

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
**WITH INDEPENDENT AUDITOR'S REPORT**

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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## INDEPENDENT AUDITOR'S REPORT

(1/6)

To the Shareholders of  
Saudi Steel Pipes Company (SSPC)  
(A Saudi Joint Stock Company)  
Dammam, Kingdom of Saudi Arabia

### Opinion

We have audited the consolidated financial statements of Saudi Steel Pipes Company – a Saudi Joint Stock Company (the “Company”) and its Subsidiary (collectively referred to as the “Group”), which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matters

Without qualifying our opinion, we draw attention to Note 2 to the accompanying consolidated financial statements; where the accumulated losses of TSM Arabia (the subsidiary) as at December 31, 2019, have exceeded its share capital by SR 140.2 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.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITOR’S REPORT (Continued)**

(2/6)

Key audit matters	How the matter was addressed
<p><b>1- Revenue Recognition – Sale of goods</b></p> <p>During the year ended December 31, 2019, the Group recognized total revenue of SR 671.55 million (2018: SR 646.20 million).</p> <p>The group sales are generally straight forward but requires in various cases the approval and inspection by the customer prior to dispatch of the products.</p> <p>Revenue recognition has been identified as a key audit matter given the significant volume of transactions involved and the factors associated with the revenue recognition and the risk that management may override controls in order to misstate revenue transactions, either by recognizing sales on unapproved products or inappropriate assessments of returns and rejections.</p> <p>The accounting policy for revenue is outlined in Note 3.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- Evaluating the design and implementation, and testing the operating effectiveness of relevant controls over the revenue cycle;</li> <li>- Assess the appropriateness of revenue recognition accounting policies of the Group;</li> <li>- Testing of general controls and major application controls related to revenue recognition;</li> <li>- Inspected sales transactions taking place at either side of year-end to assess whether revenue was recognized in the correct period; and</li> <li>- Performing substantive test of details and analytical procedures.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT (Continued)**

(3/6)

Key Audit Matters (Continued)	How the matter was addressed
<p><b>2- Inventory valuations</b></p> <p>As at December 31, 2019, the Group has total inventory of SR 150.07 million (2018: SR 202.15 million).</p> <p>We consider inventory existence and valuation as a key audit matter requiring particular audit attention due to the following:</p> <ul style="list-style-type: none"> <li>• The Group has significant levels of inventory at year end. In estimating the level of obsolescence of inventories, management exercise judgements and apply assumptions to arrive at the allowance required at year end.</li> <li>• Inventories are held at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Inventory may be including slow moving, obsolete or damaged inventory items. The determination of whether the inventory will be realized for a value less than cost requires management to exercise judgement and apply assumptions which include the following:           <ul style="list-style-type: none"> <li>- Using inventory aging reports together with historical trends to estimate the likely future salability of slow and older inventory; and</li> <li>- Analysis of remaining inventory items to ensure, it is stated at the lower of cost and net realizable value.</li> </ul> </li> <li>• Valuation of various types of inventories at different processes to arrive at the quantities held and related cost at the reporting date.</li> </ul> <p>The accounting policy for inventory is outlined in Note 3, and a breakdown of inventories is presented in Note 8.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- Attending the physical inventory count at the year end and assessing the adequacy of controls over the existence of inventory;</li> <li>- Assessing the design and implementation, and testing the effectiveness of the Group's controls on purchases and monitoring the allowance of slow-moving inventory;</li> <li>- Assessed the Group's policies for monitoring and identifying slow moving inventories;</li> <li>- Review the inventory ageing reports and assumptions used by the management in the assessment of allowance for slow moving inventories;</li> <li>- Tested the net realizable value of inventories by reference to recent prices; and</li> <li>- Evaluated the Group's policy for the valuation of inventory and re-performed the calculation of the inventory valuation.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT (Continued)**

(4/6)

Key Audit Matters (Continued)	How the matter was addressed
<p><b>3- Impairment of non-current assets</b></p> <p>Non-current assets included property plant and equipment as of December 31, 2019 amounted to SR 581.42 million (2018: SR 615.67 million).</p> <p>During the year, the Group management has updated its previous year impairment assessment for some sectors and undertaken new impairment assessment for some other sectors. Based on the results of the impairment studies, the management has decided that no further impairment (2018: SR 72.99 million) of the property, plant and equipment is required.</p> <p>In preparing these impairment studies, management assesses the future business plan of the relevant business units and apply valuation models to determine the expected recoverable amount and realizable values for the purpose of impairment assessment.</p> <p>We have considered this matter as a key audit matter because the assessment of the recoverable amount requires a number of key judgments and assumptions in determining the recoverable values for assessing impairment, which include assumptions related to future sales volume, prices, operating assets, growth rates, terminal value, discount rates and other related assumptions.</p> <p>The accounting policy for impairment of non-current assets is outlined in Note 3, and the impairment is presented in Note 4.5.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>- We assessed the management process for the identification of the indications of impairment and evaluated the design and implementation of the process.</li> <li>- In case of the existence of impairment indicators, we evaluate whether the model used by management to calculate the value in use of the individual assets is in compliance with the requirements of IAS 36.</li> <li>- Validating the assumptions used for estimating the future cash flows, the related discount rates and other related assumptions.</li> <li>- Analyzed the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current economic condition and expected future performance.</li> <li>- Evaluated the whole model calculations by our auditor experts.</li> <li>- We assessed whether the related disclosures are in accordance with the requirements of International Financial Reporting Standards.</li> </ul>

## INDEPENDENT AUDITOR'S REPORT (Continued)

### Other Information Included in the Group's 2019 Annual Report

The management are responsible for the other information. The other information comprises the information included in the Group's annual report, other than the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance (i.e. Board of Directors) are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

**INDEPENDENT AUDITOR'S REPORT (Continued)**

(6/6)

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

- Evaluate the appropriateness of accounting policies used, the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosure in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

**Report on Other Legal and Regulatory Requirements**

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Group is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

**Al-Bassam & Co.**  
P.O. Box 4636  
Al Khobar 31952  
Kingdom of Saudi Arabia

**Ibrahim A. Al Bassam**  
License No.337

March 31, 2020  
Shahban 7, 1441



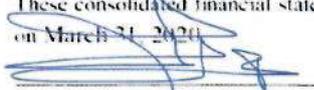
**SAUDI STEEL PIPES COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

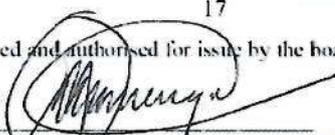
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2019**

	Note	December 31, 2019 SR	December 31, 2018 SR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	581,420,752	615,671,975
Intangible assets	5	2,766,638	1,280,143
Investments	6	105,421,605	96,481,720
Trade and other receivables - non-current	7	7,385,212	10,380,361
Deferred tax asset	10	8,696,234	-
		<u>705,690,441</u>	<u>723,814,199</u>
<b>Current assets</b>			
Inventories	8	150,066,124	202,145,086
Deposit with banks		-	3,000,000
Trade and other receivables - current	7	223,630,444	199,747,473
Cash and cash equivalents	9	39,506,782	23,499,467
		<u>413,203,350</u>	<u>428,392,026</u>
<b>TOTAL ASSETS</b>		<u><b>1,118,893,791</b></u>	<u><b>1,152,206,225</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	11.1	510,000,000	510,000,000
Share premium	11.2	4,512,330	131,306,055
Statutory reserve	11.2	58,494,224	58,494,224
Other reserves	11.2	(6,617,758)	(2,061,237)
Accumulated losses	11.2	(26,828,587)	(126,793,725)
Treasury shares	11.3	(11,502,225)	(11,502,225)
		<u>528,057,984</u>	<u>559,443,092</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings – non-current	12	59,804,917	134,902,189
Employees' end of service benefits	13	55,554,419	58,325,525
Trade and other payables- non-current	14	30,000,000	-
Finance lease liability – non-current	16	6,978,705	83,762
Retention payables		647,113	633,713
		<u>152,985,154</u>	<u>193,945,189</u>
<b>Current liabilities</b>			
Trade and other payables	14	209,768,831	214,397,182
Borrowings – current	12	227,456,517	176,876,483
Finance lease liability – current	16	625,305	128,491
Zakat and income tax	15	-	7,415,788
		<u>437,850,653</u>	<u>398,817,944</u>
<b>TOTAL LIABILITIES</b>		<u><b>590,835,807</b></u>	<u><b>592,763,133</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>1,118,893,791</b></u>	<u><b>1,152,206,225</b></u>

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These consolidated financial statements were approved and authorized for issue by the board of directors on behalf of shareholders on March 31, 2020.

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Armengol Lamazares  
Chief Executive Officer

  
Abdulfhamid El Shazli  
Finance Manager

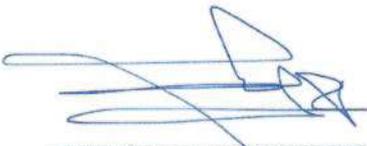
The accompanying notes form an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Note	December 31, 2019 SR	December 31, 2018 SR
Revenue	22	671,553,134	646,201,904
Cost of revenue	18	(658,375,000)	(648,272,908)
<b>Gross profit / (loss)</b>		<b>13,178,134</b>	<b>(2,071,004)</b>
Selling, marketing and distribution expenses	19	(14,092,202)	(17,039,279)
Administrative expenses	20	(33,014,809)	(29,860,272)
Allowance for impairment of trade receivables	7.2	(892,831)	(2,453,398)
Other (expenses) / income, net	21	(184,753)	364,521
<b>Operating loss</b>		<b>(35,006,461)</b>	<b>(51,059,432)</b>
Share of profit / (loss) in an associate	6.1	8,939,885	(245,597)
Impairment of property, plant and equipment	4.5	-	(72,988,419)
Provision for liability against guarantee to an investee company	14.1	-	(30,000,000)
Financial charges		(14,277,357)	(12,074,033)
<b>Loss before zakat and income tax</b>		<b>(40,343,933)</b>	<b>(166,367,481)</b>
Zakat and income tax benefit / (expense)	15	13,515,346	(2,289,695)
<b>Loss for the year</b>		<b>(26,828,587)</b>	<b>(168,657,176)</b>
<b><u>Other comprehensive income (OCI)</u></b>			
<b>Items that will not be reclassified to profit or loss in subsequent years</b>			
Loss attributable to the re-measurements of employees' end of service benefits	13	(5,530,723)	(1,309,557)
Deferred tax benefit	10	974,202	-
<b>Total other comprehensive loss</b>		<b>(4,556,521)</b>	<b>(1,309,557)</b>
<b>Total comprehensive loss, net</b>		<b>(31,385,108)</b>	<b>(169,966,733)</b>
<b><u>Loss per share</u></b>			
Basic loss per share	24	(0.53)	(3.34)
Diluted loss per share	24	(0.53)	(3.31)

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 31, 2020.

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Armengol Lamazares  
Chief Executive Officer

  
Abdulhamid El-Shazli  
Finance Manager

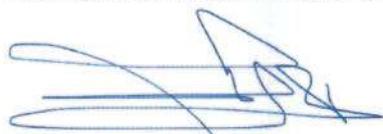
The accompanying notes form an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Share capital	Share premium	Statutory reserve	Other reserves	Accumulated losses	Treasury shares	Total Equity
	SR	SR	SR	SR	SR	SR	SR
Balance as at January 1, 2018	510,000,000	218,828,409	58,494,224	(751,680)	(45,658,903)	(11,611,575)	729,300,475
Net loss for the year	-	-	-	-	(168,657,176)	-	(168,657,176)
Other comprehensive loss for the year	-	-	-	(1,309,557)	-	-	(1,309,557)
Absorption of accumulated losses against share premium (Note 11.2 (a))	-	(87,522,354)	-	-	87,522,354	-	-
Share issued to employees	-	-	-	-	-	109,350	109,350
Balance as at December 31, 2018	510,000,000	131,306,055	58,494,224	(2,061,237)	(126,793,725)	(11,502,225)	559,443,092
Net loss for the year	-	-	-	-	(26,828,587)	-	(26,828,587)
Other comprehensive loss for the year	-	-	-	(4,556,521)	-	-	(4,556,521)
Absorption of accumulated losses against share premium (Note 11.2 (a))	-	(126,793,725)	-	-	126,793,725	-	-
Balance as at December 31, 2019	<u>510,000,000</u>	<u>4,512,330</u>	<u>58,494,224</u>	<u>(6,617,758)</u>	<u>(26,828,587)</u>	<u>(11,502,225)</u>	<u>528,057,984</u>

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 31, 2020.



**Ahmed Al Debasi**  
Authorized Director



**Mariano Armengol Lamazares**  
Chief Executive Officer



**Abdulhamid El Shazli**  
Finance Manager

The accompanying notes form an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	December 31, 2019	December 31, 2018
	SR	SR
<b>Cash flows from operating activities:</b>		
Loss before zakat and income tax	(40,343,933)	(166,367,481)
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment and right of use assets	44,340,595	47,329,123
Amortization of intangible assets	427,013	233,428
Loss on disposal of property, plant and equipment, net	1,477,565	82,006
Property, plant and equipment – written off	57,963	283,754
Impairment on property, plant and equipment	-	72,988,419
Provision for liability against guarantee provided to an investee Company	-	30,000,000
Provision for slow moving inventory	7,137,070	14,304,298
Reversal of provision for warranty, net	(1,517,500)	(900,620)
Allowance for impairment for trade receivables	892,831	2,453,398
Finance cost	14,277,357	12,074,032
Share of (profit) / loss in an associate	(8,939,885)	245,597
Employees' end of service benefits	7,565,800	7,150,124
<b>Movement in working capital</b>		
Inventories	44,941,892	(30,705,939)
Trade and other receivables	(28,391,618)	2,863,205
Deposit with banks	3,000,000	-
Trade and other payables	12,891,530	23,855,566
Due to / from related parties	17,001,354	(2,343,521)
<b>Cash generated from operations</b>	74,818,034	13,545,389
Finance cost paid	(11,144,497)	(9,233,687)
Zakat and income tax paid	(1,622,474)	(2,960,470)
Employees' end of service benefits paid	(12,990,777)	(7,021,879)
<b>Net cash generated from / (used in) operating activities</b>	49,060,286	(5,670,647)
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment and intangible assets	(5,754,342)	(32,048,991)
Proceeds from sale of property, plant and equipment	531,131	29,813
<b>Net cash used in investing activities</b>	(5,223,211)	(32,019,178)
<b>Cash flows from financing activities:</b>		
(Repayment of) / proceeds from borrowings, net	(27,380,202)	50,692,070
Net payment under finance lease	(449,558)	-
<b>Net cash (used in) / generated from financing activities</b>	(27,829,760)	50,692,070
<b>Net change in cash and cash equivalents</b>	16,007,315	13,002,245
Cash and cash equivalent at the beginning of the year	23,499,467	10,497,222
<b>Cash and cash equivalents at the end of the year</b>	39,506,782	23,499,467

**Significant non-cash transactions (note 9.2)**

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 31, 2020.

  
Ahmed Al Debasi  
Authorized Director

  
Mariano Armengol Lamazares  
Chief Executive Officer

  
Abdulhamid El Shazli  
Finance Manager

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**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).

As described in note 2, the consolidated financial statements include the financial statements of the Company and its subsidiary Titanium and Steel Manufacturing Company Limited (“TSM Arabia”) (collectively referred to as “the Group”).

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 Group operates through the following branches, for which the assets, liabilities and results are included in the accompanying consolidated financial statements:

<u>CR No.</u>	<u>CR Dated (Hijri)</u>	<u>CR Dated (Gregorian)</u>	<u>Operating in</u>
2051007037	8 Rabi Al-Awwal 1401	8 January 1981	Khobar
1010043325	22 Rabi Al-Thani 1402	16 February 1982	Riyadh
4030038355	7 Jumada Al-Thani 1403	22 March 1983	Jeddah
1131012613	11 Muharram 1415	21 June 1994	Buraydah
2050128158	18 Dhul-Hijjah 1440	20 August 2019	Dammam

The principal activities of the Group are the manufacturing and wholesale 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, wholesale of pipes, Tubes and Hollow Shapes from iron and steel, ferrous and non-ferrous metal pipes and accessories, locks, hinges and other hand tools, wholesale of other metal accessories, locks, hinges and hand tools, wholesale of other construction and metal materials.

**2. STRUCTURE OF THE GROUP**

The consolidated financial statements as at December 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	<b>100%</b>	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, 2019, the accumulated losses of TSM Arabia have exceeded its share capital by SR 140.2 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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**3. BASIS OF PREPARATION**

**3.1 Statement of compliance**

These consolidated financial statements have prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

As required by the Capital Market Authority (“CMA”) through its circular dated October 16, 2016 the Group needs to apply the cost model to measure the property, plant and equipment, investment property and intangible assets upon adopting the IFRS for three years’ period starting from the IFRS adoption date which was later extended till December 31, 2021.

The consolidated financial information has been prepared under the historical cost convention, unless it is allowed by the IFRS to be measured at other valuation method as illustrated in significant accounting policies note.

**3.2 Preparation of the consolidated financial statements**

The preparation of consolidated 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 consolidated financial statements. The estimates that are significant to the consolidated financial statements are disclosed in note 3.7.20.

**3.3 Basis of Consolidation**

The 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**3.3 Basis of Consolidation** (Continued)

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 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.

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.

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

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

**Changes in the Group's ownership interests in existing subsidiaries**

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

When the Group loses control of a subsidiary, a gain or loss is recognized in the 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 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 New IFRSs, International Financial Reporting and Interpretation Committee interpretations (IFRIC) and amendments adopted by the Group**

The following new accounting standards, interpretations and amendments to existing standards have been published by IASB and are mandatory for the accounting period beginning on January 1, 2019 or later.

**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 adoption of this interpretation did not have any material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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3. BASIS OF PREPARATION (Continued)

**3.4 New IFRSs, International Financial Reporting and Interpretation Committee interpretations (IFRIC) and amendments adopted by the Group (Continued)**

**Annual Improvements to IFRSs 2015–2017 Cycle**

**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 statement of income, profit or loss, other comprehensive income or equity

**IAS 23 Borrowing Costs** - clarifies that the general borrowings pool used to calculate eligible borrowing costs exclude 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.

**IFRS 16– Leases**

This standard replaced IAS 17 – ‘Leases’, 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.

**3.5 New IFRSs, International Financial Reporting and Interpretation Committee interpretations (IFRIC) and amendments 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 1, 2020 or later. The Group has not early adopted them. These standards / amendments are not expected to have a significant impact on the Group’s consolidated 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 January 1, 2020.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**3.5 New IFRSs, International Financial Reporting and Interpretation Committee interpretations (IFRIC) and amendments issued but not yet effective (Continued)**

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.

iii- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis and IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform

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.

**3.6 Change in accounting policy**

**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.

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 remaining 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

3.6.1 Adoption of IFRS 16 Leases (Continued)

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

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 consolidated 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 consolidated financial statements resulting from its adoption of IFRS 16 are summarized below:

**Impact on Statement of Financial Position**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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3. BASIS OF PREPARATION (Continued)

**3.7 Principal Accounting Policies**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been constantly applied to all the years presented, unless otherwise stated.

**3.7.1 Financial instruments**

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

**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 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.

*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 Group original expectations, the Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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3. BASIS OF PREPARATION (Continued)

3.7 Principal Accounting Policies (Continued)

3.7.1 Financial instruments (Continued)

(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.

(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**

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).

**3.7.1 (B) Impairment of financial assets**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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3. BASIS OF PREPARATION (Continued)

3.7 Principal Accounting Policies (Continued)

3.7.2 Revenue from Contract with Customers

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 Group 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 Group 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 Group has a right to payments during this process.

Warranty:

The Group generally provides warranties for both steel pipes and process equipment for general repairs of defects that existed at the time of sale, as per contract. As such, most warranties are assurance-type warranties, which the Group accounts for under IAS 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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3. BASIS OF PREPARATION (Continued)

3.7 Principal Accounting Policies (Continued)

3.7.3 Property, plant and equipment

Property, plant and equipment are carried at the historical cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the consolidated statement of profit or loss, using the straight-line method to allocate the costs of the related assets less their residual values over the following estimated economic useful lives.

Land improvement	30 years
Buildings and structures	20 -50 years
Machinery and equipment	5 - 30 years
Vehicles	5 - 10 years
Furniture and fixture	5 - 10 years
Office equipment	3 – 10 years
Leased asset	3 years (Lease term)

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the consolidated statement of profit or loss.

**Impairment**

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

The cash generating unit (CGU) at which the impairment assessment and testing is performed, is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**Annual review of residual lives and useful lives**

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. If expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

**Componentization of assets**

Property, plant and equipment (PPE) is often composed of various parts with varying useful lives or consumption patterns. These parts are (individually) replaced during the useful life of an asset. Accordingly:

- Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately, except where one significant part has a useful life and a depreciation method that is the same as those of another part of that same item of PPE; in which case, the two parts may be grouped together for depreciation purposes;

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**3.7 Principal Accounting Policies** (Continued)

**3.7.3 Property, plant and equipment** (Continued)

**Componentization of assets** (Continued)

- Under the component approach, the Group does not recognize in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. These costs are recognized in the consolidated statement of profit or loss as incurred. The various components of assets are identified and depreciated separately only for significant parts of an item of PPE with different useful lives or consumption patterns; however, the principles regarding replacement of parts (that is, subsequent cost of replaced part) apply generally to all identified parts, regardless whether they are significant or not.

**Capitalization of costs under PPE**

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation incurred either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that year.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced.

Borrowing costs related to qualifying assets are capitalized as part of the cost of the qualified assets until the commencement of commercial production.

All other repairs and maintenance are charged to the consolidated statement of profit or loss during the reporting year in which they are incurred. Maintenance and normal repairs which do not extend the estimated economic useful life of an asset or production output are charged to the consolidated statement of profit or loss as and when incurred.

**Capital Spare Parts (CSP)**

The Group classifies CSPs into critical spare parts (strategic spare parts) and general spare parts using the below guidance:

- A critical spare part is one that is on "stand-by", i.e. probable to be a major item / part critical to be kept on hand to ensure uninterrupted operation of production equipment. They would normally be used only due to a breakdown, and are not generally expected to be used on a routine basis. Depreciation on critical spares commences immediately on the date of purchase.
- General spare parts are other major spare parts not considered critical and are bought in advance due to planned replacement schedules (in line with prescribed maintenance program) to replace existing major spare parts with new parts that are in operation. Such items are considered to be "available for use" only at a future date, and hence depreciation commences when it is installed as a replacement part. The depreciation period for such general capital spares is over the lesser of its useful life, and the remaining expected useful life of the equipment to which it is associated.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**3. BASIS OF PREPARATION (Continued)**

**3.7 Principal Accounting Policies (Continued)**

**3.7.3 Property, plant and equipment (Continued)**

**Capital work-in-progress**

Assets in the course of construction or development are capitalized in the capital work-in-progress (“CWIP”) account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment or intangible assets (depending on the nature of the project), once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work in progress comprises its purchase price, construction / development cost and any other directly attributable to the construction or acquisition of an item of CWIP intended by management. Costs associated with testing the items of CWIP (prior to its being available for use) are capitalized net of proceeds from the sale of any production during the testing period. Capital work-in-progress is not depreciated or amortized.

**3.7.4 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, where applicable.

Finite life of intangible assets is amortized over the shorter of their contractual or useful economic lives. They comprise mainly management information systems. The Group amortized these intangible assets over 3-5 years on a straight-line basis assuming a zero residual value.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss when the asset is derecognized.

**3.7.5 Investment in associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In case the shareholding in an associate do not create significant influence, the Group classify this investment as fair value through profit or loss.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor’s share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate. The Group’s share of post-acquisition profit or loss is recognized in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to “share of profit/ (loss) of associates” in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group’s financial statements only to the extent of unrelated investor’s interests in the associates.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**3.7 Principal Accounting Policies (Continued)**

**3.7.5 Investment in associates (Continued)**

Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the consolidated statement of profit or loss.

**3.7.6 Loan to an associate**

SSPC has granted an interest free long term loan to its associate, Global Pipes Company (GPC). GPC is an associate entity of SSPC where SSPC holds 35% equity stake. This loan was granted to GPC in accordance with the shareholders Memorandum of Understanding which is part of an arrangement to increase the equity of GPC by the shareholders' relative to their ownership. The loan does not have any specific repayment dates and there is no clear intention from SSPC to recall this amount in part or in full. As a result, the loan is considered to be a part of the investment in associate and this instrument is considered as a long term quasi equity financing to an associate entity and therefore classified within the investment in associate.

**3.7.7 Inventories**

Inventories are valued at lower of cost and net realizable value (NRV). Cost is determined using the weighted average method. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods comprises raw material cost and standard cost of conversion and other overheads incurred in production process in case result approximate actual cost. Standard costs of conversion are revised regularly, if necessary, in light of current condition. Any write-down to NRV and reversals are recorded as an expense in consolidated statement of profit or loss in the year in which the reversal occurs.

**Net realizable value and provision assessment of inventory**

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The NRV assessment to write-down the inventory is normally made on an individual item basis. This would be where items relate to the same product line (which have a similar purpose and end use) are produced and marketed in the same geographical area.

The practice of writing inventories down below cost to net realizable value is consistent with the view under IFRS that assets should not be carried in excess of amounts expected to be realized from their sale.

An allowance is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures. Provision for slow moving and obsolete inventories is assessed by each inventory category as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales.

**3.7.8 Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with the bank, all of which have original maturities of 90 days or less and are available for use by the Group unless otherwise stated. In the consolidated statement of financial position, based on nature of Group's facility, bank overdraft is presented under line item borrowings.

**3.7.9 Share capital**

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares and treasury shares are classified as equity instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**3.7 Principal Accounting Policies** (Continued)

**3.7.10 Dividends**

Provision or liability is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the Group, on or before the end of the reporting year but not distributed at the end of the reporting year.

**3.7.11 Functional and presentation currency**

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

**Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the exchange rates prevailing at that date. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'Other income/(expenses) – net'.

**3.7.12 Borrowings**

Borrowings are initially recognized at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition long-term borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in consolidated statement of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are derecognized from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in consolidated statement of profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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3. BASIS OF PREPARATION (Continued)

3.7 Principal Accounting Policies (Continued)

3.7.12 Borrowings (Continued)

General and specific borrowing that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale, as appropriate. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the year in which they are incurred in the consolidated statement of profit or loss.

3.7.13 Employees benefits

**Short term obligation**

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting year and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations within accruals in the consolidated statement of financial position.

**Employees' end-of-service benefits (EOSB)**

The liability or asset recognized in the consolidated statement of financial position in respect of defined benefit. EOSB plan is the present value of the defined benefit obligation at the end of the reporting year. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Defined benefit costs are categorized as follows:

*Service cost*

Service costs includes current service cost and past service cost are recognized immediately in consolidated statement of profit or loss.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in consolidated statement of profit or loss as past service costs.

*Interest cost*

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

*Re-measurement gains or losses*

Re-measurement gains or losses arising from experience adjustments and changes in actuarial assumptions are recognized in the year in which they occur, directly in other comprehensive income.

**Employee share ownership program (ESOP)**

The ESOP is an employee benefit plan that designates a specific number of shares in order to distribute them among the SSP's employees who are in service at the time of initial public offering of SSP's stocks. The Group maintains treasury shares to support this program. These shares are allocated to employees in three different categories namely; free, credit and cash basis. Additionally, a portion of the designated stocks would be reserved for future employees as well as for rewarding employees with free shares against service years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**3.7 Principal Accounting Policies (Continued)**

**3.7.13 Employees benefits (Continued)**

**Employee share ownership program (ESOP) (Continued)**

The Group recognizes the services acquired in a share based payment transaction when services are received. The Group recognizes a corresponding increase in equity when shares actually transferred to employees. The Group offered an option to receive cash equitant to fair value of eligible shares. To measure the value of services received in this cash-settled share-based payment transactions, the Group measure the services received, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted. This implies that the Group measure the fair value of the services received by reference to the fair value of the equity instruments at end of each reporting year.

**3.7.14 Service warranties and provisions**

**Service warranties**

Provision is made for estimated warranty claims in respect of products sold which are still under warranty at the end of the reporting year. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

**Provisions**

Provisions are recognized when the Group has:

- a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of economic resources will be required to settle the obligation in the future; and
- the amount can be reliably estimated.

If the effect of the time value of money are material, provisions are discounted using a current rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where there are a number of similar obligations, (e.g. product warranties, similar contracts or other provisions) the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**3.7.15 Zakat, income tax and withholding tax**

The Saudi Shareholders of the Group are subject to zakat calculated in accordance with the regulations of the General Authority of Zakat and Income Tax (GAZT) computed at 2.5% and the foreign shareholders are subject to income tax at a flat rate of 20% on the taxable income. A provision for zakat and income tax for the Group and zakat related to the Group's subsidiary is charged to the consolidated statement of profit or loss. Differences, if any, at the finalization of final assessments are accounted for when such amounts are determined and settled against any previously provided provisions, if any.

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

**Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**3.7 Principal Accounting Policies** (Continued)

**3.7.15 Zakat, income tax and withholding tax** (continued)

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with accounting and tax depreciation on property and equipment, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with accumulated tax losses only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**3.7.16 Selling, marketing and distribution expenses**

Selling, marketing and distribution expenses comprise of all costs for selling and marketing the Group's products and include expenses for advertising, marketing fees and other sales related overheads.

**3.7.17 Administrative expenses**

Administrative expenses include indirect costs not specifically part of cost of sales or the selling, marketing and logistics activity of the Group. Finance income / (expense) is presented as a separate line item in the consolidated statement of profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**3.7 Principal Accounting Policies (Continued)**

**3.7.18 Earnings / (Loss) per share**

**Basic earnings / (loss) per share**

Basic earnings per share is calculated by dividing:

- the profit / (loss) attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial period.

**Diluted earnings / (loss) per share**

Diluted earnings/ (loss) per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**3.7.19 Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items compose mainly corporate expenses.

Transactions between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the consolidated statement of profit or loss.

SSPC defines its operating segments as:

**• Steel Pipe Segment**

This include manufacturing of welded steel pipes by high frequency induction welding and galvanizing, coating, threading and bending of the pipes used in oil and gas, water and construction sectors.

**• Process Equipment Segment**

This include design, manufacture, assemble and maintain heavy process equipment for the utilization of oil and gas, power generation, desalination, mining, solar energy and offshore plants.

Both above segments share similar customers including one major customer (for both segments). Also, the Group discloses its segmental results in its consolidated financial statements based on:

- i. Local sales; and
- ii. Export sales

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

**3.7.20 Critical judgments and estimates**

The following critical judgments and estimates have the most significant effect on the amounts recognized in the consolidated financial statements:

- Economic useful lives of property, plant and equipment;
- Lease term
- Zakat and income taxes;
- Impairment of non-financial assets;
- Estimation of defined benefit obligation;
- Allowance for impairment for trade receivables;
- Provision for obsolete, slow moving and damaged inventory; and
- Contingencies.

**Economic useful lives of property, plant, equipment**

The Group periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

**Lease term**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment. During the current financial year, there was no material financial effect of revising lease terms to reflect the effect of exercising extension or termination options.

**Zakat and income taxes**

The Group and its subsidiary are subject to zakat and income tax in accordance with the regulations of General Authority of Zakat and Tax (“GAZT”). Zakat and income tax is accrued and charged to the consolidated statement of profit or loss. Additional zakat and income tax liability, if any, related to prior years’ assessments arising from GAZT are accounted for in the period in which the final assessments are finalized and settled with previously formed provisions.

**Impairment of non-financial asset**

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset’s performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

**Estimation of defined benefit obligation**

The cost of defined benefit obligation and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

3. BASIS OF PREPARATION (Continued)

3.7.20 Critical judgments and estimates (Continued)

**Allowance for impairment for trade receivables**

The Group assesses on a forward looking basis the Expected Credit Losses (“ECL”) associated with its debt instruments as part of its financial assets, which are carried at amortised cost and FVOCI. The ECL is based on a 12-month ECL and a lifetime ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. For accounts receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables. ECL assessment requires a several estimates related to the categorization of customers, discount rates and a general assessment of the economic conditions in the market. Management use their best estimates and historical trends of customers to assess the receivables provision under ECL model.

**Provision for obsolete, slow moving and damaged inventory**

Management makes a provision for slow moving, obsolete and damaged inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the Statement of financial position date to the extent that such events confirm conditions existing at the end of year.

**Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

4. PROPERTY, PLANT AND EQUIPMENT

	<u>Note</u>	<u>December 31, 2019</u> SR	<u>December 31, 2018</u> SR
Operating fixed assets	4.1	<b>573,856,241</b>	608,393,446
Right of use assets	4.2	<b>7,564,511</b>	-
Capital work-in-progress	4.4	-	7,278,529
		<u><b>581,420,752</b></u>	<u>615,671,975</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Operating fixed assets

Year ended December 31, 2019

	Land	Land Improvements	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and fixtures	Office and equipment	Leasehold asset	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
<b><u>At January 1, 2019</u></b>									
Cost	157,850,000	1,971,257	239,701,714	648,569,580	5,321,925	4,240,965	25,726,733	225,500	1,083,607,674
Accumulated depreciation and impairment	-	(1,751,191)	(121,082,699)	(324,461,018)	(4,593,011)	(3,493,447)	(19,645,315)	(187,547)	(475,214,228)
Net book value	<u>157,850,000</u>	<u>220,066</u>	<u>118,619,015</u>	<u>324,108,562</u>	<u>728,914</u>	<u>747,518</u>	<u>6,081,418</u>	<u>37,953</u>	<u>608,393,446</u>
<b><u>Cost</u></b>									
Opening	157,850,000	1,971,257	239,701,714	648,569,580	5,321,925	4,240,965	25,726,733	225,500	1,083,607,674
Transferred from CWIP	-	-	<b>6,436,013</b>	<b>320,000</b>	<b>36,199</b>	-	<b>3,510,421</b>	-	<b>10,302,633</b>
Additions	-	-	-	<b>363,799</b>	<b>111,435</b>	-	<b>341,496</b>	-	<b>816,730</b>
Disposals and written-off	-	-	<b>(137,500)</b>	<b>(7,420,290)</b>	<b>(1,644,725)</b>	<b>(2,650,660)</b>	<b>(5,953,794)</b>	-	<b>(17,806,969)</b>
	<u>157,850,000</u>	<u>1,971,257</u>	<u>246,000,227</u>	<u>641,833,089</u>	<u>3,824,834</u>	<u>1,590,305</u>	<u>23,624,856</u>	<u>225,500</u>	<u>1,076,920,068</u>
<b><u>Accumulated depreciation and impairment</u></b>									
<b><u>Accumulated depreciation</u></b>									
Opening	-	322,828	89,283,156	285,008,060	4,526,469	3,493,447	19,504,155	87,694	402,225,809
For the year	-	<b>18,159</b>	<b>7,965,986</b>	<b>33,357,303</b>	<b>98,810</b>	<b>275,030</b>	<b>1,853,920</b>	<b>20,701</b>	<b>43,589,909</b>
Disposals and written-off	-	-	<b>(137,500)</b>	<b>(5,591,785)</b>	<b>(1,480,253)</b>	<b>(2,616,892)</b>	<b>(5,913,880)</b>	-	<b>(15,740,310)</b>
	-	<u>340,987</u>	<u>97,111,642</u>	<u>312,773,578</u>	<u>3,145,026</u>	<u>1,151,585</u>	<u>15,444,195</u>	<u>108,395</u>	<u>430,075,408</u>
<b><u>Accumulated impairment</u></b>									
Opening	-	1,194,445	30,908,152	39,576,705	66,542	-	1,142,721	99,854	72,988,419
For the year	-	-	-	-	-	-	-	-	-
	-	<u>1,194,445</u>	<u>30,908,152</u>	<u>39,576,705</u>	<u>66,542</u>	<u>-</u>	<u>1,142,721</u>	<u>99,854</u>	<u>72,988,419</u>
<b>Total accumulated depreciation and impairment</b>	-	<u>1,535,432</u>	<u>128,019,794</u>	<u>352,350,283</u>	<u>3,211,568</u>	<u>1,151,585</u>	<u>16,586,916</u>	<u>208,249</u>	<u>503,063,827</u>
<b>December 31, 2019</b>	<u>157,850,000</u>	<u>435,825</u>	<u>117,980,433</u>	<u>289,482,806</u>	<u>613,266</u>	<u>438,720</u>	<u>7,037,940</u>	<u>17,251</u>	<u>573,856,241</u>

SAUDI STEEL PIPES COMPANY  
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Operating fixed assets (continued)

Year ended December 31, 2018

	Land	Land Improvements	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and fixtures	Office and equipment's	Leased asset	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
<b><u>At January 1, 2018</u></b>									
Cost	157,850,000	1,930,667	234,621,180	623,618,608	5,777,425	4,169,666	24,403,296	225,500	1,052,596,342
Accumulated depreciation	-	(257,418)	(80,365,228)	(252,594,143)	(4,566,844)	(3,174,080)	(17,846,138)	(12,527)	(358,816,378)
Net book value	<u>157,850,000</u>	<u>1,673,249</u>	<u>154,255,952</u>	<u>371,024,465</u>	<u>1,210,581</u>	<u>995,586</u>	<u>6,557,158</u>	<u>212,973</u>	<u>693,779,964</u>
<b><u>Cost</u></b>									
Opening	157,850,000	1,930,667	234,621,180	623,618,608	5,777,425	4,169,666	24,403,296	225,500	1,052,596,342
Additions	-	40,590	-	2,444,932	-	-	72,201	-	2,557,723
Transferred from CWIP	-	-	5,080,534	26,234,507	127,800	71,299	1,254,735	-	32,768,875
Disposals and written-off	-	-	-	(3,728,467)	(583,300)	-	(3,499)	-	(4,315,266)
	<u>157,850,000</u>	<u>1,971,257</u>	<u>239,701,714</u>	<u>648,569,580</u>	<u>5,321,925</u>	<u>4,240,965</u>	<u>25,726,733</u>	<u>225,500</u>	<u>1,083,607,674</u>
<b><u>Accumulated depreciation and impairment</u></b>									
<b><u>Accumulated depreciation</u></b>									
Opening	-	257,418	80,365,228	252,594,143	4,566,844	3,174,080	17,846,138	12,527	358,816,378
For the year	-	65,410	8,917,928	36,030,564	259,535	319,367	1,661,152	75,167	47,329,123
Disposals and written-off	-	-	-	(3,616,647)	(299,910)	-	(3,135)	-	(3,919,692)
	-	<u>322,828</u>	<u>89,283,156</u>	<u>285,008,060</u>	<u>4,526,469</u>	<u>3,493,447</u>	<u>19,504,155</u>	<u>87,694</u>	<u>402,225,809</u>
<b><u>Accumulated Impairment</u></b>									
Opening	-	-	-	-	-	-	-	-	-
For the year	-	1,428,363	31,799,543	39,452,958	66,542	-	141,160	99,853	72,988,419
	-	<u>1,428,363</u>	<u>31,799,543</u>	<u>39,452,958</u>	<u>66,542</u>	-	<u>141,160</u>	<u>99,853</u>	<u>72,988,419</u>
<b>Total accumulated depreciation and impairment</b>	-	<u>1,751,191</u>	<u>121,082,699</u>	<u>324,461,018</u>	<u>4,593,011</u>	<u>3,493,447</u>	<u>19,645,315</u>	<u>187,547</u>	<u>475,214,228</u>
<b>Net book value</b>	<u>157,850,000</u>	<u>220,066</u>	<u>118,619,015</u>	<u>324,108,562</u>	<u>728,914</u>	<u>747,518</u>	<u>6,081,418</u>	<u>37,953</u>	<u>608,393,446</u>

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4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.2 Right of use assets

Movement in right of use assets is as follows:

	December 31, 2019
	SR
Opening balance	-
Impact of adoption of IFRS 16 (Note 3.6.1 (B))	8,315,197
January 1, 2019 (restated)	8,315,197
Depreciation for the year (Note 4.2.1)	(750,686)
Closing balance	7,564,511

4.2.1 Depreciation for the year 2019 has been charged to cost of revenue (note 18).

4.3 Depreciation of operating fixed assets for the year has been allocated as follows:

	Note	December 31, 2019 SR	December 31, 2018 SR
Cost of revenue	18	42,451,934	45,872,882
Administrative expenses	20	1,137,975	1,456,241
		<b>43,589,909</b>	47,329,123

\* Operating fixed assets are pledged as security against loans from SIDF and commercial banks.

4.4 Capital work-in-progress:

	Note	December 31, 2019 SR	December 31, 2018 SR
Net book value at the beginning of the year		7,278,529	11,503,396
Additions during the year		4,937,612	29,491,268
Transferred to operating fixed assets	4.1	(10,302,633)	(32,768,875)
Transferred to intangible assets	5	(1,913,508)	(947,260)
Net book value at the end of the year		-	7,278,529

4.5 Impairment of property plant and equipment:

	Note	December 31, 2019 SR	December 31, 2018 SR
Impairment of bending factory	4.5 (a)	-	21,000,000
Impairment of TSM Arabia	4.5 (b)	-	51,988,419
Net book value		-	72,988,419

- (a) During the year, the Group management has updated its impairment assessment of its bending division having total property, plant and equipment amounting to SR 33.4 million. Based on the results of the impairment study, the management has decided that no further impairment (2018: SR 21 million) of the property, plant and equipment of this division is required. The discount rate used to estimate value in use is 8.5% (2018:8.9%).
- (b) In year 2018, management had conducted an impairment study for the subsidiary. This study has resulted in an impairment of an amount of SR 51.99 million, for the year ended December 31, 2018, which was charged to the Group's consolidated statement of profit or loss and other comprehensive income in the prior year. No further impairment was made for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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5. INTANGIBLE ASSETS

		December 31, 2019	December 31, 2018
		SR	SR
Cost		9,123,924	7,210,416
Accumulated amortization		(6,357,286)	(5,930,273)
Net book value		<b>2,766,638</b>	1,280,143
		December 31, 2019	December 31, 2018
	<u>Note</u>	SR	SR
<b><u>Cost</u></b>			
Opening balance		7,210,416	7,109,981
Transferred from CWIP	4.4	1,913,508	947,260
Written off		-	(846,825)
Closing balance		<b>9,123,924</b>	7,210,416
<b><u>Accumulated amortization</u></b>			
Opening balance		5,930,273	6,543,670
Charged for the year		427,013	233,428
Written off		-	(846,825)
Closing balance		<b>6,357,286</b>	5,930,273
<b>Net book value</b>		<b>2,766,638</b>	1,280,143

Amortization for the year has been charged to administrative expenses (Note 20).

6. INVESTMENTS

Investments are classified as follows:

	<u>Note</u>	December 31, 2019	December 31, 2018
		SR	SR
Investment in associate, net	6.1	105,421,605	96,481,720
Investment at fair value through profit or loss	6.2	-	-
		<b>105,421,605</b>	96,481,720

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**6. INVESTMENTS (Continued)**

**6.1 Investments in associate, net**

Movement for investments in associate is as follows:

	<b>December 31, 2019</b>	December 31, 2018
	SR	SR
<b>Global Pipe Company (“GPC”)</b>		
<b>Opening value of investment</b>	<b>96,481,720</b>	96,727,317
Share of profit / (loss) for the year	<b>8,939,885</b>	(245,597)
	<b>105,421,605</b>	96,481,720
<b>Investment in associate represents the following:</b>		
Cost of acquisition	<b>45,000,000</b>	45,000,000
Loan contribution toward capital increase	<b>43,750,000</b>	43,750,000
Share of retained earnings (opening balance)	<b>7,731,720</b>	7,977,317
Share of profit / (loss) for the year	<b>8,939,885</b>	(245,597)
Net investment value	<b>105,421,605</b>	96,481,720

**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%, which was later increased to SR 250 million.

**6.2 Investment at fair value through profit or loss**

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 year 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

7. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise of the following:

	Note	December 31, 2019	December 31, 2018
		SR	SR
Trade receivables	7.1	181,966,732	115,822,224
Revenue recognized in excess of billings		34,604,194	61,295,646
Allowance for impairment of trade receivables	7.2	(7,586,779)	(6,704,798)
Trade receivables, net		208,984,147	170,413,072
Due from related parties	23 (A)	1,110,020	6,977,207
Prepayments and advances to suppliers		9,308,981	13,027,528
Value added tax adjustable / refundable		-	1,669,207
Employee loans		11,084,428	17,413,192
Other receivables		528,080	627,628
		<b>231,015,656</b>	<b>210,127,834</b>
Less: non-current portion of employee loans		(7,385,212)	(10,380,361)
Total current portion, net		<b>223,630,444</b>	<b>199,747,473</b>

7.1 Five major customers' balances represent 71.1% (2018: 71.39%) of gross trade receivables. Balance due from one major customer represents 38.7% (2018: 47.58%).

7.2 Movement in the allowance for impairment of trade receivables is as follows:

	December 31, 2019	December 31, 2018
	SR	SR
Opening balance	6,704,798	4,255,184
Allowance for the year	892,831	2,453,398
Utilized against receivables written off	(10,850)	(3,784)
Closing balance	<b>7,586,779</b>	<b>6,704,798</b>

Age of trade receivables is presented in note 25.2.1.

8. INVENTORIES

	Note	December 31, 2019	December 31, 2018
		SR	SR
Raw material		18,664,852	38,532,923
Goods in transit		15,792,068	8,392,257
Work in progress		71,487,686	45,619,569
Finished goods including by-products		26,378,395	81,796,196
Store, spare and supplies		42,041,661	45,888,347
		<b>174,364,662</b>	<b>220,229,292</b>
Allowance for slow moving inventory	8.1	(24,298,538)	(18,084,206)
		<b>150,066,124</b>	<b>202,145,086</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**8. INVENTORIES (Continued)**

8.1 Movement in provision for slow moving inventory is as follows:

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
		SR	SR
Opening balance		<b>18,084,206</b>	8,024,031
Addition for the year	18	<b>7,137,070</b>	14,304,298
Utilized against inventories written off		<b>(922,738)</b>	(4,244,123)
Closing balance		<b>24,298,538</b>	18,084,206

Allowance for slow moving inventory is based on the nature and type of inventories, aging history and future sales expectations based on historical trends and other related factors.

**9. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise of the followings:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	SR	SR
Cash on hand	<b>61,982</b>	27,000
Cash at banks	<b>39,444,800</b>	23,472,467
	<b>39,506,782</b>	23,499,467

**9.1 Reconciliation of liabilities arising from financing activities**

	<u>December 31, 2018</u>	<u>Cash flows Loans (paid) / received, net</u>	<u>Non- cash Finance lease liability</u>	<u>Non- cash charges Amortization of finance charges</u>	<u>December 31, 2019</u>
	SR	SR	SR	SR	SR
SIDF Loan	142,497,307	<b>(38,080,600)</b>	-	<b>2,862,964</b>	<b>107,279,671</b>
Overdraft	5,434,230	<b>(5,434,230)</b>	-	-	-
Short term Murabaha loan	163,847,135	<b>16,134,628</b>	-	-	<b>179,981,763</b>
Finance lease liability	212,253	<b>(449,558)</b>	<b>7,571,419</b>	<b>269,896</b>	<b>7,604,010</b>
	<b>311,990,925</b>	<b>(27,829,760)</b>	<b>7,571,419</b>	<b>3,132,860</b>	<b>294,865,444</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

9. CASH AND CASH EQUIVALENTS (Continued)

9.2 Significant non-cash transactions

	December 31, 2019	December 31, 2018
	SR	SR
Transfer of capital work in progress to property, plant and equipment	10,302,633	32,768,875
Transfer of capital work in progress to intangible assets	1,913,508	947,260
Absorption of accumulated losses against share premium	126,793,725	87,522,354
Un-winding of interest amortization	3,132,860	2,296,795
Allowance for impairment of trade receivables charged to accumulated losses on adoption of IFRS 9	-	546,864
Right of use assets and lease liability	7,571,419	-
Right of use adjusted against prepayments	743,778	-
Transferred from EOSB to accrued liabilities	2,876,852	-
Employee loan discounting	721,293	-

10. DEFERRED TAX ASSET

Movement on deferred tax asset / liability is as under:

	At January 1, 2019	Statement of profit or loss	Statement of other comprehensive income	At December 31, 2019
	SR	SR	SR	SR
Difference between accounting and tax basis of:				
Property plant and equipment	-	15,271,840	-	15,271,840
Intangible assets	-	355,014	-	355,014
Deferred tax liability	-	15,626,854	-	15,626,854
Employees' end of services benefits	-	5,775,348	974,202	6,749,550
Provision for slow moving inventory	-	2,861,348	-	2,861,348
Provision for impairment of trade receivables	-	716,894	-	716,894
Provision for guarantee	-	3,849,600	-	3,849,600
Accumulated taxable losses *	-	10,145,696	-	10,145,696
Deferred tax asset	-	23,348,886	974,202	24,323,088
Net deferred tax asset	-	7,722,032	974,202	8,696,234

\* Accumulated taxable losses include taxable losses attributable to previous years' foreign shareholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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11. EQUITY

11.1 Share capital

	Number of shares		Share Capital	
	December 31, 2019	December 31, 2018	December 31, 2019 SR	December 31, 2018 SR
<b>Authorized issued and fully paid</b>				
Ordinary shares of SR 10 each fully paid in cash	<b>51,000,000</b>	51,000,000	<b>510,000,000</b>	510,000,000

The distribution of shares into Saudi and non-Saudi shareholders is as follows;

	December 31, 2019 SR	December 31, 2018 SR
Non-Saudi 64.17% (2018: 16.37%)	<b>327,251,630</b>	83,506,500
Saudi 35.83% (2018: 83.63%)	<b>182,748,370</b>	426,493,500
	<b>510,000,000</b>	510,000,000

11.2 Premium and other reserves

	Note	December 31, 2019 SR	December 31, 2018 SR
Share premium	11.2 (a)	<b>4,512,330</b>	131,306,055
Statutory reserve	11.2 (b)	<b>58,494,224</b>	58,494,224
Other reserves	11.2 (c)	<b>(6,617,758)</b>	(2,061,237)
Accumulated losses	11.2 (d)	<b>(26,828,587)</b>	(126,793,725)

11.2 (a) Share premium

The share premium represents excess of issue price over the par value on shares issued to the public at time of initial public offering. Number of shares offered to the public was 16 million shares with price of SR 25 per share with a nominal value of SR 10 per share. Initial expenses for issuing these shares were SR 21 million, which has been deducted from the share premium.

During the year ended December 31, 2018, the shareholders 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.

As at December 31, 2018, the accumulated losses of the Group had reached to SR 126.8 million. In the meeting of board of directors dated March 17, 2019, the board members unanimously resolved to absorb the whole amount of accumulated losses as at December 31, 2018 by transferring the same amount from share premium to accumulated losses. The resolution was later ratified by the shareholders in their general assembly meeting dated May 7, 2019.

11.2 (b) Statutory reserve

In accordance with Company's By-Laws, the Group is required to transfer 10% of net income each year to a statutory reserve until such reserve equals 30% of its share capital. This reserve is not available for distribution to shareholders. No transfer was made during the year due to the losses incurred.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**11. EQUITY (Continued)**

**11.2 (c) Other reserves**

Other reserves represent the cumulative re-measurement gains or losses arising from experience adjustments and changes in actuarial assumptions used for estimating the employees' end-of-service benefits obligation at end of each financial position date and deferred tax on actuarial reserve.

	<b>December 31, 2019</b>	December 31, 2018
	<b>SR</b>	SR
Actuarial re-measurement losses	<b>(7,591,960)</b>	(2,061,237)
Deferred tax impact on OCI	<b>974,202</b>	-
	<b><u>(6,617,758)</u></b>	<u>(2,061,237)</u>

**11.2(d) Accumulated losses**

The distribution of accumulated losses into Saudi and non-Saudi shareholders is as follows:

	<b>December 31, 2019</b>	December 31, 2018
	<b>SR</b>	SR
Saudi share	<b>(12,645,230)</b>	(105,597,070)
Non-Saudi share	<b>(14,183,357)</b>	(21,196,655)
	<b><u>(26,828,587)</u></b>	<u>(126,793,725)</u>

**11.3 Treasury shares**

Movement in treasury shares is as follows:

	<b>2019</b>	2018
As at January 1,	<b>(457,689)</b>	(462,063)
Treasury shares granted to employees	-	4,374
As at December 31,	<b><u>(457,689)</u></b>	<u>(457,689)</u>
Amount (SR) as at December 31,	<b><u>(11,502,225)</u></b>	<u>(11,502,225)</u>

As at December 31, 2019 the treasury shares held by the Group represent 2.26% of the share capital (2018: 2.26%). Their market value amounts to SR 9.5 million. (2018: SR 8.3 million). The Group initially acquired 700,000 shares offered to the public for the employee share program at the price of SR 25 per employee share options scheme, subsequently an additional 62,812 shares had been purchased at an average price of SR 29 per share. This employee share program is divided into four types of shares, namely; free shares, credit shares, cash shares and future shares. During the year 2019, the Group has not granted shares to employees (2018: 4,374 shares). The remaining 457,689 shares will be distributed to the employees gradually according to the program. The employee shares program is initially recorded in the balance sheet as a deduction to shareholder's equity and this deduction is reduced upon issuance of shares to employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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12. BORROWINGS

	Current		Non-Current	
	December 31, 2019 SR	December 31, 2018 SR	December 31, 2019 SR	December 31, 2018 SR
<b>Term loans</b>				
Saudi Industrial Development Fund (SIDF)	-	-	107,279,671	142,497,307
<b>Short Term</b>				
Overdraft	-	5,434,230	-	-
Murabaha loan	179,981,763	163,847,135	-	-
	<b>179,981,763</b>	<b>169,281,365</b>	<b>107,279,671</b>	<b>142,497,307</b>
Current portion of long term loans	47,474,754	37,747,651	(47,474,754)	(37,747,651)
Non-current portion of Murabaha loans	-	(30,152,533)	-	30,152,533
Total borrowings	<b>227,456,517</b>	<b>176,876,483</b>	<b>59,804,917</b>	<b>134,902,189</b>

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	77,261,836	Long-term	5	Semi-annual	April 2018 to March 2022	Follow-up cost every 6 month
SIDF – II	30,017,835	Long-term	5	Semi-annual	July 2016 to July 2022	Follow-up cost every 6 month
<b>Total long term</b>	<b>107,279,671</b>					
Murabaha loan	179,981,763	Short-term	-	From 3 to 6 months	-	SIBOR+1.25% to 1.75%
<b>Total borrowings</b>	<b>287,261,434</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. As at March 20, 2020, Ministry of Industry announced the deferral and rescheduling of the loan installment that are due in 2020 for medium and large factories. However, this matter is considered as non-adjusting subsequent event and the loan are kept classified according to original terms of the contract. During the year, the Group charged to the profit or loss the amounts of SR 2.9 million (2018: SR 2.26 million) and SR 1.86 million (2018: SR 2.28 million) on unwinding of interest and follow up cost respectively on SIDF loans.

In addition, the Group has incurred, during the year, interest cost of SR 9.1 million (2018: 6.3 million) on Murabaha loans and SR 0.41 million (2018: SR 0.15 million) on overdraft.

These borrowings facility agreements are subject to certain financial and non-financial covenants. The Group is complying with all the covenants except for a long term loan obtained by the subsidiary which has a balance of SR 30 million. The management is in the process of taking the necessary remedial actions to resolve the breach, including obtaining the required waiver documents. The management expects, based on its current negotiations and its experience with SIDF, that the breach will not result in loan to be payable on demand. Accordingly, loans are continued to be classified as per their original terms of payment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**13. EMPLOYEES' END OF SERVICE BENEFITS**

The Group carried out actuarial valuations to account for its obligations under defined benefit plan. Following mentioned results are extracted from actuarial valuation.

Movement in employees' end of service benefits during the year is as follows:

	<b>December 31, 2019</b>	December 31, 2018
	<b>SR</b>	SR
Opening balance	<b>58,325,525</b>	56,887,723
Expense charge for the year	<b>7,565,800</b>	7,150,124
Re-measurement loss	<b>5,530,723</b>	1,309,557
Payments	<b>(12,990,777)</b>	(7,021,879)
Transferred to accrued liabilities for outgoing members	<b>(2,876,852)</b>	-
Closing balance	<b>55,554,419</b>	58,325,525

**Charge to consolidated statement of profit or loss for the year:**

	<b>December 31, 2019</b>	December 31, 2018
	<b>SR</b>	SR
Current service cost	<b>4,947,959</b>	5,296,451
Interest cost	<b>2,617,841</b>	1,853,673
Cost recognized in profit and loss	<b>7,565,800</b>	7,150,124

**Principal actuarial assumptions:**

	<b>December 31, 2019</b>	December 31, 2018
Discount factor used	<b>2.95%</b>	4.45%
Salary increase rate	<b>2.95%</b>	4.45%
Rates of employees turnover	<b>Moderate</b>	Moderate

**Sensitivity analysis on present value of defined benefit obligations plan are as below:**

	December 31, 2019		December 31, 2018	
	Percentage	Amount SR	Percentage	Amount SR
<b>Discount rate</b>				
Increase	+ 0.5 %	<b>53,019,375</b>	+ 0.5 %	55,776,261
Decrease	- 0.5 %	<b>58,291,896</b>	- 0.5 %	61,070,092
<b>Expected rate of salary</b>				
Increase	+0.5 %	<b>57,413,505</b>	+ 0.5 %	59,953,179
Decrease	- 0.5 %	<b>53,801,227</b>	- 0.5 %	56,783,122

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the end-of-service indemnities recognised within the consolidated statement of financial position.

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14. TRADE AND OTHER PAYABLES

Trade and other payables comprise of the following:

	<b>December 31, 2019</b>	December 31, 2018
	<b>SR</b>	SR
<b><u>Current</u></b>		
Trade payables	<b>156,482,724</b>	154,492,986
Due to related parties ( Note 23 B )	<b>13,508,196</b>	159,798
Warranty provision	-	1,517,500
Provision for liability against guarantee to an investee company (Note 14.1)	-	30,000,000
Accrued expenses	<b>23,886,998</b>	21,172,176
Advances from customers	<b>8,187,316</b>	4,732,334
VAT payable	<b>1,652,254</b>	-
Other liabilities	<b>6,051,343</b>	2,322,388
	<b>209,768,831</b>	214,397,182
<b><u>Non-current</u></b>		
Provision for liability against guarantee to an investee company (Note 14.1)	<b>30,000,000</b>	-
	<b>239,768,831</b>	214,397,182

14.1 The Group 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 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 charged the whole amount to the Group's consolidated statement of profit or loss and other comprehensive income in prior year. During the year, based on the latest information, the management believes that guarantee is not expected to be maturing for payment within next twelve months and accordingly, reclassified as non-current liability.

15. ZAKAT AND INCOME TAX

15.1 Movement in provision for zakat and income tax is as follows:

	<b>Note</b>	<b>December 31, 2019</b>	December 31, 2018
		<b>SR</b>	SR
At the beginning of the year		<b>7,415,788</b>	8,093,982
Payments		<b>(1,622,474)</b>	(2,960,470)
Adjustments		-	(7,419)
Provision (reversed) / charged for the year	15.2	<b>(5,793,314)</b>	2,289,695
At the end of the year		<b>-</b>	7,415,788

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15. ZAKAT AND INCOME TAX (Continued)

15.2 Components of current zakat and income tax (benefit) / expense for the year:

	Note	December 31, 2019 SR	December 31, 2018 SR
Zakat			
Current year		-	2,289,695
Prior years		(1,811,217)	-
Income tax			
Prior years		(3,982,097)	-
<b>Total current zakat and income tax (benefit) / expense</b>		<b>(5,793,314)</b>	<b>2,289,695</b>
<b>Deferred tax</b>			
Increase in deferred tax liability	10	15,626,854	-
Increase in deferred tax asset	10	(24,323,088)	-
<b>Net deferred tax benefit</b>		<b>(8,696,234)</b>	<b>-</b>
<b>Total Zakat and income tax (benefit) / expense</b>		<b>(14,489,548)</b>	<b>2,289,695</b>

Charged zakat and income tax for the year has been allocated as follows:

	December 31, 2019 SR	December 31, 2018 SR
Profit or loss	(13,515,346)	2,289,695
Other comprehensive income	(974,202)	-
	<b>(14,489,548)</b>	<b>2,289,695</b>

15.3 The zakat and income tax provision for the year based on the following:

	December 31, 2019 SR	December 31, 2018 SR
<b>a) Zakat</b>		
<b>Zakat for holding Company</b>		
Opening share capital	510,000,000	510,000,000
Treasury shares	(11,502,225)	(11,502,225)
Accumulated losses	(126,793,733)	-
Reserves and opening provisions less utilized	243,686,151	288,627,814
Closing value of bank loans	77,261,836	111,770,182
Closing value of long term assets	(673,948,817)	(732,060,991)
Other adjustments	-	1,539,762
Zakatable loss for the year	(50,832,986)	(58,854,050)
Zakat base	(32,129,774)	109,520,492
Attributable to Saudi Shareholders @ 35.83% (2018: 83.63%)	-	91,587,800
Zakat due at 2.5% of Saudi shareholding for the holding Company	-	2,289,695
Zakat for subsidiary company	-	-
<b>Total Zakat</b>	<b>-</b>	<b>2,289,695</b>

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15. ZAKAT AND INCOME TAX (Continued)

	December 31, 2019	December 31, 2018
	SR	SR
<b>b) Income tax</b>		
Loss before zakat and income tax	(40,343,933)	(166,367,481)
Adjustments	(10,489,053)	107,513,431
Taxable loss for the year	(50,832,986)	(58,854,050)
Attributable loss to Non-Saudi shareholders at 64.17% (2018: 16.37%)	(32,617,995)	(9,606,706)
Income tax due at 20% of Non-Saudi shareholders	-	-

15.4 Zakat and income tax status

The Holding Company has filed zakat and income tax return for the year ended December 31, 2018 and obtained the required certificate valid until 30 April 2020. The Holding Company was inspected and had last assessment up to year 2004, afterward no assessment order was issued by GAZT to the Company as of the year ended December 31, 2018.

The subsidiary Company has filed the zakat return for the year ended December 31, 2018 and obtained the required certificate. The GAZT has not issued any assessment to the Subsidiary till the year ended December 31, 2018.

16. FINANCE LEASE LIABILITY

Commitments for minimum lease payments under finance lease are as follows:

	December 31, 2019	December 31, 2018
	SR	SR
Within one year	1,509,304	92,976
Year two to five	4,198,520	142,625
Year five and above	3,094,816	-
Minimum lease payments	8,802,640	235,601
Less: finance charges	(1,198,630)	(23,348)
Net minimum lease payments	7,604,010	212,253
Non-current portion	6,978,705	83,762
Current portion	625,305	128,491

17. CONTINGENCIES AND COMMITMENTS

	December 31, 2019	December 31, 2018
	SR	SR
Letters of credit	40,798,878	27,745,067
Letters of guarantee	164,699,164	141,650,141
Corporate guarantees (note 17.1)	493,879,690	591,006,733
Capital commitments	1,851,961	4,900,138

17.1 Corporate guarantees represent guarantees issued by the holding Company to its associate.

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18. COST OF REVENUE

	December 31, 2019	December 31, 2018
	SR	SR
Raw material consumed, net	370,886,741	400,861,826
Stores, spares parts and consumables	54,117,929	65,171,072
Salaries and staff related benefits	109,315,919	93,968,892
Services and subcontractor	18,424,966	15,666,421
Depreciation of fixed assets and right of use assets	43,202,620	45,872,882
Provision for slow moving inventory	7,137,070	14,304,298
Others	25,740,071	31,068,359
<b>Total operating cost</b>	<b>628,825,316</b>	<b>666,913,750</b>
Movement in inventory	29,549,684	(18,640,842)
<b>Total</b>	<b>658,375,000</b>	<b>648,272,908</b>

19. SELLING, MARKETING AND DISTRIBUTION EXPENSES

	December 31, 2019	December 31, 2018
	SR	SR
Salaries and wages	7,825,520	8,045,608
Local transportation	4,465,875	4,018,405
Freight charges – export	658,690	2,187,110
Others	1,142,117	2,788,156
	<b>14,092,202</b>	<b>17,039,279</b>

20. ADMINISTRATIVE EXPENSES

	December 31, 2019	December 31, 2018
	SR	SR
Salaries and wages	20,940,444	19,012,300
Directors remuneration	2,229,736	2,029,146
Amortization of intangible assets	427,013	233,428
Depreciation	1,137,975	1,456,241
Information technology expenses	2,265,445	2,073,282
Others	6,014,196	5,055,875
	<b>33,014,809</b>	<b>29,860,272</b>

21. OTHER EXPENSES / (INCOME), NET

	December 31, 2019	December 31, 2018
	SR	SR
Property, plant and equipment written off	57,963	283,754
Loss on disposal of property, plant and equipment	1,477,565	82,006
Bank charges	695,002	275,250
Other income, net	(2,045,777)	(1,005,531)
	<b>184,753</b>	<b>(364,521)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**22. SEGMENT REPORTING**

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 3 of these consolidated financial statements.

Segment analysis of the Group's operations for the year consist of the following:

<b>As at December 31, 2019</b>	<b>Steel pipes</b> SR	<b>Process equipment</b> SR	<b>Unallocated</b> SR	<b>Total</b> SR
Non-current assets	579,928,485	20,340,351	105,421,605	705,690,441
Total Assets	924,286,305	89,185,881	105,421,605	1,118,893,791
Total liabilities	397,013,592	191,969,477	1,852,738	590,835,807
<b><u>For the year ended December 31, 2019</u></b>				
Revenue	582,549,301	89,003,833	-	671,553,134
Cost of revenue	(560,880,04)	(97,494,957)	-	(658,375,000)
Loss for the year	(11,257,658)	(22,281,078)	6,710,149	(26,828,587)
Share of profit in associate	-	-	8,939,885	8,939,885
Unallocated other expenses	-	-	(2,229,736)	(2,229,736)

<b>As at December 31, 2018</b>	<b>Steel pipes</b> SR	<b>Process Equipment</b> SR	<b>Unallocated</b> SR	<b>Total</b> SR
Non-current assets	607,415,836	19,916,643	96,481,720	723,814,199
Total assets	930,362,803	125,361,702	96,481,720	1,152,206,225
Total liabilities	522,748,714	67,585,273	2,429,146	592,763,133

**For the year ended December 31, 2018**

Revenue	587,738,758	58,463,146	-	646,201,904
Cost of revenue	(573,895,259)	(74,377,649)	-	(648,272,908)
Share of loss in an associate	-	-	(245,597)	(245,597)
Loss for the year	(82,818,478)	(83,135,571)	(2,703,127)	(168,657,176)
Unallocated other expenses	-	-	(2,457,530)	(2,457,530)

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

	<b>December 31, 2019</b> SR	December 31, 2018 SR
Saudi Arabia	<b>654,120,163</b>	618,926,720
Other countries	<b>17,432,971</b>	27,275,184
	<b>671,553,134</b>	646,201,904

**Transactions with a major customer**

Revenue from one major customer accounted for 52.35% of the total revenue for the year. (2018: 51.47%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**23. 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
Hu Steel Company Ltd.	Shareholder
Abdullah Ibrahim AlKhorayef Sons Company	Former affiliate
Saudi Pan Gulf Company	Former affiliate
Global Pipe Company	Associate
Chemical Development Company	Affiliate
Tenaris Saudi Arabia Co. Ltd ("TESA")	Shareholder
Dalmine S.P.A	Affiliate
Silcotube	Affiliate
Tenaris Global Services Switzerland	Affiliate
Tenaris Global Services Uruguay	Affiliate
Tenaris Siderca	Affiliate

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

<u>Related party</u>	<u>Nature of Transaction</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
		SR	SR
Rabiah & Nassar Group	Sales	181,527	2,105,645
Saudi Pan Gulf Company	Sales	809,926	12,285,715
Hu Steel Company Ltd.	Services received	389,674	319,598
Dalmine S.P.A	Services received	879,191	-
Silcotube	Purchases	15,705,000	-
Tenaris Global Services Switzerland	Expense on behalf	71,494	-
Tenaris Saudi Arabia Ltd	Services rendered	1,065,618	-
Tenaris Global Services Uruguay	Sales	240,385	-
Tenaris Siderca	Services received	796,683	-

A) Balances receivable from related parties are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	SR	SR
Saudi Pan Gulf	-	5,808,133
Rabiah & Nassar Group	-	1,169,074
Tenaris Saudi Arabia Ltd	1,110,020	-
	<u>1,110,020</u>	<u>6,977,207</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**23. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)**

B) Balances payable to related parties are as follows:

	<b>December 31 2019</b>	December 31 2018
	<b>SR</b>	SR
Silco Tube	<b>11,760,000</b>	-
Hu Steel Company Ltd.	-	159,798
Dalmine S.P.A.	<b>879,191</b>	-
Tenaris Siderca	<b>796,683</b>	-
Tenaris Global Services Switzerland	<b>72,322</b>	-
	<b>13,508,196</b>	159,798

C) Remuneration of directors and key management personnel

	<b>December 31, 2019</b>		December 31, 2018	
	<b>Directors</b>	<b>Key management personnel</b>	Directors	Key management personnel
	<b>SR</b>	<b>SR</b>	SR	SR
Board Remuneration	<b>2,229,736</b>	-	2,029,146	-
Salaries and wages	-	<b>2,281,692</b>	-	2,851,168
Allowances	-	<b>957,340</b>	-	1,205,108
Bonus	-	-	-	94,465
End of service	-	<b>147,813</b>	-	397,246
	<b>2,229,736</b>	<b>3,386,845</b>	2,029,146	4,547,987

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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24. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. With regard to diluted 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.

Loss per share for the year are represented as follows:

	<b>December 31, 2019</b>	December 31, 2018
	<b>SR</b>	SR
<b>Basic loss per share</b>	<b>(0.53)</b>	(3.34)
Loss for the year	<b>(26,828,587)</b>	(168,657,176)
Weighted average number of outstanding shares	<b>50,542,311</b>	50,541,331
<b>Diluted loss per share</b>	<b>(0.53)</b>	(3.31)
Loss for the year	<b>(26,828,587)</b>	(168,657,176)
Weighted average number of outstanding shares, considering the effect of dilutive shares	<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
<u>Less: Treasury shares- shares kept for ESOP</u>	<b>(762,812)</b>	(762,812)
<u>Add: Weighted average number of shares issued to employees</u>	<b>305,123</b>	305,123
<b>Number of outstanding shares</b>	<b>50,542,311</b>	50,542,311
<b>Weighted average number of outstanding shares</b>	<b>50,542,311</b>	50,541,331

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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25. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to the following financial risks from its use of the financial instruments:

- Credit risk and concentration of credit risk
- Liquidity risk
- Market risk (including interest rate risk and Foreign currency exchange risk)

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

25.1 Financial instruments by category

	December 31, 2019	December 31, 2018
	SR	SR
<b>Financial assets at amortized cost:</b>		
Trade receivables, net	208,984,147	170,413,072
Employee loans	11,084,428	17,413,192
Deposit with bank	-	3,000,000
Due from related parties	1,110,020	6,977,207
Other receivables	528,080	627,628
Cash and cash equivalents	39,506,782	23,499,467
<b>Total financial assets</b>	<b>261,213,457</b>	<b>221,930,566</b>
	December 31, 2019	December 31, 2018
	SR	SR
<b>Financial liabilities at amortized cost:</b>		
Borrowings	287,261,434	311,778,672
Trade and retention payables	157,129,837	155,126,699
Provision for liability against guarantee to an investee company	30,000,000	30,000,000
Accrued expenses	23,886,998	21,172,176
Due to related parties	13,508,196	159,798
Lease liability	7,604,010	212,253
Other liabilities	6,051,343	2,322,388
<b>Total financial liabilities</b>	<b>525,441,818</b>	<b>520,771,986</b>

The Group has no financial liability at fair value through profit and loss.

25.2 Risk management of financial instruments

The Group reviews and agrees policies for managing each of the risks and these policies are summarized below:

25.2.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Group has policies in place to minimize its exposure to credit risk. The maximum exposure to credit risk at the reporting date is as follows:

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25. FINANCIAL RISK MANAGEMENT (Continued)

25.2.1 Credit risk and concentration of credit risk (Continued)

	December 31, 2019	December 31, 2018
	SR	SR
Trade receivables, net	208,984,147	170,413,072
Employee loans	11,084,428	17,413,192
Deposit with bank	-	3,000,000
Due from related parties	1,110,020	6,977,207
Other receivables	528,080	627,628
Bank balances	39,444,800	23,472,467
	<b>261,151,475</b>	<b>221,903,566</b>

Due to Group's long standing relations with counterparties and after giving due consideration to their financial standing, the management does not expect non-performance by these counter parties on their obligations to the Group except when trade receivables considered doubtful.

The Group's management determines the credit risk by regularly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' aging analysis. In monitoring the customers' credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a restricted customer list, and future credit sales are made only with approval of the Board of Directors, otherwise payment in advance is required. The group assess the recoverable amount of its receivables to ensure adequate allowance for impairment is made.

The Group is potentially subject to concentration of credit risk as outstanding account receivable from one of major customer represents 38.7% (2018: 47.58%) of total receivable balance. However, the Group does not believe significant credit risk exist as the customer is trust worthy and has a good credit history with the Group.

Receivables are classified as past due if they are outstanding for more than ninety days. The aging of trade debts as at the consolidated statement of financial position date is as under:

	Carrying amount SR	Not Due SR	Past due			Provision SR
			90-180 Days SR	Up to 1 year SR	Above 1 year SR	
<b>2019</b>						
Trade receivables	208,984,147	142,306,437	40,734,525	27,157,474	6,372,490	(7,586,779)
<b>2018</b>						
Trade receivables	170,413,072	85,499,662	37,333,626	9,492,808	44,791,774	(6,704,798)

Employee loans include certain amounts secured by mortgages of properties owned by employees such as land, building and vehicles for those who do not have sufficient end of service benefit balance that cover the loan balance.

Cash balances are held with banks with good credit ratings.

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25. FINANCIAL RISK MANAGEMENT (Continued)

25.2.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 30 days. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings, this is further discussed in the 'interest rate risk' section below.

The Group's financial current liabilities consist of the current portion of bank facilities; trade accounts payable and accrued expenses and other liabilities. These liabilities are expected to be settled within 12 months of the consolidated statement of financial position date and the Group expects to have adequate funds available to do so.

The table below summarizes the maturity profile of the Group's financial liabilities based on undiscounted contractual cash payments:

	Carrying amount	Contractual cash flows	Less than 3 months	3 to 12 Months	1 to 5 Years
	SR	SR	SR	SR	SR
<b>December 31, 2019</b>					
Interest-bearing loans and lease liability	294,865,444	296,286,534	49,366,016	175,722,683	71,197,835
Trade and retention payable	157,129,837	157,129,837	156,482,724	-	647,113
Provision for liability against guarantee to an investee company	30,000,000	30,000,000	-	-	30,000,000
Accrued expenses Due to related parties	23,886,998	23,886,998	23,886,998	-	-
Other liabilities	13,508,196	13,508,196	13,508,196	-	-
	6,051,343	6,051,343	6,051,343	-	-
<b>Total financial Liabilities</b>	<b>525,441,818</b>	<b>526,862,908</b>	<b>249,295,277</b>	<b>175,722,683</b>	<b>101,844,948</b>
<b>December 31, 2018</b>					
Interest-bearing loans and lease liability	311,990,925	325,164,049	58,486,274	120,655,343	146,022,432
Trade payable and retention payable	155,126,699	155,126,699	154,492,986	-	633,713
Provision for liability against guarantee to an investee company	30,000,000	30,000,000	-	30,000,000	-
Accrued expenses Due to related parties	21,172,176	21,172,176	21,172,176	-	-
Other liabilities	159,798	159,798	159,798	-	-
	2,322,388	2,322,388	2,322,388	-	-
<b>Total financial Liabilities</b>	<b>520,771,986</b>	<b>533,945,110</b>	<b>236,633,622</b>	<b>150,655,343</b>	<b>146,656,145</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**25. FINANCIAL RISK MANAGEMENT (Continued)**

**25.2.2 Liquidity risk (Continued)**

As at December 31, 2019 the Group's current liabilities exceeded its current assets. The Group is managing its future cash flow requirements through cash inflows from operations and un-availed credit facilities. As at the year end, the Group has liquid assets of SR 253.83 million (2018: SR 198.43 million) and un-availed borrowing facilities of SR 24.2 million (2018: SR 177.32 million).

**25.2.3 Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments due to fluctuation in the related financial instruments value. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

**i) Fair value and cash flow commission rate risk**

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's consolidated financial positions and cash flows. The Group is exposed to commission rate risk on its interest bearing assets and liabilities mainly bank overdraft, bank facilities and other borrowings. Management limits the Group's interest rate risk by monitoring changes in interest rates. Management monitors the changes in interest rates and believes that the cash flow and fair value interest rate risk to the Group is not significant.

The Group's receivables and payables carried at amortized cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will significantly fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

**ii) Foreign currency exchange risk**

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not exposed to fluctuations in foreign exchange rates during its ordinary course of business, since all significant transactions of the Group during the year are in Saudi Riyals and US Dollars and there are no significant risks related to balance stated at USD Dollars since the exchange of Saudi Riyal pegged to US Dollar. The Group's exposure to currency risk arising from currencies that are not pegged to USD (e.g. Euro, GBPs etc.) is not material.

**25.2.4 Fair values of financial instruments**

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group's financial assets consist of cash and cash equivalents, accounts receivables and some other assets, while its financial liabilities consist of borrowings, trade accounts payables, some accrued expenses and other liabilities. The fair values of financial instruments are not materially different from their carrying values.

The carrying value of financial assets not measured at fair value have a reasonable approximation to its fair value. All financial liabilities are at amortized cost and their fair value is a reasonable approximation of fair value.

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**25. FINANCIAL RISK MANAGEMENT (Continued)**

**25.2.5 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or obtain / repay financing from / to financial institutions.

Consistent with others in the industry, the Group manages its capital risk by monitoring its debt levels and liquid assets and keeping in view future investment requirements and expectations of the shareholders. Debt is calculated as total of long term finance and short term borrowings. Total capital employed comprises shareholders' equity as shown in the consolidated statement of financial position under 'share capital and reserves' and net debt (net of cash and cash equivalent).

The salient information relating to capital risk management of the Group as of December 31, 2019 and 2018 were as follows:

	<b>December 31, 2019</b>	December 31, 2018
	<b>SR</b>	SR
Total debt	<b>294,865,444</b>	311,990,925
Less: Cash and bank balances	<b>(39,506,782)</b>	(23,499,467)
Net debt	<b>255,358,662</b>	288,491,458
Total equity	<b>528,057,984</b>	559,443,092
Total capital employed	<b>783,416,646</b>	847,934,550
Gearing ratio	<b>32.60%</b>	34.02%

**26. SIGNIFICANT EVENTS**

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

**27. SUBSEQUENT EVENTS**

The recent coronavirus (COVID-19) pandemic has caused operational interruptions and slowdown in businesses at local, national and global levels. The Group considers the COVID-19 outbreak and its relevant consequences as a non-adjusting post consolidated balance sheet date event. The Group is unable to estimate financial impact of this event at this time.

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

**28. PRIOR YEAR ADJUSTMENT AND RECLASIFICATIONS**

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

**29. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the board of directors and authorized for issue on March 31, 2020 corresponding to Shahban 7, 1441H.