

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

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021  
WITH INDEPENDENT AUDITOR'S REPORT**

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

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## INDEPENDENT AUDITOR'S REPORT

(1/5)

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

### Opinion

We have audited the consolidated financial statements of Saudi Steel Pipes Company – a Saudi Joint Stock Company (the “Company”) and its Subsidiary (collectively referred to as “the Group”), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by Saudi Organization for Chartered and Professional Accountants (SOCPA).

### Basis for Opinion

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

### Emphasis of Matters

Without qualifying our opinion, we draw attention to note 28 to the accompanying consolidated financial statements with respect to certain electronic title deeds related to the Group land plots which became inactive due to cancellation by court order which management has learned during the year 2021.

### Key Audit Matters

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

**INDEPENDENT AUDITOR'S REPORT (Continued)**

(2/5)

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

Key audit matter	How the matter was addressed
<p><b>1- Revenue Recognition – Sale of goods</b></p> <p>During the year ended December 31, 2021, the Group recognized total revenue of SR 373.5 million (2020: SR 474.9 million).</p> <p>The Group sales are generally straight forward but requires in various cases the approval and inspection by the customer prior to dispatch of the products.</p> <p>Revenue recognition has been identified as a key audit matter given the significant volume of transactions involved and the factors associated with the revenue recognition and the risk that management may override controls in order to misstate revenue transactions, either by recognizing sales on unapproved products or inappropriate assessments of returns and rejections.</p> <p>The accounting policy for revenue is outlined in Note 3.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- Evaluating the design and implementation, and testing the operating effectiveness of relevant key controls over the revenue cycle;</li> <li>- Assess the appropriateness of revenue recognition accounting policies of the Group;</li> <li>- Inspected sales transactions taking place at either side of year-end to assess whether revenue was recognized in the correct period; and</li> <li>- Performed substantive test of details and analytical procedures.</li> <li>- Assessed the completeness and sufficiency of disclosures relating to revenue in the consolidated financial statements.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT (Continued)**

(3/5)

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

Key Audit Matter (Continued)	How the matter was addressed
<p><b>2- Impairment of non-current assets</b></p> <p>Non-current assets included property plant and equipment as of December 31, 2021 amounted to SR 498.5 million (2020: SR 552.5 million).</p> <p>During the year, the Group management has updated its previous year impairment assessment for some business units. Based on the results of the impairment studies, the management has decided that no additional impairment of the property, plant and equipment is required.</p> <p>In preparing these impairment studies, management assesses the future business plan of the relevant business units and apply valuation models to determine the expected recoverable amount and realizable values for the purpose of impairment assessment.</p> <p>We have considered this matter as a key audit matter because the assessment of the recoverable amount requires a number of key judgments and assumptions in determining the recoverable values for assessing impairment, which include assumptions related to future sales volume, prices, operating assets, growth rates, terminal value, discount rates and other related assumptions.</p> <p>The accounting policy for impairment of non-current assets is outlined in Note 3.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- We assessed the management process for the identification of the indications of impairment.</li> <li>- In case of the existence of impairment indicators, we evaluate whether the model used by management to calculate the value in use of the cash generating unit is in compliance with the requirements of IAS 36.</li> <li>- Validating the assumptions used for estimating the future cash flows, the related discount rates and other related assumptions.</li> <li>- Analyzed the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current economic condition and expected future performance.</li> <li>- Evaluated the whole model by our experts.</li> <li>- We assessed whether the related disclosures are in accordance with the requirements of International Financial Reporting Standards.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT (Continued)**

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

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**Other Information Included in the Group's 2021 Annual Report**

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

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

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

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

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

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

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

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT (Continued)**

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

(5/5)

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

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

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

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

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

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

**Ibrahim A. Al Bassam**  
License No.337

February 16, 2022  
Rajab 15, 1443

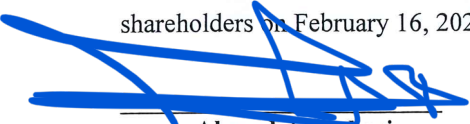




CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2021

	Note	December 31, 2021 SR	December 31, 2020 SR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net	4	498,513,460	552,537,158
Intangible assets, net	5	1,992,174	3,699,140
Investments, net	6	104,966,006	110,192,967
Trade and other receivables - non-current, net	7	3,790,356	5,235,672
Deferred tax asset	8	13,700,495	11,241,922
		<u>622,962,491</u>	<u>682,906,859</u>
<b>Current assets</b>			
Inventories, net	9	118,228,716	127,137,204
Trade and other receivables - current, net	7	131,448,550	151,245,473
Cash and cash equivalents	10	99,367,399	149,054,921
		<u>349,044,665</u>	<u>427,437,598</u>
<b>TOTAL ASSETS</b>		<u><u>972,007,156</u></u>	<u><u>1,110,344,457</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	11.1	510,000,000	510,000,000
Share premium	11.2	4,512,330	4,512,330
Statutory reserve	11.2	58,494,224	58,494,224
Other reserves	11.2	(5,926,730)	(7,014,507)
Accumulated losses	11.2	(60,373,365)	(61,305,010)
Treasury shares	11.3	(11,502,225)	(11,502,225)
		<u>495,204,234</u>	<u>493,184,812</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings – non-current	12	44,479,133	78,630,477
Employees' end of service benefits	13	29,538,287	34,692,686
Trade and other payables- non-current	14	30,000,000	30,000,000
Lease liabilities – non-current	16	5,186,411	6,870,670
Retentions payable		-	633,713
		<u>109,203,831</u>	<u>150,827,546</u>
<b>Current liabilities</b>			
Trade and other payables – current	14	180,913,801	176,903,201
Borrowings – current	12	182,866,429	287,663,123
Lease liabilities – current	16	1,658,251	1,115,859
Zakat and income tax	15	2,160,610	649,916
		<u>367,599,091</u>	<u>466,332,099</u>
<b>TOTAL LIABILITIES</b>		<u><u>476,802,922</u></u>	<u><u>617,159,645</u></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>972,007,156</u></u>	<u><u>1,110,344,457</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>	17	-	-

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on February 16, 2022.

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Abnengol Lamazares  
Chief Executive Officer

  
Mohamed Anwar Alshakhouri  
CFO



**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Note	December 31, 2021 SR	December 31, 2020 SR
Revenue	23	373,484,610	474,896,727
Cost of revenue	18	(346,150,027)	(455,752,823)
<b>Gross profit</b>		<b>27,334,583</b>	<b>19,143,904</b>
Selling, marketing and distribution expenses	19	(9,647,563)	(9,812,983)
Administrative expenses	20	(27,468,963)	(41,631,704)
Reversal / (allowance) for impairment of trade receivables	7.2	1,177,731	(551,654)
Other income / (expenses), net	21	3,194,779	(341,115)
<b>Operating loss</b>		<b>(5,409,433)</b>	<b>(33,193,552)</b>
Share of (loss) / profit in associate	6.1	(5,226,961)	4,771,362
Financial charges, net	22	(6,916,398)	(5,415,246)
<b>Loss before zakat and income tax</b>		<b>(17,552,792)</b>	<b>(33,837,436)</b>
Zakat and income tax (expense) / benefit	15	(435,878)	723,622
<b>Loss from continuing operations</b>		<b>(17,988,670)</b>	<b>(33,113,814)</b>
Profit / (loss) from discontinued operation	25	18,920,315	(1,362,609)
<b>Net profit / (loss) for the year</b>		<b>931,645</b>	<b>(34,476,423)</b>
<b><u>Other comprehensive income (OCI)</u></b>			
<b>Items that will not be reclassified to profit or loss in subsequent years</b>			
Gain / (loss) attributable to the re-measurements of employees' end of service benefits	13	1,251,138	(486,902)
Deferred tax (expense) / benefit	8	(160,546)	62,479
Other comprehensive (loss) / income - discontinued operation	25	(2,815)	27,674
<b>Total other comprehensive income / (loss)</b>		<b>1,087,777</b>	<b>(396,749)</b>
<b>Total comprehensive income / (loss), net</b>		<b>2,019,422</b>	<b>(34,873,172)</b>

**(Loss) / earnings per share**

**Continuing operations:**

Basic loss per share	26	(0.356)	(0.655)
Diluted loss per share	26	(0.353)	(0.649)

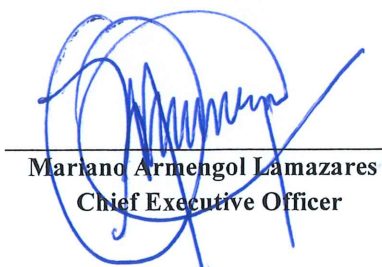
**Discontinued operations:**

Basic earnings / (loss) per share	26	0.374	(0.027)
Diluted earnings / (loss) per share	26	0.371	(0.027)

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on February 16, 2022.



**Ahmed Al Debasi**  
Authorized Director



**Mariano Armengol Lamazares**  
Chief Executive Officer



**Mohamed Anwar Alshakhouri**  
CFO

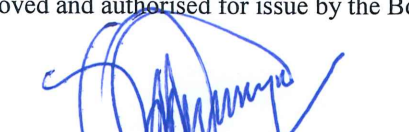
**SAUDI STEEL PIPES COMPANY**  
(A SAUDI JOINT STOCK COMPANY)


**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Share capital	Share premium	Statutory reserve	Other reserves	Accumulated losses	Treasury shares	Total Equity
	SR	SR	SR	SR	SR	SR	SR
Balance as at January 1, 2020	510,000,000	4,512,330	58,494,224	(6,617,758)	(26,828,587)	(11,502,225)	528,057,984
Net loss for the year	-	-	-	-	(34,476,423)	-	(34,476,423)
Other comprehensive loss for the year	-	-	-	(396,749)	-	-	(396,749)
Balance as at December 31, 2020	510,000,000	4,512,330	58,494,224	(7,014,507)	(61,305,010)	(11,502,225)	493,184,812
Balance as at January 1, 2021	510,000,000	4,512,330	58,494,224	(7,014,507)	(61,305,010)	(11,502,225)	493,184,812
Net profit for the year	-	-	-	-	931,645	-	931,645
Other comprehensive income for the year	-	-	-	1,087,777	-	-	1,087,777
Balance as at December 31, 2021	510,000,000	4,512,330	58,494,224	(5,926,730)	(60,373,365)	(11,502,225)	495,204,234

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on February 16, 2022.

  
**Ahmed Al Debasi**  
Authorized Director

  
**Mariano Armengol Lamazares**  
Chief Executive Officer

  
**Mohamed Anwar Alshakhouri**  
CFO

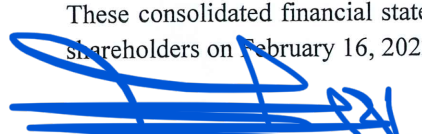
The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED DECEMBER 31, 2021**

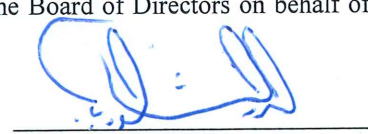
	December 31, 2021 SR	December 31, 2020 SR
<b>Cash flows from operating activities:</b>		
<b>Profit / (loss) before zakat and income tax:</b>		
– Continuing operations	(17,552,792)	(33,837,436)
– Discontinued operation	19,246,371	(1,362,609)
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment and right of use assets	43,333,079	43,343,345
Amortization of intangible assets	2,147,939	1,617,864
Gain on disposal of property, plant and equipment, net	(19,368,189)	(598,850)
Intangibles and property, plant and equipment – write off	41,711	-
Reversal of provision for slow moving inventory	(618,555)	(1,435,240)
Reversal of impairment of trade receivables	(1,203,834)	(28,561)
Financial charges, net	7,343,782	9,336,443
Share of loss / (profit) in associate	5,226,961	(4,771,362)
Employees' end of service benefits	1,698,666	2,249,742
<b>Movement in working capital</b>		
Inventories	9,527,043	24,364,160
Trade and other receivables	22,874,747	75,156,619
Trade and other payables	(828,386)	(43,233,581)
Due to / from related parties	4,327,557	10,440,504
<b>Cash generated from operations</b>	76,196,100	81,241,038
Financial charges paid	(6,880,977)	(9,807,915)
Zakat and income tax paid	(1,870,359)	(1,109,671)
Employees' end of service benefits paid	(5,604,742)	(23,570,703)
<b>Net cash generated from operating activities</b>	61,840,022	46,752,749
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment and intangible assets	(6,640,461)	(15,528,196)
Proceeds from sale of property, plant and equipment	35,530,810	877,747
<b>Net cash generated from / (used in) investing activities</b>	28,890,349	(14,650,449)
<b>Cash flows from financing activities:</b>		
(Repayment) of / proceeds from borrowings, net	(139,698,613)	79,041,422
Net payment under lease	(719,280)	(1,595,583)
<b>Net cash (used in) / generated from financing activities</b>	(140,417,893)	77,445,839
<b>Net change in cash and cash equivalents</b>	(49,687,522)	109,548,139
Cash and cash equivalent at the beginning of the year	149,054,921	39,506,782
<b>Cash and cash equivalents at the end of the year</b>	99,367,399	149,054,921

**Significant non-cash transactions (note 10.2)**

These consolidated financial statements were approved and authorised for issue by the Board of Directors on behalf of shareholders on February 16, 2022.

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Armengol Lamazares  
Chief Executive Officer

  
Mohamed Anwar Alshakhouri  
CFO

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

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

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

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

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

The Group operates through the following branches, for which the assets, liabilities and results are included in the accompanying consolidated financial statements:

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

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

**2. STRUCTURE OF THE GROUP**

The consolidated financial statements as at December 31, 2021 include the financial statements of the Company and its following subsidiary (collectively referred to as “the Group”):

<u>Name of consolidated subsidiary</u>	<u>Principal activity</u>	<u>Effective ownership</u>	
		<u>2021</u>	<u>2020</u>
Titanium and Steel Manufacturing Company Limited (“TSM Arabia”)	Manufacture Stationary process equipment	100%	100%

**Titanium and Steel Manufacturing (TSM Arabia)**

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

As of December 31, 2021, the accumulated losses of TSM Arabia exceeded its share capital by SR 122.6 million (December 31, 2020: SR 141.6 million). Further, during the year ended December 31, 2021, TSM Arabia has sold its main operating assets, which include buildings, machinery and equipment and other assets, for a selling price of SR 36.4 million (note 25).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION**

**3.1 Statement of compliance**

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

As required by the Capital Market Authority ("CMA") through its circular dated October 16, 2016 the Group needs to apply the cost model to measure the property, plant and equipment and intangible assets upon adopting the IFRS for three years' period starting from the IFRS adoption date which was later extended till December 31, 2021. Management has decided not to revalue its assets and continue with the cost model.

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

**3.2 Preparation of the consolidated financial statements**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in consolidated financial statements. The estimates that are significant to the consolidated financial statements are disclosed in note 3.6.22.

**3.3 Basis of Consolidation**

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

Control is achieved when the Group:

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**3. BASIS OF PREPARATION (Continued)**

**3.3 Basis of Consolidation (Continued)**

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

Consolidated Statement of profit or loss and each component of other comprehensive income are attributed to the shareholders of the Group. Total comprehensive income of subsidiary is attributed to the shareholders of the Group.

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

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

**Changes in the Group's ownership interests in existing subsidiaries**

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

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

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

The following new accounting standards, interpretations and amendments to existing standards have been published by IASB and are mandatory for the accounting period beginning on January 1, 2021 or later.

**Standards and amendments issued and applied effective January 1, 2021**

Amendments

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

<b>Amendments to standard</b>	<b>Description</b>	<b>Effective for annual years beginning on or after</b>
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021
IFRS 16	Amendment to extend the exemption from assessing whether a COVID-19-related rent concession is a lease modification	April 1, 2021

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**3. BASIS OF PREPARATION (Continued)**

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

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

<b>Amendments to standard</b>	<b>Description</b>	<b>Effective for annual years beginning on or after</b>
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
IFRS 3	Reference to the Conceptual Framework	January 1, 2022
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
IAS 8	Amendments regarding the definition of accounting estimates	January 1, 2023
IAS 12	Amendments regarding deferred tax on leases and decommissioning obligations	January 1, 2023
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A

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

**3.6 Principal Accounting Policies**

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

**3.6.1 Financial instruments**

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

**Financial assets**

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.1 Financial instruments (Continued)**

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

*(i) Financial assets at amortized cost*

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

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

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

*Business model assessment*

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

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

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

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

**Debt Instruments**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021

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3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.1 Financial instruments (Continued)

**Equity instruments**

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

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

**Financial liabilities**

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

**3.6.1 (B) Impairment of financial assets**

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

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

**3.6.2 Revenue from Contract with Customers**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.2 Revenue from Contract with Customers (Continued)**

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

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

For sale of goods:

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

For long term projects:

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

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

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

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

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

Warranty:

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.3 Property, plant and equipment**

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

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

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

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

**Impairment**

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

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

**Annual review of residual lives and useful lives**

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

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

**Componentization of assets**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.3 Property, plant and equipment (Continued)**

**Componentization of assets (Continued)**

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

**Capitalization of costs under PPE**

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

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

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

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

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

**Capital Spare Parts (CSP)**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.3 Property, plant and equipment (Continued)**

**Capital work-in-progress**

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

**3.6.4 Intangible assets**

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

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

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

**3.6.5 Investment in associates**

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.5 Investment in associates (Continued)**

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

**3.6.6 Inventories**

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

**Net realizable value and provision assessment of inventory**

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

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

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

**3.6.7 Cash and cash equivalents**

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

**3.6.8 Share capital**

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

**3.6.9 Dividends**

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.10 Functional and presentation currency**

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

**Transactions and balances**

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

**3.6.11 Borrowings**

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

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

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

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

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

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.12 Right-of-use assets**

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

**3.6.13 Lease liabilities**

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

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

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

**Short-term leases and leases of low-value assets**

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

**3.6.14 Employees benefits**

**Short term obligation**

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021

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3. BASIS OF PREPARATION (Continued)

3.6 Principal Accounting Policies (Continued)

3.6.14 Employees benefits (Continued)

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

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

Defined benefit costs are categorized as follows:

*Service cost*

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

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

*Interest cost*

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

*Re-measurement gains or losses*

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

**Employee share ownership program (ESOP)**

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

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

3.6.15 Service warranties and provisions

**Service warranties**

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

**Provisions**

Provisions are recognized when the Group has:

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.15 Service warranties and provisions (Continued)**

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

**3.6.16 Zakat, income tax and withholding tax**

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

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

**Deferred tax**

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.17 Selling, marketing and distribution expenses**

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

**3.6.18 Administrative expenses**

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

**3.6.19 Discontinued operations and non-current assets held for sale**

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

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

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

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

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

**3.6.20 Earnings / (Loss) per share**

**Basic earnings / (loss) per share**

Basic earnings per share is calculated by dividing:

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

**Diluted earnings / (loss) per share**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**3. BASIS OF PREPARATION (Continued)**

**3.6 Principal Accounting Policies (Continued)**

**3.6.21 Segment reporting**

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

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

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

SSPC defines its operating segments as:

- **Steel Pipe Segment**

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

- **Process Equipment Segment**

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

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

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

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

**3.6.22 Critical judgments and estimates**

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

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

**Economic useful lives of property, plant, equipment**

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

**Lease term**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**3. BASIS OF PREPARATION (Continued)**

**3.6.22 Critical judgments and estimates (Continued)**

**Zakat and income taxes**

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

**Impairment of non-financial asset**

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

**Estimation of defined benefit obligation**

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

**Allowance for impairment for trade receivables**

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

**Provision for obsolete, slow moving and damaged inventory**

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

**Contingencies**

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

**4. PROPERTY, PLANT AND EQUIPMENT, NET**

	<b>Note</b>	<b>December 31, 2021 SR</b>	<b>December 31, 2020 SR</b>
Operating fixed assets, net	4.1	<b>491,212,757</b>	541,384,229
Right of use assets, net	4.3	<b>6,648,368</b>	8,435,088
Capital work-in-progress	4.4	<b>652,335</b>	2,717,841
		<b>498,513,460</b>	552,537,158



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021

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

4.1 Operating fixed assets, net  
Year ended December 31, 2021

	Land	Land Improvements	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and fixtures	Office and equipment	Leasehold asset	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
<b><u>At January 1, 2021</u></b>									
Cost	157,850,000	1,971,257	251,659,721	645,788,947	3,071,787	1,590,305	24,037,815	225,500	1,086,195,332
Accumulated depreciation and impairment	-	1,553,591	135,894,368	384,494,320	2,655,370	1,427,512	18,560,442	225,500	544,811,103
Net book value	157,850,000	417,666	115,765,353	261,294,627	416,417	162,793	5,477,373	-	541,384,229
<b><u>Cost</u></b>									
Opening	157,850,000	1,971,257	251,659,721	645,788,947	3,071,787	1,590,305	24,037,815	225,500	1,086,195,332
Transferred from CWIP	-	-	3,293,308	4,518,514	-	-	428,261	-	8,240,083
Disposals	-	(1,971,257)	(37,439,428)	(47,114,927)	(555,853)	-	(3,478,773)	(225,500)	(90,785,738)
Written off	-	-	-	-	(168,000)	-	-	-	(168,000)
	157,850,000	-	217,513,601	603,192,534	2,347,934	1,590,305	20,987,303	-	1,003,481,677
<b><u>Accumulated depreciation and impairment</u></b>									
<b><u>Accumulated depreciation</u></b>									
Opening	-	359,146	104,986,216	344,917,615	2,588,828	1,427,512	17,417,721	125,646	471,822,684
For the year	-	4,540	8,389,922	31,517,736	69,045	126,814	2,124,077	-	42,232,134
Disposals	-	(363,686)	(8,852,791)	(13,849,755)	(489,312)	-	(2,511,092)	(125,646)	(26,192,282)
Written off	-	-	-	-	(151,200)	-	-	-	(151,200)
	-	-	104,523,347	362,585,596	2,017,361	1,554,326	17,030,706	-	487,711,336
<b><u>Accumulated impairment</u></b>									
Opening	-	1,194,445	30,908,152	39,576,705	66,542	-	1,142,721	99,854	72,988,419
Disposal	-	(1,194,445)	(21,274,280)	(25,086,934)	(66,542)	-	(708,780)	(99,854)	(48,430,835)
	-	-	9,633,872	14,489,771	-	-	433,941	-	24,557,584
<b>Total accumulated depreciation and impairment</b>	-	-	114,157,219	377,075,367	2,017,361	1,554,326	17,464,647	-	512,268,920
<b>December 31, 2021</b>	157,850,000	-	103,356,382	226,117,167	330,573	35,979	3,522,656	-	491,212,757

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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

**4.1 Operating fixed assets, net (continued)**

Year ended December 31, 2020

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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

- Refer to note 28 related to title deeds of land with a carrying value of SR 157.9 million.
- Operating fixed assets are pledged as collateral against loans from SIDF.

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

	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
		SR	SR
Cost of revenue	18	40,561,852	40,016,563
Administrative expenses	20	1,223,354	1,077,429
Depreciation from discontinued operation	25	446,928	1,359,112
		<u>42,232,134</u>	<u>42,453,104</u>

**4.3 Right of use assets, net**

Movement in right of use assets is as follows:

	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
		SR	SR
Opening balance		8,435,088	7,564,511
Additions		-	1,760,818
Depreciation for the year	18	(1,083,362)	(819,904)
Depreciation from discontinued operation		(17,583)	(70,337)
Disposals during the year		(685,775)	-
Closing balance		<u>6,648,368</u>	<u>8,435,088</u>

**4.4 Capital work-in-progress**

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

	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
		SR	SR
Opening balance		2,717,841	-
Additions during the year		6,640,461	15,528,196
Transferred to operating fixed assets	4.1	(8,240,083)	(10,259,989)
Transferred to intangible assets	5	(465,884)	(2,550,366)
Closing balance		<u>652,335</u>	<u>2,717,841</u>

**5. INTANGIBLE ASSETS, NET**

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	SR	SR
Cost	9,147,265	11,462,341
Accumulated amortization	(7,155,091)	(7,763,201)
Net book value	<u>1,992,174</u>	<u>3,699,140</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021

5. INTANGIBLE ASSETS, NET (Continued)

	Note	December 31, 2021 SR	December 31, 2020 SR
<b><u>Cost</u></b>			
Opening balance		11,462,341	9,123,924
Transferred from CWIP	4.4	465,884	2,550,366
Written off		(2,780,960)	(211,949)
Closing balance		9,147,265	11,462,341
<b><u>Accumulated amortization</u></b>			
Opening balance		7,763,201	6,357,286
Charged for the year	20	2,147,939	1,617,864
Written off		(2,756,049)	(211,949)
Closing balance		7,155,091	7,763,201
<b>Net book value</b>		<b>1,992,174</b>	<b>3,699,140</b>

6. INVESTMENTS, NET

Investments are classified as follows:

	Note	December 31, 2021 SR	December 31, 2020 SR
Investment in associate, net	6.1	104,966,006	110,192,967
Investment at fair value through profit or loss	6.2	-	-
		<b>104,966,006</b>	<b>110,192,967</b>

6.1 Investments in associate, net

Movement in investment in associate is as follows:

	December 31, 2021 SR	December 31, 2020 SR
<b>Global Pipe Company ("GPC")</b>		
Opening value of investment	110,192,967	105,421,605
Share of (loss) / profit for the year	(5,226,961)	4,771,362
	<b>104,966,006</b>	<b>110,192,967</b>
<b>Investment in associate represents the following:</b>		
Cost of acquisition	45,000,000	45,000,000
Capital increase	43,750,000	43,750,000
Share of retained earnings (opening balance)	21,442,967	16,671,605
Share of (loss) / profit for the year	(5,226,961)	4,771,362
Net investment value	<b>104,966,006</b>	<b>110,192,967</b>

**Global Pipe Company ("GPC")**

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

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**6. INVESTMENTS, NET (Continued)**

**6.1 Investments in associate, net (Continued)**

**Summarized statement of financial position of associate**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	<b>SR</b>
Current assets	<b>340,311,497</b>	509,517,573
Non- current assets	<b>638,271,436</b>	656,265,197
Current liabilities	<b>(683,340,076)</b>	(850,877,408)
Non- current liabilities	<b>(24,325,406)</b>	(22,463,332)
Net assets	<b>270,917,451</b>	292,442,030
Proportion of the Group ownership	<b>35%</b>	35%
Group share of net assets (as a Saudi shareholder)	<b>94,821,108</b>	102,354,711
Goodwill	<b>1,250,000</b>	1,250,000
Adjustments	<b>8,894,898</b>	6,588,256
<b>Group's carrying amount of the investment</b>	<b>104,966,006</b>	110,192,967

**Summarized statement of comprehensive income for associate**

	<b>December 31, 2021</b>	December 31, 2020
Revenue	<b>203,949,750</b>	288,946,480
Operating income	<b>11,646,116</b>	18,816,389
Net (loss) / income for the year	<b>(21,350,414)</b>	15,345,542
Other comprehensive income	<b>(174,165)</b>	(276,077)
Total comprehensive (loss) / income	<b>(21,524,579)</b>	15,069,465
Proportion of the Group ownership	<b>35%</b>	35%
Group share of total comprehensive (loss) / income	<b>(7,533,603)</b>	5,274,313
Adjustments	<b>2,306,642</b>	(502,951)
<b>Group share of total comprehensive (loss) / income</b>	<b>(5,226,961)</b>	4,771,362

**6.2 Investment at fair value through profit or loss**

Investment at fair value through profit or loss represented a 20% share in Chemical Development Company Limited (CDC), a holding company whose purpose is to develop strategic industrial projects. On adoption of IFRS 9 this investment has been reclassified from investment available for sale to investment at fair value through profit or loss, considering all required transition affects.

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

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**7. TRADE AND OTHER RECEIVABLES, NET**

Trade and other receivables comprise the following:

	Note	December 31, 2021 SR	December 31, 2020 SR
Trade receivables	7.1	131,000,804	148,817,204
Contract assets		-	937,499
Allowance for impairment of trade receivables	7.2	(4,823,785)	(6,961,690)
Trade receivables, net		126,177,019	142,793,013
Due from related parties	24 (A)	901,783	1,024,067
Prepayments and advances to suppliers		2,647,169	2,469,860
Employee loans		3,869,176	5,047,697
Other receivables		1,643,759	5,146,508
		135,238,906	156,481,145
Less: non-current portion of employee loans and other receivables		(3,790,356)	(5,235,672)
Total current portion, net		131,448,550	151,245,473

**7.1** Five major customers' balances represent 41.9% (2020: 58.8%) of gross trade receivables.

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

	December 31, 2021 SR	December 31, 2020 SR
Opening balance	6,961,690	7,586,779
(Reversal) / allowance for the year – Continuing operations	(1,177,731)	551,654
Reversal for the year – Discontinued operation	(26,103)	(580,215)
Utilized against receivables written off - Continuing operation	(57,847)	(596,528)
Utilized against receivables written off –Discontinued operations	(876,224)	-
Closing balance	4,823,785	6,961,690

Aging of trade receivables is presented in note 27.2.1.

**8. DEFERRED TAX ASSET**

Movement on deferred tax asset / liability is as under:

**December 31, 2021:**

	At January 1, 2021 SR	Statement of profit or loss SR	Statement of other comprehensive income SR	At December 31, 2021 SR
<b>Difference between accounting and tax basis of:</b>				
Property plant and equipment, right of use and intangible assets	(16,491,336)	1,882,458	-	(14,608,878)
<b>Deferred tax liability</b>	(16,491,336)	1,882,458	-	(14,608,878)
Employees' end of services benefits	4,306,257	(373,128)	(160,546)	3,772,583
Allowance for slow moving inventory	2,566,690	11,932	-	2,578,622
Allowance for impairment of trade receivables	736,877	(159,262)	-	577,615
Provision for guarantee	3,849,600	-	-	3,849,600
Lease liability	-	878,308	-	878,308
Accumulated taxable losses	16,273,834	378,811	-	16,652,645
<b>Deferred tax asset</b>	27,733,258	736,661	(160,546)	28,309,373
<b>Net deferred tax asset</b>	11,241,922	2,619,119	(160,546)	13,700,495

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8. DEFERRED TAX ASSET (Continued)

December 31, 2020:

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

9. INVENTORIES, NET

	Note	December 31, 2021	December 31, 2020
		SR	SR
Raw material		11,022,220	19,174,290
Work in progress		26,879,888	32,749,464
Finished goods		62,778,567	45,213,918
Goods in transit		1,937,317	2,958,946
Scrap material		2,000,866	4,358,261
Stores, spares and supplies		35,854,601	45,545,623
		140,473,459	150,000,502
Allowance for slow moving inventory	9.1	(22,244,743)	(22,863,298)
		118,228,716	127,137,204

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

	Note	December 31, 2021	December 31, 2020
		SR	SR
Opening balance		22,863,298	24,298,538
Allowance / (reversal) during the year	18	96,107	(2,299,397)
(Reversal) / allowance during the year – discontinued operation		(714,662)	864,157
Closing balance		22,244,743	22,863,298

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



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**10. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the followings:

	<b>December 31, 2021</b>	December 31, 2020
	SR	SR
Cash at banks	<b>99,367,399</b>	149,010,421
Cash on hand	-	44,500
	<b>99,367,399</b>	149,054,921

**10.1 Reconciliation of liabilities arising from financing activities**

	<b>December 31, 2020</b>	<b>Loans (paid) / received, net</b>	<b>Interest (paid) / accrued, net</b>	<b>Lease liability- write off</b>	<b>Amortization of finance charges</b>	<b>December 31, 2021</b>
	SR	SR	SR	SR	SR	SR
SIDF term loan	108,230,993	(39,268,392)	(421,998)	-	1,643,894	70,184,497
SIDF working capital loan	83,033,500	(23,830,000)	-	-	241,934	59,445,434
Short term Murabaha loan	175,029,107	(76,600,221)	(713,255)	-	-	97,715,631
Lease liability	7,986,529	(719,280)	263,188	(685,775)	-	6,844,662
	<b>374,280,129</b>	<b>(140,417,893)</b>	<b>(872,065)</b>	<b>(685,775)</b>	<b>1,885,828</b>	<b>234,190,224</b>

**10.2 Significant non-cash transactions**

	<b>December 31, 2021</b>	December 31, 2020
	SR	SR
Transfer of capital work in progress to operating fixed assets	<b>8,240,083</b>	10,259,989
Utilization of allowance for doubtful debts	<b>934,071</b>	596,528
Write off of right of use asset against lease liability	<b>685,775</b>	-
Transfer of capital work in progress to intangible assets	<b>465,884</b>	2,550,366

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**11. EQUITY**

**11.1 Share capital**

	Number of shares		Share Capital	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
			SR	SR
<b>Authorized, issued and fully paid</b>				
Ordinary shares of SR 10 each				
fully paid in cash	<b>51,000,000</b>	51,000,000	<b>510,000,000</b>	510,000,000

The distribution of the share capital into Saudi and non-Saudi shareholders is as follows;

	December 31, 2021	December 31, 2020
	SR	SR
Non-Saudi 64.17%	<b>327,251,630</b>	327,251,630
Saudi 35.83%	<b>182,748,370</b>	182,748,370
	<b>510,000,000</b>	510,000,000

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

**11.2 Premium, reserves and accumulated losses**

	Note	December 31, 2021	December 31, 2020
		SR	SR
Share premium	11.2 (a)	<b>4,512,330</b>	4,512,330
Statutory reserve	11.2 (b)	<b>58,494,224</b>	58,494,224
Other reserves	11.2 (c)	<b>(5,926,730)</b>	(7,014,507)
Accumulated losses	11.2 (d)	<b>(60,373,365)</b>	(61,305,010)

**11.2 (a) Share premium**

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

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

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

**11.2 (b) Statutory reserve**

In accordance with Company's By-Laws, the Group is required to transfer 10% of net income each year to a statutory reserve until such reserve equals 30% of its share capital. This reserve is not available for distribution to shareholders.

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**11. EQUITY (Continued)**

**11.2 Premium and other reserves (Continued)**

**11.2 (c) Other reserves**

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

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Actuarial re-measurement losses	<b>(6,802,865)</b>	(8,051,188)
Deferred tax impact on OCI	<b>876,135</b>	1,036,681
	<b><u>(5,926,730)</u></b>	<b><u>(7,014,507)</u></b>

**11.2 (d) Accumulated losses**

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

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Saudi share	<b>(29,583,026)</b>	(27,018,054)
Non-Saudi share	<b>(30,790,339)</b>	(34,286,956)
	<b><u>(60,373,365)</u></b>	<b><u>(61,305,010)</u></b>

**11.3 Treasury shares**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
As at January 1 and December 31	<b><u>(11,502,225)</u></b>	<b><u>(11,502,225)</u></b>

The treasury shares held by the Group represent 2.26% of the share capital. Their market value amounts to SR 11.5 million as of December 31, 2021 (2020: 12.9 million). The Group initially acquired 700,000 shares offered to the public for the employee share program at the price of SR 25 per employee share options scheme, subsequently an additional 62,812 shares were purchased at an average price of SR 29 per share. This employee share program is divided into four types of shares, namely; free shares, credit shares, cash shares and future shares. During 2021 and 2020, the Group has not granted shares to employees. The remaining 457,689 shares will be distributed to the employees gradually based on the program. The employee shares program is initially recorded in the consolidated balance sheet as a deduction to shareholder's equity and this deduction will be reduced upon issuance of shares to employees.

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**12. BORROWINGS**

	<b>Current</b>		<b>Non-Current</b>	
	<b>December 31, 2021</b>	December 31, 2020	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
<b><u>Term loans</u></b>				
Saudi Industrial Development Fund (SIDF)	-	-	<b>70,184,497</b>	108,230,993
<b><u>Short Term</u></b>				
SIDF – working capital loan	<b>59,445,434</b>	83,033,500	-	-
Murabaha loan	<b>97,715,631</b>	175,029,107	-	-
	<b>157,161,065</b>	258,062,607	<b>70,184,497</b>	108,230,993
Current portion of long term loans	<b>25,705,364</b>	29,600,516	<b>(25,705,364)</b>	(29,600,516)
Total borrowings	<b>182,866,429</b>	287,663,123	<b>44,479,133</b>	78,630,477

The term of finances are as under:

<b>Loan Name</b>	<b>Balance in SR</b>	<b>Type of loan</b>	<b>Number of remaining installments</b>	<b>Payment term</b>	<b>Period</b>	<b>Mark up</b>
SIDF – I	70,184,497	Long-term	5	Semi-annual	April 2018 to February 2024	Follow-up cost every 6 month
<b>Total long term</b>	<b>70,184,497</b>					
SIDF – working capital loan	59,445,434	Short-term	-	Within 12 months	July 2020 to June 2022	Upfront fee
Murabaha loans	97,715,631	Short-term	-	From 3 to 6 months	-	SIBOR+1.25% to 1.75%
<b>Total short term</b>	<b>157,161,065</b>					
<b>Total borrowings</b>	<b>227,345,562</b>					

These borrowings facility agreements are subject to certain financial and non-financial covenants. The Group is complying with all the covenants. Further, during the year, SIDF working capital loan was rescheduled where the loan was partially repaid and maturity of remaining loan has been extended to be payable by June 30, 2022.

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**13. EMPLOYEES' END OF SERVICE BENEFITS**

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

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

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Opening balance	<b>34,692,686</b>	55,554,419
Expense charge for the year	<b>1,698,666</b>	2,249,742
Re-measurement (gain) / loss – continuing operations	<b>(1,251,138)</b>	486,902
Re-measurement loss / (gain) – discontinued operation	<b>2,815</b>	(27,674)
Payments	<b>(5,604,742)</b>	(23,570,703)
Closing balance	<b>29,538,287</b>	34,692,686

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

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Service cost	<b>903,429</b>	603,824
Interest cost	<b>795,237</b>	1,645,918
Expense recognized in profit and loss	<b>1,698,666</b>	2,249,742

**Principal actuarial assumptions:**

	<b>December 31, 2021</b>	December 31, 2020
Discount factor used	<b>2.70%</b>	2.25%
Salary increase rate	<b>2.70%</b>	2.25%
Rates of employees turnover	<b>Moderate</b>	Moderate
Weighted average duration	<b>9.65 years</b>	10.2 years

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

	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Percentage</b>	<b>Amount SR</b>	<b>Percentage</b>	<b>Amount SR</b>
<b>Discount rate</b>				
Increase	+ 1 %	<b>26,889,950</b>	+ 1 %	31,415,716
Decrease	- 1 %	<b>32,627,125</b>	- 1 %	38,536,991
<b>Expected rate of salary</b>				
Increase	+ 1 %	<b>31,613,794</b>	+ 1 %	37,032,416
Decrease	- 1 %	<b>27,692,554</b>	- 1 %	32,612,254

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

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**14. TRADE AND OTHER PAYABLES**

Trade and other payables comprise of the following:

	<b>Note</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
		<b>SR</b>	<b>SR</b>
<b><u>Current</u></b>			
Trade payables		<b>130,672,063</b>	129,454,634
Due to related parties	24 B	<b>28,068,020</b>	23,862,747
Accrued expenses		<b>12,706,048</b>	11,076,464
VAT payable		<b>1,922</b>	5,769,215
Advances from customers		<b>5,051,642</b>	3,316,504
Board remuneration payable		<b>3,036,643</b>	2,343,309
Retention payable		<b>1,377,463</b>	1,080,328
		<b>180,913,801</b>	176,903,201
<b><u>Non-current</u></b>			
Provision for liability against guarantee to an investee company	14.1	<b>30,000,000</b>	30,000,000
		<b>210,913,801</b>	206,903,201

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

**15. ZAKAT AND INCOME TAX**

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

	<b>Note</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
		<b>SR</b>	<b>SR</b>
At the beginning of the year		<b>649,916</b>	-
Provision charged during the year – continuing operations	15.2	<b>3,054,997</b>	1,759,587
Provision charged during the year – discontinued operation	25	<b>326,056</b>	-
Payments		<b>(1,870,359)</b>	(1,109,671)
At the end of the year		<b>2,160,610</b>	649,916

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15. ZAKAT AND INCOME TAX (Continued)

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

	December 31, 2021	December 31, 2020
	SR	SR
<b>Zakat and income tax</b>		
Current year	1,876,609	649,916
Prior years	1,178,388	1,109,671
<b>Total current zakat and income tax expense</b>	<b>3,054,997</b>	<b>1,759,587</b>

	Note	December 31, 2021	December 31, 2020
		SR	SR
<b>Deferred tax</b>			
(Decrease) / increase in deferred tax liability	8	(1,882,458)	864,482
Increase in deferred tax asset	8	(576,115)	(3,410,170)
<b>Net deferred tax benefit</b>		<b>(2,458,573)</b>	<b>(2,545,688)</b>
<b>Total Zakat and income tax expense / (benefit)</b>		<b>596,424</b>	<b>(786,101)</b>

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

	December 31, 2021	December 31, 2020
	SR	SR
Profit or loss	435,878	(723,622)
Other comprehensive income	160,546	(62,479)
	<b>596,424</b>	<b>(786,101)</b>

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

	December 31, 2021	December 31, 2020
	SR	SR
<b>a) Zakat</b>		
<b>Zakat for holding Company</b>		
Opening share capital	510,000,000	510,000,000
Treasury shares	(11,502,225)	(11,502,225)
Accumulated losses	(61,305,010)	(26,828,587)
Reserves and opening provisions less utilized	147,390,449	122,236,172
Zakatable loans	267,447,058	184,666,225
Closing value of long term assets	(638,627,586)	(671,362,670)
Zakatable loss for the year	(13,365,808)	(37,984,492)
<b>Zakat base</b>	<b>200,036,878</b>	<b>69,224,423</b>
Attributable to Saudi Shareholders @ 35.83%	<b>71,693,217</b>	<b>24,803,111</b>
<b>Zakat due for Saudi shareholding of the holding Company</b>	<b>(1,876,609)</b>	<b>649,916</b>

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**15. ZAKAT AND INCOME TAX (Continued)**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
<b>b) Income tax</b>		
Loss before zakat and income tax	<b>(17,552,792)</b>	(33,837,436)
Adjustments	<b>14,663,470</b>	(25,493,706)
Taxable loss for the year	<b>(2,889,322)</b>	(59,331,142)
Attributable loss to Non-Saudi shareholders at 64.17%	<b>(1,854,078)</b>	(38,072,794)
Income tax due at 20% of Non-Saudi shareholders	<b>-</b>	-

**15.4 Zakat and income tax status**

The Holding Company has filed zakat and income tax return for the year ended December 31, 2020 and obtained the required certificate valid until April 30, 2022. The Holding Company was previously inspected and had last assessment up to year 2004. During 2020, ZATCA issued its assessment orders for the years from 2014 to 2018, the status of those assessments as of December 31, 2021 are as follows:

**(a) Years for which the assessments were closed:**

- 2014: Settled in December 2020 and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2020 an additional zakat liability amounting to SR 208,117.
- 2016 and 2017: Settled during 2021 and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2021 net additional zakat and tax liabilities amounting to SR 51,785 for the two years.
- 2018: Settled during 2021 and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2021 an additional zakat liability amounting to SR 77,670.

**(b) Years for which the assessments are still open:**

- 2015: Settled during 2021 and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2021 the undisputed portion of the additional zakat and tax liability amounting to SR 79,655. The Holding Company filed a case with the General Secretariat of Zakat, Tax and Customs Committees against a disputed additional zakat liability amounting to SR 307,264 for which the hearing session date has not been determined as at the date of issuing these consolidated financial statements, no provision has been established as of December 31, 2021 due to the insignificance of the amount.

The ZATCA has not raised the assessments for the years from 2019 to 2020 for the Holding Company.

The subsidiary Company has filed the zakat return for the year ended December 31, 2020 and obtained the required certificate. During 2021, ZATCA issued its assessment order for the year 2015 with an additional zakat liability amounting to SR 42,056, which was settled during the year and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2021. The ZATCA has not issued any assessment to the Subsidiary for the years from 2016 to 2020.

**16. LEASE LIABILITIES**

Commitments for minimum lease payments under lease are as follows:

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Within one year	<b>1,848,304</b>	1,355,280
Year two to five	<b>4,016,966</b>	4,509,216
Year five and above	<b>1,717,512</b>	3,193,568
Minimum lease payments	<b>7,582,782</b>	9,058,064
Less: finance charges	<b>(738,120)</b>	(1,071,535)
Net minimum lease payments	<b>6,844,662</b>	7,986,529
Non-current portion	<b>5,186,411</b>	6,870,670
Current portion	<b>1,658,251</b>	1,115,859



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**17. CONTINGENCIES AND COMMITMENTS**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Letters of credit	-	3,421,013
Letters of guarantee	<b>146,752,724</b>	149,223,946
Corporate guarantees (note 17.1)	<b>431,475,048</b>	493,092,488
Capital commitments	<b>430,770</b>	2,257,270

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

**18. COST OF REVENUE**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Raw material consumed, net	<b>230,841,801</b>	302,616,982
Stores, spares parts and consumables	<b>28,497,433</b>	36,039,223
Salaries and staff related benefits	<b>43,538,577</b>	47,944,833
Depreciation of operating fixed assets	<b>40,561,852</b>	40,016,563
Depreciation of right of use assets	<b>1,083,362</b>	819,904
Allowance / (reversal) for slow moving inventory	<b>96,107</b>	(2,299,397)
Others	<b>13,225,968</b>	17,350,239
<b>Total operating cost</b>	<b>357,845,100</b>	442,488,347
Movement in finished goods and work in process	<b>(11,695,073)</b>	13,264,476
<b>Total</b>	<b>346,150,027</b>	455,752,823

**19. SELLING, MARKETING AND DISTRIBUTION EXPENSES**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Salaries and wages	<b>4,846,863</b>	4,421,683
Transportation and freight	<b>3,769,677</b>	4,188,635
Others	<b>1,031,023</b>	1,202,665
	<b>9,647,563</b>	9,812,983

**20. ADMINISTRATIVE EXPENSES**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Salaries and wages	<b>11,404,001</b>	12,772,448
Indemnity cost	<b>5,026,358</b>	19,615,110
Directors remuneration	<b>2,312,000</b>	1,618,667
Amortization of intangible assets	<b>2,147,939</b>	1,617,864
Depreciation of operating fixed assets	<b>1,223,354</b>	1,077,429
Information technology expenses	<b>1,084,652</b>	801,908
Others	<b>4,270,659</b>	4,128,278
	<b>27,468,963</b>	41,631,704

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**21. OTHER (INCOME) / EXPENSES, NET**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Income on inter-company services, net	<b>(1,702,893)</b>	(857,942)
Gain on disposal of property, plant and equipment	-	(307,670)
Intangibles and property plant and equipment – write off	<b>41,711</b>	-
Other (income) / expense, net	<b>(1,533,597)</b>	1,506,727
	<b><u>(3,194,779)</u></b>	<u>341,115</u>

**22. FINANCIAL CHARGES, NET**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Finance cost on bank borrowings	<b>3,054,123</b>	4,588,524
Finance cost on SIDF loans	<b>3,754,036</b>	1,096,059
Unwinding of employee loans	<b>(550,958)</b>	(679,500)
Bank charges including facility fee	<b>440,300</b>	216,632
Finance charge on lease liabilities	<b>218,897</b>	193,531
	<b><u>6,916,398</u></b>	<u>5,415,246</u>

**23. SEGMENT REPORTING**

During the year ended December 31, 2021, Group's wholly owned subsidiary Titanium Steel & Manufacturing Co. Ltd. entered into an agreement to sell the main operating fixed assets of its wholly owned subsidiary Titanium Steel & Manufacturing Co. Limited. The transaction was completed in third quarter of 2021 and the related operating fixed assets, which were classified as a disposal group held for sale, were sold to a third party, Koch Chemical Technology Group Saudi Arabia Limited (note 25). The business of Titanium Steel & Manufacturing Co. Ltd represented the entirety of the Group's Process equipment segment. With Titanium Steel & Manufacturing Co. Ltd operating fixed assets being classified as discontinued operations, the process equipment segment has been ceased to be presented as a separate operating segment and accordingly, steel pipes constitute 100% of the revenue and operations of the Group.

**Geographical segment**

A geographical segment is a Group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments. The Group's operation is conducted mainly in the Kingdom of Saudi Arabia. The selected financial information covering the revenue as at December 31, 2021 and 2020, categorized by these geographic segments is as follows:

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
Saudi Arabia	<b>340,730,870</b>	465,263,315
Other countries	<b>32,753,740</b>	9,633,412
	<b><u>373,484,610</u></b>	<u>474,896,727</u>

**Transactions with a major customer**

Revenue from one major customer accounted for 29.48% of the total revenue for the year (2020: 63.49%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**24. RELATED PARTIES' TRANSACTIONS AND BALANCES**

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

<u>Company</u>	<u>Relationship</u>
Tenaris Saudi Arabia Limited ("TESA")	Shareholder
Hu Steel Company Ltd.	Shareholder
Chemical Development Company	Affiliate
Dalmine S.P.A	Affiliate
NKK Tubes	Affiliate
S.C. SilcoTub S.A.	Affiliate
Tenaris Global Services Switzerland	Affiliate
Tenaris Global Services Uruguay	Affiliate
Exiros Saudi Arabia Limited	Affiliate
Tenaris Global Services Far East Pte Ltd	Affiliate
Siderca S.A.I.C.	Affiliate
Global Pipe Company	Associate

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

<u>Related party</u>	<u>Nature of transaction</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
		<u>SR</u>	<u>SR</u>
Dalmine S.P.A	Technical services	<b>1,516,059</b>	3,215,353
Dalmine S.P.A	IT services	<b>19,151</b>	619,505
Tenaris Saudi Arabia Limited ("TESA")	Services agreement	<b>(3,769,543)</b>	(2,742,591)
Tenaris Saudi Arabia Limited ("TESA")	Sales	<b>(1,527,944)</b>	-
Tenaris Saudi Arabia Limited ("TESA")	Other sales	<b>(15,455)</b>	-
Tenaris Saudi Arabia Limited ("TESA")	Purchase	<b>11,295</b>	64,266
Tenaris Saudi Arabia Limited ("TESA")	Trading services	-	2,213,511
Exiros Saudi Arabia Limited	Services	<b>1,835,750</b>	1,989,124
Exiros Saudi Arabia Limited	Rental services	<b>(34,687)</b>	(74,476)
Siderca S.A.I.C.	IT services	<b>146,136</b>	1,329,703
Tenaris Global Services Uruguay	Sales	<b>(1,526,265)</b>	-
Tenaris Global Services Uruguay	Purchase	<b>5,183,484</b>	260,173
Hu Steel Company Ltd.	Services	<b>146,329</b>	366,207
Tenaris Global Services Far East Pte Ltd	Services	<b>(30,447)</b>	-
Tenaris Connections B.V.	Services	<b>20,931</b>	-
S.C. SilcoTub S.A.	Purchases	-	1,278,998
S.C. SilcoTub S.A.	IT services	-	108,346
NKK tubes	Purchases	-	37,734

A) Balances receivable from related parties are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	<u>SR</u>	<u>SR</u>
Tenaris Global Services Uruguay	<b>855,682</b>	-
Tenaris Saudi Arabia Limited ("TESA")	<b>15,617</b>	938,419
Tenaris Global Services Far East Pte Ltd	<b>30,484</b>	-
Exiros Saudi Arabia Limited	-	85,648
	<b>901,783</b>	<b>1,024,067</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**24. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)**

B) Balances payable to related parties are as follows:

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	<b>SR</b>
S.C. SilcoTub S.A.	<b>12,834,933</b>	13,152,446
Dalmine S.P.A.	<b>6,172,346</b>	5,036,740
Tenaris Global Services Uruguay	<b>5,451,017</b>	260,165
Tenaris Saudi Arabia Limited ("TESA")	<b>2,635,780</b>	2,620,279
Exiros Saudi Arabia Limited	<b>838,869</b>	557,246
Siderca S.A.I.C.	<b>116,767</b>	2,118,801
Tenaris Connections B.V.	<b>18,308</b>	-
Tenaris Global Services Switzerland	-	79,336
Tenaris NKK Tubes	-	37,734
	<b>28,068,020</b>	23,862,747

C) Remuneration of directors and key management personnel

	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Directors</b>	<b>Key management personnel</b>	<b>Directors</b>	<b>Key management personnel</b>
	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
Board Remuneration	<b>2,312,000</b>	-	1,618,667	-
Salaries and wages	-	<b>1,924,185</b>	-	2,277,608
Allowances	-	<b>881,192</b>	-	1,063,809
Bonus	-	<b>341,200</b>	-	1,500
End of service	-	<b>186,106</b>	-	133,750
Others	-	-	-	980,720
	<b>2,312,000</b>	<b>3,332,683</b>	1,618,667	4,457,387

Board Remuneration payable amounted to SR 3.04 million – note 14 (2020: 2.34 million).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**25. DISCONTINUED OPERATION**

During the year ended December 31, 2021, Group's wholly owned subsidiary Titanium Steel & Manufacturing Co. Ltd. has entered into a definitive asset purchase agreement with Koch Chemical Technology Group Saudi Arabia Limited for the sale of its main operating assets and some spare and consumables (disposal group) having net book value of SR 16.7 million for a price of SR 36.4 million (equivalent to USD 9.7 million, exclusive of applicable taxes). The closing took place on September 30, 2021, after all required approvals, including the approval by the General Authority for Competition, were obtained and full payment has been received.

The business of Titanium Steel & Manufacturing Co. Ltd represented the entirety of the Group's process equipment segment and it is classified as discontinued in result of disposal of main operating assets and cessation of operations.

**25.1** Components of income and expenses, related to discontinued operation are set out below;

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	<b>SR</b>
Revenue	<b>2,619,584</b>	33,615,247
Cost of revenue	<b>(1,002,471)</b>	(28,118,815)
<b>Gross profit</b>	<b>1,617,113</b>	5,496,432
Selling, marketing and distribution expenses	-	(218,323)
Administrative expenses	<b>(2,626,332)</b>	(3,862,901)
Reversal for impairment of trade receivables	<b>26,103</b>	580,215
Gain on disposal of main operating assets and consumables	<b>19,640,655</b>	-
Other income, net	<b>1,016,216</b>	563,165
<b>Operating profit</b>	<b>19,673,755</b>	2,558,588
Financial charges	<b>(427,384)</b>	(3,921,197)
<b>Profit / (loss) before zakat and income tax</b>	<b>19,246,371</b>	(1,362,609)
Zakat expense	<b>(326,056)</b>	-
<b>Profit / (loss) for the year</b>	<b>18,920,315</b>	(1,362,609)
<b><u>Other comprehensive income (OCI)</u></b>		
<b>Items that will not be reclassified to profit or loss in subsequent years</b>		
(Loss) / gain attributable to the re-measurements of employees' end of service benefits	<b>(2,815)</b>	27,674
<b>Total other comprehensive (loss) / income</b>	<b>(2,815)</b>	27,674
<b>Total comprehensive income / (loss), net</b>	<b>18,917,500</b>	(1,334,935)

**25.2** Depreciation for the year for discontinued operation has been allocated as follows;

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	<b>SR</b>
Cost of revenue	<b>353,147</b>	1,156,316
Administrative expenses	<b>93,781</b>	202,796
	<b>446,928</b>	1,359,112

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**25. DISCONTINUED OPERATION (Continued)**

**25.3 Cash flows from discontinued operation**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	<b>SR</b>
Net cash generated from operating activities	<b>12,664,631</b>	26,649,850
Net cash generated from investing activities	<b>35,530,810</b>	482,248
Net cash used in financing activities	<b>(62,794,226)</b>	(13,924,382)
<b>Net cash flows for the year</b>	<b>(14,598,785)</b>	13,207,716

**26. EARNING / (LOSS) PER SHARE**

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

Earning / loss per share for the year are represented as follows:

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	<b>SR</b>
<b>Basic earnings / (loss) per share:</b>		
From continuing operations	<b>(0.356)</b>	(0.655)
From discontinued operation	<b>0.374</b>	(0.027)
<b>Profit / (loss) for the year:</b>		
From continuing operations	<b>(17,988,670)</b>	(33,113,814)
From discontinued operation	<b>18,920,315</b>	(1,362,609)
	<b>931,645</b>	(34,476,423)
Weighted average number of outstanding shares	<b>50,542,311</b>	50,542,311
<b>Diluted earnings / (loss) per share:</b>		
From continuing operations	<b>(0.353)</b>	(0.649)
From discontinued operation	<b>0.371</b>	(0.027)
<b>Profit / (loss) for the year:</b>		
From continuing operations	<b>(17,988,670)</b>	(33,113,814)
From discontinued operation	<b>18,920,315</b>	(1,362,609)
	<b>931,645</b>	(34,476,423)
Weighted average number of outstanding shares, considering the effect of dilutive shares	<b>51,000,000</b>	51,000,000
<b>Reconciliation of weighted average number of outstanding shares</b>		
Number of issued shares	<b>51,000,000</b>	51,000,000
<u>Less:</u> Treasury shares- shares kept for ESOP	<b>(762,812)</b>	(762,812)
<u>Add:</u> Weighted average number of shares issued to employees	<b>305,123</b>	305,123
<b>Number of outstanding shares</b>	<b>50,542,311</b>	50,542,311
<b>Weighted average number of outstanding shares</b>	<b>50,542,311</b>	50,542,311

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**27. FINANCIAL RISK MANAGEMENT**

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

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

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

**27.1 Financial instruments by category**

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
<b>Financial assets at amortized cost:</b>		
Trade receivables, net	<b>126,177,019</b>	142,793,013
Employee loans	<b>3,869,176</b>	5,047,697
Other receivables	<b>1,643,759</b>	5,146,508
Due from related parties	<b>901,783</b>	1,024,067
Cash and cash equivalents	<b>99,367,399</b>	149,054,921
<b>Total financial assets</b>	<b>231,959,136</b>	303,066,206
	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	SR
<b>Financial liabilities at amortized cost:</b>		
Borrowings	<b>227,345,562</b>	366,293,600
Trade and retention payables	<b>132,049,526</b>	131,168,675
Provision for liability against guarantee to an investee company	<b>30,000,000</b>	30,000,000
Due to related parties	<b>28,068,020</b>	23,862,747
Accrued expenses	<b>12,706,048</b>	11,076,464
Lease liabilities	<b>6,844,662</b>	7,986,529
Board remuneration payable	<b>3,036,643</b>	2,343,309
<b>Total financial liabilities</b>	<b>440,050,461</b>	572,731,324

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**27. FINANCIAL RISK MANAGEMENT (Continued)**

**27.2 Risk management of financial instruments**

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

**27.2.1 Credit risk and concentration of credit risk**

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

	<b>December 31, 2021</b>	December 31, 2020
	<b>SR</b>	<b>SR</b>
Trade receivables, net	<b>126,177,019</b>	142,793,013
Employee loans	<b>3,869,176</b>	5,047,697
Other receivables	<b>1,643,759</b>	5,146,508
Due from related parties	<b>901,783</b>	1,024,067
Bank balances	<b>99,367,399</b>	149,010,421
	<b>231,959,136</b>	303,021,706

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

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

The Group is potentially subject to concentration of credit risk as outstanding account receivable from one of major customer represents 13% (2020: 34.1%) of total receivable balance. However, the Group does not believe significant credit risk exist as the customer is trust worthy and has a good credit history with the Group.

Receivables are classified as past due if they exceed their credit term, which is from 30 to 90 days. The aging of trade debts as at the consolidated statement of financial position date is as under:

	<b>Carrying amount</b>	<b>Not Due</b>	<b>Past due</b>			<b>Provision</b>
			<b>90-180 Days</b>	<b>Up to 1 year</b>	<b>Above 1 year</b>	
	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
<b>2021</b>						
<b>Trade receivables</b>	<b>126,177,019</b>	<b>89,670,780</b>	<b>34,014,216</b>	<b>412,279</b>	<b>6,903,529</b>	<b>(4,823,785)</b>
<b>2020</b>						
Trade receivables	142,793,013	102,296,283	40,206,353	3,190,787	4,061,280	(6,961,690)

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

Bank balances are held with banks with good credit ratings.



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**27. FINANCIAL RISK MANAGEMENT (Continued)**

**27.2.2 Liquidity risk**

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

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

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

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

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Less than 3 months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>
	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
<b>December 31, 2021</b>					
Interest-bearing loans and lease liabilities	<b>234,190,224</b>	<b>236,891,864</b>	<b>85,685,873</b>	<b>100,327,513</b>	<b>50,878,478</b>
Trade and retention payable	<b>132,049,526</b>	<b>132,049,526</b>	<b>132,049,526</b>	-	-
Provision for liability against guarantee to an investee company	<b>30,000,000</b>	<b>30,000,000</b>	-	-	<b>30,000,000</b>
Due to related parties	<b>28,068,020</b>	<b>28,068,020</b>	<b>28,068,020</b>	-	-
Accrued expenses	<b>12,706,048</b>	<b>12,706,048</b>	<b>12,706,048</b>	-	-
Board remuneration payable	<b>3,036,643</b>	<b>3,036,643</b>	<b>3,036,643</b>	-	-
Total financial liabilities	<b>440,050,461</b>	<b>442,752,101</b>	<b>261,546,110</b>	<b>100,327,513</b>	<b>80,878,478</b>
<b>December 31, 2020</b>					
Interest-bearing loans and lease liabilities	374,280,129	378,185,562	153,900,731	136,382,049	87,902,782
Trade and retention payable	131,168,675	131,168,675	129,454,634	1,080,328	633,713
Provision for liability against guarantee to an investee company	30,000,000	30,000,000	-	-	30,000,000
Accrued expenses	23,862,747	23,862,747	23,862,747	-	-
Due to related parties	11,076,464	11,076,464	11,076,464	-	-
Board remuneration payable	2,343,309	2,343,309	2,343,309	-	-
Total financial liabilities	<b>572,731,324</b>	<b>576,636,757</b>	<b>320,637,885</b>	<b>137,462,377</b>	<b>118,536,495</b>

As at December 31, 2021 the Group's current liabilities exceeded its current assets. The Group is managing its future cash flow requirements through cash inflows from operations and un-availed credit facilities. As at the year end, the Group has liquid assets of SR 228.2 million (2020: SR 297.8 million) and un-availed borrowing facilities of SR 161.2 million (2020: SR 109.8 million).

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**27. FINANCIAL RISK MANAGEMENT (Continued)**

**27.2.3 Market risk**

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

**i) Fair value and cash flow commission rate risk**

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

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

**ii) Foreign currency exchange risk**

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

**27.2.4 Fair values of financial instruments**

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

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

**27.2.5 Capital risk management**

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

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

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**27. FINANCIAL RISK MANAGEMENT (Continued)**

**27.2.5 Capital risk management (Continued)**

The salient information relating to capital risk management of the Group as of December 31, 2021 and 2020 were as follows:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
	<b>SR</b>	<b>SR</b>
Total debt	<b>234,190,224</b>	374,280,129
Less: Cash and bank balances	<b>(99,367,399)</b>	(149,054,921)
Net debt	<b>134,822,825</b>	225,225,208
Total equity	<b>495,204,234</b>	493,184,812
Total capital employed	<b>630,027,059</b>	718,410,020
Gearing ratio	<b>21.40%</b>	31.35%

**28. SIGNIFICANT EVENTS**

During the year ended December 31, 2021, the Group learned through the Ministry of Justice's online portal that the electronic title deeds to certain land plots of the Group had become inactive due to cancellation by court order.

The affected land plots, with a total surface of 811,284 square meters, are located in Dammam and were purchased from a private entity in February 2010, pursuant to a written purchase agreement duly executed by the group in full compliance with the laws of the Kingdom of Saudi Arabia. The affected plots are not part of the production facility of the Group, have been partially used as a warehouse, and have a carrying value on the Group's consolidated financial statements of SR 157.9 million.

As of the date hereof, neither the cancellation nor the court order have been notified to the Group or otherwise been made public by the authorities, and the legal basis for the court order is unknown. On May 4, 2021, the Group filed a petition with an ad-hoc newly created special committee at the Saudi Ministry of Justice, seeking to have its title deeds reinstated. At this time, it is not possible to predict the outcome of this matter.

**29. SUBSEQUENT EVENTS**

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

**30. COMPARATIVE FIGURES**

In addition to matter defined in note 25, certain comparative figures have been reclassified, splitted or merged to conform with the presentation in the current year.

**31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on February 16, 2022 corresponding to Rajab 15, 1443.