

**ARABIAN PIPES COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
FINANCIAL STATEMENTS  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2022**

**Arabian Pipes Company**  
**A Saudi Joint Stock Company**  
**Financial Statements Together with Independent Auditor's Report**  
**For the Year Ended December 31, 2022**

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## Independent Auditor's Report

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

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of **Arabian Pipes Company** (A Saudi Joint Stock Company) ("The company"), which comprise the statement of financial position as at December 31, 2022, and the statement of profit or loss, and comprehensive income, changes in shareholders' equity and cash flows for the year then ended, which include the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements presents fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and professional Accountants ("SOCPA").

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have also fulfilled our 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 matter

Refer to note no. (2/4), which is related to going concern the company's current liabilities exceeded its current assets by SAR 154.5 million as at December 31, 2022 (December 31, 2021: SAR 247.9 million), and the company has negative cash flows from operating activities amounting to SAR 43.5 million as at December 31, 2022. These circumstances indicate the existence of a material uncertainty that may cast doubt on the company's ability to continue as a going concern.

On July 17, 2022, the Board of Directors issued a recommendation to increase the capital by an amount of SAR 150 million, this recommendation is subject to the approval of the relevant regulatory authorities and the extraordinary general assembly that has not held until the date of approval of the accompanying financial statements by the company's board of directors.

The company has appointed an "independent" specialized consulting office to prepare a strategic business plan for the company for the next five years (2023-2027). The study showed an improvement in the indicators and performance of the company for this period, and this gives an indication of the company's ability to continue on the basis of the going concern principle. Accordingly, it was approved by the Board of Directors. Accordingly, the financial statements were prepared on the basis of going concern and do not include any adjustments that may be required if the company is unable to continue on the basis of the going concern principle.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:



**Independent Auditor's Report (continued)**
**Key Audit Matters (continued)**

Key Audit Matters	Procedures taken towards the Key Audit Matters
<p><b>Inventory:</b>                      Inventory is considered a key audit matter due to the nature of the company's activity, which depends mainly on the inventory in generating revenue and its impact on the company's business results.                      As at December 31, 2022, the company's inventory balance amounted to SAR 217.6 million (December 31, 2021: SAR 142.1 million), which exceeds 53.7% of the total current assets and 28.4% of the total assets of the company (December 31, 2021: 84% of the total current assets and 25.3 % of the total assets), and given the importance of the inventory balance, valuations, and assumptions related to its obsolescence and decline in its value, this matter was considered a key audit matter.</p> <p>Please refer to note No. 3-12 for the accounting policies and note No. 6 for the relevant disclosure on the accompanying financial statements.</p>	<p>We have performed the following procedures regarding existence and valuation of inventory balance:</p> <ul style="list-style-type: none"> <li>- Attending the physical inventory count held by the company.</li> <li>- Evaluating the design and effectiveness of internal control procedures for the inventory accounting cycle.</li> <li>- Evaluating the appropriateness and adequacy of disclosures related to inventory in the financial statements.</li> <li>- Testing the valuation of inventory measurement at cost price or net realizable value, whichever is lower.</li> </ul>
<p><b>Revenue recognition:</b>                      During the year ended 31 December 2022, company's revenue amounted to SAR 531.6 million(December 31,2021:SAR 388.7 million). The company continues to be under pressure to meet goals and expectations which may lead to misstatements in revenue.                      Revenue recognition is a key audit matter because there is a risk that management may override controls to misrepresent revenue transactions.</p> <p>Please refer to note No. 3-23 for the accounting policies and note No. 20 for the relevant disclosure on the accompanying financial statements.</p>	<p>We have performed the following procedures regarding revenue recognition:</p> <ul style="list-style-type: none"> <li>- Evaluating the appropriateness of the accounting policies related to the revenue recognition of the company by taking into consideration the requirements of IFRS 15 "Revenue from Contracts with Clients".</li> <li>- Evaluating the design, implementation and testing of the operational effectiveness of the company's control procedures, including the control procedures to prevent fraud when recognizing revenue in accordance with the company's policy.</li> <li>- Testing sales transactions, on a sample basis, and perform cut-off tests of revenue made at the beginning and end of the year to assess whether the revenue has been recognized in the correct period.</li> <li>- - Testing sales transactions, on a sample basis, and verify the supporting documents, which included delivery notes signed by customers, to ensure the accuracy and validity of revenue recognition</li> </ul>

**Other information included in the company's annual report for the year ended 31 December 2022.**

Management is responsible for the other information. The other information comprises the information included in the company's annual report for the year ended 31 December 2022, other than the financial statements and the auditor's report thereon, which is expected to be made available to us after the data of this audit's report.



### Independent Auditor's Report (Continued)

#### Other information included in the company's annual report for the year ended 31 December 2022 (Continued).

Our opinion on the financial statements does not cover other information, and we do not and will not express any form of assurance conclusion thereon. In our audit of the financial statements, it is our responsibility to read the information described above. In doing so, we consider whether the other information is not materially consistent with the financial statements or knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information the company's annual report for the year ended on 31 December 2022, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

#### Responsibilities of Management and those charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs 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 based on these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We are also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

**Independent Auditor's Report (Continued)****Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

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

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

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

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

For Al-Kharashi Co.



Abdullah S. Al Msned  
License No. (456)

Riyadh:  
5 Ramadhan 1444 H  
27 March 2023





Arabian Pipes Company  
(A Saudi Joint Stock Company)  
Statement of Financial Position  
As at December 31, 2022  
(All amounts are in Saudi Riyal "000" unless otherwise stated)

	Note	31 December 2022	31 December 2021
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net	4	342,683	371,087
Right-of-use assets, net	5	18,554	20,339
<b>Total non-current assets</b>		<b>361,237</b>	<b>391,426</b>
<b>Current assets</b>			
Inventories, net	6	217,551	142,067
Trade receivables, net	7	90,831	13,108
Prepayments and other debit balances	8	18,748	5,489
Cash and cash equivalents	9	77,705	8,529
<b>Total current assets</b>		<b>404,835</b>	<b>169,193</b>
<b>Total assets</b>		<b>766,072</b>	<b>560,619</b>
<b>Shareholders' Equity and Liabilities</b>			
<b>Shareholders' Equity</b>			
Share capital	10	100,000	400,000
Statutory reserve	11	3,119	120,000
Retained Earnings / (Accumulated losses)		14,638	(411,238)
Employees defined benefit obligations re-measurement reserve		(2,713)	(3,062)
<b>Total Shareholders' Equity</b>		<b>115,044</b>	<b>105,700</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
lease liabilities - non-current portion	5	16,648	18,654
long-term borrowings - non-current portion	12	55,000	-
Employees defined benefit obligations	14	20,089	19,191
<b>Total non-current liabilities</b>		<b>91,737</b>	<b>37,845</b>
<b>Current liabilities</b>			
leases liabilities - current portion	5	791	1,210
long-term borrowings - current portion	12	23,000	78,759
Short-term borrowings	13	331,667	204,903
Trade and notes payables	16	103,571	72,665
Accrued expenses and other credit balance	17	96,620	55,253
Zakat provision	18	3,642	4,284
<b>Total current liabilities</b>		<b>559,291</b>	<b>417,074</b>
<b>Total liabilities</b>		<b>651,028</b>	<b>454,919</b>
<b>Total Shareholders' Equity and liabilities</b>		<b>766,072</b>	<b>560,619</b>

The accompanying notes from (1) to (31) form an integral part of these financial statements.



Homoud Ali Alhamzah  
CFO



Ahmed Ali Al-Lohidan  
CEO



Yousf Bin Saleh Aba Alkhal  
BOD Chairman

Arabian Pipes Company  
(A Saudi Joint Stock Company)  
Statement of Profit or loss  
For the year ended 31 December 2022  
(All amounts are in Saudi Riyal unless "000" otherwise stated)

	Note	31 December 2022	31 December 2021
Revenues, net	20	531,638	388,697
Cost of revenues	21	(483,012)	(372,460)
<b>Gross profit</b>		<b>48,626</b>	<b>16,237</b>
<b>Operating Expenses:</b>			
Selling and distribution expenses	22	(9,203)	(8,808)
General and administrative expenses	23	(32,366)	(51,360)
Reversal of impairment /(Impairment) in value of inventory		3,843	(3,880)
<b>Profit / (Loss) from operations</b>		<b>10,900</b>	<b>(47,811)</b>
<b>Non-operating revenues / (expenses)</b>			
Finance cost	25	(18,157)	(18,257)
Other income, net	24	16,952	6,295
<b>Profit / (Loss) before zakat</b>		<b>9,695</b>	<b>(59,773)</b>
Zakat	18	(700)	(343)
<b>Net profit (loss) for the year</b>		<b>8,995</b>	<b>(60,116)</b>
<b>Earnings / (Loss) per share:</b>			
Basic and diluted Profit / (Loss) per share from Profit / (Loss) from operating	28	1.09	(4.78)
Basic and diluted Profit / (Loss) per share from net Profit / (Loss) for the year		0.90	(6.01)

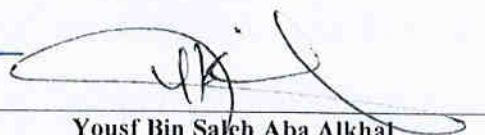
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Yousf Bin Saleh Aba Alkhal  
BOD Chairman



Arabian Pipes Company  
(A Saudi Joint Stock Company)  
Statement Other Comprehensive Income  
For the year ended 31 December 2022  
(All amounts are in Saudi Riyal unless "000" otherwise stated)

	Note	31 December 2022	31 December 2021
Net profit / (loss) for the year		8,995	(60,116)
<b>Other Comprehensive Income / (loss) Items</b>			
<b>Items that will not be reclassified to the statement of profit or loss in subsequent years:</b>			
Actuarial gain / (loss) generated from re-measurement of employees' defined benefits obligation	14	349	(415)
<b>Total comprehensive income / (loss) for the year</b>		<b>349</b>	<b>(415)</b>
<b>Total comprehensive income / (loss)</b>		<b>9,344</b>	<b>(60,531)</b>

The accompanying notes from (1) to (31) form an integral part of these financial statements.



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Yousf Bin Saleh Aba Alkhal  
BOD Chairman

Arabian Pipes Company  
(A Saudi Joint Stock Company)  
**Statement of Changes in Shareholders' Equity**  
For the year ended 31 December 2022  
(All amounts are in Saudi Riyal "000" unless otherwise stated)

	Share Capital	Statutory reserve	(Accumulated Losses) / retained earnings	Employees defined benefit obligations re-measurement reserve	Total equity
Balance as at January 1, 2021	400,000	120,000	(351,122)	(2,647)	166,231
Net loss for the year	-	-	(60,116)	-	(60,116)
Actuarial loss generated from re-measurement of employees' defined benefits obligation	-	-	-	(415)	(415)
<b>Balance as at December 31, 2021,</b>	<b>400,000</b>	<b>120,000</b>	<b>(411,238)</b>	<b>(3,062)</b>	<b>105,700</b>
Balance as at January 1, 2022	400,000	120,000	(411,238)	(3,062)	105,700
share capital and statutory reserve reduction against accumulated losses	(300,000)	(117,781)	417,781	-	-
Net profit for the year	-	-	8,995	-	8,995
Transferred to statutory reserve (note 11)	-	900	(900)	-	-
Actuarial gains generated from re-measurement of employee defined benefit obligations	-	-	-	349	349
<b>Balance as at December 31, 2022</b>	<b>100,000</b>	<b>3,119</b>	<b>14,638</b>	<b>(2,713)</b>	<b>115,044</b>

The accompanying notes from (1) to (31) form an integral part of these financial statements.



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CFO



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CEO



Yousf Bin Saleh Aba Alkhal  
BOD Chairman



Arabian Pipes Company  
(A Saudi Joint Stock Company)  
Statement of Cash Flows  
For the year ended 31 December 2022  
(All amounts are in Saudi Riyal "000" unless otherwise stated)

	Note	31 December 2022	31 December 2021
<b><u>Cash flows from operating activities:</u></b>			
Profit/loss before zakat for the year		9,695	(59,773)
<b><u>Adjustments for non-cash items</u></b>			
Depreciation of property, plant, and equipment	4/1	30,544	27,359
Depreciation of right-of-use asset	5/1	1,785	1,631
Impairment in value of inventory	6	-	3,880
Reversal of impairment in value of inventory	6	(3,843)	-
Employee defined benefit obligation expenses	14	2,074	2,150
Finance Cost		18,157	18,257
		<b>58,412</b>	<b>(6,496)</b>
<b><u>Change in working capital</u></b>			
Inventories, net		(71,641)	256,897
Trade receivables, net		(77,723)	58,120
Prepayments and other debit balances		(13,259)	12,734
Trade and Notes payables		30,906	(39,598)
Accrued expenses and other credit balance		32,417	39,093
Employee defined benefit obligations paid	14	(1,300)	(1,806)
Zakat Paid	18/2	(1,342)	-
Net cash flow (used in) / generated from operating activities		<b>(43,530)</b>	<b>318,944</b>
<b><u>Cash flows from investing activities:</u></b>			
Additions to property, plant, and equipment	4/1	(1,550)	(17,913)
Proceeds from disposal property, plant, and equipment		-	4
Change in strategic spare parts inventory	4	(590)	(413)
Net cash flow used in investing activities		<b>(2,140)</b>	<b>(18,322)</b>
<b><u>Cash flows from financing activities:</u></b>			
Payments of borrowings	12	(349,295)	(450,130)
Proceeds from borrowings	12	475,300	159,453
Lease liabilities Payment	5/2	(3,381)	(1,866)
Finance cost Paid		(7,778)	(19,596)
Net cash flow generated from / (used in) financing activities		<b>114,846</b>	<b>(312,139)</b>
Net change in cash and cash equivalents		69,176	(11,517)
Cash and cash equivalent at the beginning of the year		8,529	20,046
Cash and cash equivalents at end of the year	9	<b>77,705</b>	<b>8,529</b>

The accompanying notes from (1) to (31) form an integral part of these financial statements.

  
Homoud Ali Alhamzah  
CFO

  
Ahmed Ali Al-Lohidan  
CEO

  
Yousf Bin Saleh Aba Alkhal  
BOD Chairman

## 1. Organization and activities

### A. Establishing the company

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

### B. The nature of the company's activity

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 tothing pipe and pipe coating inside and outside and doing the business of buying and selling pipes and fittings and accessories and the implementation of the extension of pipelines.

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

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

Factory name	CR number	Date
Jubail factory	2055007048	21 Rabi Thani 1426

### C. Fiscal year

The company's financial year is twelve months from the beginning of January until the end of December each calendar year.

## 2. Basis of preparation of financial statements

### 2/1- Statement of compliance:

- These financial statements have been prepared in accordance with International Financial Reporting Standard “IFRS” is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by SOCPA.

### 2/2- Basis of measurement:

The financial statements have been prepared on the historical cost basis except for (Employee defined benefit obligation which is measured at present value of future obligations using Projected Unit Credit Method) and using the accrual accounting principle and the going concern concept.

### 2/3- Functional and presentation currency:

The financial statements are presented in Saudi Riyal, which is the Company’s functional currency.

### 2/4- Going concern:

- As at December 31, 2022, the Company's current liabilities exceeded its current assets by SAR 154.5 million (31 December 2021: SAR 247.9 million), also the Company has negative cash flows from operating activities amounted to SAR 43.5 million as at December 31, 2022. These conditions indicate the existence of a material uncertainty that may cast doubt over the Company’s ability to continue as a going concern.
- During the year ended 31 December 2022, the Company obtained its shareholders’ approval through Extra Ordinary General Assembly’s Meeting dated February 20, 2022, to restructure its capital by amortizing the accumulated losses with the amount of SAR 300 million through reducing its share capital from SAR 400 million to SAR 100 million.
- As per board of directors’ approval dated February 20, 2022, the Company has adjusted SAR 39.9 million of accumulated losses against the statutory reserve which bring the accumulated losses to nil as at February 2022.
- As per board of directors’ approval dated April 19, 2022, the Company has amortized an additional amount of SAR 77.9 million of accumulated losses against the statutory reserve which bring the accumulated losses to nil as at April,2022.



**2. Basis of preparation of financial statements**

**2/4- Going concern (continued):**

- The Company has obtained approval of Capital Market Authority dated March 17, 2022, for increase the share capital through right-issue of SAR 300 million. However, the request of the increase in share capital was rejected by the majority shareholders.
- On July 17, 2022, the Board of Directors issued a recommendation to increase the capital by an amount of SAR 150 million, this recommendation is subject to the approval of the relevant regulatory authorities and the extraordinary general assembly that has not held until the date of approval of the accompanying financial statements by the company's board of directors.
- The company has appointed an "independent" specialized consulting office to prepare a strategic business plan for the company for the next five years (2023-2027). The study showed an improvement in the indicators and performance of the company for this period, and this gives an indication of the company's ability to continue on the basis of the going concern principle. Accordingly, it was approved by the Board of Directors. Accordingly, the financial statements were prepared on the basis of going concern and do not include any adjustments that may be required if the company is unable to continue on the basis of the going concern principle.

**2/5- Significant accounting estimates and judgments**

Preparing the financial statements requires management to use judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenditures recorded. Such estimates and judgments are evaluated on an ongoing basis based on past experience and some other factors, including expectations of future events that are believed to be reasonable according to the circumstances and data, and as a result, they form the basis for making judgments about the carrying amounts of assets and liabilities that are not visible from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are examined on the basis of the going concern concept. A review of accounting estimates is included in the period in which the estimates are examined, if the examination affects only that period or in the review period and future periods if the examination affects both current and future periods.

**2/5/1 When applying the Company's accounting policies, the management made assumptions and estimations for uncertainties, which are important to the financial statements:**

**A- Impairment in value of trade receivable and other debit balances**

Trade receivable and other receivables are stated at amortized cost which is reduced by provisions related to the estimated non-recoverable amounts. The estimated non-recoverable amounts are based on the ages of the receivables and historical experience adjusted appropriately for future projections. Individual trade receivables are written off when management believes that they cannot be collected.

**B- Impairment in value of inventory**

The company's management determines the amount of slow-moving inventory, and this estimate is based on changes in demand for goods, technological changes, and fluctuations in quality and prices. This provision is subject to change based on the unsold inventory remaining with the company after settlement of supplier returns.

**C- Useful life for property, plant and equipment**

The Company's management determines the estimated useful lives of property, plant and equipment for the purpose of calculating depreciation. These estimates are determined after considering the expected usage of the assets or the depreciation to which these assets are exposed. The management reviews the residual value and the useful lives annually, and the annual depreciation expenses are adjusted when the management believes that the useful lives differ from previous estimates.



**2. Basis of preparation of financial statements (continued)**

**2/5- Significant accounting estimates and judgments (continued)**

**D- Measurement of employees defined benefit obligations**

The Company's net obligation in respect of defined benefit programs is calculated by estimating the value of future benefits that employees received in exchange for their service in the current and prior periods. These obligations are discounted to determine their present value and the fair value of any assets is discounted.

The present value of the obligation is determined based on the actuarial valuation at the statement of financial position date by an independent expert using the unit projected credit method which recognizes each service period as leading to an additional unit of employee benefits and measures. The liability is measured at the present value of the estimated future cash flows. The discount rates used to determine the present value of the obligation under the defined benefit plan are determined by reference to the yield on US bonds (since the Riyal is pegged to the US dollar), adjusted for any additional risks.

**E- Determination of discount rate for present value calculations**

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

**F- Zakat provision**

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

**G- Impairment in value of tangible and intangible assets**

The Company's management makes an assessment to ascertain whether there are indications of an impairment in tangible and intangible assets.

**H- Significant judgements in determining the lease term for contracts that include renewal options:**

The Company defines the lease term as the irrevocable term of the lease, together with any periods covered by the option to extend the lease if that right can reasonably be exercised, or any periods covered by the option to terminate the lease, if it is reasonably certain that it will not exercise this right.

**3. Summary of significant accounting policies**

The accounting policies applied in these financial statements are in accordance with the IFRS as endorsed in the kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA.

**3/1 New standards and interpretations issued but not effective**

The following is a statement of the new standards and amendments to the applicable standards for the years beginning on or after January 1, 2023, with early application permitted, but the Group did not apply them when preparing these consolidated financial statements.

**Amendments to IAS 1, Presentation of Financial Statements, on classification of liabilities**

These narrowly defined amendments to IAS 1, Presentation of Financial Statements, clarify that liabilities are classified as current or non-current, depending on the rights that exist at the end of the reporting period. The rating is not affected by the entity's expectations or by events after the reporting date (eg, receipt of a waiver or breach of a covenant). The amendment also clarifies what IAS 1 means when it refers to the "settlement" of an obligation.

**Amendments to IAS 1, Practice Statement 2 and IAS 8**

The amendments aim to improve accounting policy disclosures and help users of financial statements distinguish between changes in accounting estimates and changes in accounting policies.



### 3. Summary of significant accounting policies (continued)

#### 3/2- Lease contracts

##### Company as lessee

Upon initiation of a contract, the company assesses whether the contract contains lease arrangements. With regard to such lease arrangements, the company recognizes the right to use assets and lease liabilities, with the exception of short-term leases and low-value asset contracts as follows:

##### A) Right of use assets:

The Company recognizes the right to use the assets on the date of commencement of the lease contract (the date the underlying asset becomes available for use). Right-to-use assets are measured at cost, less any accumulated impairment losses and aggregate depreciation, and adjusted for any re-evaluation of the lease liability. Right-to-use cost of assets includes the amount of the lease liability recognized, initial direct costs incurred, and lease payments made on or before the commencement date minus any lease incentives received. Unless the Company is reasonably certain that ownership of the leased asset will be acquired at the end of the lease term. The right to use the assets recognized on a straight-line basis is amortized over the estimated useful life or the lease term, whichever is shorter. The right to use asset is subject to impairment reviews.

##### B) Lease liabilities:

On the date of the commencement of the lease contract, the Company recognizes the lease liability measured at the present value of the lease payments to be made over the term of the lease. Rent payments comprise fixed payments (including embedded fixed payments) minus rental incentives receivable, variable rental payments that are index or rate based and amounts expected to be paid under residual value guarantees. The lease payments may also include the purchase option exercise price that is reasonably certain to be exercised by the Company and the termination penalty payment, if the lease agreement reflects that the Company exercises the termination option. Variable lease payments that do not depend on an index or rates are recognized as an expense in the period in which the event or condition that fulfils the payment requirement occurs.

In computing the present value of lease payments, the Company uses the borrowing rate at the lease commencement date if the rate of return implicit in the lease is not easily determined. After the lease commencement date, the amount of the lease liability is increased to reflect the accumulation of financial expenses and the reduction of the lease payments made.

The book value of the lease liability is re-measured if there is an amendment or change in the lease term, a change in the fixed rental payments, or a change in the valuation of the contracted asset purchase.

The main assumptions used for the purposes of computing the present value of lease payments are as follows:

Discount rate for cash flows: 3-5%

##### C) Short-term leases:

The Company applies the exemption granted on short-term leases to such leases (that is, those leases whose lease term is 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as an expense on a straight-line basis over the term of the lease.

##### D) Significant judgements in determining the lease term for contracts that include renewal options:

The Company defines the lease term as the irrevocable term of the lease, together with any periods covered by the option to extend the lease if that right can reasonably be exercised, or any periods covered by the option to terminate the lease, if it is reasonably certain that the Company will not exercise this right.



### **3. Summary of significant accounting policies (continued)**

#### **3-2 Lease Contracts (continued)**

##### **Company as a lessor**

When the Company is a lessor, it determines, at the commencement of the lease, whether the lease is a finance lease or operating lease.

To classify each lease, the Company performs an overall assessment of whether the lease substantially transfers all risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, otherwise it is an operating lease. As part of this assessment, the Company considers specific indicators such as whether or not the lease term is for the majority of the economic life of the underlying asset.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term in the statement of profit or loss.

#### **3/3- Property, plant and equipment**

##### **3/3/1- Recognition and measurement**

Property, plant and equipment are measured at cost after deducting the accumulated depreciation and accumulated depreciation loss, if any, with the exception of land and construction work in progress. Cost includes expenditures that are directly attributable to the acquisition of the assets and the cost of self-built assets includes the cost of materials and direct labour and any other costs directly attributable to getting the assets to the condition in which they are operated, the costs of dismantling and removing the materials and returning the site in which they are located and any capitalized borrowing costs.

The profit or loss from the sale of an item of property and equipment is determined by comparing the proceeds from the sale with the carrying value of property and equipment and is stated net in the statement of profit or loss.

##### **3/3/2- Derecognition**

An item of property, plant and equipment is derecognised when it is sold or when future economic benefits are not expected to flow from its use or sale. Gains or losses arising from derecognition of an item of property, plant and equipment are included in the statement of profit or loss.

##### **3/3/3- post-acquisition costs**

The cost of replacing a component of an item of property, plant and equipment is recognized at the carrying amount of the item when it is probable that future economic benefits will flow to the Company and that their cost can be measured reliably and the carrying value of the replaced component is derecognised. The cost of providing day-to-day service for property, plant and equipment is taken to the statement of profit or loss as incurred.

##### **3/3/4- Depreciation**

Depreciation is based on the cost of assets minus their residual value. The significant components of individual assets are estimated, and if there is a component that has a useful life that differs from the rest of that asset, then that component is depreciated independently.

- Depreciation is recorded in the statement of profit or loss using a straight-line method over the estimated useful life of each component of an item of property, plant and equipment. Depreciation methods, useful lives and residual value are examined at the date of each financial position and adjusted whenever appropriate.



**3. Summary of significant accounting policies (continued)**

**3/3- Property, plant and equipment (continued)**

**3/3/4- Depreciation (continued)**

- Depreciation of the asset begins when it is available for use, and its depreciation stops on the date on which the asset is classified as held for sale or its cease to be utilised whichever is earlier.
- Improvements to buildings to leased land and buildings established on leased land are depreciated over their useful economic lives or the unexpired lease period, whichever is shorter.

The following are the estimated useful lives of the current and comparative periods:

<u>Category</u>	<u>Estimated useful life</u>	<u>Category</u>	<u>Estimated useful life</u>
Buildings	33 years	Vehicles	5 years
Plant and equipment	10-25 years	Computers	3.33-5 years
Furniture and fixtures	3.33 - 5 years		

- Regular maintenance and repair expenses that do not materially prolong the estimated useful life of an asset are included in the statement of profit or loss when incurred. Major renovations and improvements, if any, are capitalized, and any assets that have been replaced are excluded from the books.

**3/4- Borrowing Cost**

Borrowing costs that are directly attributable to the acquisition, creation or production of qualifying assets and which necessarily take a substantial period of time to prepare for their intended use or sale, are capitalized as part of the cost of the relevant asset. All other borrowing costs are charged to the statement of profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**3/5- Intangible assets**

- Intangible assets with finite lives are amortized over their economic useful lives and are reviewed whenever there is an indication that a decrease in their value may occur. The period and method of amortization of intangible assets that have a specific useful life are reviewed at least once at the end of each financial period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embedded in the asset, are accounted for by changing the amortization period or method, as appropriate and are treated as changes in accounting estimates. The amortization expense of intangible assets with finite lives is included in the statement of income in an expense category consistent with the use of the intangible assets.
- Intangible assets that do not have specific useful lives are not amortized, but they are tested annually to ensure that there is no impairment in their value, either individually or at the level of the cash-generating unit. The indefinite useful life is reviewed annually to ensure that the estimate made for it is still correct, and if it is otherwise, the change in the useful life from indefinite to finite is made on a probability of occurrence.
- Profits and losses arising from de-recognition of an intangible asset are measured by the difference between the net sale proceeds and the book value of the asset and are included in the statement of profits and losses when the asset is derecognised.

**3/6- Financial instruments**

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

**3/7- non-derivative financial assets**

- Accounts and other receivables and deposits are initially recognized on the date in which they are originated. All other financial assets are initially recognized on the trade date on which the Company becomes a party to the contractual provisions of the financial instrument.
- Non-derivative financial assets include investments in quoted securities, other accounts and receivables, and cash at banks.



### 3. Summary of significant accounting policies (continued)

#### 3/8 – Financial assets

##### 3/8/1- Initial recognition and measurement

- The Company determines the classification of its financial assets upon initial recognition. The classification depends on the nature of the Company's business to manage the financial assets and the contractual terms of the cash flows.

##### Classification

Financial assets are classified into the following measurement categories:

A- Those that are subsequently measured at fair value (either through comprehensive income, or through profit or loss).

B- Those measured at amortization cost.

For assets measured at fair value, gains and losses are recorded in the statement of profit or loss or statement of comprehensive income. In relation to equity investments, this depends on whether the Company has chosen the method for the initial recognition of the equity investments at fair value through total comprehensive income.

##### 3/8/2- Measurement

On initial recognition, the Company measures the financial assets at fair value, including if the financial asset is not recognised at fair value through profit or loss, costs incurred directly attributable to the acquisition. The costs of purchasing financial assets are recorded in the statement of profit or loss at fair value and are recognized as an expense if incurred.

##### Debt instrument

The subsequent measurement of debt instruments depends on the nature of the Company's use of the assets and the cash flows resulting from the use of that asset. The Company classifies debt instruments at amortized value based on the following:

A- The asset is kept within the business activity in order to obtain contractual cash flows,

B- The contractual terms clarify specific dates for cash flows, which are principal and interest payments calculated on the amount outstanding.

Amortized cost is calculated after taking into account any discount or premium on purchase and fees or costs that are an integral part of the effective interest rate. Employee and shareholder loans to joint venture companies are stated at amortized cost.

##### Equity instrument

If the Company chooses to present the fair value method for gains and losses from equity investments in the statement of comprehensive income, then the fair value gains or losses will not be reclassified subsequently in the statement of profit or loss. Dividends from these investments are recognized in the statement of profit or loss as other income when the Company's right to receive payment is established. There is no requirement to account for impairment of equity investments measured at FVOCI. Changes in the fair value of financial assets are recognized as profit or loss in the statement of profit or loss.

##### 3/8/3- Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to cash flows expire or upon transfer of the financial asset and the risks and benefits associated with its ownership to another party. If the Company does not transfer or retain all of the risks and rewards of owning the asset and continues to control the transferred asset, the Company recognizes its retained interest in the related assets and liabilities for the amounts that it may have to pay. If the Company retains all risks and rewards of the excluded asset, then the Company continues to recognize the financial asset and also recognizes the guaranteed borrowing of the returns received.

##### 3/8/4- Impairment in value of financial assets

- The Company applies the expected credit loss model (ECL) to measure and prove the loss of impairment in the value of financial assets and exposure to credit risk for debt instruments and it is measured at amortized cost such as loans, deposits and receivables.



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**3. Summary of significant accounting policies (continued)**

**3/8/4- Impairment in value of financial assets (continued)**

- Expected credit losses are a weighted estimate of the probability of credit losses (that is, the present value of all cash deficits) divided by the expected life of the financial asset. Cash shortages are the difference between the cash flows due according to the contract and the cash flows that the Company expects to receive. Expected credit losses take into account the amount and timing of payments and consequently credit losses arise even if the Company expects to receive the payment in full but later than the due date specified in the contract. The ECL method requires an assessment of the credit risk, default and timing of collection since the initial recognition. This requires that an expected credit loss allowance is recognized in the statement of profit or loss as well as for newly created or acquired receivables.
- The decline in the value of financial assets is measured by either 12-month expected credit losses or expected credit losses over the life of the asset, depending on whether there has been a significant increase in credit risk since the creation of the asset. 12-month ECL represents expected credit losses arising from default events that may be possible within 12 months after the end of the financial year. Life expectancy of credit losses represent any expected credit losses that would arise from all possible events of delinquency over the expected life of the financial asset.
- Accounts receivables are short-term and usually due in less than 12 months. Therefore, the credit loss allowance is calculated in a manner that does not differ from the 12-month period, which is the expected life of the receivables. The Company uses the practical method in IFRS 9 (“Financial Instruments”) to measure expected credit losses for receivables using a provision matrix based on the ages of receivables.
- The Company uses past and historical experiences and loss rates based on the basis of the past 36 months, where historical loss rates are adjusted to reflect information on current conditions and future expectations of future economic conditions. The loss rates differ based on the age of the receivables and are usually higher the older the receivables.

**3/9- Financial liabilities**

**3/9/1- non-derivative financial liabilities**

- All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are offset, and the net amount is included in the balance sheet when and only when there is a legal right for the Company to set off the amounts realized and when the Company has the intention to settle the assets with liabilities on a net basis or sell the assets and pay the liabilities simultaneously.
- Non-derivative financial liabilities include term loans, payables and other payables. These financial liabilities are initially recognized at fair value plus any transaction costs directly attributable to them. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the prevailing (effective) interest rate method. The Company derecognises a financial liability when the obligation specified in the contract is performed, cancelled or expires.

**3/9/2- Derecognition of financial liabilities**

The derecognition of a financial liability when the obligation specified in the contract is fulfilled, cancelled or expired, and when an existing financial liability is replaced by another liability from the same lender under substantially different terms, or the terms of the existing financial liability have been modified substantially. This replacement or amendment is treated as a cancellation of the original liability and recognition of the new liability. The differences in the relevant book value are included in the statement of profit or loss.

**3/9/3- Offsetting the financial assets and liabilities**

Financial assets and liabilities are offset, and the net amount is included in the balance sheet when and only when there is a legal right for the Company to set off the amounts realized and when the Company has the intention to settle the assets with liabilities on a net basis or sell the assets and pay the liabilities simultaneously.

**3/10- Impairment in value of non-financial assets**

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



### 3. Summary of significant accounting policies (continued)

#### 3/10- Impairment in value of non-financial assets (continued)

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The recoverable amount is sensitive to the discount rate used for the DCF (Discounted Cashflow) model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to its selling price less costs to complete and sell, and an impairment loss is recognized immediately in the statement of profit or loss. If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income or loss.

#### 3/11 – Work in progress

The cost of work in progress consists of the contract value, the costs directly attributable to the development and equipping of the project assets to the site and condition to enable them to be operated for the purpose for which they were acquired. The costs of capital work in progress are transferred to categories of tangible assets and non-current intangible assets when they reach operating condition and are available for use. The carrying value of capital work in progress is reviewed to see if there is a decline in its value when events or changes in circumstances indicate that the carrying value may not be recoverable. In the event that such indication exists and when the book value exceeds the estimated recoverable value, the asset value is reduced to the recoverable value.

#### 3/12 – Inventory

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

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

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

#### 3/13- Trade receivables and other debit balances

Trade receivables are initially recorded at the market value and are subsequently measured at amortized cost using the effective interest method minus the provision for impairment in the value of financial assets for decline in financial instruments.

#### 3/14- Short-term deposits

Short-term deposits include deposits with banks and short-term investments that are more liquid, but not more than one year from the date of deposit.



### 3. Summary of significant accounting policies (continued)

#### 3/15- Cash and cash equivalents

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

#### 3/16- Employees defined benefits obligations

Provision for employee benefit obligations is provided for the period of their service as at the date of the statement of financial position. The provision for employee benefit liabilities is monitored according to the expected unit method in accordance with International Accounting Standard No. (19) Employee benefits, taking into account the Saudi Labour Law. The provision is recognized based on the present value of the defined benefit obligation.

The present value of defined benefit obligations is calculated using assumptions of average annual rate of salary increase, average years of employment of employees and an appropriate discount rate. The probabilities used are calculated on a consistent basis for each year and reflect management's best estimates. The discount rate is based on the best available estimates of market returns currently available at the reporting date.

The amendments require the recognition of changes in the liabilities for defined benefits and fair value and the recognition of all accounting profits and losses directly through the statement of comprehensive income in order to reflect the net asset or liability of the company as recognized in the statement of financial position.

#### 3/17- Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method. Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The borrowings are classified as a current liability when the remaining maturity is less than 12 months.

#### 3/18- Trade payables and other credit balances

Liabilities are recognized for amounts to be paid in the future for supplies or services received, whether or not billed to the Company.

#### 3/19- Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting expected future cash flows using a current pre-tax rate that reflects, when appropriate, current market assessments of time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.



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**3. Summary of significant accounting policies (continued)**

**3/19- Provisions (continued)**

Asset restoration	Restoration costs are provided at the present value of expected costs to settle the obligation using the estimated cashflow which are recognized as part of the cost of the particular asset. The cashflows are discounted at a current pre-tax rate that reflects the risks specific to the restoration liability. The unwinding of the discount is expensed as incurred and recognised in the statement of income as a finance cost. The estimated future cost of restoration is reviewed annually and adjusted as appropriate.
Onerous contracts	A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on incremental costs necessary to fulfil the obligation under the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.
Restructuring	A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly.

**3/20- Contingent liabilities**

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is unlikely to occur. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

**3/21- Zakat and income tax**

**Zakat**

The Company is subject to Zakat in accordance with the regulation issued by the General Authority of Zakat and Income Tax (ZATCA).

Zakat is levied at a fixed rate of 2.5% on the higher of adjusted zakat profit or zakat base. The management establishes provisions where appropriate on the basis of amounts expected to be paid to the ZATCA and periodically evaluates positions taken in zakat returns in case of any differences. Additional Zakat liability, if any, related to prior years' assessments arising from ZATCA are accounted for in the period in which the assessments are finalized. The provision for Zakat is charged to the statement of profit or loss.

**Value Added Tax (VAT)**

Revenues, expenses, and assets are recognized net of the amount of VAT, except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- Receivables and payables are stated with the amount of VAT included.
- The net amount of value added tax (VAT) recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 3. Summary of significant accounting policies (continued)

#### 3/22- Segment reporting

##### (A) The business segments

A business segment is a Group of assets, operations, or entities that:

- (1) It engages in revenue generating activities,
- (2) The management analyses the results of its operations in order to make decisions regarding resource allocation and performance assessment.
- (3) Financial information is independently available on it.

##### (B) The geographical sector

A geographic segment is a Group of assets, operations, or establishments that carry out revenue-generating activities in a specific economic environment that are subject to risks and returns that are different from those operating in other economic environments.

#### 3/23- Revenue from contracts with customers

The Company recognizes revenue from contracts with customers according to IFRS 15, using the following five-steps model:

Step 1: Identify the contract with the customer	A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met
Step 2: Identify the performance obligations	A performance obligation is a contract with a customer to transfer a good or service to the customer
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties
Step 4: Allocate the transaction price	For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation
Step 5: Revenue recognition	The Company recognizes revenue (or as) it satisfies a performance obligation by transferring a promised good or service to the customer under a contract

##### Identify the contract with the customer

The Company carefully evaluates the terms and conditions of the contracts with its customers because revenue is recognized only when performance obligations in contracts with customers are satisfied. A change in the scope or price of a contract (or both) is considered as a contract modification and the Company determines whether this creates a new contract or whether it will be accounted for as part of the existing contract.

##### Identifying the performance obligations

Once the Company has identified the contract with a customer, it evaluates the contractual terms and its customary business practices to identify all the agreed services within the contract and determine which of those agreed services (or bundles of agreed services) will be treated as separate performance obligations.



### 3. Summary of significant accounting policies (continued)

#### 3/23- Revenue from contracts with customers (continued)

##### **Determine the transaction price**

The Company determines transaction price as the amount by which it expects to be entitled. It includes an estimate of any variable consideration, the effect of a significant financing component (i.e. the time value of money), the fair value of any non-cash consideration and the effect of any consideration paid or payable to a customer, if any. Variable considerations are limited to the amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The amount of consideration is fixed based on the transaction price agreed with the customers and there are no other promised obligations in the contract with the customers that are determined as separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the services, the Company considered the effects of variable considerations, the existence of significant financing components, noncash consideration and considerations payable to the customer (if any) and has concluded that there are no such considerations included in the transaction price.

Contract modifications, e.g. variation orders, are accounted for as part of the existing contract, with a cumulative catch up adjustment to revenue. For material contract modifications a separate contract may be recognised, based on management's assessment of the following factors:

- the scope of the contract increases because of the addition of agreed goods or services that are distinct; and
- the price of the contract increases by an amount of consideration that reflects the Company's stand-alone selling prices of the additional agreed goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

##### **Allocation of transaction price**

Once the performance obligations have been identified and the transaction price has been determined, the transaction price is allocated to the performance obligations, generally in proportion to their stand-alone selling prices (i.e., on a relative stand-alone selling price basis). When determining stand-alone selling prices, the Company is required to use observable information, if any. If stand-alone selling prices are not directly observable, the Company makes estimates based on information that is reasonably available.

##### **Revenue recognition**

The Company recognizes revenue in accordance with the terms and conditions contained in the contracts concluded with customers to the extent that performance obligations related to customer contracts are fulfilled by the Company as performance obligations is satisfied upon delivery of goods to customer. Revenue is recognized in the event that control of the products is transferred to the customer, or when the products are delivered to the customer, or the customer has complete freedom of action in the subsequent price of selling the products, and that there is no obligation that may affect the customer's receipt of the products. Delivery takes place based on contractual terms when the risk of commodity defects and loss is transferred to the customer or the customer has accepted the products in accordance with the sales contract, the right to deliver the goods has become enforceable, or the Company has objective evidence that all the criteria for receipt have been met. Revenue recognized at the selling price is measured as agreed in the sales contract. The selling price is adjusted according to any possible variable such as price concessions, discounts, refunds, credit facilities, etc. The Company estimates the expected value of any variable consideration to adjust the potential selling price. The Company includes in the transaction price some or all of the variable considerations only to the extent that it is probable that no material reversal will occur in the value of the cumulative revenue recognized and when there is an uncertainty associated with the variable consideration and the related future solution. It is probable that economic benefits will flow to the entity and that the amount of revenue can be measured reliably.



### 3. Summary of significant accounting policies (continued)

#### 3/23- Revenue from contracts with customers (continued)

##### Significant judgements in the application IFRS 15

##### Determining the transaction price

The Company is required to determine the transaction price in respect of each of its contracts with customers. In making such judgement the Company assesses the impact of any variable consideration in the contract. In determining the variable consideration, the Company uses the "most-likely amount" method whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.

##### Determining the timing of satisfaction of performance obligations

The Company concluded that revenue from production and sale of goods are to be recognised at a point in time because the customer does not simultaneously receive and consume the benefits provided by the Company. In practice the Company record revenues when we deliver the goods, The control over goods is satisfied when we deliver goods to customers accordingly the risk of defect and loss is transferred to customer once he accepts the goods.

##### Determination of whether the Company or a part thereof is acting as a principal or agent

The principles of IFRS 15 revenue from customer contracts are applied by identifying each specific good or service pledged to the customer in the contract and assessing whether the company retains control over the specified good or service before transferring it to the customer. This evaluation requires significant judgment based on specific facts and circumstances.

#### 3/24- Recognition of expenses

All expenses incurred in running the business and maintaining property and equipment in a state of operational efficiency have been charged to the statement of profit or loss. The allocation between cost of revenue, general and administrative expenses, selling and marketing expenses, is made on a consistent basis. Expenses incurred for the purpose of acquiring, extending or improving assets of a permanent nature through which to continue in business or for the purpose of increasing the ability to earn business are treated as capital expenditures.

The Company recognizes the marketing support from vendors in the selling and distribution expenses on an accrual basis.

#### 3/25- Earnings per share

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

#### 3/26- Dividends

Dividends are recorded in the financial statements when announced and approved in the general assembly by the shareholders of the company.

Initial dividends are recorded as a liability in the financial statements when approved from the board of directors.

#### 3/27- Lease contracts

Rental income under operating leases is recognized in the statement of profit or loss on a straight-line basis over the term of the lease.

#### 3/28- Other income

Other income is stated on the accrual basis of accounting. Gains and losses on sale of property, plant and equipment are included in the statement of profit or loss.



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**3. Summary of significant accounting policies (continued)**

**3/29- Foreign Currencies**

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

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

**4. Property, plant and equipment, net**

	<b>31 December 2022</b>	<b>31 December 2021</b>
Property, Plant, and Equipment (Note 4/1)	316,380	345,374
<b>ADD:</b>		
Strategic spare parts	26,303	25,713
	<b>342,683</b>	<b>371,087</b>

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**4/1. Property, plant and equipment, net**

	Lands	Buildings	Plant and Equipment	Furniture and fixtures	Vehicles	Computers	Capital work in progress	Total
<b>Cost:</b>								
Balance as at January 1, 2022	5,676	90,661	724,691	2,901	1,948	5,509	9,523	840,909
Additions during the year	-	-	1,169	12	-	70	299	1,550
<b>Balance as at December 31, 2022</b>	<b>5,676</b>	<b>90,661</b>	<b>725,860</b>	<b>2,913</b>	<b>1,948</b>	<b>5,579</b>	<b>9,822</b>	<b>842,459</b>
<b>Accumulated depreciation:</b>								
Balance as at January 1, 2022	-	43,405	442,863	2,599	1,633	5,035	-	495,535
Depreciation charged during the year	-	3,174	26,991	117	86	176	-	30,544
<b>Balance as at December 31, 2022</b>	<b>-</b>	<b>46,579</b>	<b>469,854</b>	<b>2,716</b>	<b>1,719</b>	<b>5,211</b>	<b>-</b>	<b>526,079</b>
<b>Net book value</b>								
As at December 31, 2022	5,676	44,082	256,006	197	229	368	9,822	316,380
As at December 31, 2021	5,676	47,256	281,828	302	315	474	9,523	345,374

- The Company's buildings and constructions in the cities of Riyadh and Jubail include buildings constructed on land leased from government authorities.
- The net book value of buildings constructed on leased land amounted to SAR 44.1 million as at 31 December 2021 (31 December 2021: SAR 47.25 million).
- All of the Company's property, plant and equipment are mortgaged to the Saudi Industrial Development Fund against the long-term loan (Note 12).
- Capital work in progress includes coating plant machinery amounting to SAR 7.49 million which is currently not available for use.



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5. Right of use assets and lease liabilities

5/1- Right of use assets, net

	<u>31 December 2022</u>	<u>31 December 2021</u>
<b>Cost:</b>		
Balance at the beginning of the year	25,617	25,617
Accumulated depreciation	<u>(7,063)</u>	<u>(5,278)</u>
<b>Balance as at the end of the year</b>	<b><u>18,554</u></b>	<b><u>20,339</u></b>

The movement in accumulated depreciation for right of use assets is as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Balance at the beginning of the year	5,278	3,647
Charge for the year	<u>1,785</u>	<u>1,631</u>
<b>Balance at the end of the year</b>	<b><u>7,063</u></b>	<b><u>5,278</u></b>

5/2- Lease liabilities

	<u>Note</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
Balance at the beginning of the year		19,864	20,447
Finance cost during the year	25	956	1,283
Repayments of lease liability during the year		<u>(3,381)</u>	<u>(1,866)</u>
<b>Balance at the end of the year</b>		<b><u>17,439</u></b>	<b><u>19,864</u></b>

The table below shows the Company's lease liabilities based on the contractual due date:

	<u>31 December 2022</u>	<u>31 December 2021</u>
lease liabilities - current portion	791	1,210
lease liabilities - non-current portion	<u>16,648</u>	<u>18,654</u>
<b>Total lease liabilities</b>	<b><u>17,439</u></b>	<b><u>19,864</u></b>

The recognised amounts in statement of profit or loss is as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Depreciation expense of right of use assets	1,785	1,631
Finance cost for lease liabilities	<u>956</u>	<u>1,283</u>
	<b><u>2,741</u></b>	<b><u>2,914</u></b>

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6. Inventory, net

	31 December 2022	31 December 2021
Finished goods	76,474	105,110
Raw materials	89,750	14,357
Work in progress	45,887	16,762
Spare parts	16,534	18,974
Goods in transit	-	6,994
Office supplies	-	166
Scrap inventory	3,926	2,410
	<u>232,571</u>	<u>164,773</u>
Less: provision for impairment in value of inventory	<u>(15,020)</u>	<u>(22,706)</u>
	<u><b>217,551</b></u>	<u><b>142,067</b></u>

The movement of provision for impairment in value of inventory is as follows:

	31 December 2022	31 December 2021
Balance at the beginning of the year	22,706	79,372
Provision of Raw material - write-off	(3,576)	(55,169)
Provision of Work in progress - write-off	(267)	(5,377)
Reversal of provision for impairment in value of inventory	(3,843)	-
Formed during the year	-	3,880
<b>Balance at the end of the year</b>	<u><b>15,020</b></u>	<u><b>22,706</b></u>

7. Trade receivables, net

	31 December 2022	31 December 2021
Trade receivables	107,526	29,803
Expected credit loss provision	(16,695)	(16,695)
	<u><b>90,831</b></u>	<u><b>13,108</b></u>

8. Prepayments and other debt balances

	31 December 2022	31 December 2021
Advance payment to suppliers	12,719	3,230
Prepaid insurance and other prepayment expenses	3,323	-
Staff and other receivables	2,706	2,259
<b>Balance at the end of the year</b>	<u><b>18,748</b></u>	<u><b>5,489</b></u>

9. Cash and cash equivalents

	31 December 2022	31 December 2021
Cash in banks:		
Foreign currency	19,728	1,274
Local currency	17,977	7,255
Time Deposit	40,000	-
<b>Balance at the end of the year</b>	<u><b>77,705</b></u>	<u><b>8,529</b></u>



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**10. Share capital**

The authorized, issued and fully paid-up capital of the company as at December 31, 2022 is 100 million Saudi Riyals divided into 10 million shares, the value of the share is 10 Saudi Riyals (December 31, 2021 is 400 million Saudi Riyals divided into 40 million shares, the share is 10 Saudi Riyals).

During the year ended 31 December 2022, the Company obtained its shareholders' approval through Extra Ordinary General Assembly's Meeting dated February 20, 2022, to restructure its capital by amortizing the accumulated losses with the amount of SAR 300 million through reducing its share capital from SAR 400 million to SAR 100 million.

**11. Statutory reserve**

The Company is required to transfer at least 10% of its net profit each year to statutory reserve until such reserve equals to 30% of its share capital. This reserve is not available for distribution to the shareholders; however, it can be used to increase the share capital after shareholder approval.

**12. Long-term borrowings**

	<u>31 December 2022</u>	<u>31 December 2021</u>
<b>Saudi Industrial Development Fund (SIDF) – ("The Fund") non-profit bearing</b>	78,000	78,759
<b>Total current portion</b>	<u>23,000</u>	<u>78,759</u>
<b>Non-current portion</b>	<u>55,000</u>	<u>-</u>

The movement of long-term borrowings during the year is as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Balance at the beginning of the year	78,759	77,026
Proceeds during the year	3,992	1,733
Repayment during the year	(4,751)	-
<b>Balance at the end of the year</b>	<u>78,000</u>	<u>78,759</u>

- The Company obtained borrowing from the SIDF amounting to SAR 113.4 million for the construction of the Jubail Pipe Production Plant. The borrowing is secured by mortgaging the buildings, machinery, and equipment of the Company's factories.
- On 9 March 2015, SIDF agreed to reschedule the remaining balance as at that date, amounting to SAR 83 million in ten semi-annual instalments.
- On 9 December 2019, the Company obtained an additional borrowing amounting to SAR 7.165 million for a period of 5 years.
- During the year 2020, the management of the Company has reached an agreement with SIDF to reschedule the loan amounting to SAR 78.5 million.
- On 4 April 2021, the Company obtained an additional loan amounting to SAR 1.733 million for a period of 5 year.
- On 3 October 2022, the management of the Company has reached an agreement with SIDF to reschedule the loan amounting to SAR 78 million.
- On December 29, 2022, the company obtained the approval of the Industrial Development Fund to exempt it from financial covenants related to the ratio of current assets over current assets, as well as the ratio of total liabilities over net tangible value for the years 2020, 2021, and 2022.

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13. Short-term borrowings

	31 December 2022	31 December 2021
Short term borrowings	331,667	204,903
	<b>331,667</b>	<b>204,903</b>

The Company has obtained loans from the following institutions:

	31 December 2022	31 December 2021
Al Rajhi Bank	144,655	25,160
Riyad Bank	123,093	151,301
SABB	63,919	28,442
	<b>331,667</b>	<b>204,903</b>

The movement of short-term borrowings during the year is as follows:

	31 December 2022	31 December 2021
Balance at the beginning of the year	204,903	497,313
Proceeds during the year	471,308	157,720
Repayment during the year	(344,544)	(450,130)
<b>Balance at the end of the year</b>	<b>331,667</b>	<b>204,903</b>

- The Company has a short-term borrowing from Ministry of Finance amounting to SAR 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.
- 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.
- The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As at 31 December 2022, the Company was not in compliance with certain covenants of the financing agreements.

14. Employee's defined benefits obligations

	Note	31 December 2022	31 December 2021
Balance at the beginning of the year		19,191	18,088
Service cost:			
Current service cost		2,074	2,150
Finance cost of defined benefits obligations	25	473	344
Paid during the year		(1,300)	(1,806)
Actuarial (gain) / losses		(349)	415
<b>Balance at the end of the year</b>		<b>20,089</b>	<b>19,191</b>



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**14. Employee’s defined benefits obligations (continued)**

Significant actuarial assumptions:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Expected rate of salary increase	5%	5%
Discount rate	4.40%	2.55%
Employees turnover rate	Moderate	Moderate
Assumed retirement age	60 Years	<b>60 Years</b>

Sensitivity analysis for significant actuarial as assumptions:

	<u>31 December 2022</u>		<u>31 December 2021</u>	
	Amount	%	Amount	%
+ 0.1% Discount Rate	18,503	-7.89%	17,884	-6.81%
- 0.1% Discount Rate	21,921	9.12%	20,678	7.75%
+ 0.1% Long-Term Salary	21,754	8.29%	20,590	7.29%
- 0.1% Long-Term Salary	18,623	-7.29%	17,935	-6.54%
+ 10% Withdrawal rate	20,000	-0.44%	18,936	-1.33%
- 10% Withdrawal rate	20,183	0.47%	19,476	1.49%
1+Year Mortality rate	20,092	0.02%	19,181	-0.50%
1- Year Mortality rate	20,085	-0.02%	19,200	0.50%

The weighted average duration of the defined benefit obligation is 8.51 years (December 31, 2021: 7.28 years). The expected maturity analysis is as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Year 1	1,432	1,339
Year 2	2,781	2,415
Year 3	1,499	1,482
Year 4	1,114	1,936
Year 5	1,504	1,573
Year 6 onwards	22,470	14,679
Total undiscounted defined benefit obligation	30,800	23,424
Less: Finance cost	(10,711)	(4,233)
	<b>20,089</b>	<b>19,191</b>

**15. Related party transactions**

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

Name of related party	Nature of transaction	<u>31 December 2022</u>	<u>31 December 2021</u>
Board and other committees’ members	Reward and allowances	1,553	1,686
Senior executives	Salaries, allowances and bonuses	5,347	4,744
		<b>6,900</b>	<b>6,430</b>

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16. Trade payables and notes payables

	31 December 2022	31 December 2021
Trade payables	46,958	16,052
Notes payable	56,613	56,613
	<b>103,571</b>	<b>72,665</b>

17. Accrued expenses and other credit balances

	31 December 2022	31 December 2021
Advances from customers	65,486	4,771
Accrued finance cost	10,437	2,459
VAT Payable	4,493	30,005
Accrued employee benefit	3,275	3,115
Accrued expenses	4,835	11,582
Other credit balances	8,094	3,322
	<b>96,620</b>	<b>55,253</b>

18. Zakat provision

18/1- The approximate components of Company's zakat base are as follows:

	2022	2021
Net profit / (loss) for the year	9,695	(59,773)
Adjusted		
Provision made during the year	2,316	2,863
Adjusted net profit / (loss) for the year	12,011	(56,910)
Total added items	245,070	14,444
Total subtracted items	(384,833)	(777)
Total Zakat base	(139,763)	13,667
Zakat base (adjusted profit or zakat base which is greater)	12,011	13,667
Estimated Zakat by 2.5% of the Zakat base	<b>300</b>	<b>342</b>

18/2- The movement in the provision for zakat is as follows:

	31 December 2022	31 December 2021
Balance at the beginning of the year	4,284	3,941
Provided during the year	700	343
Payment during the year	(1,342)	-
<b>Balance at the end of the year</b>	<b>3,642</b>	<b>4,284</b>

18/3- The Company has submitted its Zakat return to ZATCA for the year ended 31 December 2021, and obtained certificate valid until 30 April 2023. During 2018, Zakat assessment has been raised by ZATCA for the year 2015 assessing additional Zakat of SAR 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.



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**19. Contingent liabilities**

Contingent liabilities are letters of credit and guarantee outstanding as at 31 December 2022 amounting to SAR. 72.51 million (31 December 2021: SAR 10.914 million).

**20. Revenues, net**

	<b>31 December 2022</b>	<b>31 December 2021</b>
<b>Revenue from main operations:</b>	<b>529,827</b>	<b>351,948</b>
Finished Goods		
<b>Other Revenues:</b>		
Plates	490	31,183
Coils	1,410	5,588
	<b>531,727</b>	<b>388,719</b>
Less: Sales return	(89)	(22)
	<b>531,638</b>	<b>388,697</b>

**21. Cost of revenues**

	<b>31 December 2022</b>	<b>31 December 2021</b>
Raw materials	379,947	284,009
Pipe coating and coupling expenses	24,383	20,340
Salaries and other relates benefits	22,449	19,964
Consumables	17,788	13,959
Spare parts and maintenance	5,783	5,127
Utilities expense	5,161	2,693
Others	27,501	26,368
	<b>483,012</b>	<b>372,460</b>

**22. Selling and distribution expenses**

	<b>31 December 2022</b>	<b>31 December 2021</b>
Shipping expense	5,974	6,085
Salaries and other relates benefits	2,729	1,966
Others	500	757
	<b>9,203</b>	<b>8,808</b>

**23. General and administrative expenses**

	<b>31 December 2022</b>	<b>31 December 2021</b>
Salaries and other relates benefits	13,626	15,235
Overheads relating idle production*	6,160	18,624
LC / LG charges	5,387	1,597
Professional and consultancy	4,090	4,429
Medical insurance	905	900
Provision for VAT penalty	-	8,639
Others	2,198	1,936
	<b>32,366</b>	<b>51,360</b>

\* Commencing February 2021, the production plant facility (the “facility”) was non-operational due to absence of production orders. The facility resumed productions during April 2022. Accordingly, overheads relating to idle time during 2022 are expensed and not capitalized in Inventory.

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24. Other income, net

	31 December 2022	31 December 2021
VAT diff & Penalty Reversal*	11,353	-
Scrape sales	5,599	6,284
Others	-	11
	<u>16,952</u>	<u>6,295</u>

\* The differences and reversals of the VAT represent the reversal of the provision for violations related to non-payment of the VAT on the specified dates, which was formed in the year 2021, as the Zakat, Tax and Customs Authority announced the relaunch of the "cancellation of fines and exemption from financial fines for all taxpayers" initiative for a period of six months, Starting from June 1, 2022 and ending on November 30, 2022, to reduce the economic impacts resulting from the Covid-19 pandemic on companies, and the company took advantage of the initiative and made payments on the specified dates..

25. Finance cost

	<u>Note</u>	31 December 2022	31 December 2021
Borrowings		16,728	16,630
Finance charges on lease liabilities	5/2	956	1,283
Finance charges on employees defined benefit obligation	14	473	344
		<u>18,157</u>	<u>18,257</u>

26. Segment reports

**Operating segment**

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

**Geographic segment**

During the year ended 31 December 2022, approximately 1.39 % of the Company's sales (31 December 2021: 12.87%) were export sales to the Gulf and Middle East countries, with approximately 98.61% (31 December 2021: 87.13%) domestic sales. All of the Company's assets and liabilities are in the kingdom of Saudi Arabia.

27. Financial instruments – fair value and risk management

**Financial instruments – fair value**

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.



**27. Financial instruments – fair value and risk management (continued)**

**Financial instruments – fair value (continued)**

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).

**Financial instruments – Risk Management**

The Company has exposure to a variety of financial risks as follows:

- Concentration risk
- Credit risk.
- Liquidity risk.
- Market risk.
- Capital management risk

**Risk management framework**

- The Company's Board of Directors is responsible for developing and monitoring the Company's risk management framework. The Board of Directors is responsible for developing and monitoring the Company's risk management policies.
- The Company's overall risk management program focuses on unexpected financial market fluctuations and the search for possibilities to minimize potential negative effects on the Company's financial performance.
- Risk management is carried out by senior management in accordance with policies approved by the Board of Directors. Senior management identifies and assesses financial risks in close cooperation with the company's operating units.

**Concentration risk**

Concentration risk is the risk of focusing the sales of the Company in a limited number of customers, which results in the case of the cessation of sales to those customers, who represent a substantial percentage of sales of the Company for any reason to cause significant losses to the Company, threatening its ability to continuity. One of the Company's clients represents the most significant percentage of the Company's receivables and sales. Management is taking steps to continuously expand its customer base.

**Credit risk**

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company is exposed to credit risk on its bank balances and trade receivables as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Cash and cash equivalents	77,705	8,529
Trade receivables	90,831	13,108
	<u>168,536</u>	<u>21,637</u>

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

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

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

27. Financial instruments – fair value and risk management (continued)

**Financial instruments – Risk Management**

**Credit risk (continued)**

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis, the receivable balances are monitored with the result that the Company's exposure to bad debts is not significant. Trade receivables outstanding balance comprises of 100% in KSA on December 31, 2022 (91% December 31, 2021).

**Liquidity risk**

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

As at 31 December 2022	Carrying amount	Less than one year	1-5 years	More than 5 years
Long term borrowings	78,000	23,000	55,000	-
Short term borrowings	331,667	331,667	-	-
Trade payables and note payables	103,571	103,571	-	-
	<b>513,238</b>	<b>458,238</b>	<b>55,000</b>	-
As at 31 December 2021	Carrying amount	Less than one year	1-5 years	More than 5 years
Long term borrowings	78,759	78,759	-	-
Short term borrowings	204,903	204,903	-	-
Trade payables and note payables	72,665	72,665	-	-
	<b>356,327</b>	<b>356,327</b>	-	-

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

**Market risk**

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, such as foreign exchange rates, commission rates and goods prices, will affect the Company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**Currency risk**

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

**Interest rate risk**

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



**27. Financial instruments – fair value and risk management (continued)**

**Financial instruments – Risk Management (continued)**

**Capital management**

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

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.
- The Company manages the capital structure in the context of economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders and issue new shares.
- The Company relies heavily on borrowings to meet its capital expenditures.
- The Company maintain share capital using a leverage ratio, this is net debt divided by total equity plus net debt as below.

	<b>31 December 2022</b>	<b>31 December 2021</b>
Long – term borrowings – current portion	23,000	78,759
Short – term borrowings	331,667	204,903
Lease liabilities - current portion	791	1,210
Trade and notes payables	103,571	72,665
Accrued expenses and other credit balance	96,620	55,253
<b>Total</b>	<b>555,649</b>	<b>412,790</b>
Less: Cash and cash equivalents	(77,705)	(8,529)
<b>Net debt</b>	<b>477,944</b>	<b>404,261</b>
Total Shareholder's equity	115,044	105,700
<b>Leverage rate</b>	<b>415%</b>	<b>382%</b>

**28. Earnings / (Loss) per share**

To comply with IAS 33 endorsed in the kingdom of Saudi Arabia. The weighted average number of shares for the two years ended December 31, 2022 and December 31, 2021 was reached by taking the effect of the capital decrease from the beginning of the nearest presented period.- The basic loss per share was calculated by dividing the net loss for the year attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the year, where the Profit / (Loss) per share was calculated for the year ending on December 31, 2022 and the year Ended on December 31, 2021, by dividing the net Profit / (Loss) for each year by the weighted average number of shares outstanding during the year. Diluted Profit / (loss) per share is the same as basic Profit / (Loss) per share as the Company has neither convertible securities nor dilutive financial instruments to exercise. The weighted average number of shares for the year ending on December 31, 2021 has been retrospectively adjusted in line with the weighted average number of new shares after its decrease during the year ending on December 31, 2022, as required in accordance with International Accounting Standard No. 33 (Earnings per share - Certified in the Kingdom of Saudi Arabia).

**Arabian Pipes Company**  
**(A Saudi Joint Stock Company)**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2022**  
**(All amounts are in Saudi Riyal "000" unless otherwise stated)**

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**28. Earnings / (Loss) per share (continued)**

	<b>For the year ended</b>	
	<b>31 December 2022</b>	<b>31 December 2021</b>
Profit / (Loss) from operations	10,900	(47,811)
Net Profit / (Loss) for the year	8,995	(60,116)
Weighted average number of ordinary shares during the year	10,000	10,000
Basic and diluted Profit / (Loss) per share for Profit / (Loss) from operations	1.09	(4.78)
Basic and diluted Profit / (Loss) per share for the net Profit / (Loss) for the year	0.90	(6.01)

There were no potentially diluting shares outstanding at any time during the year, and accordingly diluted Profit / (Loss) per share equal the basic Profit / (Loss) per share.

**29. Subsequent events**

There have been no significant subsequent events since the year-end that require disclosure or adjustment in the financial statements except for already disclosed in the accompanying financial statements.

**30. Comparative figures**

Certain comparative figures have been reclassified in previous years to conform with the current year's presentation.

**31. Approval of financial statements**

The financial statements for the year ended 31 December 2022 were approved by the Board of Directors on 1 Ramadhan 1444 H (corresponding to 23 March 2023).