

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE
THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2021
AND INDEPENDENT AUDITOR'S REVIEW REPORT

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2021

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF ARABIAN PIPES COMPANY (A SAUDI JOINT STOCK COMPANY) RIYADH, KINGDOM OF SAUDI ARABIA

INTRODUCTION

We have reviewed the accompanying interim statement of financial position of Arabian Pipes Company (the "Company") as of September 30, 2021 and the related interim statement of comprehensive loss for the three-month and nine-month periods ended, and the interim statements of changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BASIS FOR QUALIFIED CONCLUSION

- 1- As disclosed within Note 5 and Note 18.1 of the accompanying interim condensed financial statements, during 2020, the Company's management, while performing system automation of inventories – goods in transit, identified certain discrepancies. As a result, the management reduced its inventories – goods in transit and recognized adjustment amounting to Saudi Riyal (SR) 105.98 million by increasing the opening accumulated losses of the year ended December 31, 2019. Furthermore, as disclosed within Note 5 and Note 18.2 of the accompanying financial statements, during 2020, the Company's management, while performing physical count of inventories – raw materials, identified certain discrepancies. As a result, the management reduced its inventories – raw materials and recognized adjustment amounting to SR 18.95 million by increasing the opening accumulated losses of the year ended December 31, 2019.

As of the date of approval of these interim condensed financial statements, due to the unavailability of supporting documentation, we are unable to verify if the adjustments amounting to SR 105.98 million and SR 18.95 million relating to inventories for goods in transit and raw materials, respectively, pertains to the opening accumulated losses as of December 31, 2019, or to the subsequent year(s). Accordingly, we are unable to determine whether any impact is required to be recognized within the statement of profit or loss for the period ended September 30, 2020, and in the carrying values of inventories for goods in transit and raw materials as of December 31, 2020 and ultimately accumulated losses of the Company as of December 31, 2019 or December 31, 2020.

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)

**TO THE SHAREHOLDERS OF ARABIAN PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)
RIYADH, KINGDOM OF SAUDI ARABIA**

BASIS FOR QUALIFIED CONCLUSION (CONTINUED)

- 2- As disclosed within Note 5 of the accompanying financial statements, the management has performed an assessment for the impairment of the Company's inventory - raw material as of December 31, 2020. Based on the results of this assessment, a provision for impairment amounting to SR 58.75 million, is recognized during the year ended December 31, 2020. However, the management had not performed an assessment for the impairment of the Company's inventory - raw material as of December 31, 2019, and has not reflected the resulting impact, if any, in the statement of profit or loss for the period ended September 30, 2020. Accordingly, we are unable to determine whether any adjustment to the allowance for impairment – raw material and accumulated losses of the Company as of December 31, 2020, and the impairment charge for the period ended September 30, 2020, is necessary.
- 3- As disclosed within Note 6 of the accompanying financial statements, as of September 30, 2021, the Company's prepayments and other receivables include prepaid others amounting to SR 27.83 million (December 31, 2020: SR 29.40 million). We have not been provided with the breakdown for this balance, nor have we received the supporting documents for verification of the movement and the closing balances as of September 30, 2021 and December 31, 2020. Accordingly, as of the date of approval of these interim condensed financial statements we were unable to satisfy ourselves through alternate audit procedures in respect of existence, completeness, rights and obligations, and valuation of the prepaid others and consequently whether any impact is required to be recognized within the statements of financial position and profit or loss as of and for the period and year ended September 30, 2021 and December 31, 2020, respectively.

Material Uncertainties Related to Going Concern

We draw attention to Note 2.3 to the accompanying interim condensed financial statements, which states that as of September 30, 2021 the accumulated losses represent 84.99% (December 31, 2020: 77.75%) of the Company's share capital, and as of the same date, the Company's current liabilities exceeded its current assets by SR 147.43 million (December 31, 2020: SR 134.11 million) mainly on account of reclassification of loans due to breach of covenants per the banking facilities agreements as of December 31, 2020. These events and conditions indicate a material uncertainty on the Company's ability to continue as a going concern. However, subsequent to the year ended December 31, 2020, the loans have been restructured and various strategic options, including capital restructuring, were considered by the Board of Directors to address the Company's going concern. Among such strategic options, on June 8, 2021, the Company's Board of Directors recommended capital restructuring through absorption of losses through capital reduction from SR 400 million to SR 100 million followed with a rights issue of SR 300 million. The capital restructuring recommendation is subject to the Company's shareholders' and regulatory approvals.

Our conclusion is not qualified in respect of these matters.

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)

**TO THE SHAREHOLDERS OF ARABIAN PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)
RIYADH, KINGDOM OF SAUDI ARABIA**

QUALIFIED CONCLUSION

Based on our review, with the exception of the matter described in the preceding paragraphs, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

For Al-Bassam & Co.



**Ibrahim A. Al-Bassam
Certified Public Accountant - License No. 337**

Riyadh, Kingdom of Saudi Arabia

Date: 12 Rabi' al Thani 1443H

Corresponding to: 17 November 2021



ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2021
(All amounts are in Saudi Riyal “000” unless otherwise stated)

		30 September 2021 (Unaudited)	31 December 2020 (Audited)
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		342,573	354,824
Right-of-use asset		20,533	21,970
Total non-current assets		363,106	376,794
Current assets			
Inventories	5	219,687	428,144
Trade receivables		16,703	71,228
Prepayments and other receivables	6	42,069	45,883
Cash and cash equivalents	7	30,908	20,046
Total current assets		309,367	565,301
TOTAL ASSETS		672,473	942,095
EQUITY AND LIABILITIES			
EQUITY			
Share capital		400,000	400,000
Statutory reserve	8	120,000	120,000
Accumulated losses		(339,949)	(311,012)
Actuarial loss on employee's post-employment benefits		(2,647)	(2,647)
TOTAL EQUITY		177,404	206,341
LIABILITIES			
Non-current liabilities			
Lease liabilities		18,654	18,252
Employees' post-employment benefits		19,620	18,088
Total non-current liabilities		38,274	36,340
Current liabilities			
Lease liabilities – current portion		2,371	2,195
Long-term borrowings – current portion	9	79,539	77,717
Short-term borrowings	10	258,601	501,842
Due to related parties	11	1,223	1,211
Notes and trade payables		62,556	99,813
Accrued and other payables		48,221	12,695
Provision for zakat	12	4,284	3,941
Total current liabilities		456,795	699,414
TOTAL LIABILITIES		495,069	735,754
TOTAL EQUITY AND LIABILITIES		672,473	942,095
Contingent Liabilities	13		

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.



Homoud Ali Alhamzah
CFO



Ahmed Ali Al-Lohidan
CEO



Saad Falah Al-Qahtani
Audit Committee Chairman

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF COMPREHENSIVE LOSS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2021
(All amounts are in Saudi Riyal “000” unless otherwise stated)

	Note	For the three-month period ended		For the nine-month period ended	
		30 September 2021 (Unaudited)	30 September 2020 (Unaudited)	30 September 2021 (Unaudited)	30 September 2020 (Unaudited)
Sales		92,612	162,041	346,032	273,857
Cost of sales		(93,776)	(149,220)	(328,578)	(264,638)
Gross (loss) / income		(1,164)	12,821	17,454	9,219
Selling and distribution expenses		(2,565)	(3,057)	(7,527)	(6,963)
General and administrative expenses		(6,783)	(6,002)	(23,685)	(20,250)
Impairment on account receivable		-	-	-	(3,979)
Other income / expenses		-	(912)	-	3,771
Finance charges	14	(6,076)	(6,131)	(14,836)	(17,447)
LOSS BEFORE ZAKAT		(16,588)	(3,281)	(28,594)	(35,649)
Zakat	12	(243)	(172)	(343)	(3,492)
LOSS FOR THE PERIOD		(16,831)	(3,453)	(28,937)	(39,141)
OTHER COMPREHENSIVE LOSS					
<i>Items that will not be reclassified subsequently to statement of profit or loss</i>					
Actuarial gain / (loss) on employees' post-employment benefits		-	-	-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(16,831)	(3,453)	(28,937)	(39,141)
Basic and diluted loss per share	15	(0.42)	(0.09)	(0.72)	(0.98)

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.



Homoud Ali Alhamzah
CFO



Ahmed Ali Al-Lohidan
CEO



Saad Falah Al-Qahtani
Audit Committee Chairman

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in Saudi Riyal “000” unless otherwise stated)

	Notes	Share capital	Statutory reserve	General reserve	Accumulated losses	Actuarial loss on employee's post-employment benefits	Total equity
Balance as at 1 January 2019 – before adjustment		400,000	159,427	31,438	(91,852)	(94)	498,919
Impact of prior year adjustment	18.1, 18.2	-	-	-	(124,933)	-	(124,933)
Balance as at 1 January 2019 – restated		400,000	159,427	31,438	(216,785)	(94)	373,986
Net profit for the year		-	-	-	28,705	-	28,705
Impact of previous year adjustment	18.3	-	-	-	1,543	-	1,543
Net profit for the year – restated		-	-	-	30,248	-	30,248
Other comprehensive loss for the year		-	-	-	-	(1,228)	(1,228)
Transferred to accumulated losses		-	(39,427)	(31,438)	70,865	-	-
Balance as at 1 January 2020 – restated		400,000	120,000	-	(115,672)	(1,322)	403,006
Net loss for the period		-	-	-	(39,141)	-	(39,141)
Balance as at 30 September 2020 - (Unaudited)		400,000	120,000	-	(154,813)	(1,322)	363,865
Balance as at 1 January 2021 - (Audited)		400,000	120,000	-	(311,012)	(2,647)	206,341
Net loss for the period		-	-	-	(28,937)	-	(28,937)
Balance as at 30 September 2021 -(Unaudited)		400,000	120,000	-	(339,949)	(2,647)	177,404

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.



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CEO



Saad Falah Al-Qahtani
Audit Committee Chairman

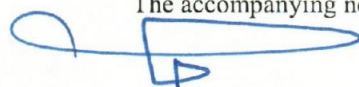
ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in Saudi Riyal “000” unless otherwise stated)

		30 September 2021 (Unaudited)	30 September 2020 (Unaudited)
	Note		
<u>Cash flows from operating activities:</u>			
Net loss before zakat		(28,594)	(35,649)
<u>Adjustments for non-cash items</u>			
Depreciation of property, plant and equipment		20,486	20,956
Depreciation of right-of-use asset		1,437	1,439
Finance charges	14	14,836	17,447
Modification gain on financial liabilities		-	(3,756)
Impairment on account receivable		-	3,979
Provision for Employees’ post-employment benefits		2,132	2,331
(Reversal) / provision on inventory	5.6	(6,745)	6,579
		3,552	13,326
<u>Movement in working capital</u>			
Inventories		188,772	(96,135)
Trade receivables		54,525	(126,376)
Prepayments and other receivables		3,814	(2,179)
Due to related parties		12	(715)
Trade payables		(10,827)	6,372
Accrued and other payables		35,526	12,730
Employees’ post-employment benefits paid		(600)	(164)
Zakat paid	12.2	-	(4,607)
Net cash generated from / (used in) operating activities		274,774	(197,748)
<u>Cash flows from investing activities:</u>			
Additions to property, plant and equipment		(8,235)	(7,591)
Net cash used in investing activities		(8,235)	(7,591)
<u>Cash flows from financing activities:</u>			
Overdraft		-	10,493
Net movement in short-term borrowings		(239,979)	200,606
Financial charges paid		(14,967)	(14,843)
Lease liabilities paid		(731)	(53)
Net cash used in financing activities		(255,677)	196,203
Net change in cash and cash equivalents		10,862	(9,136)
Cash and cash equivalent at the beginning of the period		20,046	19,968
Cash and cash equivalents at end of the period	7	30,908	10,832

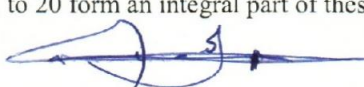
Supplementary Information

Settlement of inventory with trade payables	26,430	-
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The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.



Homoud Ali Alhamzah
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Ahmed Ali Al-Lohidan
CEO



Saad Falah Al-Qahtani
Audit Committee Chairman

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in Saudi Riyal “000” unless otherwise stated)

1. LEGAL STATUS AND OPERATIONS

Arabian Pipes Company is a Saudi Joint Stock Company (“the Company”) was formed according to Ministry of Commerce Decree No. 922 dated 18 Thul-Qi’dah 1411H corresponding to 1 June 1991. The Company is registered in the Kingdom of Saudi Arabia (“KSA”) under Commercial Registration No. 7018055132 dated 14 Safar 1412H corresponding to 25 August 1991.

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

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

The accompanying interim condensed financial statements include the accounts of the Company and its branches as follows:

Factory name	CR number	Date
*Riyadh factory - Coating	1010188732	27 Jumada I 1424
Jubail factory	2055007048	21 Rabi Thani 1426

*The Commercial Registration is expired.

The Company’s registered office is located at the following address:
P.O Box 42734
Riyadh 11551
Kingdom of Saudi Arabia

2. BASIS OF PREPARATION

2.1. Statement of Compliance

These Interim Condensed Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 ‘Interim Financial Reporting’ that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) and should be read in conjunction with the Company’s last annual Financial Statements as at and for the year ended 31 December 2020. They do not include all of the information required for a complete set of Financial Statements, however, accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual Financial Statements.

The results for the nine-month period ended 30 September 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

2. BASIS OF PREPARATION (CONTINUED)

2.2. Preparation of the Financial Statements

These Interim Condensed Financial Statements have been prepared under the historical cost basis except for the post-employment benefits is recognized at the present value of future obligations using Projected Unit Credit Method.

2.3. Use of judgment and estimates

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

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

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual Financial Statements for the year ended 31 December 2020.

Going Concern

As of 30 September 2021, the accumulated losses represent 84.99% (31 December 2020: 77.75%) of the Company's share capital, and as of the same date, the Company's current liabilities exceeded its current assets by SR 147.43 million (31 December 2020: SR 134.11 million) mainly on account of reclassification of borrowings due to breach of covenants as of 31 December 2020. These conditions indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. Regulations for Companies (Regulations) require that in such situations, any official of the corporation and or the auditor, as may have come to his knowledge, notify the chairman thereof, and the chairman immediately notify the Board which must, within fifteen days of its knowledge, call an Extraordinary General Assembly meeting within forty five days from the date of knowledge of such losses, to consider whether to increase or decrease the capital under the Regulations, to the extent required for reducing losses below half of the share capital or whether to dissolve the Company before the expiry of the term specified in its By-Laws.

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

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in Saudi Riyal “000” unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

3. FUNCTIONAL AND PRESENTATION CURRENCY

These Interim Condensed Financial Statements have been presented in Saudi Riyals, which is the functional and presentation currency of the Company. All figures have been rounded off to the nearest thousand, unless otherwise mentioned.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1. New Standards, Amendment to Standard and Interpretations:

There are no new standards issued, however, there are number of amendments to standards which are effective from 1 January 2021 and the details of the same has been explained in the annual Financial Statements for the year ended 31 December 2020, but they do not have a material effect on the Company’s Interim Condensed Financial Statements.

5. INVENTORIES

		30 September 2021	31 December 2020
	Notes	(Unaudited)	(Audited)
Finished goods, net	5.1	156,499	215,685
Raw materials, net	5.2, 5.5	61,339	174,361
Work in progress, net	5.3	26,606	51,441
Spare parts		45,002	45,347
Office supplies		1,566	1,428
Scrap inventory, net	5.3	1,281	228
Goods in transit, net	5.4	21	19,026
		292,314	507,516
Less: provision for inventory	5.6	(72,627)	(79,372)
		219,687	428,144

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

5.2. During 2020, while performing physical count of inventories – raw materials, the management identified certain discrepancies. As a result, the management identified an amount to be written-off of SR 18.95 million pertaining to years prior to 2018. Accordingly, the Board of Directors approved the write-off dated June 8, 2021 its inventories – raw materials and recognized adjustment amounting to Saudi Riyal SR 18.95 million by increasing the opening accumulated losses of the year ended December 31, 2019. Also, see Note 18.2.

Furthermore in 2020, while performing physical count of inventories – raw materials, the management identified certain discrepancies. As a result, the management identified an amount to be written-off of SR 1.51 million. Accordingly, balances are presented net of write-off and the charge is recognized within the cost of sales.

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in Saudi Riyal “000” unless otherwise stated)

5. INVENTORIES (CONTINUED)

- 5.3.** During 2020, the management performed valuation of its work in progress account and scrap inventory and identified amount to be written-off of SR 52.25 million and SR 26.42 million, respectively as of 31 December 2020. The Board of Directors approved the write-off dated June 8, 2021. Accordingly, balances are presented net of write-off and the charge is recognized within the cost of revenue.
- 5.4.** Goods in transit represents inventory that has been shipped by the supplier but not yet received by the Company. During 2020, the management performed reconciliation of goods in transit account and identified a total adjustment of SR 105.98 million. The impact has been recognized in the opening accumulated losses of the year ended 31 December 2019. Also, see Note 18.1.
- 5.5.** During the year ended December 31, 2020, the management performed an assessment for the impairment of the raw materials and finished goods. Based on the results of the assessment, an impairment amounting to SR 58.75 million and SR 0.50 million for raw materials and finished goods respectively, is recognized as of December 31, 2020.

5.6. Movement in provision for inventory is as follows:

	For the nine - month period ended 30 September 2021 (Unaudited)	For the year ended 31 December 2020 (Audited)
Balance at the beginning of the period / year	79,372	20,126
(Reversal) / Provision made during the period / year	(6,745)	59,246
Balance at the end of the period / year	<u>72,627</u>	<u>79,372</u>

6. PREPAYMENTS AND OTHER RECEIVABLES

	30 September 2021 (Unaudited)	31 December 2020 (Audited)
Prepaid others	27,831	29,394
Advance payment to suppliers	4,077	13,764
Prepaid insurance	849	12
Margin deposit for letter of credit	7,478	-
Miscellaneous	1,834	2,713
	<u>42,069</u>	<u>45,883</u>

7. CASH AND CASH EQUIVALENTS

	30 September 2021 (Unaudited)	31 December 2020 (Audited)
Cash in banks		
- Foreign currency	14,898	1,851
- Local currency	15,931	18,195
Cash in hand	79	-
	<u>30,908</u>	<u>20,046</u>

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in Saudi Riyal “000” unless otherwise stated)

8. STATUTORY RESERVE

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

9. LONG-TERM BORROWINGS

	30 September 2021 (Unaudited)	31 December 2020 (Audited)
Saudi Industrial Development Fund (SIDF) – non-profit bearing -secured		
Current portion	78,759	77,026
Accrued charge	780	691
Total current portion	<u>79,539</u>	<u>77,717</u>
Non-current portion	-	-
	<u>79,539</u>	<u>77,717</u>

9.1. The borrowing is secured by mortgaging the buildings, machinery, and equipment of the Company's factories.

9.2. The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 30 September 2021, the Company was not in compliance with certain covenants of the financing agreements accordingly the arrangements were classified as current as of the same date.

10. SHORT-TERM BORROWINGS

	Notes	30 September 2021 (Unaudited)	31 December 2020 (Audited)
Short-term borrowings		255,602	497,313
Accrued finance cost	10.1,10.2	2,999	4,529
		<u>258,601</u>	<u>501,842</u>

10.1. Unsecured financial facilities at amortized cost

	30 September 2021 (Unaudited)	31 December 2020 (Audited)
Islamic financial facilities:		
-Tawarruq	66,151	165,384
-Murabaha	39,233	146,458
Conventional loan	39,663	70,119
Non-profit bearing financing	113,554	119,881
	<u>258,601</u>	<u>501,842</u>

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in Saudi Riyal “000” unless otherwise stated)

10. SHORT-TERM BORROWINGS (CONTINUED)

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

	Note	30 September 2021 (Unaudited)	31 December 2020 (Audited)
Riyad Bank	10.3	153,217	190,000
Al Rajhi Bank		66,151	165,382
SABB Bank		39,233	146,460
		<u>258,601</u>	<u>501,842</u>

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

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

10.5. The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 30 September 2021, the Company was not in compliance with certain covenants of the financing agreements, accordingly all such borrowings are classified under short term borrowings.

11. RELATED PARTY TRANSACTIONS AND BALANCES

11.1. Key management personnel

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

Compensation of key management personnel of the Company

		For the nine-month period ended	
Name of related party	Nature of transaction	30 September 2021 (Unaudited)	30 September 2020 (Unaudited)
Board and other committees' members	Reward and allowances	329	881
Senior executives	Salaries, allowances and bonuses	3,624	3,353

11.2. Due to related parties

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

Related party	30 September 2021 (Unaudited)	31 December 2020 (Audited)
Board of directors	<u>1,223</u>	<u>1,211</u>
	<u>1,223</u>	<u>1,211</u>

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12. ZAKAT PAYABLE

12.1. Zakat assessment

During 2018, Zakat assessment has been raised by Zakat, Tax and Customers Authority (ZATCA) for the year 2015 assessing additional Zakat of SR 2.9 million against which the Company has filed an appeal and initially accepted by ZATCA on 21 November 2018. Provision for the same is already held in the books of the Company.

The Company has submitted its Zakat declaration to ZATCA for the year ended 31 December 2020 and has obtained the certificate valid until 29 Ramadan 1443H corresponding to 30 April 2022.

12.2. Zakat movement

Movements’ summary for the zakat is as follows:

	For the nine-month period ended 30 September 2021 (Unaudited)	For the year ended 31 December 2020 (Audited)
Balance at the beginning of the period / year	3,941	7,646
Provision for the period / year	343	902
Payments made during the period / year	-	(4,607)
Balance at the end of the period / year	<u>4,284</u>	<u>3,941</u>

13. CONTINGENT LIABILITIES

Contingent liabilities are credit letters and letters of guarantee outstanding as at 30 September 2021 amounting to SR 17,220 (31 December 2020: SR 18.380 million).

14. FINANCE CHARGES

	30 September 2021 (Unaudited)	30 September 2020 (Unaudited)
Islamic financial facilities:		
- Murabaha	2,942	2,393
- Non-profit bearing financing	3,048	2,470
- Tawarruq	3,116	6,280
Conventional loan	4,421	5,377
Lease liabilities finance charge	1,309	927
	<u>14,836</u>	<u>17,447</u>

15. LOSS PER SHARE

Basic and diluted losses per share are calculated by dividing the losses for the period attributable to shareholders by the weighted average number of common shares outstanding at the end of the period amounting to 40 million shares as at 30 September 2021 (30 September 2020: 40 million shares).

16. SEGMENT REPORTS

a) Operating segment

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

b) Geographic segment

During the period ended 30 September 2021, approximately 13.58% (30 September 2020: 1.27%) of the Company's sales were export sales to the Gulf and Middle East countries, with approximately 86.42% (30 September 2020: 98.73%) domestic sales. All of the Company's assets and liabilities are in Saudi Arabia.

17. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

The carrying value of the Company's financial instruments is a reasonable approximation of fair value.

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18. RESTATEMENT & RECLASSIFICATION FOR PRIOR YEARS FIGURES

18.1. During the year ended 31 December 2020, the management of the Company while performing system automation identified certain discrepancies within inventory – goods in transit. A further assessment was performed for the years ended 31 December 2020, 2019 and 2018 and an adjustment amounting to Saudi Riyals 105.98 million, cumulatively pertaining to years prior to 2018 were identified. Accordingly, the comparative figures have been restated.

18.2. During 31 December 2020, while performing physical count of inventories – raw materials, the management identified certain discrepancies. As a result, the management identified an amount to be written-off of SR 18.95 million pertaining to years prior to 2018. The Board of Directors approved the write-off dated June 8, 2021 its inventories – raw materials and recognized adjustment amounting to Saudi Riyal SR 18.95 million by increasing the opening accumulated losses of the year ended December 31, 2019.

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

Restatement in the statement of financial position	Note	Balance as previously reported 1 January 2019	Effect of prior year adjustment	Balance restated 1 January 2019
Inventories		551,903	124,933	426,970
- Goods in transit	18.1		(105,988)	
- Raw Materials	18.2		(18,945)	
Retained earnings		(91,852)	(124,933)	(216,785)

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

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

19. SUBSEQUENT EVENTS

Management believes that there are no significant subsequent events that may require disclosure or amendment of these interim condensed financial statements.

20. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the board of directors on 04 Rabi’ al Thani 1443H (corresponding to 09 November 2021 G).