

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

**CONDENSED CONSOLIDATED INTERIM**  
**FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE THREE MONTHS PERIOD AND YEAR ENDED**  
**DECEMBER 31, 2018**

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

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD AND YEAR ENDED DECEMBER 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 December 31, 2018 and the related condensed consolidated interim statement of profit or loss and other comprehensive income for the three months period and year then ended and condensed consolidated interim statements of changes in equity and cash flows for the year 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)**

**Emphasis of Matters**

Without qualifying our conclusion, we draw attention to the following;

- 1- Note 2 to the accompanying condensed consolidated interim financial statements; where the accumulated losses of TSM Arabia (the subsidiary) as at December 31, 2018 have exceeded its share capital by SR 115.92 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.
- 2- Note 2 and Note 4.4 (b) to the accompanying condensed consolidated interim financial statements; where management has considered the continuous losses of TSM Arabia (the subsidiary) as an indication of impairment for its assets. Accordingly, management has appointed an independent consultant for conducting an impairment study for the subsidiary. This study has resulted in an impairment of an amount of SR 51.99 million which has been charged to the Group's condensed consolidated interim statement of profit or loss and other comprehensive income in the current period. The impairment study was based on various assumptions made by management on the outcome of future events, including significant increase in utilization, growth and revenues. The achievement of the results included in the study is highly dependent on the realization of these assumptions. Management is confident that these assumptions will be realized in the future.

Al Bassam & Co.  
Allied Accountants

**Ibrahim Ahmed Al Bassam**  
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January 21, 2019



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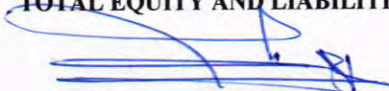
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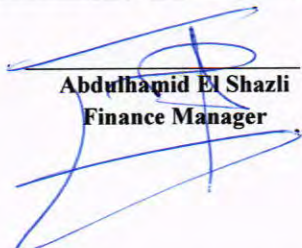
SAUDI STEEL PIPES COMPANY  
(A SAUDI JOINT STOCK COMPANY)

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

	Note	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	615,671,975	705,283,360
Intangible assets		1,280,143	566,311
Investment in an associate	5.2	96,481,720	96,727,317
Trade and other receivables - non-current	6	10,380,361	10,905,083
		<u>723,814,199</u>	<u>813,482,071</u>
<b>Current assets</b>			
Inventories		204,145,086	185,743,446
Deposit with banks		3,000,000	3,000,000
Trade and other receivables	6	199,747,473	202,828,418
Cash and cash equivalents		23,499,467	10,497,222
		<u>430,392,026</u>	<u>402,069,086</u>
<b>TOTAL ASSETS</b>		<u><b>1,154,206,225</b></u>	<u><b>1,215,551,157</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		510,000,000	510,000,000
Share premium	12.2	131,306,055	218,828,409
Statutory reserve		58,494,224	58,494,224
Actuarial reserves		(2,061,237)	(751,680)
Accumulated losses		(124,793,725)	(45,112,039)
Treasury shares		(11,502,225)	(11,611,575)
		<u>561,443,092</u>	<u>729,847,339</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings – non-current	7	104,749,656	119,627,844
Employees' end of service benefits		58,325,525	56,887,723
Finance lease liability – non-current		83,762	155,698
Retention payables		633,713	633,713
		<u>163,792,656</u>	<u>177,304,978</u>
<b>Current liabilities</b>			
Trade and other payables	8	214,397,182	161,086,340
Borrowings – current	7	207,029,016	139,148,716
Finance lease liability – current		128,491	69,802
Zakat and income tax		7,415,788	8,093,982
		<u>428,970,477</u>	<u>308,398,840</u>
<b>TOTAL LIABILITIES</b>		<u><b>592,763,133</b></u>	<u><b>485,703,818</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>1,154,206,225</b></u>	<u><b>1,215,551,157</b></u>

  
Ahmed Al Debasi  
Authorized Director

  
Mohamed Abdulaziz Al-Shaheen  
Chief Executive Officer

  
Abdulhaqid El Shazli  
Finance Manager

The accompanying notes 1 through 14 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 AND YEAR ENDED DECEMBER 31, 2018**

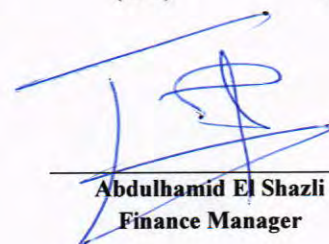
	Note	Three Months Period Ended		Year Ended	
		December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
		(Un-audited) SR	(Un-audited) SR	(Un-audited) SR	(Audited) SR
Revenue	9	186,292,246	211,749,756	646,201,904	696,421,393
Cost of revenue	9	(190,906,013)	(182,812,426)	(646,272,908)	(602,977,060)
<b>Gross (loss) / profit</b>		<b>(4,613,767)</b>	<b>28,937,330</b>	<b>(71,004)</b>	<b>93,444,333</b>
Selling, marketing and distribution Expenses		(4,754,459)	(4,000,970)	(17,039,279)	(15,506,560)
Administrative expenses		(7,587,347)	(7,716,077)	(29,860,272)	(27,581,265)
Allowance for impairment of trade receivables		(2,000,000)	(1,000,000)	(2,453,398)	(3,051,908)
Other (expenses) / income, net		(91,889)	(563,541)	364,521	(1,836,414)
<b>Operating (loss) / profit</b>		<b>(19,047,462)</b>	<b>15,656,742</b>	<b>(49,059,432)</b>	<b>45,468,186</b>
Share of profit / (loss) in an Associate		5,290,639	3,136,197	(245,597)	11,318,040
Impairment for property, plant and equipment	4.4 (b)	(51,988,419)	-	(72,988,419)	-
Provision against guarantee provided to an investee Company	8.1	(30,000,000)	-	(30,000,000)	-
Impairment of investment available for sale		-	-	-	(23,620,819)
Financial charges		(4,410,417)	(2,499,340)	(12,074,033)	(9,672,633)
<b>(Loss) / profit before zakat and income tax</b>		<b>(100,155,659)</b>	<b>16,293,599</b>	<b>(164,367,481)</b>	<b>23,492,774</b>
Zakat and income tax		(489,000)	(641,671)	(2,289,695)	(4,400,792)
<b>(Loss) / profit for the period / year</b>		<b>(100,644,659)</b>	<b>15,651,928</b>	<b>(166,657,176)</b>	<b>19,091,982</b>
Other comprehensive loss		(1,309,557)	(1,034,080)	(1,309,557)	(1,034,080)
<b>Total comprehensive (loss) / income, Net</b>		<b>(101,954,216)</b>	<b>14,617,848</b>	<b>(167,966,733)</b>	<b>18,057,902</b>
<b>(Loss) / earnings per share :</b>					
Basic (loss) / earnings per share	11	(1.99)	0.31	(3.30)	0.38
Diluted (loss) / earnings per share	11	(1.97)	0.31	(3.27)	0.37



**Ahmed Al Debasi**  
Authorized Director



**Mohamed Abdulaziz Al-Shaheen**  
Chief Executive Officer



**Abdulhamid El Shazli**  
Finance Manager


The accompanying notes 1 through 14 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 CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 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
Profit for the year	-	-	-	-	19,091,982	-	19,091,982
Other comprehensive loss for the year	-	-	-	(1,034,080)	-	-	(1,034,080)
Share issued to employees	-	-	-	-	-	398,525	398,525
Balance as at December 31, 2017 –(Audited)	<u>510,000,000</u>	<u>218,828,409</u>	<u>58,494,224</u>	<u>(751,680)</u>	<u>(45,112,039)</u>	<u>(11,611,575)</u>	<u>729,847,339</u>
Balance as at January 1, 2018 (Audited)	<b>510,000,000</b>	<b>218,828,409</b>	<b>58,494,224</b>	<b>(751,680)</b>	<b>(45,112,039)</b>	<b>(11,611,575)</b>	<b>729,847,339</b>
Adjustment on adoption of IFRS 9 (Note 3.6.1 B)	-	-	-	-	<b>(546,864)</b>	-	<b>(546,864)</b>
Balance as at January 1, 2018 (Restated)	<b>510,000,000</b>	<b>218,828,409</b>	<b>58,494,224</b>	<b>(751,680)</b>	<b>(45,658,903)</b>	<b>(11,611,575)</b>	<b>729,300,475</b>
Net loss for the year	-	-	-	-	<b>(166,657,176)</b>	-	<b>(166,657,176)</b>
Other comprehensive loss for the year	-	-	-	<b>(1,309,557)</b>	-	-	<b>(1,309,557)</b>
Absorption of accumulated losses against share premium (Note 12.2)	-	<b>(87,522,354)</b>	-	-	<b>87,522,354</b>	-	-
Share issued to employees	-	-	-	-	-	<b>109,350</b>	<b>109,350</b>
Balance as at December 31, 2018 (Un-audited)	<u><b>510,000,000</b></u>	<u><b>131,306,055</b></u>	<u><b>58,494,224</b></u>	<u><b>(2,061,237)</b></u>	<u><b>(124,793,725)</b></u>	<u><b>(11,502,225)</b></u>	<u><b>561,443,092</b></u>

  
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Authorized Director

  
**Mohamed Abdulaziz Al-Shaheen**  
Chief Executive Officer

  
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Finance Manager



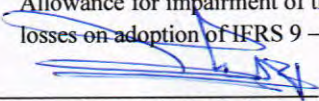
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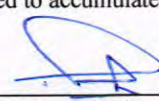



**SAUDI STEEL PIPES COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
<b><u>Cash flows from operating activities:</u></b>		
(Loss) / profit before zakat and income tax	(164,367,481)	23,492,774
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	47,329,127	41,682,234
Amortization of intangible assets	233,427	500,037
Loss / (gain) on disposal of property, plant and equipment, net	82,006	(37,600)
Property, plant and equipment – written off	283,754	100,334
Impairment on property, plant and equipment	72,988,419	-
Provision against guarantee provided to an investee Company	30,000,000	-
Impairment on investment available for sale	-	23,620,819
Directors' remuneration	2,029,146	1,040,000
Allowance for slow moving inventory	12,304,298	4,500,000
Provision for warranty	(900,620)	-
Allowance for impairment of trade receivables	2,453,398	3,051,908
Finance cost	12,074,033	9,672,633
Share of loss / (profit) in associate	245,597	(11,318,040)
Employees' end of service benefits	7,150,124	6,839,483
<b>Movement in working capital</b>		
Inventories	(30,705,938)	23,319,716
Trade and other receivables	2,870,622	(76,769,100)
Deposit with banks	-	10,000,000
Trade and other payables	21,826,419	21,455,175
Due to / from related parties	(2,343,521)	(891,220)
<b>Cash generated from operations</b>	13,552,810	80,259,153
Finance cost paid	(9,272,593)	(8,730,294)
Zakat and income tax paid	(2,967,889)	(3,577,281)
Employees' end of service benefits paid	(7,021,879)	(2,859,482)
<b>Net cash (used in) / generated from operating activities</b>	(5,709,551)	65,092,096
<b><u>Cash flows from investing activities:</u></b>		
Additions to property, plant and equipment	(32,048,993)	(19,325,571)
Proceeds from sale of property, plant and equipment	29,813	44,350
<b>Net cash used in investing activities</b>	(32,019,180)	(19,281,221)
<b><u>Cash flows from financing activities:</u></b>		
Proceeds from / (repayment of) borrowings, net	50,730,976	(52,636,171)
<b>Net cash generated from / (used in) financing activities</b>	50,730,976	(52,636,171)
<b>Net change in cash and cash equivalents</b>	13,002,245	(6,825,296)
Cash and cash equivalent at the beginning of the year	10,497,222	17,322,518
<b>Cash and cash equivalents at the end of the year</b>	23,499,467	10,497,222
<b><u>Major Non-cash transactions:</u></b>		
Absorption of accumulated losses against share premium	87,522,354	-
Transfer of capital work in progress to property, plant and equipment	32,768,876	198,210,667
Transfer of capital work in progress to intangible assets	947,259	322,319
Un-winding of advance management fee – SIDF	2,257,889	2,412,920
Allowance for impairment of trade receivables charged to accumulated losses on adoption of IFRS 9 – (note: 3.6.1 B)	546,864	-

  
**Ahmed Al Debasi**  
Authorized Director

  
**Mohamed Abdulaziz Al-Shaheen**  
Chief Executive Officer

  
**Abdulhamid El Shazli**  
Finance Manager

The accompanying notes 1 through 14 form an integral part of these condensed consolidated interim financial statements.



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

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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 Rajab 27, 1400H (corresponding to June 10, 1980G). On Rajab 4, 1430 H (corresponding to June 27, 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 December 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 Safar 4, 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. The legal formalities associated with the acquisition were completed and the articles of association of the subsidiary were amended accordingly.

As of December 31, 2018, the accumulated losses of TSM Arabia have exceeded its share capital by SR 115.92 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.

**3. BASIS OF PREPARATION**

**3.1 Statement of compliance**

These condensed consolidated interim financial statements of the Group for the three months and year ended December 31, 2018 has been prepared in accordance with the requirements of International Accounting Standard 34 - “Interim Financial Reporting” as endorsed in Saudi Arabia 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”). These financial statements 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 AND YEAR ENDED DECEMBER 31, 2018**

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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 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 AND YEAR ENDED DECEMBER 31, 2018**

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

**3.3 Basis of Consolidation** (Continued)

When necessary, adjustments are made to the 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 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 adopted in January 1, 2018**

IFRS 9 and IFRS 15

IFRS 9 & IFRS 15 became applicable for the current reporting year 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.

Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)

IFRS 1- deletes some short term exemptions and IAS 28 clarifies the criteria for election to measure at fair value through profit or loss an investment in an associate or a joint venture, that is held by an entity that is a venture capital organization, or other qualifying entity.

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**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 year 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, 2022.

**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.

These amendments will be applicable annual periods beginning on or after January 1, 2019.



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**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 year of initial application.

**3.6 Change in accounting policy**

**3.6.1 Adoption 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 accumulated losses and the opening balance of the financial assets and liabilities of the current year.

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 classifies its financial assets generally based on the business model in which a financial asset is managed and its contractual cash flows.

*(i) Financial assets 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.

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

**3.6 Change in accounting policy** (Continued)

**3.6.1 Adoption 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 assets 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 irrevocably 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.



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

**3.6 Change in accounting policy** (Continued)

**3.6.1 Adoption of IFRS 9 financial instruments** (Continued)

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

(iii) *Financial assets 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 January 1, 2018 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  
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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 adjust- ment	After adopting IFRS 9	
		Class	Amount SR		Class	Amount SR
<b>Financial assets</b>						
Trade receivables, net	3.6.1B	Loans and receivables	170,623,222	(546,864)	Amortized cost	170,076,358
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	-
			<b>208,328,284</b>	<b>(546,864)</b>		<b>207,781,420</b>
<b>Financial liabilities</b>						
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		Borrowings	514,824	-	Amortized cost	514,824
Lease liability		Borrowings	225,500	-	Amortized cost	225,500
Short term borrowings		Loans and Borrowings	94,765,641	-	Amortized cost	94,765,641
Long term finance		Borrowings	164,010,919	-	Amortized cost	164,010,919
			<b>413,016,928</b>	<b>-</b>		<b>413,016,928</b>

i) Impact on accumulated losses

	Amount SR
Closing balance under IAS 39 (December 31, 2017)	(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

	Amount SR
Closing balance under IAS 39 (December 31, 2017)	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

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

**3.6 Change in accounting policy** (Continued)

**3.6.2 IFRS 15 – Revenue from Contract with Customers**

FRS 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 Program”, 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. January 1, 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 is transferred to the customer generally on delivery of pipes and considering 5-step approach mentioned previously.

For 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 the Company has a 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 manufactured material 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 the Company has a right to payment during the process.

Warranty:

The Group generally provides warranties for both steel pipes and process equipments 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.

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4. PROPERTY, PLANT AND EQUIPMENT

Carrying amounts of:

	Note	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
Operating fixed assets	4.1	608,393,446	693,779,964
Capital work-in-progress	4.3	7,278,529	11,503,396
		<b>615,671,975</b>	<b>705,283,360</b>

4.1 Operating fixed assets

	Note	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
Net book value at beginning of year		693,779,964	535,472,848
Additions during the year	4.2	2,557,725	1,885,767
Transferred from CWIP	4.2, 4.3	32,768,876	198,210,667
Impairment for property, plant and equipment	4.4	(72,988,419)	-
Write offs		(283,754)	(100,334)
Disposals, net		(111,819)	(6,750)
Depreciation charge during the year		(47,329,127)	(41,682,234)
Net book value at the end of the year		<b>608,393,446</b>	<b>693,779,964</b>

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

	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
Building and structures	5,121,126	55,866,202
Machinery and equipment	28,247,446	139,711,692
Vehicles	127,800	-
Furniture & fixture	143,500	73,571
Office and electrical equipment	1,686,729	4,219,469
Leasehold asset	-	225,500
	<b>35,326,601</b>	<b>200,096,434</b>

4.3 Capital work-in-progress

	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
Net book value at beginning of year	11,503,396	191,442,674
Additions during the year, net	29,491,268	18,593,708
Transferred to operating fixed assets	(32,768,876)	(198,210,667)
Transferred to intangible assets	(947,259)	(322,319)
Net book value at the end of the year	<b>7,278,529</b>	<b>11,503,396</b>



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**4. PROPERTY, PLANT AND EQUIPMENT** (Continued)

**4.4 Impairment for property, plant and equipment**

	<u>Note</u>	<b>December 31, 2018 (Un-audited) SR</b>	December 31, 2017 (Audited) SR
Impairment of bending factory	(a)	<b>21,000,000</b>	-
Impairment of processing segment of the Group	(b)	<b>51,988,419</b>	-
		<b>72,988,419</b>	-

- (a) During the year, the Group management hired an independent third party to undertake an impairment assessment of its bending division with total property, plant and equipment at that time of SR 59.4 million. Based on the results of the impairment study, the Board of Directors has decided to impair property, plant and equipment of this division by an amount of SR 21 million.
- (b) As stated in Note 2 to the condensed consolidated interim financial statements; management has considered the continuous losses of TSM Arabia (the subsidiary) as an indication of impairment for its assets. Accordingly, management has appointed an independent consultant for conducting an impairment study for the subsidiary. This study has resulted in an impairment of an amount of SR 51.99 million, which has been charged to the Group's condensed consolidated interim statement of profit or loss and other comprehensive income in the current period.

**5. INVESTMENTS**

**5.1 Investments are classified as follows:**

	<u>Note</u>	<b>December 31, 2018 (Un-audited) SR</b>	December 31, 2017 (Audited) SR
Investment in an associate	5.2	<b>96,481,720</b>	96,727,317
Investment at fair value through profit or loss	5.3	-	-
		<b>96,481,720</b>	96,727,317

**5.2 Investment in an associate**

Movement for investment in associate is as follows:

	<b>December 31, 2018 (Un-audited) SR</b>	December 31, 2017 (Audited) SR
<b>Global Pipe Company</b>		
Cost of acquisition	<b>45,000,000</b>	45,000,000
Loan contribution (transferred to capital)	<b>43,750,000</b>	43,750,000
Share of accumulated gain / (losses) (opening balance)	<b>7,977,317</b>	(3,340,723)
Share of net income for the year	<b>(245,597)</b>	11,318,040
Investment value	<b>96,481,720</b>	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 was SR 125 million of which, Saudi Steel Pipes owns 35%.

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**5. INVESTMENTS (Continued)**

**5.2 Investment in an associate (Continued)**

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 May 8, 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 company has 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:

	<b>December 31, 2018 (Un-Audited) SR</b>	December 31, 2017 (Audited) SR
<b>Chemical Development Company Limited</b>		
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.

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.

**6. TRADE AND OTHER RECEIVABLES**

Trade and other receivables comprise of the following:

	Note	<b>December 31, 2018 (Un-audited) SR</b>	December 31, 2017 (Audited) SR
Trade receivables		<b>115,822,224</b>	130,935,226
Revenue recognized in excess of billings		<b>61,295,646</b>	43,396,316
Allowance for impairment for trade receivables		<b>(6,704,798)</b>	(3,708,320)
Trade receivables, net		<b>170,413,072</b>	170,623,222
Due from related parties	10 A	<b>6,977,207</b>	4,496,990
Prepayments and advances to suppliers		<b>13,027,528</b>	18,902,439
Value added tax adjustable / refundable		<b>1,669,207</b>	-
Employee loans		<b>17,413,192</b>	19,255,252
Other receivables		<b>627,628</b>	455,598
		<b>210,127,834</b>	213,733,501
Less: non-current portion of employee loans		<b>(10,380,361)</b>	(10,905,083)
Total current portion, net		<b>199,747,473</b>	202,828,418

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
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6. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for impairment is as follows:

	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
Opening balance – IAS 39	3,708,320	1,387,189
Impact of transition to IFRS 9 (Note 3.6.1 (B))	546,864	-
Opening balance	4,255,184	1,387,189
Allowance for the year	2,453,398	3,051,907
Utilized against receivables written off	(3,784)	(730,776)
Closing balance	<b>6,704,798</b>	3,708,320

7. BORROWINGS

	Current		Non-Current	
	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
<b>Term loans</b>				
Saudi Industrial Development Fund (SIDF)	-	-	142,497,307	153,714,418
Bank Loans	-	-	-	10,296,501
<b>Short Term</b>				
Overdraft	5,434,230	13,162,468	-	-
Short-term loan facility	163,847,135	81,603,173	-	-
	<b>169,281,365</b>	94,765,641	<b>142,497,307</b>	164,010,919
Current portion of loans	37,747,651	44,383,075	(37,747,651)	(44,383,075)
Total borrowings	<b>207,029,016</b>	139,148,716	<b>104,749,656</b>	119,627,844

The term of finances are as under:

Loan Name	Balance in SR	Type of loan	Number of remaining installments	Payment term	Period	Mark up
SIDF – I	111,770,182	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 long term</b>	<b>142,497,307</b>					
Murabaha Loan	163,847,135	Short-term	-	From 3 to 6 months	-	SIBOR+1.10% to 2.50%
Bank Overdraft	5,434,230	Short-term	-	-	-	9%
<b>Total borrowings</b>	<b>311,778,672</b>					

During the year ended December 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 were changed. Current and non-current portion of the loan have been calculated according to revised terms. Under the new terms, the effect of the change in the original effective interest rate is less than 10%.

As of December 31, 2018, there were breach of covenants for some loans facilities. The management is in the process of taking the necessary remedial actions to resolve the breach, including obtaining the required waiver documents. Accordingly, loans are continued to be classified as per their original terms of payment.

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**8. TRADE AND OTHER PAYABLES**

Trade and other payables comprise of the following:

	Note	December 31, 2018 (Un-audited) SR	December 31, 2017 (Audited) SR
Trade payables		152,278,755	136,041,794
Due to related parties	10 (B)	2,374,029	2,374,029
Warranty provision		1,517,500	5,195,312
Provision for liability against guarantee to an investee company	8.1	30,000,000	-
Accrued expenses		19,494,562	14,450,508
Other liabilities		8,732,336	3,024,697
		<b>214,397,182</b>	<b>161,086,340</b>

8.1 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 current year not to support the company and accordingly, are assessing various options in this regard. 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 condensed consolidated interim statement of profit or loss and other comprehensive income in the current period.

**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 December 31, 2018 (Un-audited)</u>	<u>Steel pipes</u> SR	<u>Process equipment</u> SR	<u>Total</u> SR
Non-current assets	703,897,556	19,916,643	723,814,199
Total Assets	1,026,844,523	127,361,702	1,154,206,225
Total liabilities	387,201,432	205,561,701	592,763,133
Revenue	587,738,759	58,463,145	646,201,904
Cost of revenue	(573,895,259)	(72,377,649)	(646,272,908)
Share of loss in an associate	(245,597)	-	(245,597)
Loss for the year	(85,521,608)	(81,135,568)	(166,657,176)

<u>As at December 31, 2017 (Audited)</u>	<u>Steel pipes</u> SR	<u>Process Equipment</u> SR	<u>Total</u> SR
Non-current assets	739,731,976	73,750,095	813,482,071
Total Assets	1,076,082,880	139,468,277	1,215,551,157
Total liabilities	368,361,387	117,342,431	485,703,818
Revenue	616,744,627	79,676,766	696,421,393
Cost of revenue	(528,927,836)	(74,049,224)	(602,977,060)
Share of profit in an associate	11,318,040	-	11,318,040
Profit for the year	25,266,223	(6,174,241)	19,091,982



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**9. SEGMENTAL REPORTING (Continued)**

**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 December 31, 2018 and December 31, 2017, categorized by these geographic segments is as follows:

	<b>December 31, 2018 (Un-Audited)</b>	December 31, 2017 (Audited)
	<b>SR</b>	SR
Saudi Arabia	<b>618,926,720</b>	665,499,496
Other countries	<b>27,275,184</b>	30,921,897
	<b>646,201,904</b>	696,421,393

**TRANSACTIONS WITH A MAJOR CUSTOMER**

Revenue from one major customer accounted for 51.47% of the total revenue for the year. (51.97% for year ended December 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.

**Company**

**Relationship**

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

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

<b><u>Related party</u></b>	<b><u>Nature of Transaction</u></b>	<b>Year ended December 31, 2018 (Un-audited) SR</b>	Year ended December 31, 2017 (Audited) SR
Rabiah & Nassar Group	Sales	<b>2,105,645</b>	3,813,412
Saudi Pan Gulf	Sales	<b>12,291,989</b>	9,233,170
Saudi Pan Gulf	Purchases	-	2,978,188
Hu Steel Company Ltd.	Service rendered	<b>159,799</b>	309,512

A) Balances receivable from related parties are as follows:

	<b>December 31, 2018 (Un-audited) SR</b>	December 31, 2017 (Audited) SR
Saudi Pan Gulf Group	<b>5,808,133</b>	2,926,750
Rabiah & Nassar Group	<b>1,169,074</b>	1,570,240
	<b>6,977,207</b>	4,496,990

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**10. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)**

B) Balances payable to related parties are as follows:

	<b>December 31 2018 (Un-audited) SR</b>	December 31 2017 (Audited) SR
TSM Tech. Company	<u>2,214,230</u>	2,214,230
Hu Steel Company Ltd.	<u>159,799</u>	159,799
	<u><b>2,374,029</b></u>	<u>2,374,029</u>

C) Board remuneration:

	<b>December 31 2018 (Un-audited) SR</b>	December 31 2017 (Audited) SR
Board remuneration	<u><b>2,029,146</b></u>	<u>1,040,000</u>

**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 / year. 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.

(Losses) / earnings per share are represented as follows:

	<b>Three Months Period Ended</b>		<b>Year Ended</b>	
	<b>December 31, 2018 Un-audited SR</b>	December 31, 2017 Un-audited SR	<b>December 31, 2018 Un-audited SR</b>	December 31, 2017 Audited SR
<b>Basic (loss) / earnings per share</b>	<b>(1.99)</b>	0.31	<b>(3.30)</b>	0.38
	<b>(100,644,659)</b>	15,651,922	<b>(166,657,176)</b>	19,091,982
Weighted average number of outstanding shares	<b>50,540,966</b>	50,533,391	<b>50,540,966</b>	50,533,391
<b>Diluted (loss) / earnings per share</b>	<b>(1.97)</b>	0.31	<b>(3.27)</b>	0.37
(Loss) / profit for the period / year	<b>(100,644,659)</b>	15,651,922	<b>(166,657,176)</b>	19,091,982
Weighted average number of outstanding shares, grossed up with the effect of dilutive shares	<b>51,000,000</b>	51,000,000	<b>51,000,000</b>	51,000,000
<b>Reconciliation of weighted average number of outstanding shares</b>				
Number of issued shares	<b>51,000,000</b>	51,000,000	<b>51,000,000</b>	51,000,000
<u>Less:</u> Treasury shares- shares kept for ESOP	<b>(762,812)</b>	(762,812)	<b>(762,812)</b>	(762,812)
<u>Add:</u> Number of shares issued to employees	<b>309,497</b>	300,749	<b>309,497</b>	300,749
<b>Number of outstanding shares</b>	<b>50,546,685</b>	50,537,937	<b>50,546,685</b>	50,537,937
<b>Weighted average number of outstanding Shares</b>	<b>50,540,966</b>	50,533,391	<b>50,540,966</b>	50,533,391

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**12. SIGNIFICANT EVENTS**

12.1 During the year 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 transactions may involve purchase of 45% to 49% of the share capital of the Group by the strategic investor. The MOU was expired on August 31, 2018 and during the period the strategic investor will be conducting commercial and legal due diligence.

Further 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”).

Completion of the transaction is expected to occur before March 31, 2019, subject to obtaining the relevant regulatory approvals and the satisfaction of other conditions in accordance with the SPA.

12.2 During the period ended September 30, 2018, the shareholder of the Group in their Ordinary General Assembly Meeting held at September 5, 2018 approved the recommendation of the Board of Directors to cover the accumulated losses amounting to SR 87.52 million as of June 30, 2018 by transfer from the share premium to the accumulated losses.

12.3 In the ordinary course of business, the Group enters into contracts which may provide for assessment for non-performance or delay in completion or delivery. At the yearend, the Group was working on certain contracts that may not be completed with the stipulated timetable set in the contract. Management is confident that no material liability arising from such delays or non-performance.

**13. SUBSEQUENT EVENT**

In the opinion of the management, there have been no significant subsequent events since the year end that would have a material impact on the financial position of the Group as reflected in these condensed consolidated interim financial statements.

**14. 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 January 21, 2019.