

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

**THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED
MARCH 31, 2018**

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

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**REPORT ON REVIEW OF CONDENSED
CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**The Shareholders of
SAUDI STEEL PIPES COMPANY (SSPC)
(A Saudi Joint Stock Company)
Dammam, Kingdom of Saudi Arabia**

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Saudi Steel Pipes Company (the "Company") and its Subsidiary (collectively referred to as the "Group") as of March 31, 2018 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three months' period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standards 34 "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement endorsed by Saudi Organization of Certified Public Accountants. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the kingdom of Saudi Arabia. A review of the condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as 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 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standards 34 as endorsed in the Kingdom of Saudi Arabia.

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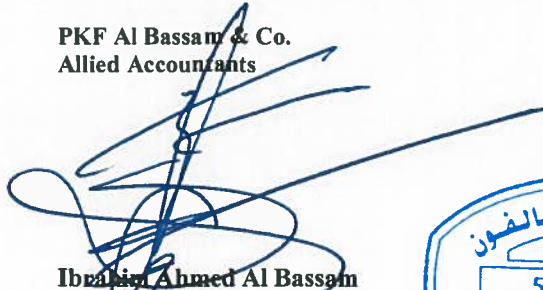
**REPORT ON REVIEW OF CONDENSED
CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**

**The Shareholders of
SAUDI STEEL PIPES COMPANY (SSPC)**

Emphasis of Matter

We draw attention to the Note 1 to the accompanying condensed consolidated interim financial statements; that the accumulated losses of TSM Arabia (the subsidiary) as at March 31, 2018 has exceeded its share capital by SR 39.48 million. Based on the business plan for TSM Arabia, management believes that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operations in the future. Furthermore, the Board of Directors of the Group has passed a resolution to continue TSM Arabia's business and to provide sufficient financial support to enable TSM Arabia to meet its financial obligations as and when they fall due. Accordingly, the subsidiary's financial statements were prepared on a going concern basis.

PKF Al Bassam & Co.
Allied Accountants


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May 7, 2018



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SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2018

	Note	March 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
ASSETS			
Non-current assets			
Property, plant and equipment	4	702,208,550	705,283,360
Intangible assets		505,281	566,311
Investment in associate, net	5.2	88,519,505	96,727,317
Trade and other receivables - non-current	6	10,522,758	10,905,083
		<u>801,756,094</u>	<u>813,482,071</u>
Current assets			
Inventories		200,660,235	185,743,446
Deposit with banks		3,000,000	3,000,000
Trade and other receivables	6	215,174,973	202,828,418
Cash and cash equivalents		5,835,725	10,497,222
		<u>424,670,933</u>	<u>402,069,086</u>
TOTAL ASSETS		<u>1,226,427,027</u>	<u>1,215,551,157</u>
EQUITY AND LIABILITIES			
Equity			
Share capital		510,000,000	510,000,000
Share premium		218,828,409	218,828,409
Statutory reserve		58,494,224	58,494,224
Actuarial reserves		(751,680)	(751,680)
Accumulated losses		(50,694,130)	(45,112,039)
Treasury shares		(11,611,575)	(11,611,575)
		<u>724,265,248</u>	<u>729,847,339</u>
LIABILITIES			
Non-current liabilities			
Borrowings – non-current	7	131,353,349	119,627,844
Employees' end of service benefits		53,915,124	56,887,723
Finance lease liability		138,138	155,698
Retention payables		633,713	633,713
		<u>186,040,324</u>	<u>177,304,978</u>
Current liabilities			
Trade and other payables	8	172,790,390	161,086,340
Borrowings – current	7	134,345,257	139,148,716
Finance lease liability		69,296	69,802
Zakat and income tax		8,916,512	8,093,982
		<u>316,121,455</u>	<u>308,398,840</u>
TOTAL LIABILITIES		<u>502,161,779</u>	<u>485,703,818</u>
TOTAL EQUITY AND LIABILITIES		<u>1,226,427,027</u>	<u>1,215,551,157</u>


Ahmed Al Debasi
Authorized Director


Hisham Al Hmili
Chief Executive Officer



Abdulhamid El Shazli
Finance Manager

The accompanying notes 1 through 13 form an integral part of these condensed consolidated interim financial statements.


SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

		March 31, 2018 (Un-audited) SR	March 31, 2017 (Un-audited) SR
Revenue	9	177,140,370	128,008,051
Cost of revenue	9	(160,345,298)	(109,890,990)
Gross profit		16,795,072	18,117,061
Selling, marketing and distribution expenses		(3,891,140)	(3,702,011)
Administrative expenses		(7,044,080)	(6,631,634)
Other income / (expenses), net		927,907	(330,543)
Allowance for impairment of trade receivables		(241,605)	(51,907)
Operating profit		6,546,154	7,400,966
Share of (loss) / profit in associate		(8,207,812)	6,583,693
Financial charges		(2,551,039)	(2,533,693)
(Loss) / profit before zakat and income tax		(4,212,697)	11,450,966
Zakat and income tax		(822,530)	(1,245,250)
(Loss) / profit for the period		(5,035,227)	10,205,716
Other comprehensive income		-	-
Total Comprehensive (loss) / income, net		(5,035,227)	10,205,716
(Loss) / Earnings per share			
Basic (loss) / earnings per share	11	(0.10)	0.20
Diluted (loss) / earnings per share	11	(0.10)	0.20


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Authorized Director


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Finance Manager

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SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

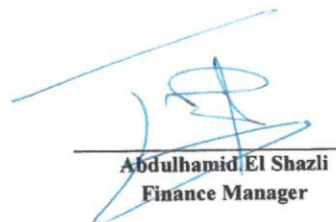
	Share capital	Share premium	Statutory reserve	Actuarial reserves	Accumulated losses	Treasury shares	Total equity
	SR	SR	SR	SR	SR	SR	SR
Balance as at January 1, 2017 (Audited)	510,000,000	218,828,409	58,494,224	282,400	(64,204,021)	(12,010,100)	711,390,912
Net income for the period	-	-	-	-	10,205,716	-	10,205,716
Share issued to employees	-	-	-	-	-	336,800	336,800
Balance as at March 31, 2017 – (Un-audited)	510,000,000	218,828,409	58,494,224	282,400	(53,998,305)	(11,673,300)	721,933,428
Balance as at January 1, 2018 (Audited)	510,000,000	218,828,409	58,494,224	(751,680)	(45,112,039)	(11,611,575)	729,847,339
Adjustment on adoption of IFRS 9 (Note 3.6.1-A(ii))	-	-	-	-	(546,864)	-	(546,864)
Balance as at January 1, 2018 (Restated)	510,000,000	218,828,409	58,494,224	(751,680)	(45,658,903)	(11,611,575)	729,300,475
Net loss for the period	-	-	-	-	(5,035,227)	-	(5,035,227)
Balance as at March 31, 2018 (Un-audited)	510,000,000	218,828,409	58,494,224	(751,680)	(50,694,130)	(11,611,575)	724,265,248



Ahmed Al Debasi
Authorized Director



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Chief Executive Officer



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Finance Manager

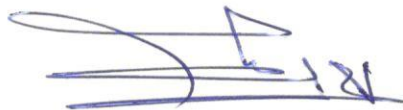
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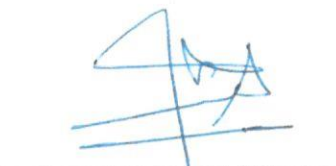
SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

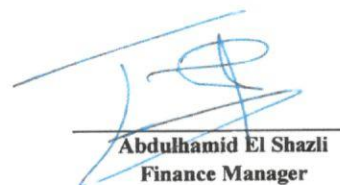
	March 31, 2018 (Un-audited) SR	March 31, 2017 (Un-audited) SR
Cash flows from operating activities:		
(Loss) / profit before zakat and income tax	(4,212,697)	11,450,966
Adjustments for:		
Depreciation of property, plant and equipment	12,153,636	9,611,196
Amortization of intangible assets	61,030	50,782
Allowance for impairment of trade receivables	241,605	51,907
Provision for inventories	-	2,000,000
Group's share of loss / (profit) in associate	8,207,812	(6,583,693)
Employees' end of service benefits	1,785,796	1,709,872
	<u>18,237,182</u>	<u>18,291,030</u>
Movement in working capital		
Inventories	(14,916,789)	(25,565,684)
Trade and other receivables	(11,636,200)	(17,637,926)
Accounts payables	11,185,677	41,451,297
Accrued expenses and other liabilities	678,171	4,739,452
Due to / from related parties	(1,276,297)	(3,834,908)
	<u>2,271,744</u>	<u>17,443,261</u>
Cash generated from operations		
Employees' end of service benefits paid	(4,758,395)	(320,521)
	<u>(2,486,651)</u>	<u>17,122,740</u>
Net cash (used in) / generated from operating activities		
Cash flows from investing activities:		
Additions to property, plant and equipment	(9,079,190)	(5,281,635)
Proceeds from sale of property, plant and equipment	364	-
Payments for acquisition of intangible assets	-	(75,094)
	<u>(9,078,826)</u>	<u>(5,356,729)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from / (Repayment of) borrowings, net	6,922,046	(26,539,370)
Lease Liability paid	(18,066)	-
	<u>6,903,980</u>	<u>(26,539,370)</u>
Net cash generated from / (used in) financing activities		
Net change in cash and cash equivalents	(4,661,497)	(14,773,359)
Cash and cash equivalent at the beginning of the period	10,497,222	17,322,519
	<u>5,835,725</u>	<u>2,549,160</u>
Cash and cash equivalents at end of the period		
Non-cash Transactions		
Allowance for impairment of trade receivables charged to accumulated losses on adoption of IFRS 9 – (note: 3.6.1 B)	<u>546,864</u>	<u>-</u>



Ahmed Al Debasi
Authorized Director



Hisham Al Hmili
Chief Executive Officer



Abdulhamid El Shazli
Finance Manager

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The accompanying notes 1 through 13 form an integral part of these condensed consolidated interim financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

The principal activities of the Group and its subsidiary are the manufacturing of black and galvanized steel pipes, production of ERW/HFI galvanized and threaded steel pipes and seamless pipes, pipes with three-layer external coating by polyethylene and polypropylene in different diameters, pipes with epoxy coating inside, bended pipes in different diameters, space frame, and submerged arc welded pipes.

2. STRUCTURE OF THE GROUP

The condensed consolidated financial statements as at March 31, 2018 include the financial statements of the Company and its following subsidiary (collectively referred to as the “Group”):

<u>Name of consolidated subsidiary</u>	<u>Principal activity</u>	<u>Effective ownership</u>	
		<u>2018</u>	<u>2017</u>
Titanium and Steel Manufacturing Company Limited (“TSM Arabia”)	Manufacture Stationary process equipment	100%	100%

Titanium and Steel Manufacturing (TSM Arabia)

TSM Arabia was formed under commercial registration number 2050073985 dated 4 Safar 1432H (corresponding to January 8, 2011 G) to produce stationary process equipment such as heat exchangers and pressure vessels. The subsidiary’s total share capital is SR 32 million of which the Group owns 100%. Initially the Group owned 70 % of share capital of TSM Arabia. On February 22, 2016, the Group signed an agreement with TSM Tech Company to acquire remaining 30% shareholding in TSM Arabia. On April 16, 2017 the legal formalities associated with the acquisition were completed and the articles of association of the subsidiary were amended accordingly.

As of March 31, 2018, the accumulated losses of TSM Arabia exceeded its share capital by SR 39.48 million. Based on the business plan for TSM Arabia, management believes that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operations in the future. Furthermore, the Board of Directors of the Group has passed a resolution to continue TSM Arabia’s business and to provide sufficient financial support to enable TSM Arabia to meet its financial obligations as and when they fall due. Accordingly, the subsidiary’s financial statements were prepared on going concern basis.

3. BASIS OF PREPARATION

3.1 Statement of compliance

These condensed consolidated interim financial information of the Group for the three months’ period ended March 31, 2018 has been prepared in accordance with the requirements of International Accounting Standard 34 - “Interim Financial Reporting” as endorsed in Saudi Arabia and other standards and pronouncement that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) and should be read in conjunction with the Group’s last annual Consolidated Financial Statements as at and for the year ended December 31, 2017 (“last annual Financial Statements”). They do not include all of the information required for a complete set of IFRS Financial Statements. However, accounting policies and selected explanatory notes are included to reflect events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual Financial Statements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

3. BASIS OF PREPARATION (Continued)

3.1 Statement of compliance (Continued)

This is the first set of Condensed Consolidated Interim Financial Statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 3.6.

3.2 Preparation of the condensed consolidated interim financial statements

The condensed consolidated interim financial information has been prepared under the historical cost convention, unless it is allowed by the IFRS to be measured at other valuation method.

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in condensed consolidated interim financial statements. The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual Financial Statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described in Note 3.6.

Items included in the condensed consolidated financial statements of the Group is measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The condensed consolidated financial statements are presented in Saudi Riyals (SR) that is the functional and presentation currency. Figures have been rounded off to the nearest Riyal except where mentioned rounding off in Saudi Riyals in millions.

3.3 Basis of Consolidation

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

Control is achieved when the Group:

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

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

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

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

3. BASIS OF PREPARATION (Continued)

3.3 Basis of Consolidation (Continued)

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3.4 Standard issued and applied in January 1, 2018

IFRS 9 and IFRS 15

IFRS 9 & IFRS 15 became applicable for the current reporting period and the Group had accordingly adjusted its accounting policies as a result of adopting both standards. The impact of the adoption of these new standards and their related new accounting policies are disclosed in note 3.6.

Other Amendments

A number of other new standards, amendments to standards are effective from 1 January 2018 but they do not have a material effect on the Group's Consolidated Financial Statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

These amendments clarify the transaction date used to determine the exchange rate.

IFRS 2 - Share-based Payment

Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

IAS 40 – Investment property

Amends to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

3. BASIS OF PREPARATION (Continued)

3.5 Standards issued but not yet effective

The following new accounting standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting period beginning on January 01, 2019 or later. The Group has not early adopted them.

IFRS 16 – Leases

This standard will replace IAS 17 – ‘Leases’, IFRIC 4 – ‘Whether an arrangement contains a lease’, SIC 15 – ‘Operating leases – Incentives’ and SIC-27 – ‘Evaluating the substance of transactions involving the legal form of a lease’ and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

This standard is mandatory for the accounting year beginning on January 1, 2019. The Group will adopt the standard on the same date.

IFRS 17 – Insurance Contracts

This standard will replace IFRS 4 – ‘Insurance Contracts’ IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

This standard is mandatory for the accounting year beginning on January 1, 2021.

IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 ‘Income Taxes’. It specifically considers: whether tax treatments should be considered collectively; assumptions for taxation authorities’ examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The interpretation is not expected to have a material impact on the Group’s consolidated financial statements.

This interpretation will be applicable annual periods beginning on or after January 1, 2019.

Annual Improvements to IFRSs 2015–2017 Cycle

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not re-measured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party re-measures the previously held interest at fair value.

IAS 12 Income Taxes - clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.

IAS 23 Borrowing Costs - clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

This amendment will be applicable annual periods beginning on or after January 1, 2019.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

3. BASIS OF PREPARATION (Continued)

3.5 Standards issued but not yet effective (Continued)

Other Amendments

The following amendment to standards are not yet effective and neither expected to have a significant impact on the Group's Condensed Consolidated Financial Statements:

- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)

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

3.6 Change in accounting policy

3.6.1 Adaptation of IFRS 9 financial instruments

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the consolidated financial statements as of and for the year ended December 31, 2017.

Transition

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and the opening balance of the financial assets and liabilities of the current period.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are the IFRS 9 transition impact disclosures for the Group.

3.6.1 (A) Classification of financial assets and financial liabilities

Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. The Group classify its financial assets generally based on the business model in which a financial asset is managed and its contractual cash flows.

(i) Financial Asset at amortized cost

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

3.6.1 Adaptation of IFRS 9 financial instruments (Continued)

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

Business model assessment

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

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

The assessment of the Group's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

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

(ii) Financial Asset at fair value through OCI (FVOCI)

Debt Instruments

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

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

Equity Instruments

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

3.6.1 Adaptation of IFRS 9 financial instruments (Continued)

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

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

All other financial assets are classified as measured at FVTPL.

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

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

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

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities with the exception of the treatment of the Group's own credit gains and losses, which arise where the Group has chosen to measure a liability at FVTPL, these gains and losses are recognized in other comprehensive income. There continue to be two measurement categories for financial liabilities: fair value and amortized cost.

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

The table and the accompanying sub-notes presented in note 3.6.1 (C) below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial instruments as at 1 January 2018.

3.6.1 (B) Impairment of financial assets:

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FV.

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

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

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to accumulated losses. The consolidated statement of financial position as at 31 December 2017 was restated, resulting in decreases in Trade and other receivables and increase in accumulated losses by SR 546,864.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

3.6.1 (C) Impact of adoption of IFRS 9 on account balances as at January 1, 2018:

	Note	Original under IAS 39		Transition adjustment SR	After adopting IFRS 9	
		Class	Amount SR		Class	Amount SR
Financial assets						
Trade receivables, net	3.6.1-ii	Loans and receivables	170,623,222	(564,864)	Amortized cost	170,058,358
Employee loans		Loans and receivables	19,255,252	-	Amortized cost	19,255,252
Deposit with bank		Loans and receivables	3,000,000	-	Amortized cost	3,000,000
Due from related parties		Loans and receivables	4,496,990	-	Amortized cost	4,496,990
Other receivables		Loans and receivables	455,598	-	Amortized cost	455,598
Cash and cash equivalents		Loans and receivables	10,497,222	-	Amortized cost	10,497,222
Investment available for sale		Available –for - sale	-	-	Fair Value through profit or loss	-
			208,328,284	(564,864)		207,763,420
Financial liabilities						
Trade and retention payables		Loans and Borrowings	136,812,203	-	Amortized cost	136,812,203
Due to related parties		Loans and Borrowings	2,237,333	-	Amortized cost	2,237,333
Accrued expenses		Loans and Borrowings	14,450,508	-	Amortized cost	14,450,508
Other liabilities		Loans and Borrowings	514,824	-	Amortized cost	514,824
Lease liability		Loans and Borrowings	225,500	-	Amortized cost	225,500
Short term borrowings		Loans and Borrowings	94,765,641	-	Amortized cost	94,765,641
Long term finance		Loans and Borrowings	164,010,919	-	Amortized cost	164,010,919
			413,016,928	-		413,016,928
i) Impact on accumulated losses						
Closing balance under IAS 39 (December 31, 2017)					Amount	(45,112,039)
Recognition of expected credit losses under IFRS 9 (3.6.1 B)						(546,864)
Opening balance under IFRS 9 (January 1, 2018)						(45,658,903)
ii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9						
Closing balance under IAS 39 (December 31, 2017)					Amount	3,708,320
Recognition of expected credit losses under IFRS 9 (3.6.1 B)						546,864
Opening balance under IFRS 9 (January 1, 2018)						4,255,184

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

3.6.2 IFRS 15 – Revenue from Contract with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations, IFRIC 13 “Customer Loyalty Programmed”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC 31 Revenue – (Barter Transactions Involving Advertising Services). Group recognizes revenue when a customer obtains controls of the goods at a point in time i.e. on delivery and acknowledgement of goods, which is in line with the requirements of IFRS 15. Accordingly, there was no material effect of adopting ‘IFRS 15 Revenue from Contracts with Customers’ on the recognition of Revenue of the Group.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of applying this standard recognized at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for previous year has not been restated, as previously reported, under IAS 18, IAS 11 and related interpretations. The Group recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15. This includes:

- a) Identification of a contract with a customer, i.e., agreements with the Company that creates enforceable rights and obligations.
- b) Identification of the performance obligations in the contract, i.e., promises in such contracts to transfer products or services.
- c) Determination of the transaction price which shall be the amount of consideration the Company will expect to be entitled to in exchange for fulfilling its performance obligations (and excluding any amounts collected on behalf of third parties).
- d) Allocation of the transaction price to each identified performance obligation based on the relative stand-alone estimated selling price of the products or services provided to the customer.
- e) Recognition of revenue when / as a performance obligation is satisfied, i.e., when the promised products or services are transferred to the customer and the customer obtains control. This may be over time or at a point in time.

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

For sale of goods:

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

For vessels construction:

The Group also manufactures heat exchangers, pressure vessels, reactors, condensers and pipe spools that are customized on customer requirements. These are normally long term contracts and performance obligation is satisfied over time as these are customized products and has right to payments during this process.

Prior to adoption of IFRS 15, the Group measured the percentage on completion based on incurred cost method. On adoption of IFRS 15 the Group concluded that revenue from vessel construction services will continue to be recognized over time, using an input method to measure progress towards complete satisfaction of the service similar to the previous accounting policy, because the product is customized and has right to payment during the process.

Warranty:

The Group generally provides warranties for both steel pipes and process equipment’s for general repairs of defects that existed at the time of sale, as per contract. As such, most warranties are assurance-type warranties under IFRS 15, which the Group accounts for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, are consistent with its practice prior to the adoption of IFRS 15.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

4. PROPERTY, PLANT AND EQUIPMENT

Carrying amounts of:

		March 31, 2018 (Un-Audited) SR	December 31, 2017 (Audited) SR
	Note	SR	SR
Operating fixed assets	4.1	683,481,164	693,779,964
Capital work-in-progress	4.3	18,727,386	11,503,396
		<u>702,208,550</u>	<u>705,283,360</u>

4.1 Operating fixed assets

		March 31, 2018 (Un-Audited) SR	December 31, 2017 (Audited) SR
	Note	SR	SR
Net book value at beginning of period / year		693,779,964	535,472,848
Additions during the period / year	4.2	288,689	1,885,767
Transferred from CWIP	4.2, 4.3	1,566,511	198,210,667
Write offs		-	(100,334)
Disposals, net		(364)	(6,750)
Depreciation charge during the period / year		(12,153,636)	(41,682,234)
Net book value at the end of the period / year		<u>683,481,164</u>	<u>693,779,964</u>

4.2 Additions during the period / year (Including transfers from capital work-in-progress) are as follows:

		March 31, 2018 (Un-Audited) SR	December 31, 2017 (Audited) SR
Building and structures		-	55,866,202
Machinery and equipment		1,566,511	139,711,692
Furniture & fixture		10,489	73,571
Office and electrical equipment		278,200	4,219,469
Leasehold asset		-	225,500
		<u>1,855,200</u>	<u>200,096,434</u>

4.3 Capital work-in-progress

		March 31, 2018 (Un-Audited) SR	December 31, 2017 (Audited) SR
Net book value at beginning of period / year		11,503,396	191,442,674
Additions during the period / year		8,790,501	18,593,708
Transferred to operating fixed assets		(1,566,511)	(198,210,667)
Transferred to intangible assets		-	(322,319)
Net book value at the end of the period / year		<u>18,727,386</u>	<u>11,503,396</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

5. INVESTMENTS

5.1 Investments are classified as follows:

	Note	March 31, 2018 (Un-Audited) SR	December 31, 2017 (Audited) SR
Investment in associate, net	5.2	88,519,505	96,727,317
Investment at fair value through profit or loss	5.3	-	-
		88,519,505	96,727,317

5.2 Investment in associate, net

Movement for investment in associate is as follows:

	March 31, 2018 (Un-Audited) SR	December 31, 2017 (Audited) SR
Global Pipe Company		
Cost of acquisition	45,000,000	45,000,000
Loan Contribution (Transferred to capital)	43,750,000	43,750,000
Share of accumulated gain / (losses) (opening balance)	7,977,317	(3,340,723)
Share of net (loss) / income for the period / year	(8,207,812)	11,318,040
Net investment value	88,519,505	96,727,317

Global Pipe Company ("GPC")

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

The Board of Directors approved and thereafter extended an interest free loan to GPC of SR 43.75 million. This loan had been granted in accordance with GPC Shareholders Memorandum of Understanding (MOU) signed on 8 May 2009 and shareholder's resolution No. 3-1 signed on April 22, 2012. This loan had no specified repayment terms and forms a part of an arrangement to increase the equity of GPC from SR 125 million to SR 250 million affected by shareholder's loan at their respective ownership percentage. The equity structure of GPC following this arrangement is SR 250 million of which SR 125 million is share capital and SR 125 million as shareholder's contribution in form of interest free loan for the purpose of increasing its capital to SR 250 million in the future. During year 2018, the associate had increased its capital by this loan, to reach a capital balance of SR 250 million.

5.3 Investment at fair value through profit or loss

Movement for investment at fair value through profit or loss is as follows:

	March 31, 2018 (Un-Audited) SR	December 31, 2017 (Audited) SR
Chemical Development Company Limited		
Opening balance	-	23,620,819
Impairment of investment	-	(23,620,819)
Closing balance	-	-

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

5. INVESTMENTS (Continued)

5.3 Investment at fair value through profit or loss

In 2016, and based on an impairment study, SR 43 million of this investment was impaired and adjusted against the condensed consolidated statement of profit or loss for the year ended December 31, 2016. During the year 2017, a further assessment was made by management with respect to this investment, taking in consideration the current status of the Company and its future viability and accordingly in 4th quarter Board of Directors has decided to impair the remaining balance of this investment of SR 23.6 million, as the investment amount in light of the existing circumstances is deemed to be unrecoverable.

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise of the following:

	Note	March 31, 2018 (Un-audited) SR	December 31, 2017 SR
Trade receivables		129,117,301	130,935,226
Revenue recognized in excess of billings		51,752,814	43,396,316
Allowance for Impairment for trade receivables		(4,496,789)	(3,708,320)
Trade receivables, net		176,373,326	170,623,222
Due from related parties	10 A	5,613,488	4,496,990
Prepayments and advances to suppliers		24,002,710	18,902,439
Value added tax		574,644	-
Employee loans		18,511,525	19,255,252
Other receivables		622,038	455,598
		<u>225,697,731</u>	<u>213,733,501</u>
Less: non-current portion of employee loans		(10,522,758)	(10,905,083)
Total current portion, net		<u>215,174,973</u>	<u>202,828,418</u>

Movement in the allowance for impairment is as follows:

	March 31, 2018	December 31, 2017
Opening balance – IAS 39	3,708,320	1,387,189
Impact of transition to IFRS 9 (Note 3.6.1-A(ii))	546,864	-
Opening balance	4,255,184	1,387,189
Allowance for the period / year	241,605	3,051,907
Utilized against receivables written off	-	(730,776)
Closing balance	<u>4,496,789</u>	<u>3,708,320</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

7. BORROWINGS

	Current		Non-Current	
	March 31, 2018 Un-Audited SR	December 31, 2017 (Audited) SR	March 31, 2018 Un-Audited SR	December 31, 2017 (Audited) SR
Term loans				
Saudi Industrial Development Fund (SIDF)	-	-	162,089,487	153,714,418
Bank Loans	-	-	5,146,501	10,296,501
Short Term				
Overdraft	10,045,405	13,162,468	-	-
Short-term loan facility	88,417,213	81,603,173	-	-
	98,462,618	94,765,641	167,235,988	164,010,919
Current portion of loans	35,882,639	44,383,075	(35,882,639)	(44,383,075)
Total Borrowings	134,345,257	139,148,716	131,353,349	119,627,844

The term of finances are as under:

Loan Name	Balance In SR	Type of loan	Number of installments	Payment term	Period	Mark up
SIDF – I	129,048,573	Long-term	9	Semi-annual	April 2018 to March 2022	Follow-up cost every 6 month
SIDF – II	33,040,914	Long-term	11	Semi-annual	July 2017 to July 2022	Follow-up cost every 6 month
Total SIDF	162,089,487					
Long Term Bank Loans	5,146,501	Long-term	1	Quarterly	January 2017 to April 2018	SIBOR+ 2%
Total long term	167,235,988					
Murabaha Loan	88,417,213	Short-term	-	From 3 to 6 months	-	SIBOR+1.25% to 2.50%
Bank Overdraft	10,045,405	Short-term	-	-	-	9%
Total Borrowings	265,698,606					

During the year period ended March 31, 2018, the Group negotiated restructuring agreement with Saudi Industrial Development Fund (SIDF). According to revised term, the loan repayment period remained the same, however, the installment amounts changed. Current and non-current portion of the loan have been calculated according to revised terms. Under the new terms, change in original effective interest rate is less than 10%.

8. TRADE AND OTHER PAYABLES

Trade and other payables comprise of the following:

	Note	March 31, 2018 (Un-Audited) SR	December 31, 2017 (Audited) SR
Trade payables		149,536,140	136,178,490
Due to related parties	10(B)	2,077,534	2,237,333
Warranty provision		5,195,312	5,195,312
Accrued expenses		12,419,707	14,450,508
Other liabilities		3,561,697	3,024,697
		172,790,390	161,086,340

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

9. SEGMENTAL REPORTING

The accounting policies used by the Group in reporting segments internally are the same as explained in annual financial statements for the year ended December 31, 2017.

The Group's operations consist of the following operating segments:

<u>As at March 31, 2018 (Un-Audited)</u>	<u>Steel pipes</u>	<u>Process equipment</u>	<u>Total</u>
	SR	SR	SR
Non-current assets	728,903,086	72,853,008	801,756,094
Total Assets	1,078,032,696	148,394,331	1,226,427,027
Total liabilities	378,141,606	124,020,173	502,161,779
Revenue	164,974,041	12,166,329	177,140,370
Cost of revenue	(145,447,629)	(14,897,669)	(160,345,298)
Loss for the period	(342,697)	(4,692,530)	(5,035,227)
Share of loss in associate	(8,207,812)	-	(8,207,812)

<u>As at March 31, 2017 (Un-Audited)</u>	<u>Steel pipes</u>	<u>Process Equipment</u>	<u>Total</u>
	SR	SR	SR
Non-current assets	772,516,870	77,024,486	849,541,356
Total Assets	1,129,112,532	124,438,362	1,253,550,894
Total liabilities	416,101,446	115,516,020	531,617,466
Revenue	112,311,597	15,696,454	128,008,051
Cost of revenue	(97,429,746)	(12,461,244)	(109,890,990)
Profit for the period	9,942,064	263,652	10,205,716
Share of profit in associate	6,583,693	-	6,583,693

Geographical segment

A geographical segment is a Group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments. The Group's operation is conducted mainly in the Kingdom of Saudi Arabia. The selected financial information covering the revenue as at March 31, 2018 and March 31, 2017, categorized by these geographic segments is as follows:

	<u>March 31,</u>	<u>March 31,</u>
	<u>2018</u>	<u>2017</u>
	SR	SR
Saudi Arabia	167,972,149	120,553,229
Other countries	9,168,221	7,454,822
	<u>177,140,370</u>	<u>128,008,051</u>

TRANSACTIONS WITH A MAJOR CUSTOMER

Revenue from one major customer accounted for 48.34% of the total revenue for the period. (28.97% for period ended March 31, 2017).

10. RELATED PARTIES' TRANSACTIONS AND BALANCES

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

10. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

<u>Company</u>	<u>Relationship</u>
Rabiah & Nassar Group	Shareholder
Abdullah Ibrahim Alkhorayef Sons Company	Former affiliate
Saudi Pan Gulf	Affiliate
Hu Steel Co., Ltd.	Shareholder
Chemical Development Company	Affiliate
TSM Tech. Korea	Former shareholder in subsidiary

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

<u>Related party</u>	<u>Nature of transaction</u>	Three months period ended March 31, 2018 (Un-Audited)	Three months period ended March 31, 2017 (Un-Audited)
Rabiah & Nassar Group	Sales	581,110	1,450,431
Abdullah Ibrahim Alkhorayef Sons Company	Sales	-	419,760
Saudi Pan Gulf	Sales	3,449,285	3,260,339
Hu Steel Company Ltd.	Service rendered	-	74,850

A) Balances receivable from related parties are as follows:

	March 31, 2018 (Un-Audited)	December 31, 2017 (Audited)
	SR	SR
Saudi Pan Gulf	3,967,933	2,823,219
Rabiah & Nassar Group	1,218,312	1,570,240
Pan Gulf Piping System	427,243	103,531
	5,613,488	4,496,990

B) Balances payable to related parties are as follows:

	March 31 2018 (Un-Audited)	December 31 2017 (Audited)
	SR	SR
TSM Tech. Company	2,077,534	2,077,534
Hu Steel Company Ltd.	-	159,799
	2,077,534	2,237,333

11. EARNING PER SHARE

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018

11. EARNING PER SHARE (Continued)

Earnings and losses per share are represented as follows:

	March 31 2018 (Un-Audited)	March 31 2017 (Un-Audited)
Basic (loss) / earnings per share	(0.10)	0.20
(Loss) / profit for the period	(5,035,227)	10,205,716
Weighted average number of outstanding shares	50,537,937	50,521,996
Diluted (loss) / earnings per share	(0.10)	0.20
(Loss) / profit for the period	(5,035,227)	10,205,716
Weighted average number of outstanding shares	51,000,000	51,000,000
Reconciliation of Weighted average number of outstanding shares		
Number of issued shares	51,000,000	51,000,000
<u>Less:</u> Treasury shares - shares kept for the employee share program	(762,812)	(762,812)
<u>Add:</u> Weighted average number of shares issued to employees	300,749	298,280
Number of outstanding shares	50,537,937	50,535,468
Weighted average number of outstanding shares	50,537,937	50,521,996

12. SUBSEQUENT EVENT

In the opinion of the management, there have been no significant subsequent events since the period end that would have a material impact on the financial position of the Group as reflected in these Condensed Consolidated Interim Financial Statements.

13. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the board of directors and authorized for issue on May 7, 2018.