSACTIONS AND BALANCES

17.1. Key management personnel

Transactions with related parties comprise salaries, remuneration and allowances of directors and senior executives that were made during the year between the Company and the senior management. The principal transactions with related parties and their resulting balances are as follows:

Compensation of key management personnel of the Company

		As at 31 December	
Name of related party	**Nature of transaction**	**2020**	**2019**
Board and other committees' members	Reward and allowances	1,293	1,209
Senior executives	Salaries, allowances and bonuses	4,498	4,236

(All amounts are in Saudi Riyal "000" unless otherwise stated)

17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

17.1. Due to related parties

Significant year-end balances arising from transactions with related parties are as follows:

	As at 31 December		
	2020	2019	1 January 2019
Related party			
Key management personnel	-	389	291
Board of directors	1,211	1,157	-
	1,211	1,546	291

18. NOTES AND TRADE PAYABLES

	As at 31 December		
	2020	2019	1 January 2019
Notes payable	88,297	77,590	109,789
Trade payables	11,516	8,380	6,433
	99,813	85,970	116,222

19. ACCRUED AND OTHER PAYABLES

	As at 31 December		
	2020	2019	1 January 2019
Accrued subcontractor	3,986	-	-
Accrued employee benefits	3,073	3,248	2,725
VAT Payable	2,678	-	-
Advances from customers	1,225	2,201	3,066
Others	1,733	848	1,793
	12,695	6,297	7,584

20. PROVISION FOR ZAKAT

20.1. Zakat movement

The movement in the provision for zakat is as follows:

	As at 31 December		
	2020	2019	1 January 2019
Balance at the beginning of the year	7,646	7,465	7,525
Provided during the year	902	4,494	4,382
Payment during the year	(4,607)	(4,313)	(4,442)
Balance at the end of the year	3,941	7,646	7,465

20.2. STATUS OF ASSESSMENTS

The Company has submitted its Zakat return to Zakat, Tax and Customs Authority ("ZATCA") for the year ended 31 December 2019, and obtained certificate valid until 18 Ramadan 1442H, corresponding to 30 April 2021. During 2018, Zakat assessment has been raised by ZATCA for the year 2015 assessing additional Zakat of SR 2.9 million against which the Company has filed an appeal and initially accepted by ZATCA on 21 November 2018. Provision for the same is already held in the books of the Company.

21. CONTINGENCIES

Contingent liabilities are letters of credit and guarantee outstanding as at 31 December 2020 amounting to SR 18.380 million (31 December 2019: SR 11.102 million).

(All amounts are in Saudi Riyal "000" unless otherwise stated)

22. REVENUE

	2020	2019
Pipes	361,949	731,876
Scrap	7,484	13,617
Coils	128	209
Plates	-	255
Sales return	(272)	(4,872)
	369,289	741,085

23. COST OF REVENUE

	Notes	2020	2019
Raw materials		266,254	497,726
Write-off	8.1, 8.3	87,002	-
Salaries and benefits		21,450	35,692
Pipe coating and coupling expenses		14,723	53,525
Consumables		12,898	12,508
Spare parts and maintenance		4,880	8,975
Water and electricity		2,854	4,892
Others		31,282	31,294
		441,343	644,612

24. SELLING AND DISTRIBUTION EXPENSE

	2020	2019
Shipping expense	6,981	10,143
Salaries and benefits	1,793	1,379
Other expenses	453	681
	9,227	12,203

25. GENERAL AND ADMINISTRATION EXPENSES

	2020	2019
Salaries and benefits	14,240	13,925
LC / LG charges	9,292	4,627
Professional and consultancy	2,254	1,572
Medical insurance	988	800
Others	2,866	691
	29,640	21,615

26. OTHER INCOME

	Note	2020	2019
Modification gain on financial instruments	15	3,756	-
Others		108	801
		3,864	801

(All amounts are in Saudi Riyal "000" unless otherwise stated)

27. FINANCE COST

	Note	2020	2019
Borrowings		**22,804**	29,158
Lease liabilities	7.2	**895**	1,104
Employees' post-employment benefit finance cost	16.2	**457**	532
		24,156	30,794

28. EARNINGS PER SHARE

Earnings per share for the year was calculated by dividing the net loss for the year with 40 million shares. There are no diluted shares which are convertible to basic shares at the year end.

29. SEGMENT REPORTS

a) Operating segment

The Company's products are manufactured in Saudi Arabia and have two segments, the steel pipe production segment, and steel pipe packaging segment. The pipe packaging segment has not achieved any of the quantitative limits referred to in IFRS 8 Operating Segments. Accordingly, the segmental operating information has not been disclosed in the financial statements.

b) Geographic segment

During the year ended 31 December 2020, approximately 2.27% (31 December 2019: 0.47%) of the Company's sales were export sales to the Gulf and Middle East countries, with approximately 97.73% (31 December 2019: 99.53%) domestic sales. All of the Company's assets and liabilities are in Saudi Arabia.

30. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial assets consist of bank balances, trade receivables and other receivables, its financial liabilities consist of notes and trade payables, financial facilities and other liabilities.

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement

All financial assets and liabilities are measured at amortized cost. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate to their fair values.

(All amounts are in Saudi Riyal "000" unless otherwise stated)

31. RISK MANAGEMENT OF FINANCIALS INSTRUMENTS

The Company's activities expose it to a variety of financial risks, concentration risk, credit risk, liquidity risk, market price risk arid capital management risk.

31.1. Concentration risk

Concentration risk is the risk of focusing the sales of the Company in a limited number of customers, which results in the case of the cessation of sales to those customers, who represent a substantial percentage of sales of the Company for any reason to cause significant losses to the Company, threatening its ability to continuity.

One of the Company's clients represents the most significant percentage of the Company's receivables and sales. Management is taking steps to continuously expand its customer base.

31.2. Credit risk

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk on its bank balances and trade receivables as follows.

	As at 31 December		
	2020	**2019**	**1 Jan 2019**
Cash in banks	**20,046**	19,968	13,499
Trade receivables	**71,228**	64,336	145,837
	91,274	84,304	159,336

The carrying amount of financial assets represents the maximum credit exposure Credit risk on receivable and other receivable and bank balances is limited as:

- Cash balances are held with banks with sound credit ratings.
- The receivables are shown net of allowance for impairment of trade receivables.

The Company manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures.

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis, the receivable balances are monitored with the result that the Company's exposure to bad debts is not significant. Trade receivables outstanding balance comprises of 97% in KSA at December 31, 2020.

31. RISK MANAGEMENT OF FINANCIALS INSTRUMENTS (CONTINUED)

31.3. Liquidity Risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted, and include estimated interest payments.

	As at 31 December 2020			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
Long term borrowings	77,717	77,717	-	-
Short term loan	501,842	501,842	-	-
Notes and trade payables	99,813	99,813	-	-
	679,372	679,372	-	-

	As at 31 December 2019			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
Long term borrowings	77,026	69,861	7,165	-
Short term loan	394,494	394,494	-	-
Notes and trade payables	85,970	85,970	-	-
	557,490	550,325	7,165	-

	As at 31 December 2018			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
Short term loan	405,503	405,503	-	-
Notes and trade payables	116,222	116,222	-	-
	521,725	521,725	-	-

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and banking and other credit facilities are available to meet the Company's future commitments. The Company's terms of sales require amounts to be paid either on a cash on delivery or on a term basis.

31.4. Market Risk

Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

31.5. Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company transactions are principally in Saudi Riyals and US Dollars. As the Saudi Riyals is pegged against US Dollar, the Company does not have any significant exposure to currency risk.

(All amounts are in Saudi Riyal "000" unless otherwise stated)

31. RISK MANAGEMENT OF FINANCIALS INSTRUMENTS (CONTINUED)

31.6. Interest rate risk

Interest rate risks is the risk associated with the effect of fluctuation in the prevailing interest rates on the Company's financial position and cash flows. The Company interest rate arise mainly from its borrowings which are on fixed rate of interest therefore the cash flow interest rate risk is considered minimal. The rates of interest on borrowings are close to the market rates, therefore management believes that fair value is not significant.

31.7. Capital Management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitor the return on capital employed and the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

1) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
2) to provide an adequate return to shareholders

The Company manages the capital structure in the context of economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may. for example, adjust the amount of dividends paid to shareholders and issue new shares.

The Company relies heavily on borrowings to meet its capital expenditures.

32. RESTATEMENT & RECLASSIFICATION FOR PRIOR YEARS FIGURES

32.1. During the current year, the management of the Company while performing system automation identified certain discrepancies within inventory – goods in transit. A further assessment was performed for the years ended 31 December 2020, 2019 and 2018 and an adjustment amounting to Saudi Riyals 105.99 million, cumulatively pertaining to years prior to 2018 were identified. Accordingly, the comparative figures have been restated.

32.2. During the current year, while performing physical count of inventories – raw materials, the management identified certain discrepancies. As a result, the management identified an amount to be written-off of SR 18.95 million pertaining to years prior to 2018. The Board of Directors approved the write-off dated June 8, 2021its inventories – raw materials and recognized adjustment amounting to Saudi Riyal SR 18.95 million by increasing the opening accumulated losses of the year ended December 31, 2019. Accordingly, the comparative figures have been restated.

The effect of the adjustments for prior years on accumulated losses is shown as follows:

Restatement in the statement of financial position	**Note**	**Balance as previously reported 1 January 2019**	**Effect of prior year adjustment**	**Balance restated 1 January 2019**
Inventories		551,903	124,933	426,970
- Goods in transit	32.1		(105,988)	
- Raw Materials	32.2		(18,945)	
Retained earnings		(91,852)	(124,933)	(216,785)

(All amounts are in Saudi Riyal "000" unless otherwise stated)

32. RESTATEMENT & RECLASSIFICATION FOR PRIOR YEARS FIGURES (CONTINUED)

32.3 The management of the Company has identified an error in the right-of-use-asset and lease liabilities, Accordingly, the comparative figures have been restated to correct the error, as shown below:

Restatement in the statement of financial position	Balance as previously reported December 31 2019	Effect of prior year adjustment	Balance restated December 31 2019
Right-of-use asset	19,940	1,893	21,833
Lease liabilities	(19,890)	(350)	(20,240)
Retained earnings		1,543	

Certain comparative information has been reclassified to conform to current period presentation.

33. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2020, financing facility from Ministry of Finance and SIDF has been restructured. Under the revised terms, all the installment due have been deferred by one year. Accordingly, the first installment will become due in the year 2021.

34. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were approved and authorized for issue on June 8, 2021G (corresponding to 27/10/1442H) by the Board of Directors of the Company.