




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

**THE CONDENSED CONSOLIDATED INTERIM**  
**FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED**  
**MARCH 31, 2019**



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

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019**

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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**

(1/2)

**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, 2019 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in shareholder's equity and cash flows for the three months' period then ended and a summary of significant accounting policies and other explanatory notes. 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. 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)**

(2/2)

**Emphasis of Matter**

Without qualifying our conclusion, we draw attention to note 2 to the accompanying condensed consolidated interim financial statements; where the accumulated losses of TSM Arabia (the subsidiary) as at March 31, 2019 have exceeded its share capital by SR 122.92 million. 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. Additionally, the subsidiary was in breach of its loan facilities financial covenants. The management of the subsidiary is in the process of taking the necessary remedial actions to resolve the breach including obtaining the required waiver documents. Accordingly, the loans are continued to be classified as per their original terms of payment.

Al Bassam & Co.  
Allied Accountants



**Ibrahim Ahmed Al Bassam**  
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Ramadan 4, 1440H  
May 9, 2019

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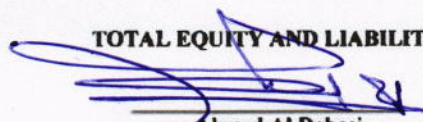
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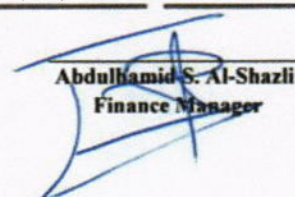
**SAUDI STEEL PIPES COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**  
**AS AT MARCH 31, 2019**

	Note	March 31, 2019 (Un-audited) SR	December 31, 2018 (Audited) SR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	613,582,556	615,671,975
Investments, net	5	99,545,574	96,481,720
Intangible assets		1,194,217	1,280,143
Trade and other receivables - non-current	6	9,942,083	10,380,361
		<u>724,264,430</u>	<u>723,814,199</u>
<b>Current assets</b>			
Inventories		185,580,546	202,145,086
Deposit with banks		3,000,000	3,000,000
Trade and other receivables	6	171,852,515	199,747,473
Cash and cash equivalents		5,380,142	23,499,467
		<u>365,813,203</u>	<u>428,392,026</u>
<b>TOTAL ASSETS</b>		<u>1,090,077,633</u>	<u>1,152,206,225</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		510,000,000	510,000,000
Share premium		131,306,055	131,306,055
Statutory reserve		58,494,224	58,494,224
Actuarial reserves		(2,061,237)	(2,061,237)
Accumulated losses		(126,469,085)	(126,793,725)
Treasury shares		(11,502,225)	(11,502,225)
		<u>559,767,732</u>	<u>559,443,092</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings – non-current	7.1	105,086,179	134,902,189
Employees' end of service benefits		59,430,549	58,325,525
Lease liability – non-current	8	6,966,997	83,762
Retention payables		633,713	633,713
		<u>172,117,438</u>	<u>193,945,189</u>
<b>Current liabilities</b>			
Trade and other payables	9	186,875,137	214,397,182
Borrowings – current	7.2	162,944,307	176,876,483
Lease liability – current	8	795,288	128,491
Zakat and income tax		7,577,731	7,415,788
		<u>358,192,463</u>	<u>398,817,944</u>
<b>TOTAL LIABILITIES</b>		<u>530,309,901</u>	<u>592,763,133</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>1,090,077,633</u>	<u>1,152,206,225</u>

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Armengol Lamazares  
Chief Executive Officer

  
Abdulhamid S. Al-Shazli  
Finance Manager



The accompanying notes 1 through 16 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, 2019**

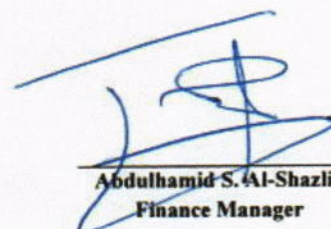
		March 31, 2019 (Un-audited) SR	March 31, 2018 (Un-audited) SR
Revenue	10	195,311,944	177,140,370
Cost of revenue	10	(182,784,217)	(160,345,298)
<b>Gross profit</b>		<b>12,527,727</b>	<b>16,795,072</b>
Selling, marketing and distribution expenses		(3,733,934)	(3,891,140)
Administrative expenses		(7,092,066)	(7,044,080)
Other income		278,222	927,907
Reversal / (allowance) for impairment of trade receivables	6	625,486	(241,605)
<b>Operating profit</b>		<b>2,605,435</b>	<b>6,546,154</b>
Share of profit / (loss) in associate	5	3,063,854	(8,207,812)
Financial charges		(5,182,706)	(2,551,039)
<b>Profit / (loss) before zakat and income tax</b>		<b>486,583</b>	<b>(4,212,697)</b>
Zakat and income tax		(161,943)	(822,530)
<b>Income / (loss) for the period</b>		<b>324,640</b>	<b>(5,035,227)</b>
Other comprehensive income		-	-
<b>Total comprehensive income / (loss)</b>		<b>324,640</b>	<b>(5,035,227)</b>
<b>Earnings / (loss) per share</b>			
Basic earnings / (loss) per share	12	0.01	(0.10)
Diluted earnings / (loss) per share	12	0.01	(0.10)



Ahmed Al Debasi  
Authorized Director



Mariano Armengol Lamazares  
Chief Executive Officer



Abdulhamid S. Al-Shazli  
Finance Manager

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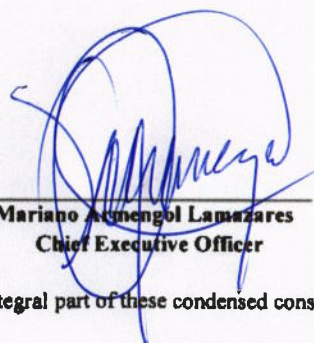
**SAUDI STEEL PIPES COMPANY**  
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**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHODLER' EQUITY  
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019**

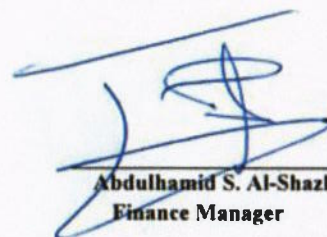
	Share capital	Share premium	Statutory reserve	Actuarial reserves	Accumulated losses	Treasury shares	Total equity
	SR	SR	SR	SR	SR	SR	SR
Balance as at January 1, 2018 (Audited)	510,000,000	218,828,409	58,494,224	(751,680)	(45,658,903)	(11,611,575)	729,300,475
Net loss for the period	-	-	-	-	(5,035,227)	-	(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
Balance as at January 1, 2019 (Audited)	510,000,000	131,306,055	58,494,224	(2,061,237)	(126,793,725)	(11,502,225)	559,443,092
Net income for the period	-	-	-	-	324,640	-	324,640
Balance as at March 31, 2019 (Un-audited)	510,000,000	131,306,055	58,494,224	(2,061,237)	(126,469,085)	(11,502,225)	559,767,732



Ahmed Al Debasi  
Authorized Director



Mariano Arceñbol Lamazares  
Chief Executive Officer



Abdulhamid S. Al-Shazli  
Finance Manager



The accompanying notes 1 through 16 form an integral part of these condensed consolidated interim financial statements.

SAUDI STEEL PIPES COMPANY  
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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

	March 31, 2019 (Un-audited) SR	March 31, 2018 (Un-audited) SR
<b>Cash flows from operating activities:</b>		
Profit / (loss) before zakat and income tax	486,583	(4,212,697)
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	11,023,091	12,153,636
Depreciation on right of use asset	187,671	-
Amortization of intangible assets	85,927	61,030
Capital work in progress write off	1,085,806	-
(Reversal) / Allowance for impairment of trade receivables	(625,486)	241,605
Provision for inventories	1,085,390	-
Group's share of (profit) / loss in associate	(3,063,854)	8,207,812
Director remuneration	607,282	635,750
Employees' end of service benefits	1,905,786	1,785,796
Finance cost	5,182,706	2,551,039
	17,960,902	21,423,971
<b>Movement in working capital</b>		
Inventories	15,479,150	(14,916,789)
Trade and other receivables	28,316,573	(11,636,200)
Trade and other payables	(28,049,429)	11,228,098
Due to / from related parties	(181,528)	(1,276,297)
<b>Cash generated from operations</b>	<b>33,525,668</b>	<b>4,822,783</b>
Employees' end of service benefits paid	(800,762)	(4,758,395)
Finance cost paid	(4,413,115)	(1,560,125)
<b>Net cash generated from / (used in) operating activities</b>	<b>28,311,791</b>	<b>(1,495,737)</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(1,891,952)	(9,079,190)
Proceeds from sale of property, plant and equipment	-	364
<b>Net cash used in investing activities</b>	<b>(1,891,952)</b>	<b>(9,078,826)</b>
<b>Cash flows from financing activities:</b>		
(Repayment of) / Proceeds from borrowings, net	(44,450,014)	5,948,114
Lease Liability paid	(89,150)	(35,048)
<b>Net cash (used in) / generated from financing activities</b>	<b>(44,539,164)</b>	<b>5,913,066</b>
<b>Net change in cash and cash equivalents</b>	<b>(18,119,325)</b>	<b>(4,661,497)</b>
Cash and cash equivalent at the beginning of the period	23,499,467	10,497,222
<b>Cash and cash equivalents at end of the period</b>	<b>5,380,142</b>	<b>5,835,725</b>
<b>Non-cash Transactions</b>		
Allowance for impairment of trade receivables charged to accumulated losses on adoption of IFRS 9	-	546,864
Transfer of capital work in progress to property plant and equipment	1,174,981	1,566,511
Amortization of finance cost	701,828	973,932
Accrued interest on lease liability	67,763	-
Transfer of due from related parties balances to trade receivables (Note 11)	7,078,836	-
Prepaid expenses adjusted against right of use	743,778	-

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Finance Manager

The accompanying notes 1 through 16 form an integral part of these condensed consolidated interim financial statements.



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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019**

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**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 interim financial statements as at March 31, 2019 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>2019</u>	<u>2018</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, 2019, the accumulated losses of TSM Arabia exceeded its share capital by SR 122.92 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 statements of the Group for the three months' period ended March 31, 2019 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, 2018 (“last annual Financial Statements”). These condensed consolidated interim financial statements 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, 2019**

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

**3.1 Statement of compliance** (Continued)

This is the first set of Condensed Consolidated Interim Financial Statements where IFRS 16 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 as at 31 December 2018.

Items included in the condensed consolidated interim financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The condensed consolidated interim 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 interim 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, 2019**

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

**3.3 Basis of Consolidation (Continued)**

When necessary, adjustments are made to the condensed consolidated interim 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 interim 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 to 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, 2019**

**IFRS 16– Leases**

This standard will replace IAS 17 – 'Leases', IFRIC 4 – IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' '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 has adopted this standard and the impact of the adoption of this new standard and its related new accounting policies are disclosed in note 3.6.

**Other Amendments**

There are no other new standards issued, however, there are number of amendments to standards which are effective from 1 January 2019, but they do not have a material effect on the Group's Condensed Consolidated Interim Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

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

**3.5 Standards issued but not yet effective**

The following new accounting standard, interpretations and amendments to existing standards have been published and are mandatory for the accounting period beginning on January 01, 2020 or later. The Group has not early adopted them.

**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, 2022.

**Other Amendments**

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

**i- The definition of materiality (Amendments to IAS 1 and IAS 8)**

Definition of Material has been issued to clarify the definition of ‘material’ and to align the definition used in the Conceptual Framework and the standards themselves. It is clarified that the information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Effective for annual periods beginning on or after 1 January 2020

**ii- The definition of a business (Amendments to IFRS 3)**

Definition of a Business has been amended aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. It is clarified that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;

Effective for annual periods beginning on or after 1 January 2020

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 Changes in significant accounting policies**

**3.6.1 Adoption of IFRS 16 Leases**

The Group applied IFRS 16 with a date of initial application of January 1, 2019, using the modified simplified transition approach as permitted under the specific transition provision in the standard. As a result, comparatives have not been restated.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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3. BASIS OF PREPARATION (Continued)

3.6 Changes in significant accounting policies (Continued)

3.6.1 Adoption of IFRS 16 Leases (Continued)

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Group has changed its accounting policy for lease contracts as detailed below:

3.6.1 (A) Recognition, classification and measurement of Right-of-use and Liabilities

Under IFRS 16, the Group has recognized Right-of-use and lease liabilities for all of its operating lease contracts with a lease term of more than one year.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. Incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to condensed consolidated interim statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis and expense is classified under "Cost of revenue".

3.6.1 (B) Impact of changes in accounting policies due to adoption of IFRS 16

The key changes to the Group's financial statements resulting from its adoption of IFRS 16 are summarized below:

**Impact on Statement of Financial Position**

	SR
<b>(i) <u>Right of use asset and lease liability</u></b>	
Operating lease commitments as at 31 December 2018 (Future lease payments)	9,039,944
Discount using the lessee's incremental borrowing rate	(1,468,525)
<b>Lease liabilities recognized as at January 1, 2019 (Discounted lease payments)</b>	<b>7,571,419</b>
Add: adjustments relating to prepaid expenses as at December 31, 2018	743,778
<b>Right of use asset recognized as at January 1, 2019</b>	<b>8,315,197</b>
<b>(ii) <u>Classification of lease liability as at January 1, 2019</u></b>	
	SR
<b>Current lease liabilities</b>	624,063
<b>Non-current liabilities</b>	
One to five year	2,712,462
More than five year	4,234,894
	6,947,356
<b>Total lease liability as at January 1, 2019</b>	<b>7,571,419</b>

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**4. PROPERTY, PLANT AND EQUIPMENT**

**Carrying amounts of:**

		March 31, 2019 (Un-audited)	December 31, 2018 (Audited)
	Note	SR	SR
Operating fixed assets	4.1	598,776,965	608,393,446
Capital work-in-progress	4.3	6,678,065	7,278,529
Right of use	4.4	8,127,526	-
		<u>613,582,556</u>	<u>615,671,975</u>

**4.1 Operating fixed assets**

		March 31, 2019 (Un-audited)	December 31, 2018 (Audited)
	Note	SR	SR
Net book value at beginning of period / year		608,393,446	693,779,964
Additions during the period / year	4.2	231,629	2,557,723
Transferred from CWIP	4.2, 4.3	1,174,981	32,768,875
Impairment for property, plant and equipment		-	(72,988,419)
Write offs		-	(283,754)
Disposals, net		-	(111,820)
Depreciation charge during the period / year		(11,023,091)	(47,329,123)
Net book value at the end of the period / year		<u>598,776,965</u>	<u>608,393,446</u>

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

	March 31, 2019 (Un-audited)	December 31, 2018 (Audited)
	SR	SR
Building and structures	-	5,121,126
Machinery and equipment	542,429	28,247,446
Vehicles	-	127,800
Furniture & fixture	9,200	143,500
Office and electrical equipment	854,981	1,686,729
Leasehold asset	-	-
	<u>1,406,610</u>	<u>35,326,601</u>

**4.3 Capital work-in-progress**

	March 31, 2019 (Un-audited)	December 31, 2018 (Audited)
	SR	SR
Net book value at beginning of period / year	7,278,529	11,503,396
Additions during the period / year	1,660,323	29,491,268
Write off	(1,085,806)	-
Transferred to operating fixed assets	(1,174,981)	(32,768,875)
Transferred to intangible assets	-	(947,260)
Net book value at the end of the period / year	<u>6,678,065</u>	<u>7,278,529</u>

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4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.4 Right of use

Movement in right of use is as follows:

	March 31, 2019
	<u>(Un-audited)</u>
	SR
Opening balance	-
Impact of adoption of IFRS 16 (Note 3.6.1 (B))	8,315,197
Opening balance (Restated)	<u>8,315,197</u>
Depreciation for the period	<u>(187,671)</u>
Balance as at March 31, 2019	<u><u>8,127,526</u></u>

Depreciation for the period has been charged to cost of revenue.

5. INVESTMENTS

5.1 Investments are classified as follows:

	Note	March 31, 2019	December 31, 2018
		<u>(Un-audited)</u>	<u>(Audited)</u>
		SR	SR
Investment in associate, net	5.2	<u>99,545,574</u>	<u>96,481,720</u>
		<u><u>99,545,574</u></u>	<u><u>96,481,720</u></u>

5.2 Investment in associate, net

Movement for investment in associate is as follows:

	March 31, 2019	December 31, 2018
	<u>(Un-audited)</u>	<u>(Audited)</u>
	SR	SR
<b>Global Pipe Company ("GPC")</b>		
Opening value of investment	96,481,720	96,727,317
Share of net income / (loss) for the period / year	<u>3,063,854</u>	<u>(245,597)</u>
	<u><u>99,545,574</u></u>	<u><u>96,481,720</u></u>
<b>Investment in associate represents the following:</b>		
Cost of acquisition (Including loan contribution)	88,750,000	88,750,000
Share of accumulated earnings (opening balance)	7,731,720	7,977,317
Share of net income / (loss) for the period / year	<u>3,063,854</u>	<u>(245,597)</u>
Net investment value	<u><u>99,545,574</u></u>	<u><u>96,481,720</u></u>

**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%.

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5. INVESTMENTS (Continued)

5.2 Investment in associate, net (Continued)

Global Pipe Company ("GPC")

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

Investment at fair value through profit or loss represented the Group share of 20% share in Chemical Development Company Limited (CDC), a holding company whose purpose is to develop strategic industrial projects. Investment was having a carrying value of 66.6 million before impairing it in 2016 and based on an impairment study, SR 43 million of this investment was impaired and adjusted against the consolidated statement of profit or loss for the year ended December 31, 2016. During 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 4<sup>th</sup> 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.

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.

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise of the following:

	Note	March 31, 2019 (Un-audited) SR	December 31, 2017 (Audited) SR
Trade receivables		134,875,063	115,822,224
Revenue recognized in excess of billings		15,854,276	61,295,646
Allowance for Impairment for trade receivables		(6,068,462)	(6,704,798)
Trade receivables, net		<u>144,660,877</u>	<u>170,413,072</u>
Due from related parties	11 A	-	6,977,207
Prepayments and advances to suppliers		20,899,212	13,027,528
Value added tax		27,556	1,669,207
Employee loans		15,709,248	17,413,192
Other receivables		497,705	627,628
		<u>181,794,598</u>	<u>210,127,834</u>
Less: non-current portion of employee loans		<u>(9,942,083)</u>	<u>(10,380,361)</u>
Total current portion, net		<u>171,852,515</u>	<u>199,747,473</u>



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**6. TRADE AND OTHER RECEIVABLES (Continued)**

Movement in the allowance for impairment is as follows:

	<b>March 31, 2019 (Un-audited)</b>	December 31, 2018 (Audited)
Opening balance	6,704,798	4,255,184
(Reversal) / allowance for the period / year	(625,486)	2,453,398
Bad debts written off	(10,850)	(3,784)
Closing balance	<b>6,068,462</b>	<b>6,704,798</b>

**7. BORROWINGS**

7.1 The detail of non-current borrowings as at period / year end is as follows:

	<b>March 31, 2019 (Un-audited)</b>	December 31, 2018 (Audited)
	SR	SR
Saudi Industrial Development Fund ("SIDF") loans	<b>143,449,825</b>	142,497,307
Long term Murabaha loans	-	30,152,533
Total Long term loans	<b>143,449,825</b>	172,649,840
Current portion of SIDF loans	<b>(38,363,646)</b>	(37,747,651)
	<b>105,086,179</b>	<b>134,902,189</b>

7.2 The detail of current borrowings as at period / year end is as follows:

	<b>March 31, 2019 (Un-audited)</b>	December 31, 2018 (Audited)
	SR	SR
Overdraft	-	5,434,230
Short term Murabaha loans	<b>124,580,661</b>	133,694,602
Total short term loans	<b>124,580,661</b>	139,128,832
Current portion of SIDF loans	<b>38,363,646</b>	37,747,651
	<b>162,944,307</b>	<b>176,876,483</b>

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	112,722,700	Long-term	7	Semi-annual	April 2018 to March 2022	Follow-up cost every 6 month
SIDF – II	30,727,125	Long-term	7	Semi-annual	July 2017 to July 2022	Follow-up cost every 6 month
<b>Total SIDF</b>	<b>143,449,825</b>					
Murabaha Loan	124,580,661	Short-term	-	From 3 to 6 months	-	SIBOR+1.25% to 2.50%
<b>Total Borrowings</b>	<b>268,030,486</b>					

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8. LEASE LIABILITY

Movement in lease liability is as follows:

	March 31, 2019 (Un-audited)		
	Vehicle SR	Leasehold land SR	Total SR
Balance as at January 1, 2019	212,253	-	212,253
Impact of adaption of IFRS 16 (Note 3.6.1 (B))	-	7,571,419	7,571,419
Balance as at January 1, 2019	212,253	7,571,419	7,783,672
Interest accrued during the period	5,589	62,174	67,763
Installments paid during the period	(5,150)	(84,000)	(89,150)
<b>Lease liability recognized as at March 31, 2019</b>	<b>212,692</b>	<b>7,549,593</b>	<b>7,762,285</b>
<b>Of which are</b>			
Current lease liabilities	166,062	629,226	795,288
Non-current lease liabilities	46,630	6,920,367	6,966,997
	<b>212,692</b>	<b>7,549,593</b>	<b>7,762,285</b>

9. TRADE AND OTHER PAYABLES

Trade and other payables comprise of the following:

		March 31, 2019 (Un-audited) SR	December 31, 2018 (Audited) SR
Trade payables		130,777,076	152,278,755
Due to a related party	11 (B)	79,899	159,799
Warranty provision		1,517,500	1,517,500
Provision for liability against guarantee to an investee company	9.1	30,000,000	30,000,000
Accrued expenses		14,670,352	19,494,562
Other liabilities		9,830,310	10,946,566
		<b>186,875,137</b>	<b>214,397,182</b>

9.1 Management had provided a corporate guarantee to one of its investee companies in the past. Investment in this Company has been fully impaired in previous years due to the Company's inactive status and its future viability in light of the existing circumstances at the date of impairment, where investment was deemed to be unrecoverable. Shareholders of the investee has decided in the previous year not to support the company and accordingly, assessed various options in this regard. In year 2018, based on these circumstances and the existing status of the Company, the Group's Board of Directors accordingly considered the whole guarantee balance amounting to SR 30 million to be a liability on the Group and hence was adjusted to the Group's consolidated statement of profit or loss and other comprehensive income in the previous year.

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**10. SEGMENTAL REPORTING**

The accounting policies used by the Group in reporting segments internally are the same as explained in annual financial statements for the period ended March 31, 2019.

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

<b>As at March 31, 2019 (Un-audited)</b>	<b>Steel pipes</b>	<b>Process equipment</b>	<b>Total</b>
	SR	SR	SR
Non-current assets	703,640,901	20,623,529	724,264,430
Total Assets	989,475,499	100,602,134	1,090,077,633
Total liabilities	416,999,070	113,310,831	530,309,901
Revenue	176,755,172	18,556,772	195,311,944
Cost of revenue	(163,558,786)	(19,225,431)	(182,784,217)
Income / (loss) for the period	5,328,320	(5,003,680)	324,640
Share of profit in associate	3,063,854	-	3,063,854

<b>As at March 31, 2018 (Un-audited)</b>	<b>Steel pipes</b>	<b>Process Equipment</b>	<b>Total</b>
	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)

**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, 2019 and March 31, 2018, categorized by these geographic segments is as follows:

	<b>March 31, 2019 (Un-audited)</b>	<b>March 31, 2018 (Un-audited)</b>
	SR	SR
Saudi Arabia	188,732,711	167,972,149
Other countries	6,579,233	9,168,221
	<b>195,311,944</b>	<b>177,140,370</b>

**TRANSACTIONS WITH A MAJOR CUSTOMER**

Revenue from one major customer accounted for 57.36% of the total revenue for the period. (50.74% for period ended March 31, 2018).

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**11. RELATED PARTIES' TRANSACTIONS AND BALANCES**

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

<u>Company</u>	<u>Relationship</u>
Rabiah & Nassar Group	Former shareholder
Saudi Pan Gulf	Former shareholder
Hu Steel Co., Ltd.	Shareholder
Chemical Development Company	Affiliate
Tenaris Saudi Arabia Co. Ltd ("TESA") and its affiliates	Shareholder / affiliate

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

<u>Related party</u>	<u>Nature of transaction</u>	<b>Three months period ended March 31, 2019 (Un-audited)</b> SR	<b>Three months period ended March 31, 2018 (Un-audited)</b> SR
Rabiah & Nassar Group	Sales	190,604	581,110
Saudi Pan Gulf	Sales	850,422	3,449,285
Hu Steel Company Ltd.	Service rendered	79,899	-
Silco Tube S.A (TESA affiliate)	Purchases	1,260,000	-

A) Balances receivable from related parties are as follows:

	<b>March 31, 2019 (Un-audited)</b> SR	<b>December 31, 2018 (Audited)</b> SR
Saudi Pan Gulf	-	5,808,133
Rabiah & Nassar Group	-	1,169,074
	<b>-</b>	<b>6,977,207</b>

B) Balances payable to a related party is as follows:

	<b>March 31 2019 (Un-audited)</b> SR	<b>December 31 2018 (Audited)</b> SR
Hu Steel Company Ltd.	79,899	159,799
	<b>79,899</b>	<b>159,799</b>

The transactions with related parties Rabiah & Nissar Group and Saudi Pan gulf represents transactions up to January 21, 2019 (The date of change in ownership/directorship, refer to Note 13) and the receivable balances from these former related parties at the same date had been classed to trade receivables.

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12. EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) 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 / (loss) per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, which includes issuance of Employee Share Option Program (ESOP) and conversion of treasury shares into ordinary shares.

Earnings / (loss) per share are represented as follows:

	March 31 2019 (Un-audited)	March 31 2018 (Un-audited)
<b>Basic earnings / (loss) per share</b>	<b>0.01</b>	<b>(0.10)</b>
Income / (loss) for the period	324,640	(5,035,227)
Weighted average number of outstanding shares	50,546,685	50,537,937
<b>Diluted earnings / (loss) per share</b>	<b>0.01</b>	<b>(0.10)</b>
Income / (loss) for the period	324,640	(5,035,227)
Weighted average number of outstanding shares	51,000,000	51,000,000
<b>Reconciliation of Weighted average number of outstanding shares</b>		
Number of issued shares	51,000,000	51,000,000
Less: Treasury shares - shares kept for the employee share program	(762,812)	(762,812)
Add: Weighted average number of shares issued to employees	309,497	300,749
<b>Number of outstanding shares</b>	<b>50,546,685</b>	<b>50,537,937</b>
<b>Weighted average number of outstanding shares</b>	<b>50,546,685</b>	<b>50,537,937</b>

13. SIGNIFICANT EVENT

During year 2018, a group of shareholders of the Group have entered into a non-binding memorandum of understanding (the MOU) with a strategic investor to consider the possibility of an acquisition of shares by the strategic investor from this group of shareholders. The transaction was to involve the purchase of 45% to 49% of the share capital of the Group by the strategic investor.

On September 25, 2018, Saudi Steel Pipe Company (the Company) was informed that Rabiah & Nassar Group and a group of minority shareholders have entered into a share sale and purchase agreement with Tenaris Saudi Arabia Co. Ltd. (Tenaris) a wholly owned subsidiary of Tenaris S.A., a company organized under the laws of the Grand-Duchy of Luxembourg, for the sale of 24,374,513 shares in the Company to Tenaris, which represents 47.79% of the share capital of the Company at a price of SAR 22.20 per share ("the SPA").

This transaction completed on January 21, 2019 after obtaining the relevant regulatory approvals and the satisfaction of other conditions in accordance with the SPA.

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**14. SUBSEQUENT EVENT**

As at December 31, 2018, the accumulated losses of the Group had reached to SR 126.8 million. In meeting of board of directors dated March 17, 2019, the board member unanimously approved to absorb the whole amount of these accumulated loss as at December 31, 2018 by transferring the same amount from share premium to accumulated losses.

Subsequent to period ended March 31, 2019, the shareholder of the Group in their Ordinary General Assembly Meeting held at May 7, 2019 approved the recommendation of the Board of Directors to absorb the accumulated losses from the share premium.

In the opinion of the management, other than subsequent event mentioned above, 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.

**15. PRIOR YEAR RECLASIFICATIONS**

Certain comparative figures for year 2018 have been reclassified to conform with the presentation in the current period.

**16. 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 9, 2019.