

ARABIAN PIPES COMPANY
(A Saudi Joint Stock Company)

**INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE-MONTH AND
NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2024
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

**ARABIAN PIPES COMPANY
(SAUDI JOINT STOCK COMPANY)**

**INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2024**

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**Independent auditor's review report on the interim condensed financial statements
To the shareholders of Arabian Pipes Company
(A Saudi Joint Stock Company)**

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Arabian Pipes Company (A Saudi Joint Stock Company) ("the Company") as at 30 September 2024, and the interim condensed statement of profit and loss and the other comprehensive income for the three-month and nine-month periods ended 30 September 2024, and the interim condensed statements of changes in shareholders' equity and cash flows for the nine-month period then ended, and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

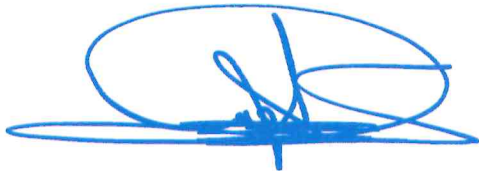
Scope of review

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

Conclusion

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

For Maham Company for Professional Services



Abdulaziz Saud Al Shabeebi
Certified Public Accountant
License no. (339)
5 Jumada al-Ula 1446 H
7 November 2024



Arabian Pipes Company
(Saudi Joint Stock Company)

Interim condensed statement of financial position
As at 30 September 2024

	Note	30 September 2024 (Unaudited) SR '000	31 December 2023 (Audited) SR '000
Assets			
Non-current assets			
Property, plant and equipment	4	277,575	297,787
Intangible assets		2,948	3,954
Right-of-use assets		24,448	22,636
Total non-current assets		304,971	324,377
Current assets			
Inventory	5	241,984	269,811
Trade receivables	6	204,343	186,874
Contract assets	7	194,661	20,080
Prepayments and other current assets		22,525	12,490
Cash and cash equivalents		43,807	94,081
Total current assets		707,320	583,336
Total assets		1,012,291	907,713
Shareholder's equity and liabilities			
Shareholder's equity			
Share capital	8	150,000	100,000
Reserve	8	15,430	15,430
Reserve for remeasurement of employees defined benefit liabilities		(3,010)	(3,010)
Retained earnings		226,420	120,699
Total shareholders' equity		388,840	233,119
Liabilities			
Non-current liabilities			
Lease liabilities		23,495	23,125
Long-term loan	9	-	20,649
Governmental grant- non-current portion		-	122
Provision for decommissioning cost		1,726	-
Employees defined benefit liabilities		24,529	21,806
Total non-current liabilities		49,750	65,702
Current liabilities			
Leases liabilities- current portion		1,342	778
Bank facilities and loans	9	408,051	424,417
Governmental grant- current portion		366	1,656
Trade and notes payables	10	97,707	79,770
Accrued expenses and other current liabilities	11	58,412	92,089
Zakat	12	7,823	10,182
Total current liabilities		573,701	608,892
Total liabilities		623,451	674,594
Total shareholders' equity and liabilities		1,012,291	907,713



Chief Financial Officer



Chief Executive Officer



Chairman of Audit Committee

The accompanying notes from 1 to 24 form an integral part of these interim condensed financial statements.

Arabian Pipes Company
(Saudi Joint Stock Company)

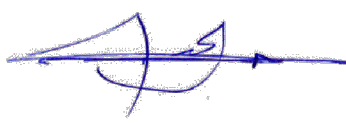
Interim condensed statement of profit and loss and other comprehensive income
For the three-month and nine-month periods ended 30 September 2024

		For the three-month period ended 30 September		For the nine-month period ended 30 September	
	Note	2024 (Unaudited) SR '000	2023 (Unaudited) (Restated-note-21) SR '000	2024 (Unaudited) SR '000	2023 (Unaudited) (Restated-note-21) SR '000
Revenue	14	318,465	234,117	970,281	767,079
Cost of revenue	15	(254,732)	(174,370)	(726,035)	(607,888)
Gross profit		63,733	59,747	244,246	159,191
Expenses					
Selling and marketing		(3,624)	(3,223)	(10,024)	(11,104)
General and administrative		(10,726)	(6,761)	(32,307)	(20,499)
Reversal (provided for) slow-moving inventory provision	5	6,304	(5,000)	(7,758)	(9,110)
Total expenses		(8,046)	(14,984)	(50,089)	(40,713)
Profit from operations		55,687	44,763	194,157	118,478
Finance charges		(14,153)	(9,426)	(42,752)	(25,942)
Other income, net	16	4,257	4,961	11,029	14,205
Profit before zakat		45,791	40,298	162,434	106,741
Zakat	12	(1,903)	(3,557)	(6,713)	(13,056)
Net profit for the period		43,888	36,741	155,721	93,685
Total comprehensive income for the period		43,888	36,741	155,721	93,685
Earnings per share					
Basic and diluted earnings per share (SR)	17	2.93	2.45	10.38	6.25

Chief Financial Officer



Chief Executive Officer



Chairman of Audit Committee



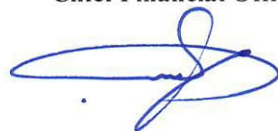
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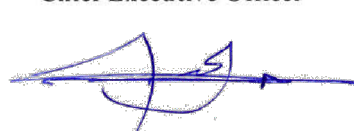
Interim condensed statement of changes in shareholders' equity
For the nine-month period ended 30 September 2024

	Share capital SR '000	Reserve SR '000	Reserve for remeasurement of employees defined benefit liabilities SR '000	Retained earnings SR '000	Total SR '000
As at 1 January 2024 (Audited)	100,000	15,430	(3,010)	120,699	233,119
Net profit for the period	-	-	-	155,721	155,721
Total comprehensive income for the period	-	-	-	155,721	155,721
Transferred to increase in share capital (Note-8)	50,000	-	-	(50,000)	-
As at 30 September 2024 (Unaudited)	150,000	15,430	(3,010)	226,420	388,840
As at 31 December 2022 (previously reported)	100,000	3,119	(2,713)	14,638	115,044
Restatement (note-21)	-	(900)	-	(12,833)	(13,733)
Balance as at 1 January 2023 (restated- note 21)	100,000	2,219	(2,713)	1,805	101,311
Net profit for the period (restated- note 21)	-	-	-	93,685	93,685
Total comprehensive income for the period	-	-	-	93,685	93,685
As at 30 September 2023 (Unaudited)	100,000	2,219	(2,713)	95,490	194,996

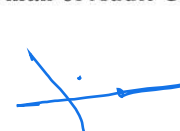
Chief Financial Officer



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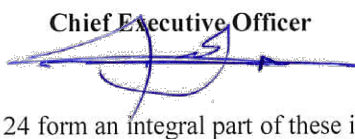
Interim condensed statement of cash flows
For the nine-month period ended 30 September 2024

	For the nine-month period ended 30 September	
	2024	2023
	(Unaudited)	(Unaudited)
	(Restated- note 21)	
	SR '000	SR '000
OPERATING ACTIVITIES		
Profit before zakat	162,434	106,741
Adjustments for:		
Depreciation of property, plant, and equipment	26,574	23,693
Amortization of intangible assets	1,043	219
Depreciation of a right-of-use asset	1,839	1,249
Finance charges	42,752	25,942
Impairment of property, plant and equipment	2,804	649
Provided for slow-moving inventory provision	7,758	9,110
Provided for provision for expected credit losses	2,768	-
Governmental grant	(1,411)	(2,230)
Employee defined benefit liabilities	3,332	3,248
	<u>249,893</u>	<u>168,621</u>
Change in operating assets and liabilities		
Inventory	20,069	(11,814)
Trade receivables	(20,236)	89,736
Prepayments and other current assets	(9,818)	(6,545)
Contract assets	(174,581)	6,960
Trade and note payables	17,937	26,577
Accrued expenses and other current liabilities	(29,757)	(52,476)
Cash from operations	<u>53,507</u>	<u>221,059</u>
Zakat paid	(9,072)	(6,547)
Finance charges paid	(42,572)	(23,703)
Employee defined benefit obligation paid	(610)	(852)
Net cash from operating activities	<u>1,253</u>	<u>189,957</u>
INVESTING ACTIVITIES		
Additions to property, plant, equipment	(9,166)	(7,129)
Short-term murabaha investment	(1,000)	-
Net cash used in investing activities	<u>(10,166)</u>	<u>(7,129)</u>
FINANCING ACTIVITIES		
Bank facilities and loans paid	(774,075)	(565,759)
Bank facilities and loans proceeds	735,417	508,511
Payment of lease liabilities	(2,703)	(1,159)
Net cash used in financing activities	<u>(41,361)</u>	<u>(58,407)</u>
Net change in cash and cash equivalents	<u>(50,274)</u>	<u>124,421</u>
Cash and cash equivalent at the beginning of the period	94,081	77,705
Cash and cash equivalents at end of the period	<u>43,807</u>	<u>202,126</u>

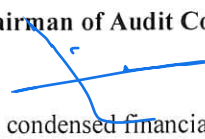
Chief Financial Officer



Chief Executive Officer



Chairman of Audit Committee



The accompanying notes from 1 to 24 form an integral part of these interim condensed financial statements.

1 GENERAL INFORMATION

Arabian Pipes Company (“the Company”) is a Saudi Joint Stock Company formed in accordance with the Companies Regulation and is registered in the Kingdom of Saudi Arabia (“KSA”) under the Commercial Registration No. 1010085734 dated 14 Safar 1412H (corresponding to 25 August 1991).

The main activities of the Company are the production and marketing of longitudinally welded steel pipes for pipelines and for construction and commercial purposes, bending, shaping and threading pipes from the outside and inside, carrying out commercial business such as selling and buying pipes, their accessories, carrying out pipeline extension works, manufacturing pipes, hoses, plastic pipes, their connections and accessories, and manufacturing pipes, pipes and shapes hollow iron and steel.

The Company operates under industrial license (Riyadh plant) No. 434 dated 12 Thul-Qi’dah 1405H (corresponding to 30 July 1985) and amended by the industrial license No. 2195 dated 16 Rajab 1436H (corresponding to 2 May 2015) and industrial license for coating factory No. 479 dated 26 Safar 1436H (corresponding to 18 December 2014).

These interim condensed financial statements include the following branch of the Company:

No	Name in branch register	Branch Registration No.	Region	Date
1	Arabian Pipes Company	2055007048	Al-Jubail	21 Rabi’ al-Thani 1426H (Corresponding to: 29 May 2005)

2 BASIS OF PREPARATION

2-1 Statement of compliance

These interim condensed financial statements have been prepared in accordance with International Accounting Standard “Interim Financial Report” (“IAS 34”) that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company’s annual financial statements as at 31 December 2023.

2-2 Basis of measurement

The interim condensed financial statements have been prepared on the historical cost basis, except for employee benefits liabilities that have been measured using projected unit credit method.

2-3 Functional and presentation currency

These interim condensed financial statements are presented in Saudi Riyals (SAR), which is the Company’s functional and presentation currency. All values have been rounded to the nearest thousand Saudi riyals, unless otherwise stated.

2-4 Transactions and Balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognized in the profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate applicable at the date of the initial transactions

2 BASIS OF PREPARATION (Continued)

2-5 Material accounting policies

The accounting policies applied in these interim condensed financial statements are the same policies applied to the Company's annual financial statements as at and for the year ended 31 December 2023.

2-6 Changes in material accounting policies

The Company has applied for the first time the following standards and amendments, which are effective for annual periods beginning on or before 1 January 2024, and which do not have any impact on the Company's interim condensed financial statements:

- Amendments to IAS 1, classification of liabilities into current and non-current.
- An amendment to IFRS 16, Sale and Leaseback Lease Liabilities.
- Supplier Financing Arrangements, Amendments to IAS 7 and IFRS 7.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 September 2024 reporting period and have not been early adopted by the Company. Management is in the process of assessing the impact, if any, these pronouncements may have in future reporting periods.

3 SIGNIFICANT ASSUMPTIONS AND ESTIMATES

In preparing these interim condensed financial statements, management has made estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates and assumptions are continually evaluated. Revisions to estimates are recognized prospectively.

Satisfaction of performance obligations for revenue recognition

IFRS 15 requires management to make judgments about the timing of meeting performance obligations under contracts with customers, which has a material impact on the Company's net income. Accordingly, the Company must evaluate all of its contracts with customers to determine whether performance obligations are being met over a period of time or at a point in time in order to determine the appropriate method for recognizing revenues. For all performance obligations under the contract, the Company determines whether the performance obligation has been fulfilled over time, i.e. transferring control of the service to the customer over time. If a performance obligation is not met over time, the Company then recognizes revenue at a point in time at which control of the service is transferred to the customer. The factors the Company considers in evaluating whether performance obligations have been satisfied at a point in time include evaluating whether (1) the Company has a present right to payment for services, (2) the Company has performed the services, and (3) the Company has accepted Services that the company implemented for the client.

Impairment of non-financial assets

A decrease in value occurs when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which represents the higher of fair value less costs of disposal and present value. Fair value less costs of disposal is calculated based on available data from binding sales transactions, which are conducted at arm's length for similar assets or observable market prices less incremental costs to sell the asset. Present value is determined using the discounted cash flow method. Cash flows are estimated based on a five-year forecasted budget and do not include restructuring activities not yet committed to by the company or significant future investments that would enhance the performance of the cash-generating unit subject to impairment testing. The recoverable amount is influenced by the discount rate used in the discounted cash flow method as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Impairment of inventory

The inventory is shown at lower of cost or net realizable value (NRV). When inventory becomes obsolete or slow-moving, an estimation of its NRV is made. For each significant amount individually, this estimation is done for each amount separately. As for insignificant amounts individually but considered obsolete or slow-moving, they are collectively estimated, and a provision is made for slow-moving inventory by type and age or degree of obsolescence based on historical sales prices. These estimates take into account price fluctuations directly related to events occurring after the interim condensed financial position date.

3 SIGNIFICANT ASSUMPTIONS AND ESTIMATES (continued)

Provision for expected credit losses on trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type and customer type).

The provision matrix is initially based on the Company's historically observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in specific sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Estimated useful lives and residual values of property, plant and equipment and intangible assets

The useful life of each item of the company's property, plant and equipment and intangible assets is estimated based on the number of years during which the asset is expected to be available for use. This estimate is based on a collective evaluation of similar business practices, internal technical evaluation, and previous experience with similar assets. At each reporting date, the estimated useful life of property, plant and equipment and intangible assets is reviewed and updated if expectations differ from previous estimates as a result of normal depreciation and amortization of the asset, technical or commercial obsolescence, legal restrictions or other restrictions on the use of the asset. However, it is possible that future results of operations could be materially affected by changes in estimates resulting from changes in the factors mentioned above. The amounts and timing of expenses recorded for any period may be affected by changes in these factors and circumstances.

Any change in the estimated useful life or depreciation pattern is accounted for prospectively.

4 PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of assets for calculating depreciation are as follows:

Buildings	33 years or lease term, whichever is less	Furniture and fixtures	3.33-5 years
Machinery and equipment	10-25 years	Computers	3.33-5 years
Vehicles	5 years		

	Land SR '000	Buildings SR '000	Machinery and equipment SR '000	Vehicles SR '000	Furniture and fixtures SR '000	Computers SR '000	Capital works in Progress SR '000	Total SR '000
Cost:								
At 1 January 2024 (Audited)	5,676	91,391	751,411	2,060	3,432	3,019	-	856,989
Additions	-	-	7,859	485	405	401	16	9,166
At 30 September 2024 (Unaudited)	5,676	91,391	759,270	2,545	3,837	3,420	16	866,155
Accumulated depreciation								
At 1 January 2024 (Audited)	-	50,023	501,823	1,816	2,846	2,694	-	559,202
Charged for the period	-	2,699	23,477	130	147	121	-	26,574
Impairment	-	-	2,804	-	-	-	-	2,804
At 30 September 2024 (Unaudited)	-	52,722	528,104	1,946	2,993	2,815	-	588,580
Net book value								
At 30 September 2024 (unaudited)	5,676	38,669	231,166	599	844	605	16	277,575

- The Company's buildings in Riyadh and Jubail include buildings constructed on land leased from government authorities.
- Most of the Company property, plant and equipment are mortgaged to the Saudi Industrial Development Fund against the loan granted by the Fund (note 9).

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land SR '000	Buildings SR '000	Machinery and equipment SR '000	Vehicles SR '000	Furniture and Fixtures SR '000	Computer SR '000	Capital works in Progress SR '000	Total SR '000
Cost:								
At 1 January 2023	5,676	90,662	736,863	1,948	2,913	2,873	8,491	849,426
Additions	-	137	8,544	112	480	151	3,157	12,581
Transferred to property, plant, equipment, and intangible assets	-	592	6,799	-	39	-	(11,610)	(4,180)
Disposal	-	-	(795)	-	-	(5)	(38)	(838)
At 31 December 2023 (audited)	<u>5,676</u>	<u>91,391</u>	<u>751,411</u>	<u>2,060</u>	<u>3,432</u>	<u>3,019</u>	<u>-</u>	<u>856,989</u>
Accumulated Depreciation:								
At 1 January 2023	-	46,578	474,030	1,719	2,716	2,572	-	527,615
Charged for the year	-	3,445	28,588	97	130	123	-	32,383
Disposal	-	-	(795)	-	-	(1)	-	(796)
At 31 December 2023 (audited)	<u>-</u>	<u>50,023</u>	<u>501,823</u>	<u>1,816</u>	<u>2,846</u>	<u>2,694</u>	<u>-</u>	<u>559,202</u>
Net book value:								
At 31 December 2023 (audited)	<u>5,676</u>	<u>41,368</u>	<u>249,588</u>	<u>244</u>	<u>586</u>	<u>325</u>	<u>-</u>	<u>297,787</u>

• Capital work in progress as at 1 January 2023 includes machinery and equipment and software with a book value of 8.5 million Saudi riyals. All these assets were transferred when they became ready for their intended use to property, machinery and equipment, as well as software (within intangible assets), during the last quarter of 2023.

Depreciation has been charged within the interim condensed statement of profit and loss and other comprehensive income as follows:

	For the nine-month period ended	
	30 September 2024 (Unaudited)	30 September 2023 (unaudited)
	SR '000	SR '000
Cost of revenue (note 15)	25,181	22,436
General and administrative expenses	1,385	1,256
Selling and marketing expenses	8	1
	<u>26,574</u>	<u>23,693</u>

5 INVENTORY

	30 September 2024 (Unaudited) SR '000	31 December 2023 (Audited) SR '000
Raw materials	134,232	118,434
Finished goods	36,554	74,996
Work in progress	8,251	40,370
Consumable materials and spare parts	39,576	38,785
Goods on transit	63,472	26,497
Scrap inventory	1,372	4,444
	283,457	303,526
Less: provision for slow moving inventories (note 5.1)	(41,473)	(33,715)
	241,984	269,811

5.1 The movement of provision for slow moving inventory is as follows:

	For the nine-month period ended 30 September 2024 (Unaudited) SR '000	For the year ended 31 December 2023 (Audited) SR '000
At the beginning of the period / year	33,715	24,165
Charged during the period/ year	7,758	9,550
At the end of the period / year	41,473	33,715

6 TRADE RECEIVABLES

	30 September 2024 (Unaudited) SR '000	31 December 2023 (Audited) SR '000
Trade receivables	225,166	204,929
Provision for expected credit losses (note 6.1)	(20,823)	(18,055)
	204,343	186,874

6.1 The movement of provision for expected credit losses is as follows:

	For the nine-month period ended 30 September 2024 (Unaudited) SR '000	For the year ended 31 December 2023 (Audited) SR '000
At the beginning of the period / year	18,055	16,695
Charged during the period/year	2,768	1,360
	20,823	18,055

(a) The Company applies the simplified approach of International Financial Reporting Standard - 9 for measuring expected credit losses.

(b) Trade receivables do not bear interest and are varying maturity periods ranging from 30 to 60 days.

(c) The maximum exposure to credit risk as of the reporting date is the carrying value of each category of the mentioned trade receivables.

(d) The Company does not hold any collateral against the trade receivables and, therefore, they are unsecured.

6 TRADE RECEIVABLES (continued)

The analysis of aging for trade receivables was as follows:

	Total	Less than 90 days	From 91 to 180	From 181 to 360	More than 360
30 September 2024 (Unaudited)					
SR '000	225,166	186,982	20,129	-	18,055
31 December 2023 (Audited)					
SR '000	204,929	186,876	-	1,359	16,694

7 CONTRACT ASSETS

The contract assets relate primarily to the Company's right to receive payment for performance completed to date in respect of completed steel pipe manufacturing contracts (for which revenue is recognized over time) but which have not been invoiced at the date of the interim condensed statement of financial position. These amounts will be transferred to trade receivables when invoiced to customers, and are expected to be fully invoiced during the fourth quarter of 2024, and are not subject to significant risks of impairment.

The movement in the contract assets account was as follows:

	For the nine-month period ended 30 September 2024 (Unaudited) SR '000	For the year ended 31 December 2023 (Audited) SR '000
At the beginning of the period/ year	20,080	25,628
Revenues recognized during the period / year	724,970	624,497
Invoices issued during the period/ year	(550,389)	(630,045)
At the end of the period/ year	194,661	20,080

8 SHARE CAPITAL AND RESERVE

SHARE CAPITAL

The authorized, issued and paid capital of the Company consists of 15 million shares, the value of each share is 10 Saudi riyals (31 December 2023: 10 million shares, the value of each share is 10 Saudi riyals).

On 24 Rabi' al-Thani 1445 H (corresponding to 8 November 2023), the Board of Directors recommended increasing the capital from 100 million Saudi riyals to 150 million Saudi riyals by capitalizing a portion of retained earnings.

On 15 Thul-Qi'dah 1445 H (corresponding to 23 May 2024), the Capital Market Authority issued its decision approving the Arabian Pipes Company request to increase its capital from 100 million Saudi riyals to 150 million Saudi riyals by granting a free share for every two outstanding shares owned by shareholders registered in the issuer's shareholder registry at the Depository Center at the end of the second trading day following the maturity date.

The Extraordinary General Assembly, in its meeting held on 4 Muharram 1446 H (corresponding to 10 July 2024), approved the Board of Directors' recommendation to increase the company's capital. The regulatory requirements for the increase were completed as of 30 September 2024.

8 SHARE CAPITAL AND RESERVE (continued)

RESERVE

The new Companies Law, issued by Royal Decree M/132 on 30 June 2022, came into effect on 19 January 2023. This law replaces the Companies Regulations issued in 1437H. Any conflicting provisions will be overridden. Existing companies must adjust their status in accordance with the new law within two years from its effective date. The company has updated its articles of association to comply with the provisions of the new Law. Note that after updating the bylaws according to the new law, the balance of the statutory reserve formed in previous years will be subject to the shareholders' decision in the future whether to retain it as a general reserve or return it to retained earnings.

9 BANK FACILITIES AND LOANS

The Company obtained bank facilities from several local banks and a short-term loan from the Ministry of Finance. The balance of the bank facilities as of 30 September 2024 amounted to 389 million Saudi riyals (31 December 2023: 393 million Saudi riyals). It represents in short-term bank facilities and loans to cover the Company's working capital requirements. The facilities carry a financial charge according to prevailing market prices. These facilities are secured by promissory notes, the facilities are compatible with the provisions of Islamic Sharia. The facilities agreements include covenants to maintain certain financial ratios, such as financial leverage ratio, and others. According to these facilities agreements, lenders are entitled to demand immediate repayment of loans in cases of non-compliance of these covenants. The company was not in compliance with certain covenants of short-term facilities with one of the banks as of 30 September 2024. Subsequent to the reporting period the Company was able to obtain a waiver of compliance with certain covenants from the lender.

The Company obtained a loan from the Saudi Industrial Development Fund ("the Fund") for the purpose of financing the production of welded steel pipes and for the purpose of replacing old plant machinery and equipment for a total amount of 236.5 million Saudi riyals. The loan balance as of 30 September 2024 amounted to 19 million Saudi riyals (2023: 49 million Saudi riyals) to be paid in semi-annual installments ended on 15 Shaaban 1446 H (corresponding to 14 February 2025). The facilities agreements include covenants to maintain certain financial ratios, such as financial leverage ratio, and others. In accordance with this agreement, the Fund has the right to demand immediate repayment of the loan in cases of non-compliance of these covenants. The Company was in compliance with loan covenants as of 30 September 2024.

	30 September 2024 (Unaudited) SR '000	31 December 2023 (Audited) SR '000
Bank facilities and short-term loans	389,804	392,988
Term loans- current portion	21,256	33,653
Prepaid upfront fees	(3,009)	(2,224)
	408,051	424,417
Non-current portion of long-term loans	-	20,649
	408,051	445,066

The bank facilities and loan movement were summarized as follows:

	For the nine-month period ended 30 September 2024 (Unaudited) SR '000	For the year ended 31 December 2023 (Audited) SR '000
At the beginning of the period/ year	447,290	405,705
Loans received	735,417	811,134
Loans paid	(774,075)	(774,756)
Financial charges on term loan	2,428	5,207
	411,060	447,290
Prepaid upfront fees	(3,009)	(2,224)
At the end of the period/ year	408,051	445,066

10 TRADE AND NOTES PAYABLES

	30 September 2024 (Unaudited) SR '000	31 December 2023 (Audited) SR '000
Trade payable	97,707	45,723
Notes payable	-	34,047
	97,707	79,770

Notes payable bear financial charges at an annual commission rate in accordance with prevailing market prices and were paid in full during the second quarter of 2024.

11 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	30 September 2024 (Unaudited) SR '000	31 December 2023 (Audited) SR '000
VAT payable	16,671	11,599
Accrued employee benefits	14,393	11,474
Accrued financial chargers	6,210	10,170
Advances from customers	1,209	38,461
Accrued expenses	1,066	2,666
Other liabilities	18,863	17,719
	58,412	92,089

12 ZAKAT

The net zakat charge for the period ended on 30 September 2024 amounted to 6.7 million Saudi riyals (30 September 2023: 13.1 million Saudi riyals).

12.1 Zakat provision movement

The movements in zakat provision was as follows:

	For the nine- month period ended 30 September 2024 (Unaudited) SR '000	For the year ended 31 December 2023 (Audited) SR '000
At the beginning of the period/year	10,182	3,642
Charged during the period/year	3,853	4,015
Charged during the period/year (related to prior years) – net	2,860	10,136
Payments during the period/year	(9,072)	(7,611)
At the end of the period/year	7,823	10,182

12.2 Zakat assessments

The Company has submitted its zakat returns to the Zakat, Tax, and Customs Authority ("ZATCA ") for all years up to 2023. The Company has finalized the zakat assessments with ZATCA for all years up to 2018.

12 ZAKAT (continued)

12.2 Zakat assessments (continued)

During January 2023, the Company received the zakat assessment for the year 2016 from ZATCA, demanding the Company to pay an additional zakat amount of 3.8 million Saudi riyals. The Company paid an amount of 1.1 million Saudi riyals, representing the non-objectionable part of the total additional amount. Further, the Company submitted an appeal to ZATCA on the remaining amount of 2.7 million Saudi riyals for which provision has been provided for the full amount. During 2024, the decision of the Appeal Committee was issued in the favor of the Company and the assessment was revised and reduced to 2.35 million Saudi riyals. The Company settled the additional dues according to the appeal decision and the surplus was recognized in the interim condensed statement of profit and loss and other comprehensive income.

During July 2023, the Company received the zakat assessment for the year 2018 from ZATCA, demanding the Company to pay an additional zakat amount of 4.47 million Saudi riyals. The Company paid an amount of 1 million Saudi riyals, representing the non-objectionable part of the total additional amount. Further, the Company submitted an appeal to ZATCA on the remaining amount of 3.47 million Saudi riyals for which provision has been provided for the full amount. During 2024 the decision of the Appeal Committee was issued in the favor of the Company and the assessment was revised and reduced to 1.05 million Saudi riyals. The Company settled the additional dues according to the appeal decision and the surplus was recognized in the interim condensed statement of profit and loss and other comprehensive income.

During March 2024, the Company received the zakat assessment for the year 2019 and 2020 from ZATCA, demanding the Company to pay an additional zakat amount of 5.63 million Saudi riyals. The Company paid an amount of 1.67 million Saudi riyals, representing the non-objectionable part of the total additional amount. and the company submitted an objection to the Authority for the remaining amount of 3.96 million Saudi riyals and a provision has been made for the full amount. During August 2024, the Authority rejected the entire objection. The company submitted an objection to the General Secretariat of Zakat, Tax and Customs Committees.

The Company has not received the zakat assessments for the years from 2021 to 2023.

13 RELATED PARTIES TRANSACTIONS AND THEIR BALANCES

Top management employees are defined as people who have the authority and responsibility to plan, direct and control the Company's activities (directly or indirectly).

Transactions with related parties include salaries, bonuses and allowances of board of directors' members and senior executives that took place during the year between the Company and top management. Transactions with related parties were as follows:

Related parties	Nature of the transaction	For the nine-month period ended 30 September	
		2024 (Unaudited) SR '000	2023 (Unaudited) SR '000
Senior executives	Short-term salaries and bonuses	4,736	4,642
	Employees defined benefit liabilities	831	783
Members of the Board of Directors and other committees	Bonuses and allowances	1,163	995
		<u>6,730</u>	<u>6,420</u>

14 REVENUE

14.1 The following is a breakdown of revenues from contracts with customers:

	For the nine-month period ended 30 September	
	2024 (Unaudited) SR '000	2023 (Unaudited) (Restated - Note 21) SR '000
Revenues from steel pipes manufacturing and packaging activities	970,281	767,079
	970,281	767,079

14.2 Timing of revenue recognition:

	For the nine-month period ended 30 September	
	2024 (Unaudited) SR '000	2023 (Unaudited) (Restated - Note 21) SR '000
Revenue recognized over a period of time	724,970	538,624
Revenue recognized at a point in time	245,311	228,455
	970,281	767,079

14.3 Geographic markets:

	For the nine-month period ended 30 September	
	2024 (Unaudited) SR '000	2023 (Unaudited) (Restated - Note 21) SR '000
Inside the Kingdom of Saudi Arabia	965,508	761,437
Outside the Kingdom of Saudi Arabia	4,773	5,642
	970,281	767,079

14.4 Revenue by customer type:

	For the nine-month period ended 30 September	
	2024 (Unaudited) SR '000	2023 (Unaudited) (Restated - Note 21) SR '000
Semi-governmental customers	724,970	538,624
Private sector customers	245,311	228,455
	970,281	767,079

14 REVENUE (continued)

14.5 The following table shows the aggregate amount of the transaction price allocated to performance obligations that are not satisfied (or partially satisfied) as at the end of the period:

	For the nine-month period ended 30 September	
	2024 (Unaudited) SR '000	2023 (Unaudited) (Restated - Note 21) SR '000
Revenues from steel pipes manufacturing and packaging activities (ongoing projects)	1,166,808	1,643,233
	1,166,808	1,643,233

Management anticipates that all performance obligations related to unsatisfied contracts for steel pipe manufacturing and packaging activities as of 30 September 2024 to be completed within the year 2025 (30 September 2023: during 2024).

15 COSTS OF REVENUE

	For the nine-month period ended 30 September	
	2024 (Unaudited) SR '000	2023 (Unaudited) (Restated - Note 21) SR '000
Raw materials	651,772	557,577
Salaries, wages and related benefits	32,568	17,702
Depreciation of property, plant and equipment	25,181	22,436
Spare parts and maintenance	6,657	2,952
Utilities	3,293	2,433
Impairment of property, plant and equipment	2,804	-
Depreciation of right to use assets	1,679	1,115
Others	2,081	3,673
	726,035	607,888

16 OTHER INCOME

	For the nine-month period ended 30 September	
	2024 (Unaudited) SR '000	2023 (Unaudited) (Restated - Note 21) SR '000
Scrap sales	9,112	9,705
Financing revenues from Governmental grants	1,411	2,230
Financing income from short-term Murabaha	223	1,460
Other	283	810
	11,029	14,205

17 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is the same as basic earnings per share since the Company has no diluted shares issued.

	For the nine-month period ended 30 September	
	2024	2023
	(Unaudited)	(Unaudited)
Profit for the period attributable to shareholders (SR '000)	155,721	93,685
Weighted average number of shares ('000)	15,000	15,000
Basic and diluted earnings per share (SR)	10.38	6.25

The weighted average number of shares was calculated as if the capital increase had taken place as of the beginning of the year 2023, as the capital increase did not result from an injection of funds from outside the company, in accordance with the requirements of the International Accounting Standards (IAS 33) adopted in the Kingdom of Saudi Arabia.

18 SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Company's activities are limited to manufacturing and packaging sector. The Company analyzes the financial information of its operations as a whole. Accordingly, segmental analysis of the interim condensed statement profit or loss and other comprehensive income and interim condensed statement of financial position is not presented. The Chief Operating Decision Maker (CODM) considers the Company to be a single operating segment based on the nature of its operations and products as all of the Company's operations relate to one operating sector, and most of the Company's activities, assets and liabilities are concentrated within the Kingdom of Saudi Arabia.

19 COMMITMENTS AND CONTINGENCIES

Contingencies and bank guarantees

As at 30 September 2024, the Company has outstanding letters of credit amounting to 148 million Saudi riyals (31 December 2023: 196 million Saudi riyals).

The Company's banks have issued letter of guarantees with a maximum limit of 72 million Saudi riyals (31 December 2023: 104.8 million Saudi riyals)

Capital commitments

As at 30 September 2024, the Company have incurred future capital expenditures SR 16 thousand riyal (31 December 2023: Nil).

20 FAIR VALUE MEASUREMENT

Fair value is the value at which assets are exchanged or liabilities are settled between willing parties in an arm's length transaction. Financial instruments consist of financial assets and financial liabilities. Financial assets include cash and cash equivalents, trade receivables, contract assets and short term murabaha. Financial liabilities include bank facilities and loans, trade and note payables, accrued expenses and other current liabilities and lease liabilities.

The management has assessed that the fair value of cash and cash equivalents, trade receivables, contract assets, short term murabaha, bank facilities and loans, trade payable, note payable, accrued expenses and other current liabilities and lease liabilities approximates their carrying amounts. This is mainly due to the short-term maturity of these instruments.

During the period ended 30 September 2024 and 31 December 2023, there were no transfers between Level 1 and Level 2 of fair value measurement hierarchy, and there were no transfers to or from Level 3 of fair value measurement hierarchy.

21 RESTATEMENTS AND RECLASSIFICATIONS

During the previous period, management identified several errors in accordance with International Accounting Standard 8 (IAS 8) "Accounting Policies, Changes in Accounting Estimates, and Errors" as adopted in the Kingdom of Saudi Arabia. The correction of these errors resulted in retrospective adjustments to the comparative figures for the nine-month period ended 30 September 2023, along with certain reclassifications.

21.1 The following table presents the impact on the interim condensed profit and loss and other comprehensive income for the nine-month period ended 30 September 2023:

	Note	Previously reported SR '000	Restatements and reclassification SR '000	Restated Amount SR '000
Revenue	a	774,039	(6,960)	767,079
Cost of revenue	a,c,d	(618,105)	10,217	(607,888)
Gross profit		155,934	3,257	159,191
Expenses				
Selling and marketing		(11,104)	-	(11,104)
General and administrative	f	(25,905)	5,406	(20,499)
Provision of slow-moving inventory		(9,110)	-	(9,110)
Total expenses		(46,119)	5,406	(40,713)
Profit from operations		109,815	8,663	118,478
Financial charges	b,c,f	(17,318)	(8,624)	(25,942)
Other income, net	b	11,975	2,230	14,205
Profit before zakat		104,472	2,269	106,741
Zakat		(13,056)	-	(13,056)
Net profit for the period		91,416	2,269	93,685
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		91,416	2,269	93,685
Earnings per share:				
Basic and diluted earnings per share	a,b,c,d	6.09	0.15	6.25

21 RESTATEMENTS AND RECLASSIFICATIONS (continued)

21.2 There is no impact on the statement of cash flows as a result of these amendments and therefore not presented

21.3 The following table shows the impact on the statement of change in shareholders equity for the nine-month period ended 30 September 2023:

	Share capital SR '000	Reserve SR '000	Reserve for remeasurement of employees defined benefit liabilities SR '000	Retained earnings SR '000	Total SR '000
As at 1 January 2023					
Previously reported	100,000	3,119	(2,713)	14,638	115,044
Restatements (a, b, c, d,e)	-	(900)	-	(12,833)	(13,733)
Restated balance	100,000	2,219	(2,713)	1,805	101,311

Restatements:

a) IFRS 15 “Revenue from Contracts with Customers”

During the year ended 31 December 2023, a review of revenue recognition from contracts with customers was completed by management and an external consultant. The review included an evaluation of the extent of compliance of these method with International Financial Reporting Standard (15): revenue from contracts with customers endorsed in the Kingdom of Saudi Arabia. Accordingly, the revenue recognition method was changed in accordance with the requirements of International Financial Reporting Standard (15): revenue from contracts with customers endorsed in the Kingdom of Saudi Arabia. It turns out that there are certain contracts that require revenues to be recognized over time and not at a point in time according to the previously followed method. These restatements resulted in a decrease in revenues and cost of revenues in the amount of 6.96 million Saudi riyals and 10.75 million Saudi riyals, respectively for the nine-month period ended 30 September 2023.

b) IAS 20 “Accounting for Governmental grants and Disclosure of Government assistance”:

The Company obtained a loan from the Saudi Industrial Development Fund for the purpose of producing welded steel pipes and for the purpose of replacing and renewing Plant machinery and equipment. The Company have not previously accounted for the loan in accordance with the requirements of International Accounting Standard (20), which stipulated that the benefit of a governmental loan at a below-market rate of interest is treated as a government grant. The loan shall be recognized and measured in accordance with IFRS 9 Financial Instruments. The benefit of an interest rate below the market interest rate should be measured as the difference between the initial carrying amount of the loan determined in accordance with IFRS 9 and the proceeds received. Accordingly, the recalculation was carried out in accordance with the requirements of these mentioned standard, and these restatements resulted in increase in grants revenue by an amount of 2.23 million Saudi riyals and increase in finance cost by an amount of 2.98 million Saudi riyals for the nine-month period ended 30 September 2023.

21 RESTATEMENTS AND RECLASSIFICATIONS (continued)

c) Right-of-use assets and lease liabilities:

During the year ended at 31 December 2023, management determined that the useful lives of certain leased lands were not consistent with the lease terms specified in accordance with IFRS 16 - Leases as endorsed in the Kingdom of Saudi Arabia. In a number of cases, lease terms have been found to be significantly shorter than the expected useful life of the underlining buildings constructed on leased land and other assets. Management has a strong intention to use the assets in the course of the Company's business until the end of their useful lives. Accordingly, the Company has significant economic incentives to renew or extend lease contracts either by taking advantage of extension options or by negotiating a new lease term.

After careful examination of each lease contract and historical experience, and also the applicable laws and regulations endorsed by the Government of the Kingdom of Saudi Arabia, the Company has concluded that it will have a practical ability and is reasonably certain to either exercise the extension option to extend the lease term. The ability to exercise an option to extend the lease term is a requirement as per IFRS 16 and should have been considered when determining the lease term for the respective contracts. Accordingly, the management reassessed the lease term for the relevant contracts to realign them with the requirements of IFRS and where required the lease liabilities was adjusted accordingly.

These restatements resulted in a decrease in depreciation expense by an amount of 225 Saudi riyals thousand, and increase in finance charges on lease liabilities by an amount of 232 Saudi riyals thousand for the nine-month period ended on 30 September 2023.

d) Property, plant and equipment and capital spare parts:

The Company has not recognized depreciation for the critical spare parts reported under property, plant and equipment during the past years, and therefore depreciation was recalculated based on the useful lives of the critical spare parts and the Company's policy. These restatements resulted in an increase in depreciation by an amount of 762 Saudi riyals thousand for the nine-month period ended 30 September 2023.

e) Transfer from retained earnings to the reserve

The transfer from retained earnings to the reserve that took place during the year 2022 has been reversed due to the adjustment for the total comprehensive loss for the year 2022.

f) During the period, management noted that the financial charges related to bank facilities and private loans for the period ending on September 30, 2023, at a value of 5.4 million Saudi riyals, were included within general and administrative expenses. The financial charges were reclassified from general and administrative expenses to the finance charges account.

g) Certain comparative figures have been reclassified to conform to the current period presentation.

22 INTERIM RESULTS

The results of operations for the nine-month period ended 30 September 2024 are not necessarily indicative of the annual results of the Company's operations.

23 SUBSEQUENT EVENTS

management is not aware of any significant subsequent events that would have a material impact on the interim condensed financial statements.

24 APPROVALS OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the board of directors on 27 Rabi' al-Thani 1446 H (corresponding to 30 October 2024)