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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH INDEPENDENT AUDITOR'S REPORT

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

INDEPENDENT AUDITOR'S REPORT

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, 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 notes 1 to 27.

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, 2017, 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 Matter

We draw attention that the accumulated losses of TSM Arabia (the subsidiary) as at December 31, 2017 has exceeded its share capital by SR 34.79 million. Based on the business plan for TSM Arabia, management believes that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operations in the future. Furthermore, the Board of Directors of the Group has passed a resolution to continue TSM Arabia's business and to provide sufficient financial support to enable TSM Arabia meet its financial obligations as and when they fall due. Accordingly, the subsidiary's financial statements were prepared on a going concern basis.

Other Matters:

The financial statements of the Group for the year ended December 31, 2016, were audited by another auditor who expressed an unqualified opinion dated March 15, 2017, with an emphasis of matter on the losses of its subsidiary.

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. For each matter listed below, our description on how our audit have addressed this matter is set below:

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INDEPENDENT AUDITOR'S REPORT (Continued)

Key audit matter (continued)	**How the matter was addressed**
1- Revenue Recognition – Sale of goods	
During the year ended December 31, 2017, the Group recognized total revenue of SR 696.42 million (2016: 604.77 million). 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. 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. The accounting policy for revenue is outlined in Note 3.	Our procedures involved the following: - Evaluating the design and implementation, and testing the operating effectiveness of relevant controls over the revenue cycle; - Assess the appropriateness of revenue recognition accounting policies of the Group; - Testing of general controls and major application controls related to revenue recognition; - Inspected sales transactions taking place at either side of year-end to assess whether revenue was recognized in the correct period; and - Performing substantive test of details and analytical procedures.

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INDEPENDENT AUDITOR'S REPORT (Continued)

Key Audit Matters (Continued)	**How the matter was addressed**
2- Inventory valuations	
As at December 31, 2017, the Group has total inventory of SR 185.74 million (2016: 213.56 million). We consider inventory existence and valuation as a key audit matter requiring particular audit attention due to the following: • 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 allowance required at year end. Inventories are held at the lower of cost and net realizable value 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: - Using inventory aging reports together with historical trends to estimate the likely future salability of slow and older inventory; - Analysis of remaining inventory items to ensure it is stated at the lower of cost and net realizable value. • Valuation of various types of inventories at different processes to arrive at the quantities held and related cost at the reporting date. The accounting policy for inventory is outlined in Note 3, and a breakdown of inventories is presented in Note 8.	Our procedures included the following. - Attending the physical inventory count at the year end and assessing the adequacy of controls over the existence of inventory; - Assessing the design and implementation, and testing the effectiveness of the Group's controls on the computation and monitoring the allowance of slow-moving inventory; - Assessed the Group's policies for monitoring and identifying slow moving inventories; - Review the inventory ageing reports used by the management in the assessment of allowance for slow moving inventories; - Tested the net realizable value of inventories by reference to recent prices; and - Evaluated the Group's policy for the valuation of inventory and re-performed the calculation of the inventory valuation.

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INDEPENDENT AUDITOR'S REPORT (Continued)

Key Audit Matters (Continued)	**How the matter was addressed**
3- Change in financial reporting framework	
For all years up to and including the year ended December 31, 2016, the Group has prepared and presented its consolidated financial statements in accordance with generally accepted accounting principles issued by SOCPA. As a result of the regulatory requirements in the Kingdom of Saudi Arabia, for financial periods starting January 1, 2017, the Group has presented its financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA in this respect. Accordingly, the accompanying consolidated financial statements for the year ended December 31, 2017, have been prepared in accordance with the requirements of IFRS and First-Time Adoption of International Financial Reporting Standards. In compliance with these requirements, GAP analysis was performed to determine differences between the previous SOCPA framework and IFRS including the adjustments and disclosures required. Based on the analysis, the Group has assessed the impact of transitioning from SOCPA to IFRS and transition adjustments were accordingly made to the consolidated financial statements as at January 1, 2016 and December 31, 2016. We considered this as a key audit matter as the transitional adjustments due to the change in the financial reporting framework and its significant impact on the consolidated financial statements from a recognition, measurement and disclosure perspective had required additional focus during our audit. Refer to note 25 to the consolidated financial statements for details of transition and reconciliation adjustments in this respect.	The Group have appointed an independent consultant for the transition to IFRSs where GAP analysis was made to identify changes in accounting policies and treatments, presentation and disclosures in the financial statements. We performed the following procedures in respect of transition to IFRSs as endorsed in the Kingdom of Saudi Arabia: - We had a meeting with the consultant to share comments on the report on IFRSs transition adjustments; - Obtained an understanding of the GAP analysis performed by the consultant to identify all significant differences between previous reporting framework and IFRS as endorsed in the Kingdom of Saudi Arabia which can impact the Group's financial statements; - Assessed the appropriateness of the implementation of IFRS, as endorsed in the Kingdom of Saudi Arabia, in accordance with provisions of IFRS 1 and management's decisions in this respect; - Assessed the appropriateness of accounting policies adopted; - Tested the transition adjustments by considering the GAP analysis, the underlying financial information and the computation of these adjustments; and - Assessed the appropriateness of disclosures made for the impact of transition from SOCPA to IFRS.

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INDEPENDENT AUDITOR'S REPORT (Continued)

Key Audit Matters (Continued)	**How the matter was addressed**
4- ***Carrying value of TSM Arabia***	
As illustrated in our emphasis paragraph, the accumulated losses of TSM Arabia as of December 31, 2017 has exceeded its share capital by SR 34.79 million. Management performs on annual basis, an impairment review of its subsidiary in light of losses and the future business plan. In preparing its impairment review, management assess the future business plan of the subsidiary and apply valuation model to determine the expected recoverable amount and realizable values for the purpose of impairment assessment. In doing that, management use an independent consultant to conduct such impairment assessment. 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. The accounting policy for impairment included in Note 3.	Our audit procedures to address this risk are: - We assessed the management process for the identification of the indications of impairment and evaluated the design and implementation of the process. - In case of the existence of impairment indicators, we evaluate whether the model used by management as reviewed by the independent consultant to calculate the value in use of the individual assets is in compliance with the requirements of IAS 36. - Validating the assumptions used for estimating the future cash flows and the related discount rates. - 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. - We assessed whether the related disclosures are in accordance with the requirements of International Financial Reporting Standards.

Other Information included in the Group's 2017 annual report

The Directors 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.

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INDEPENDENT AUDITOR'S REPORT (Continued)

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

The Directors are 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 Directors are 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 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.

• Evaluate the appropriateness of accounting policies used the reasonableness of accounting estimates and relate disclosures made by the Directors.

• 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 Company'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 Company to cease to continue as a going concern.

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INDEPENDENT AUDITOR'S REPORT (Continued)

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

• 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 Company 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.

PKF Al-Bassam & Co.
Allied Accountants

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ترخيص رقم
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Licence No.:
Allied Accountants

Ibrahim A. Al Bassam
License No.337
Al Khobar,
March 20, 2018
Rajab 3, 1439

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	Note	**December 31, 2017**	December 31, 2016 (Restated) (Note 25.1)	January 1, 2016 (Restated) (Note 25.1)
		SR	SR	SR
ASSETS				
Non-current assets				
Property, plant and equipment	4	**705,283,360**	726,915,522	738,786,982
Intangible assets	5	**566,311**	744,029	1,147,995
Investment in associate, net	6.1	**96,727,317**	85,409,277	46,868,728
Investment available for sale	6.2	**-**	23,620,819	58,648,465
Trade and other receivables - non-current	7	**10,905,083**	10,269,042	10,029,870
		813,482,071	846,958,689	855,482,040
Current assets				
Inventories	8	**185,743,446**	213,563,162	273,143,750
Deposit with banks	9	**3,000,000**	13,000,000	13,000,000
Trade and other receivables	7	**202,828,418**	130,240,669	116,332,511
Cash and cash equivalents	10	**10,497,222**	17,322,518	6,012,395
		402,069,086	374,126,349	408,488,656
TOTAL ASSETS		**1,215,551,157**	1,221,085,038	1,263,970,696

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 20, 2018.

Ahmed Al Debasi	Hisham Al Hmili	Abdulhamid El Shazli
Authorized Director	Chief Executive Officer	Finance Manager

The accompanying notes 1 through 27 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AS AT DECEMBER 31, 2017

	Note	December 31, 2017	December 31, 2016 (Restated) (Note 25.1)	January 1, 2016 (Restated) (Note 25.1)
		SR	SR	SR
EQUITY AND LIABILITIES				
EQUITY				
Share capital	11.1	**510,000,000**	510,000,000	510,000,000
Share premium	11.2	**218,828,409**	218,828,409	218,828,409
Statutory reserve	11.2	**58,494,224**	58,494,224	58,494,224
Other reserves	11.2	**(751,680)**	282,400	-
Accumulated losses	11.2	**(45,112,039)**	(64,204,021)	(20,875,438)
Treasury shares	11.3	**(11,611,575)**	(12,010,100)	(12,010,100)
TOTAL EQUITY		**729,847,339**	711,390,912	754,437,095
LIABILITIES				
Non-current liabilities				
Borrowings – non-current	12	**119,627,844**	139,219,250	184,851,853
Employees' end of service benefits	13	**56,887,723**	52,769,752	52,566,857
Finance lease liability		**155,698**	-	-
Retention payables		**633,713**	633,713	-
		177,304,978	192,622,715	237,418,710
Current liabilities				
Trade and other payables	14	**161,086,340**	140,020,379	133,633,500
Borrowings – current	12	**139,148,716**	169,780,561	128,620,361
Finance lease liability		**69,802**	-	-
Zakat and income tax	15	**8,093,982**	7,270,471	9,861,030
		308,398,840	317,071,411	272,114,891
TOTAL LIABILITIES		**485,703,818**	509,694,126	509,533,601
TOTAL EQUITY AND LIABILTIES		**1,215,551,157**	1,221,085,038	1,263,970,696
Contingencies and commitments	16	**-**	-	-

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 20, 2018.

Ahmed Al Debasi	Hisham Al Hmili	Abdulhamid El Shazli
Authorized Director	Chief Executive Officer	Finance Manager

The accompanying notes 1 through 27 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, 2017

	Note	December 31, 2017	December 31, 2016 (Restated) (Note 25.2)
		SR	SR
Revenue	21	**696,421,393**	604,767,876
Cost of revenue	17	**(602,977,060)**	(550,914,341)
Gross profit		**93,444,333**	53,853,535
Selling, marketing and distribution expenses	18	**(18,558,468)**	(22,798,804)
Administrative expenses	19	**(27,581,265)**	(28,724,678)
Other expenses, net	20	**(1,836,414)**	(9,327,708)
Operating profit / (loss)		**45,468,186**	(6,997,655)
Share of profit in an associate	6.1	**11,318,040**	21,040,549
Impairment of investment available for sale	6.2	**(23,620,819)**	(43,027,646)
Finance charges		**(9,672,633)**	(10,759,479)
Profit / (loss) before zakat & income tax		**23,492,774**	(39,744,231)
Zakat and income tax	15	**(4,400,792)**	(5,384,352)
Profit / (loss) for the year		**19,091,982**	(45,128,583)
Other comprehensive income (OCI)			
Items that will not be reclassified to profit or loss in subsequent years			
(Loss) / gain attributable to the re-measurements of employees' end of service benefits	13	**(1,034,080)**	282,400
Total comprehensive income / (loss), net		**18,057,902**	(44,846,183)
Earnings / (loss) per share			
Basic earnings / (loss) per share	23	**0.38**	(0.89)
Diluted earnings / (loss) per share	23	**0.37**	(0.88)

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 20, 2018.

Ahmed Al Debasi	Hisham Al Hmili	Abdulhamid El Shazli
Authorized Director	Chief Executive Officer	Finance Manager

The accompanying notes 1 through 27 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, 2017

	Note	Share capital	Share premium	Statutory reserve	Other reserves	Retained earnings / (Accumulated losses)	Treasury shares	Total equity
		SR	SR	SR	SR	SR	SR	SR
Balance as at January 1, 2016 - As per SOCPA (Audited)		510,000,000	218,828,409	58,494,224	-	1,420,071	(12,010,100)	776,732,604
Impact of adoption of IFRS	25.3	-	-	-	-	(22,295,509)	-	(22,295,509)
Balance as at January 1, 2016 – As per IFRS		510,000,000	218,828,409	58,494,224	-	(20,875,438)	(12,010,100)	754,437,095
Loss for the year		-	-	-	-	(45,128,583)	-	(45,128,583)
Other comprehensive income for the year		-	-	-	282,400	-	-	282,400
Reversal of Board of Directors' re-muneration		-	-	-	-	1,800,000	-	1,800,000
Balance as at December 31, 2016 – (Re-stated)		510,000,000	218,828,409	58,494,224	282,400	(64,204,021)	(12,010,100)	711,390,912
Balance as at January 1, 2017 - As per SOCPA (Audited)		**510,000,000**	**218,828,409**	**58,494,224**	**-**	**(47,760,706)**	**(12,010,100)**	**727,551,827**
Impact of adoption of IFRS	25.3	**-**	**-**	**-**	**282,400**	**(16,443,315)**	**-**	**(16,160,915)**
Balance as at January 1, 2017 – As per IFRS		**510,000,000**	**218,828,409**	**58,494,224**	**282,400**	**(64,204,021)**	**(12,010,100)**	**711,390,912**
Profit for the year		**-**	**-**	**-**	**-**	**19,091,982**	**-**	**19,091,982**
Other comprehensive loss for the year		**-**	**-**	**-**	**(1,034,080)**	**-**	**-**	**(1,034,080)**
Shares issued to employees		**-**	**-**	**-**	**-**	**-**	**398,525**	**398,525**
Balance as at December 31, 2017		**510,000,000**	**218,828,409**	**58,494,224**	**(751,680)**	**(45,112,039)**	**(11,611,575)**	**729,847,339**

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 20, 2018.

Ahmed Al Debasi
Authorized Director

Hisham Al Hmili
Chief Executive Officer

Abdulhamid El Shazli
Finance Manager

The accompanying notes 1 through 27 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, 2017

	December 31, 2017	December 31, 2016 (Restated)
	SR	SR
Cash flows from operating activities:		
Profit / (loss) before zakat and income tax	**23,492,774**	(39,744,231)
Adjustments for:		
Depreciation of property, plant and equipment	**41,682,234**	42,768,753
Amortization of intangible assets	**500,037**	403,966
Gain on disposal of property, plant and equipment, net	**(37,600)**	(58,400)
Property, plant and equipment – written off	**100,334**	8,506,141
Impairment of property, plant and equipment	**-**	1,088,680
Directors' remuneration	**1,040,000**	700,000
Employees' end of service benefits	**6,839,483**	6,755,492
Impairment of investment available for sale	**23,620,819**	43,027,646
Share of profit in an associate	**(11,318,040)**	(21,040,549)
Allowance for impairment for trade receivables	**3,051,907**	1,315,020
Inventories - written down to net realizable value	**-**	2,101,323
Provision for inventories	**4,500,000**	6,992,347
Warranty expense	**-**	6,000,000
Finance charges	**9,672,633**	10,759,479
	103,144,581	69,575,667
Changes in:		
Trade and other receivables	**(76,769,100)**	(11,428,627)
Inventories	**23,319,716**	38,837,434
Deposit with banks	**10,000,000**	-
Trade and other payables	**21,455,175**	2,270,292
Due to / from related parties	**(891,219)**	(111,216)
Cash generated from operations	**80,259,153**	99,143,550
Zakat and income tax paid	**(3,577,281)**	(7,974,911)
Employees' end of service benefits paid	**(2,859,482)**	(6,270,197)
Finance charges paid	**(8,730,294)**	(8,550,057)
Net cash generated from operating activities	**65,092,096**	76,348,385
Cash flows from investing activities:		
Additions to property, plant and equipment	**(19,325,571)**	(28,971,360)
Proceeds from sale of property, plant and equipment	**44,350**	117,000
Addition to available for sale investment	**-**	(8,000,000)
Loan to associate	**-**	(17,500,000)
Net cash used in investing activities	**(19,281,221)**	(54,354,360)
Cash flows from financing activity:		
Repayment of borrowings, net	**(52,636,171)**	(10,683,902)
Net cash used in financing activity	**(52,636,171)**	(10,683,902)
Net change in cash and cash equivalents	**(6,825,296)**	11,310,123
Cash and cash equivalent at the beginning of the year	**17,322,518**	6,012,395
Cash and cash equivalents at the end of the year	**10,497,222**	17,322,518
Non-cash Transactions (Note 10.2)	**-**	-

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 20, 2018

Ahmed Al Debasi	Hisham Al Hmili	Abdulhamid El Shazli
Authorized Director	Chief Executive Officer	Finance Manager

The accompanying notes 1 through 27 form an integral part of these consolidated financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

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

CR No.	CR Dated (Hijri)	CR Dated (Gregorian)	Operating in
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

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

2. STRUCTURE OF THE GROUP

The consolidated financial statements as at December 31, 2017 include the financial statements of the Company and its following subsidiary (collectively referred to as the "Group"):

Name of consolidated subsidiary	Principal activity	Effective ownership 2017	Effective ownership 2016
Titanium and Steel Manufacturing Company Limited ("TSM Arabia")	Manufacture Stationary process equipments	100%	100%

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

As of December 31, 2017, the accumulated losses of TSM Arabia exceeded its share capital by SR 34.79 million. Based on the business plan for TSM Arabia, management believes that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operations in the future. Furthermore, the Board of Directors of Saudi Steel Pipes Company has passed a resolution to continue TSM Arabia's business and to provide sufficient financial support to enable TSM Arabia to meet its financial obligations as and when they fall due. Accordingly, the subsidiary's financial statements were prepared on going concern basis.

3. BASIS OF PREPARATION

3.1 Statement of compliance

These 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 that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

For the years up-to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with the accounting standards issued by Saudi Organization for Certified Public Accountants ("SOCPA").

For the financial periods starting January 1, 2017, and in accordance with the regulations applicable in the Kingdom of Saudi Arabia, the Group prepared its consolidated financial statements financial statement in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA in this respect. The accompanying financial statements are the first annual consolidated financial statements that are prepared in accordance with IFRS.

The accompanying consolidated financial statements have been prepared in accordance with the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards. The effect of IFRS transition on the financial statements as at December 31, 2016 and January 1, 2016 are disclosed in note 25 to the accompanying consolidated financial statements.

The Capital Market Authority (CMA) has decided that the options to use the revaluation model for property, plant, and equipment and intangible assets in IAS 16 and IAS 38 and the option to use the fair value model for investment property in IAS 40 will not be available for the first three years' post-transition from 2017 to 2019 for listed companies. Upon completion of the aforementioned period, the CMA will study whether to continue to require the cost model or whether to allow the application of the fair value/revaluation models. Under this circumstance, the Group cannot avail these options for the current financial year.

3.2 Preparation of the consolidated financial statements

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.

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 3.6.24.

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;

3. BASIS OF PREPARATION (Continued)

3.3 Basis of Consolidation (Continued)

- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the 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 IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.4 Standard issued and applied in January 1, 2017

IAS 7 Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Group's financing activities, as disclosed in Consolidated Statement of Cash Flows, represents only cash flow changes, except for finance cost for which non cash change is reflected in cash flow from operating activities.

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Group does not have any debt instrument measured at fair value.

3. BASIS OF PREPARATION (Continued)

3.5 Standards issued but not yet effective.

New standards, amendments and revised IFRS issued but not yet effective.

The following new accounting standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting year beginning on January 1, 2018 or later. The Group has not early adopted them.

IFRS 9 – Financial Instruments
IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement

The standard contains requirements in the following areas:

Classification and measurement
Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment
The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

De-recognition
The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior years with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at 1 January 2018.

3. BASIS OF PREPARATION (Continued)

3.5 Standards issued but not yet effective. (Continued)

New standards, amendments and revised IFRS issued but not yet effective. (Continued)

IFRS 15 – Revenue from Contract with Customers
This standard combines, enhances and replaces specific guidance on recognizing revenue with a single standard.

It replaces all existing revenue requirements in IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programmed", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC 31 Revenue – (Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

It defines new five-step model criteria to recognize revenue from customer contracts. These five steps include (i) identify the contract with a customer, (ii) identify the performance obligations within the contract, (iii) determine the transaction price, (iv) allocate the price to the performance obligations and (v) recognize revenue when (or as) the performance obligations are fulfilled.

This standard is mandatory for the accounting year beginning on January 1, 2018. The Group will adopt the standard on the same date.

IFRS 16 – Leases
This standard will replace IAS 17 – 'Leases', IFRIC 4 – 'Whether an arrangement contains a lease', SIC 15 – 'Operating leases – Incentives' and SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease' and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

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

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

Amendment to standard IFRS 2 – Classification and Measurement of Share-based Payment Transactions
These amendments relate to the following areas: • the accounting for the effects of vesting conditions on cash-settled share-based payment transactions; • the classification of share-based payment transactions with net settlement features for withholding tax obligations; and • the accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.

The amendments will be applied prospectively to annual period beginning on or after January 1, 2018, with specific transitional requirements. The Group is currently assessing the impact of this new standard.

IFRIC 23 – Uncertainty over Income Tax Treatments
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'. It specifically considers: whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The interpretation is not expected to have a material impact on the Group's consolidated financial statements.
This interpretation will be applicable annual periods beginning on or after January 1, 2019.

3. BASIS OF PREPARATION (Continued)

3.5 Standards issued but not yet effective. (Continued)

Other amendments

The following new or amended standards are not yet effective and neither expected to have a significant impact on the Group's consolidated financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

These amendments clarify the transaction date used to determine the exchange rate. IFRIC 22 is effective for annual reporting period beginning on or after January 1, 2018.

Amendments to IFRS 7 Financial Instruments.

Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. The amendments will be applied prospectively to annual period when IFRS 9 is first applied.

Amendments to IAS 40 Investment Property

Amendments have been made to state that that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list. The amendment is not likely to have a significant impact on the Group's consolidated financial statements. This amendment will be effective for annual periods beginning on or after 1 January 2018.

Annual Improvements to IFRSs 2014–2016 Cycle

- IFRS 1 First-time Adoption of IFRS - Outdated exemptions for first-time adopters of IFRS are removed. Effective for annual periods beginning on or after 1 January 2018.

- IAS 28 Investments in Associates and Joint Ventures - A venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.

  A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. These amendments effective retrospectively for annual periods beginning on or after 1 January 2018.

Management anticipates that these new standards, interpretations and amendments except for IFRS 9 and IFRS 15 will have no material impact on the consolidated financial statements of the Group in the period of initial application. As of December 31, 2017, the Group is in the process of completing its evaluation of the impact of IFRS 9 and IFRS 15 on its financial statements.

3. BASIS OF PREPARATION (Continued)

3.6 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.

3.6.1 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.

Machinery and equipment	5 - 30 years
Buildings and structures	20 -50 years
Motor vehicles	5 - 10 years
Furniture and fixture	5 - 10 years
Office equipment	3 – 10 years
Leased asset	3 year (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;

3. BASIS OF PREPARATION (Continued)

3.6.1 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.

3. BASIS OF PREPARATION (Continued)

3.6.1 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.

3.6.2 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 4 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.

3.6.3 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 available for sale.

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. 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. BASIS OF PREPARATION (Continued)

3.6.4 Financial assets

Recognition and de-recognition

Regular purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. Financial assets at fair value through profit or loss are subsequently carried at fair value.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting year, these are classified as non-current assets in the balance sheet. Loans and receivables are carried at amortized cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting year. Available-for-sale financial assets are carried at fair value.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

Fair value hierarchy of financial instruments

The Group classifies the fair value of its financial instruments in the following hierarchy, based on the inputs used in their valuation:

Level 1

The fair value of financial instruments quoted in active markets is based on their quoted closing price at the consolidated statement of financial position date. Examples include exchange-traded commodity derivatives and other financial assets such as investments in equity and debt securities.

Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters for interest rates, yield curves or foreign exchange rates, dealer quotes for similar instruments and use of comparable arm’s length transactions.

Level 3

The fair value of financial instruments that are measured on the basis of entity specific valuations using inputs that are not based on observable market data (unobservable inputs).

3. BASIS OF PREPARATION (Continued)

3.6.4 Financial assets (Continued)

Impairment of financial assets
The Group assesses at the end of each reporting year whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For certain categories of financial assets, such as trade receivables a provision for doubtful accounts is established when there is a significant doubt that the Group will not be able to collect any of the amounts due according to the original terms of the invoice. Such allowances for impairment are charged to the consolidated statement of profit or loss and reported under "Selling, marketing and distribution expenses". When a trade receivable is uncollectible, it is written-off against allowance for doubtful accounts. Any subsequent recoveries of amounts previously written off are credited against Selling and Marketing expenses in the consolidated statement of profit or loss.

3.6.5 Financial liabilities

Initial Recognition
Financial liabilities (including borrowings and trade and other payables) are classified as financial liabilities at fair value through profit or loss (FVTPL) or as loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognized initially at fair value and in the case of loans and borrowings fair value of the consideration received less directly attributable transaction costs.

Measurement

i) Financial liabilities at FVTPL
Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other income / charges' line item.

ii) Loans and Borrowings
After initial recognition, interest bearing loans and borrowings (including trade and other payables) are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

De-recognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

3. BASIS OF PREPARATION (Continued)

3.6.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

3.6.7 Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument (asset or liability) and of allocating interest income over the relevant year, which is used for both held to maturity and loans and receivable categories of financial assets. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3.6.8 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.

3.6.9 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. BASIS OF PREPARATION (Continued)

3.6.10 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 Company 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.

3.6.11 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.

3.6.12 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.

3.6.13 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'). The consolidated financial statements are presented in Saudi Riyals (SR) that is the functional and presentation currency. Figures have been rounded off to the nearest Riyal except where mentioned rounding off in Saudi Riyals in millions.

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'.

3.6.14 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.

3. BASIS OF PREPARATION (Continued)

3.6.14 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.

3.6.15 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 SSPC's stocks. The Group purchases 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.

3. BASIS OF PREPARATION (Continued)

3.6.15 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.

3.6.16 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.

3.6.17 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.

3. BASIS OF PREPARATION (Continued)

3.6.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognized when all the following conditions are met:

- the significant risks and rewards of ownership of goods have been transferred to the buyer;
- neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, has been retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Sale of goods
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred onto a vessel, train, conveyor or other delivery mechanisms.

Construction contracts
Where appropriate, the Group uses the percentage-of-completion method in accounting for the revenue from con-tracts with its customers to deliver constructed goods (such as heat exchangers, pressure vessels, reactors, condensers and pipes pools) for which construction may last for a year or more. Use of the percentage-of-completion method requires the Group to estimate the work performed to date as a proportion of the total work or the milestone achieved (such as completion of base works for an asset), whichever is appropriate as per the contract terms.

Provision of services
For provision of services, revenue is recognized in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Dividend income
Dividends are recognized as other income when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits.

3.6.19 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.

3.6.20 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.

3.6.21 Leases

Leases are classified as finance leases whenever the lease transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are capitalized on the lease commencement date at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Asset acquired under finance lease is depreciated over the shorter of the useful life of the asset and the lease term.

3. BASIS OF PREPARATION (Continued)

3.6.21 Leases (Continued)

All other leases are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss on a straight line basis over the term of the operating lease.

3.6.22 Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing:

- the profit 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 per share
Diluted earnings 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.

3.6.23 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 and related assets/liabilities (primarily the Company's headquarters). Head office expenses, research and development costs and related assets/liabilities, some goodwill and intangible assets and income tax assets and liabilities.

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). SSPC 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.

3. BASIS OF PREPARATION (Continued)

3.6.24 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;
- 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.

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.

Allowance for impairment for trade receivables
Allowance for impairment for trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that debtor will enter bankruptcy of financial reorganization and default or delinquency in payments are considered indicators of objective evidence that the trade receivables is impaired. For significant individual amounts, assessment is made on individual basis. Amounts which are not individually significant but are overdue, are assessed collectively and a provision is recognized considering the length of the time considering past recovery rates.

3. BASIS OF PREPARATION (Continued)

3.6.24 Critical judgments and estimates (Continued)

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 balance sheet 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

	Note	**December 31, 2017**	December 31, 2016 (Restated)	January 1, 2016 (Restated)
		SR	SR	SR
Operating fixed assets	4.1	**693,779,964**	535,472,848	502,264,842
Capital work-in-progress	4.3	**11,503,396**	191,442,674	236,522,140
		705,283,360	726,915,522	738,786,982

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Operating fixed assets

	Land	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and fixtures	Office and equipment's	Leasehold asset	Total
	SR	SR	SR	SR	SR	SR	SR	SR
At January 1, 2017								
Cost – SOCPA	159,780,667	174,421,595	482,152,406	5,844,925	4,944,075	25,387,163	-	852,530,831
Accumulated depreciation – SOCPA	-	(72,161,301)	(221,630,674)	(4,081,592)	(3,646,621)	(20,010,454)	-	(321,530,642)
Transition adjustment (Note 25.4.1A)	-	3,413,427	1,520,507	-	(1)	(461,274)	-	4,472,659
Net book value – IFRS	159,780,667	105,673,721	262,042,239	1,763,333	1,297,453	4,915,435	-	535,472,848
Year ended December 31, 2017								
Cost								
Opening – SOCPA	159,780,667	174,421,595	482,152,406	5,844,925	4,944,075	25,387,163	-	852,530,831
Transition adjustment (Note 25.4.1A)	-	4,266,783	1,900,634	-	(47,630)	(5,893,207)	-	226,580
Opening – IFRS	**159,780,667**	**178,688,378**	**484,053,040**	**5,844,925**	**4,896,445**	**19,493,956**		**852,757,411**
Additions	**-**	**120,400**	**335,243**	**-**	**-**	**1,204,624**	**225,500**	**1,885,767**
Transferred from CWIP	**-**	**55,745,802**	**139,376,449**	**-**	**73,571**	**3,014,845**	**-**	**198,210,667**
Reclassifications	**-**	**66,600**	**(139,994)**	**-**	**(800,350)**	**873,744**	**-**	**-**
Written-off	**-**	**-**	**(6,130)**	**-**	**-**	**(94,204)**	**-**	**(100,334)**
Disposals	**-**	**-**	**-**	**(67,500)**	**-**	**(89,669)**	**-**	**(157,169)**
	159,780,667	**234,621,180**	**623,618,608**	**5,777,425**	**4,169,666**	**24,403,296**	**225,500**	**1,052,596,342**
Accumulated depreciation								
Opening – SOCPA	-	72,161,301	221,630,674	4,081,592	3,646,621	20,010,454	-	321,530,642
Transition adjustment (Note 25.4.1A)	-	853,356	380,127	-	(47,629)	(5,431,933)	-	(4,246,079)
Opening – IFRS	**-**	**73,014,657**	**222,010,801**	**4,081,592**	**3,598,992**	**14,578,521**	**-**	**317,284,563**
For the year	**-**	**7,607,989**	**30,583,342**	**546,002**	**332,804**	**2,599,570**	**12,527**	**41,682,234**
Disposals	**-**	**-**	**-**	**(60,750)**	**-**	**(89,669)**	**-**	**(150,419)**
Reclassifications	**-**	**-**	**-**	**-**	**(757,716)**	**757,716**	**-**	**-**
	-	**80,622,646**	**252,594,143**	**4,566,844**	**3,174,080**	**17,846,138**	**12,527**	**358,816,378**
Net book value	**159,780,667**	**153,998,534**	**371,024,465**	**1,210,581**	**995,586**	**6,557,158**	**212,973**	**693,779,964**

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Operating fixed assets

	Land	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and fixtures	Office and equipment's	Total
	SR	SR	SR	SR	SR	SR	SR
At January 1, 2016							
Cost – SOCPA	159,780,667	158,900,762	469,600,035	5,927,425	4,305,741	23,938,540	822,453,170
Accumulated depreciation - SOCPA	-	(64,180,874)	(237,166,753)	(3,788,060)	(3,284,558)	(17,260,796)	(325,681,041)
Transition adjustment (Note 25.4.1A)	-	4,266,783	1,900,634	-	(4,763)	(669,941)	5,492,713
Net book value – IFRS	159,780,667	98,986,671	234,333,916	2,139,365	1,016,420	6,007,803	502,264,842
Year ended December 31, 2016							
Cost							
Opening – SOCPA	159,780,667	158,900,762	469,600,035	5,927,425	4,305,741	23,938,540	822,453,170
Transition adjustment (Note 25.4.1A)	-	4,266,783	1,900,634	-	(47,630)	(5,893,207)	226,580
Opening – IFRS	159,780,667	163,167,545	471,500,669	5,927,425	4,258,111	18,045,333	822,679,750
Additions	-	644,013	7,588,977	503,500	121,834	1,361,078	10,219,402
Transferred from CWIP	-	15,441,343	53,520,580	-	516,500	87,545	69,565,968
Reclassified from Capital spares	-	-	5,844,810	-	-	-	5,844,810
Disposals	-	-	-	(586,000)	-	-	(586,000)
Impairment and Written off	-	(564,523)	(54,401,996)	-	-	-	(54,966,519)
	159,780,667	178,688,378	484,053,040	5,844,925	4,896,445	19,493,956	852,757,411
Accumulated depreciation							
Opening – SOCPA	-	64,180,874	237,166,753	3,788,060	3,284,558	17,260,796	325,681,041
Transition adjustment (Note 25.4.1A)	-	-	-	-	(42,867)	(5,223,266)	(5,266,133)
Opening – IFRS	-	64,180,874	237,166,753	3,788,060	3,241,691	12,037,530	320,414,908
For the year – restated	-	9,151,560	29,897,969	820,932	357,301	2,540,991	42,768,753
Disposals	-	-	-	(527,400)	-	-	(527,400)
Impairment and written off	-	(317,777)	(45,053,921)	-	-	-	(45,371,698)
	-	73,014,657	222,010,801	4,081,592	3,598,992	14,578,521	317,284,563
Net book value – Restated	159,780,667	105,673,721	262,042,239	1,763,333	1,297,453	4,915,435	535,472,848

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.2 Depreciation for the year has been allocated as under:

	Note	December 31, 2017 SR	December 31, 2016 (Restated) SR
Cost of goods manufactured	17	**39,835,735**	40,755,537
Administrative expenses	19	**1,846,499**	2,013,216
		41,682,234	42,768,753

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

4.3 Capital work-in-progress:

	Note	December 31, 2017 SR	December 31, 2016 (Restated) SR
Net book value at the beginning of year		**192,785,117**	237,864,583
Impact of transition	25.4.1 (E)	**(1,342,443)**	(1,342,443)
Adjusted net book value at the beginning of the year (Restated)		**191,442,674**	236,522,140
Additions during the year		**18,593,708**	23,374,188
Capitalized spares		**-**	1,112,314
Transferred to operating fixed assets	4.1	**(198,210,667)**	(69,565,968)
Transferred to intangible assets	5	**(322,319)**	-
Net book value at the end of the year		**11,503,396**	191,442,674

Capital Work-in-Progress includes SAR 0.93 million of borrowing costs capitalized during the year (December 31, 2016: SAR 4.6 million).

Capital Work-in-Progress as at December 31, 2017 majorly comprise of construction of building amounting to SR 5.32 million, related to plant and machinery amounting to SR 4.60 million and IT projects amounting to SR 1.58 million.

5. INTANGIBLE ASSETS

	Note	December 31, 2017 SR	December 31, 2016 (Restated) SR
Cost – restated		**7,109,981**	6,787,662
Accumulated amortization – restated		**(6,543,670)**	(6,043,633)
Net book value		**566,311**	744,029
Reconciliation of net book value			
Opening balance – SOCPA		**8,859,833**	13,345,992
Impact of transition	25.4.1B	**(8,115,804)**	(12,197,997)
Opening balance – IFRS		**744,029**	1,147,995
Transferred from CWIP	4.3	**322,319**	-
Amortization		**(500,037)**	(403,966)
Closing balance		**566,311**	744,029

Amortization for the year has been charged to administrative expenses (Note 19)

6. INVESTMENTS

Investments are classified as follows:

	Note	**December 31, 2017**	December 31, 2016 (Restated)	January 1, 2016 (Restated)
		SR	SR	SR
Investment in associate	6.1	**96,727,317**	85,409,277	46,868,728
Investment available for sale	6.2	**-**	23,620,819	58,648,465
		96,727,317	109,030,096	105,517,193

6.1 Investments in associate, net

Movement for investments in associate is as follows:

	Note	**December 31, 2017**	December 31, 2016 (Restated)
		SR	SR
Global Pipe Company ("GPC")			
Opening value of investment – SOCPA		**88,274,281**	54,449,886
Impact of transition	25.4.2 (B)	**(2,865,004)**	(7,581,158)
Opening value of investment – IFRS		**85,409,277**	46,868,728
Share of net income for the year – restated		**11,318,040**	21,040,549
Contribution provided for the year		**-**	17,500,000
		96,727,317	85,409,277
Investment in associate represents the following:			
Cost of acquisition		**45,000,000**	45,000,000
Loan Contribution		**43,750,000**	43,750,000
Share of accumulated losses (opening balance)		**(3,340,723)**	(24,381,272)
Share of net income for the year		**11,318,040**	21,040,549
Net investment value		**96,727,317**	85,409,277

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 total share capital of GPC is SR 125 million of which, Saudi Steel Pipes owns 35%.

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

6.2 Investment available for sale

Movement for available for sale investments is as follows:

	December 31, 2017	December 31, 2016 (Restated)	December 31, 2015 (Restated)
	SR	SR	SR
Opening balance for the year	**23,620,819**	58,648,465	67,950,000
Additions	**-**	8,000,000	-
Impairment of investment	**(23,620,819)**	(43,027,646)	(9,301,535)
Closing balance of the year	**-**	23,620,819	58,648,465

6. INVESTMENTS (Continued)

6.2 Investment available for sale (Continued)

Investment available for sales represented a 20% share in Chemical Development Company Limited (CDC), a holding company whose purpose is to develop strategic industrial projects. Under IFRS conversion and as at date of transition, this investment has been reclassified from investment in associates to available for sale investments, considering all required transition affects (note 25.4.2 (c)).

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

7 TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise of the following:

	Note	**December 31, 2017**	December 31, 2016 (Restated)	January 1, 2016 (Restated)
		SR	SR	SR
Trade receivables	7.1	**130,935,226**	86,882,604	81,197,029
Revenue recognized in excess of billings		**43,396,316**	12,156,629	7,519,870
Allowance for Impairment for trade receivables	7.2	**(3,708,320)**	(1,387,189)	(72,169)
Trade receivables, net		**170,623,222**	97,652,044	88,644,730
Due from related parties	22 (A)	**4,496,990**	5,249,534	5,164,164
Prepayments and advances to suppliers		**18,902,439**	17,097,653	14,381,742
Employee loans		**19,255,252**	18,746,176	17,782,953
Other receivables		**455,598**	1,764,304	388,792
		213,733,501	140,509,711	126,362,381
Less: non-current portion of employee loans		**(10,905,083)**	(10,269,042)	(10,029,870)
Total current portion, net		**202,828,418**	130,240,669	116,332,511

7.1 The five major customers' balances represent 64.83% (2016: 45.13%) of trade receivable. Balance due from one major customer represents 50.19% (2016: 15.54%).

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

	December 31, 2017	December 31, 2016	January 1, 2016
	SR	SR	SR
Opening balance	**1,387,189**	72,169	151,794
Allowance for the year	**3,051,907**	1,315,020	1,603,623
Utilized against receivables written off	**(730,776)**	-	(1,683,248)
Closing balance	**3,708,320**	1,387,189	72,169

Age of trade receivables is presented in note 24.2.1.

8 INVENTORIES

	Note	**December 31, 2017 SR**	December 31, 2016 SR	January 1, 2016 SR
Raw Material				
In hand		**30,391,770**	72,835,911	111,015,656
In transit		**925,929**	-	-
		31,317,699	72,835,911	111,015,656
Work in progress		**59,774,989**	44,344,101	53,758,728
Finished goods including by-products		**46,745,511**	56,260,859	37,608,504
Store, spare and supplies		**55,929,278**	47,174,876	76,360,862
		193,767,477	220,615,747	278,743,750
Allowance for slow moving inventory	8.1	**(8,024,031)**	(7,052,585)	(5,600,000)
		185,743,446	213,563,162	273,143,750

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

	December 31, 2017 SR	December 31, 2016 SR	January 1, 2016 SR
Opening balance	**7,052,585**	5,600,000	-
Addition for the year	**4,500,000**	6,992,347	7,100,000
Utilized against inventories written off	**(3,528,554)**	(5,539,762)	(1,500,000)
Closing balance	**8,024,031**	7,052,585	5,600,000

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. DEPOSIT WITH BANKS

This represent interest free deposits, which the Group is keeping with local banks.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31 comprise of the followings:

	December 31, 2017 SR	December 31, 2016 SR	January 1, 2016 SR
Cash on hand	**27,000**	57,000	312,000
Cash at banks	**10,470,222**	17,265,518	5,700,395
	10,497,222	17,322,518	6,012,395

10. CASH AND CASH EQUIVALENTS (Continued)

10.1 Reconciliation of liabilities arising from financing activities

		Cash flows	Non- cash charges	
	December 31, 2016	Loans paid, net	Amortization of SIDF charges	December 31, 2017
	SR	SR	SR	SR
Long term commercial loans	47,356,137	**(37,059,636)**	**-**	**10,296,501**
SIDF Loan	155,301,499	**(4,000,001)**	**2,412,920**	**153,714,418**
Overdraft	4,298,060	**8,864,408**	**-**	**13,162,468**
Short term Murabaha loan	102,044,115	**(20,440,942)**	**-**	**81,603,173**
	308,999,811	**(52,636,171)**	**2,412,920**	**258,776,560**

10.2 Significant non-cash transactions

	December 31, 2017	December 31, 2016
	SR	SR
Transfer of capital work in progress to property, plant and equipment	**198,210,667**	69,565,968
Transfer of capital work in progress to intangible assets	**322,319**	-
Reclassification of capital spare parts	**-**	6,957,124
Borrowing cost capitalized	**928,404**	4,622,229
Un-winding of interest amortization - SIDF	**2,412,920**	6,211,498
Transferred from EOSB to accrued liabilities	**896,110**	-
Addition of leased assets	**225,500**	-
Settlement of ESOP by issuance of shares	**398,525**	-
Employee loan discounting	**259,141**	620,152
Finance cost charged to subsidiary	**602,815**	-

11 EQUITY

11.1 Share capital

	Number of shares		Share Capital	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Authorized issued and fully paid			**SR**	SR
Ordinary shares of SR 10 each fully paid in cash	**51,000,000**	51,000,000	**510,000,000**	510,000,000

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

	December 31, 2017	December 31, 2016
	SR	SR
Saudi (83.63%)	**426,493,500**	426,493,500
Non-Saudi (16.37%)	**83,506,500**	83,506,500
	510,000,000	510,000,000

The distribution of capital into Saudi and Non-Saudi shareholders is based on the By-Laws of the Company.

11. EQUITY (Continued)

11.2 Premium and other reserves

	Note	**December 31, 2017**	December 31, 2016 (Restated)	January 1, 2016 (Restated)
		SR	SR	SR
Reserves				
Share premium	11.2 (a)	**218,828,409**	218,828,409	218,828,409
Statutory reserves	11.2 (b)	**58,494,224**	58,494,224	58,494,224
Other reserves	11.2 (c)	**(751,680)**	282,400	-
Accumulated losses	11.2 (d)	**(45,112,039)**	(64,204,021)	(20,875,438)

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.

11.2 (b) Statutory reserves

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.

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.

11.2 (d) Accumulated losses

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

	December 31, 2017	December 31, 2016 (Restated)	January 1, 2016 (Restated)
	SR	SR	SR
Saudi share	**(36,914,888)**	(53,423,577)	(17,134,540)
Non-Saudi share	**(8,197,151)**	(10,780,444)	(3,740,898)
	(45,112,039)	(64,204,021)	(20,875,438)

The distribution of accumulated losses into Saudi and Non-Saudi shareholders is based on the By-Laws of the Company, taking in consideration their allocated share of zakat or income tax.

11.3 Treasury shares

Movement in treasury shares for year ended December 31, 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
As at January 1,	**(478,004)**	(478,004)
Treasury shares granted to employees	**15,941**	-
As at December 31,	**(462,063)**	(478,004)
Amount (SR) as at December 31, 2017	**(11,611,575)**	(12,010,100)

11. EQUITY (Continued)

11.3 Treasury shares (Continued)

As at December 31, 2017 the treasury shares held by the Group represent 2.28% of the share capital (2016: 2.35 %). Their market value amounts to SR 7.4 million. (2016: SR 9.1 million). The Group initially acquired 700,000 shares offered to the public for the employee share program at the price of SR 25 per share subsequently an additional 15,000 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 2017, the Group has granted 15,941 shares to qualified employees. The remaining 462,063 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 will be eliminated upon issuance to employees.

12 BORROWINGS

	Current			Non-Current		
	December 31, 2017	December 31, 2016	January 1, 2016	**December 31, 2017**	December 31, 2016	January 1, 2016
	SR	SR	SR	**SR**	SR	SR
Term loans						
Saudi Industrial Development Fund (SIDF)	**-**	-	-	**153,714,418**	155,301,499	169,611,271
Bank Loans	**-**	-	-	**10,296,501**	47,356,137	108,771,233
Short Term						
Overdraft	**13,162,468**	4,298,060	1,443,987	**-**	-	-
Short-term loan facility	**81,603,173**	102,044,115	33,645,723	**-**	-	-
	94,765,641	106,342,175	35,089,710	**164,010,919**	202,657,636	278,382,504
Current portion of loans	**44,383,075**	63,438,386	93,530,651	**(44,383,075)**	(63,438,386)	(93,530,651)
Total Borrowings	**139,148,716**	169,780,561	128,620,361	**119,627,844**	139,219,250	184,851,853

The terms of finances are as under:

Loan name	Balance in SR	Type of loan	Remaining number of installments	Payment term	Payment Period	Mark up
SIDF – I	**120,673,504**	Long-term	7	Semi-annual	April 2018 to March 2021	Follow-up cost every 6 month
SIDF – II	**33,040,914**	Long-term	11	Semi-annual	July 2017 to July 2022	Follow-up cost every 6 month
Total SIDF	**153,714,418**					
Long term bank loans	**10,296,501**	Long-term	2	Quarterly	January 2017 to April 2018	SIBOR+ 2%
Total long term	**164,010,919**					
Murabaha loan	**81,603,173**	Short-term	-	From 3 to 6 months	-	SIBOR+1.25% to 2.50%
Bank Overdraft	**13,162,468**	Short-term	-	-	-	9%
Grand Total	**258,776,560**					

12 BORROWINGS (Continued)

During the year ended December 31, 2017, the Group negotiated restructuring agreement with Saudi Industrial Development Fund (SIDF). According to revised term, the loan repayment period remained the same however, the installment amounts changed. Current and non-current portion of the loan have been calculated according to revised terms. Under the new terms change in original effective interest rate is less than 10%.

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 10.3 million; however, temporary waiver for compliance with these covenants has been obtained. Further the management is in the process of taking necessary remedial actions and is confident that covenant breach will be remedied within considerable period of time.

13 EMPLOYEES' END OF SERVICE BENEFITS

The Group carried out actuarial valuations to account for its obligations under defined benefit plan. As per valuation results, the Group has made adjustment of SR 4,055,203 and SR 5,078,750 as at January 1, 2016 and December 31, 2016 respectively, representing additional liability and respective adjustment was made in opening accumulated losses (Note 25.4.3).

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

	December 31, 2017	December 31, 2016 (Restated)
	SR	SR
Opening balance as at January 1 – as per SOCPA	**47,691,002**	48,511,654
Impact of transition (Note 25.4.3)	**5,078,750**	4,055,203
Opening balance as at January 1 – as per IFRS (Restated)	**52,769,752**	52,566,857
Expense charge for the year	**6,839,483**	6,755,492
Re-measurement loss / (gain)	**1,034,080**	(282,400)
Payments	**(2,859,482)**	(6,270,197)
Transferred to accrued liabilities for outgoing members	**(896,110)**	-
Closing balance	**56,887,723**	52,769,752

Charge to consolidated statement of profit or loss for the year

	December 31, 2017	December 31, 2016 (Restated)
	SR	SR
Current service cost	**4,991,445**	4,913,178
Interest cost	**1,848,038**	1,842,314
Cost recognized in profit and loss	**6,839,483**	6,755,492

Principal actuarial assumptions

	December 31, 2017	December 31, 2016
Discount factor used	**3.25%**	3.45%
Salary increase rate	**3% - 5%**	3% - 5%
Rates of employees turnover	**Moderate**	Moderate

13. EMPLOYEES' END OF SERVICE BENEFITS (Continued)

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

	December 31, 2017		December 31, 2016	
	Percentage	**Amount**	Percentage	Amount
		SR		SR
Discount rate				
Increase	**+ .5 %**	**53,836,106**	+ .5 %	50,071,890
Decrease	**- .5 %**	**60,218,255**	- .5 %	55,709,544
Expected rate of salary				
Increase	**+ .5 %**	**60,048,295**	+ .5 %	55,559,274
Decrease	**- .5 %**	**53,959,511**	- .5 %	50,181,967

14. TRADE AND OTHER PAYABLES

Trade and other payables comprise of the following:

	December 31, 2017	December 31, 2016	January 1, 2016
	SR	SR	SR
Trade payables	**136,178,490**	114,155,258	110,975,691
Due to related parties (Note 22B)	**2,237,333**	3,881,096	3,881,096
Warranty provision	**5,195,312**	6,000,000	-
Accrued expenses	**14,450,508**	12,103,647	13,341,353
Other liabilities	**3,024,697**	3,880,378	5,435,360
	161,086,340	140,020,379	133,633,500

15. ZAKAT AND INCOME TAX

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

	Note	**December 31, 2017**	December 31, 2016
		SR	SR
At January 1,		**7,270,471**	9,861,030
Payments		**(3,577,281)**	(7,974,911)
Provision charged for the year	15.2	**4,400,792**	5,384,352
As at December 31,		**8,093,982**	7,270,471

15.2 Components of provision charged for the year:

	Note	**December 31, 2017**	December 31, 2016
		SR	SR
Current year's zakat and tax		**4,400,792**	5,384,352
Prior year		**-**	-
		4,400,792	5,384,352
		-	
Current year's zakat and tax			
Zakat	(a)	**3,137,419**	4,585,891
Tax	(b)	**1,263,373**	798,461
		4,400,792	5,384,352

15. ZAKAT AND INCOME TAX (Continued)

15.2 Components of provision charged for the year: (Continued)

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

	December 31, 2017	December 31, 2016
	SR	SR
a) Zakat		
Zakat for holding Company		
Opening Share capital	**510,000,000**	510,000,000
Reserves and opening provisions less utilized	**253,283,753**	325,581,632
Closing value of bank loans	**123,890,000**	140,349,904
Closing value of long term assets	**(775,684,038)**	(789,188,907)
Zakatble income for the year	**38,579,057**	24,382,232
Zakat base	**150,068,772**	211,124,861
Attributable to Saudi Shareholders @ 83.63% (2016: 83.63%)	**125,496,776**	176,555,649
Zakat due at 2.5% of Saudi shareholding for holding Company.	**3,137,419**	4,413,891
Zakat for subsidiary company	**-**	172,000
Total Zakat	**3,137,419**	4,585,891

	December 31, 2017	December 31, 2016
	SR	SR
b) Income tax		
Net income for the year	**23,492,774**	(32,334,800)
Adjustments	**15,086,283**	56,717,032
Taxable income for the year	**38,579,057**	24,382,232
Attributable income to Non-Saudi shareholders at 16.37% (2016: 16.37%)	**6,316,867**	3,992,304
Income tax due at 20% of Non-Saudi shareholders	**1,263,373**	798,461

15.3 Zakat and income tax status

The Holding Company has filed the zakat and income tax return for the year ended December 31, 2016 and obtained the required certificate. The Company was inspected and had last assessment up to year 2004, afterward no assessment order was issued by GAZT to the Holding Company as of the year ended December 31, 2017. No assessment for subsidiary company has been issued yet.

16. CONTINGENCIES AND COMMITMENTS

	December 31, 2017	December 31, 2016
	SR	SR
Letters of credit	**37,016,998**	4,351,735
Letters of guarantee	**149,300,502**	107,515,272
Corporate guarantees (note 16.1)	**661,387,291**	670,228,713
Capital commitments	**5,510,024**	5,374,939

16.1 Corporate guarantees represent guarantees issued by the Group to its subsidiary, associate and available for sale investment amounting to SR 132.72 million, SR 498.67 million and SR 30 million respectively (2016: SR 116.32 million, SR 523.91 million, SR 30 million respectively).

17. COST OF REVENUE

	December 31, 2017	December 31, 2016 (Restated)
	SR	**SR**
Raw material consumed, net	**355,716,039**	318,707,249
Stores, spares parts and consumables consumed	**73,581,670**	65,915,761
Salaries and staff related benefits	**98,931,059**	94,546,370
Services and subcontractor	**23,952,722**	13,936,103
Depreciation	**39,835,735**	40,755,537
Provision for slow moving inventory	**4,500,000**	6,992,347
Write down to net realizable value	**-**	2,101,322
Warranty expense	**-**	6,000,000
Others	**23,029,329**	17,511,607
Total operating cost	**619,546,554**	566,466,296
Movement in inventory	**(16,569,494)**	(15,551,955)
Total	**602,977,060**	550,914,341

18. SELLING, MARKETING AND DISTRIBUTION EXPENSES

	December 31, 2017	December 31, 2016
	SR	SR
Local transportation	4,633,162	6,975,704
Salaries and wages	7,994,473	8,528,473
Freight charges – export	1,202,117	3,886,182
Impairment for doubtful debts	3,051,907	1,315,020
Others	1,676,809	2,093,425
	18,558,468	22,798,804

19. ADMINISTRATIVE EXPENSES

	December 31, 2017	December 31, 2016 (Restated)
	SR	SR
Directors remuneration	**1,040,000**	700,000
Salaries and wages	**18,026,325**	18,253,303
Amortization of intangible assets	**500,037**	403,966
Depreciation	**1,846,499**	2,013,216
Information technology expenses	**2,430,544**	1,769,845
Others	**3,737,860**	5,584,348
	27,581,265	28,724,678

20. OTHER EXPENSES, NET

	December 31, 2017	December 31, 2016
	SR	SR
Property, plant and equipment written off	**100,334**	8,506,141
Impairment of property, plant and equipment	**-**	1,088,680
Gain on disposal of Property, plant and equipment	**(37,600)**	(58,400)
Bank Charges	**1,579,973**	1,070,381
Insurance claim	**-**	(1,354,500)
Other expense, net	**193,707**	75,406
	1,836,414	9,327,708

21. 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:

	For year ended December 31, 2017			For year ended December 31, 2016		
	Steel pipes SR	**Process equipment SR**	**Total SR**	Steel pipes SR	Process equipment SR	Total SR
Revenue	**616,744,627**	**79,676,766**	**696,421,393**	557,695,506	47,072,370	604,767,876
Cost of revenue	**(528,927,836)**	**(74,049,224)**	**(602,977,060)**	(503,627,236)	(47,287,105)	(550,914,341)
Share of profit in associates	**11,318,040**	**-**	**11,318,040**	21,040,549	-	21,040,549
Profit / (loss) for the year	**19,091,982**	**(6,174,241)**	**19,091,982**	(45,128,583)	(10,920,241)	(45,128,583)

The detail of utilization of the Group assets by the segments as well as related liabilities is as follows;

<u>December 31, 2017</u>	**Steel pipes SR**	**Process equipment SR**	**Intra group SR**	**Total SR**
Non-current assets	**741,715,892**	**73,750,095**	**(1,983,916)**	**813,482,071**
Total Assets	**1,098,208,726**	**139,468,277**	**(22,125,846)**	**1,215,551,157**
Total liabilities	**(368,361,387)**	**(137,484,361)**	**20,141,930**	**(485,703,818)**

<u>December 31, 2016 (Restated)</u>	Steel pipes SR	Process Equipment SR	Process Equipment SR	Total SR
Non-current assets	777,519,859	77,736,932	(8,298,102)	846,958,689
Total Assets	1,114,535,547	115,184,048	(8,634,557)	1,221,085,038
Total liabilities	(403,144,635)	(106,885,946)	336,455	(509,694,126)

There are no material inter-segment transactions held during the year.

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, 2017 and 2016, categorized by these geographic segments is as follows:

	December 31, 2017	December 31, 2016
	SR	SR
Saudi Arabia	**665,499,496**	539,676,139
Other countries	**30,921,897**	65,091,737
	696,421,393	604,767,876

Transactions with a major customer

Revenue from one major customer accounted for 51.97% (2016: 38.70%) of the total revenue for the year ended December 31 2017.

22. RELATED PARTIES' TRANSACTIONS AND BALANCES

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

Company	Relationship
Rabiah & Nassar Group	Shareholder
Hu Steel Co., Ltd.	Shareholder
Abdullah Ibrahim AlKhorayef Sons Company	Former affiliate
Saudi Pan Gulf	Affiliate
Chemical Development Company	Affiliate
Global Pipe Company	Associate

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

Related party	Nature of Transaction	December 31, 2017	December 31, 2016
		SR	SR
Rabiah & Nassar Group	Sales	**3,813,412**	5,150,176
Rabiah & Nassar Group	Fixed assets Purchases	**225,500**	-
Abdullah Ibrahim AlKhorayef Sons Company	Sales	**-**	946,764
Abdullah Ibrahim AlKhorayef Sons Company	Purchases	**-**	1,111,834
Saudi Pan Gulf Company	Sales	**9,233,170**	11,526,753
Saudi Pan Gulf Company	Purchases	**2,978,188**	2,365,512
Pan Gulf Welding Solutions	Fixed assets Purchases	**231,000**	-
Hu Steel Co., Ltd.	Services rendered	**309,512**	299,404
Global Pipe Company	Subordinated loan	**-**	17,500,000
Chemical Development Company	Additional investment	**-**	8,000,000

A) Balances receivable from related parties are as follows:

	December 31, 2017	December 31, 2016	January 1, 2016
	SR	SR	SR
Saudi Pan Gulf	**2,823,219**	3,561,336	3,730,397
Rabiah & Nassar Group	**1,570,240**	1,688,198	1,433,767
Pan Gulf Piping System	**103,531**	-	-
	4,496,990	5,249,534	5,164,164

B) Balances payable to related parties are as follows:

	December 31 2017	December 31 2016	January 1, 2016
	SR	SR	SR
TSM Tech Company Limited	**2,077,534**	3,731,396	3,731,396
Hu Steel Company Ltd.	**159,799**	149,700	149,700
	2,237,333	3,881,096	3,881,096

22. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

C) Remuneration of directors and key management personnel

	December 31, 2017		December 31, 2016	
	Directors SR	**Key management personnel SR**	Directors SR	Key management personnel SR
Board Remuneration	**1,040,000**	**-**	700,000	-
Salaries & Wages	**-**	**3,095,496**	64,621	3,095,496
Allowances	**-**	**1,229,792**	16,405	1,329,792
Bonus	**-**	**65,891**	16,801	114,144
End of service	**-**	**290,458**	87,908	514,736
	1,040,000	**4,681,637**	885,735	5,054,168

23. EARNINGS / (LOSS) PER SHARE

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

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

	December 31, 2017	December 31, 2016 (Re-stated)
	SR	SR
Basic earnings / (loss) per share	**0.38**	(0.89)
Profit / (loss) for the year	**19,091,982**	(45,128,583)
Weighted average number of outstanding shares	**50,533,391**	50,521,996
Diluted earnings / (loss) per share	**0.37**	(0.88)
Profit / (loss) for the year	**19,091,982**	(45,128,583)
Weighted average number of outstanding shares, considering the effect of dilutive shares	**51,000,000**	51,000,000
Reconciliation of weighted average number of outstanding shares		
Number of issued shares	**51,000,000**	51,000,000
Less: Treasury shares- shares kept for ESOP	**(762,812)**	(762,812)
Add: Weighted average number of shares issued to employees	**300,749**	284,808
Number of outstanding shares	**50,537,937**	50,521,996
Weighted average number of outstanding shares	**50,533,391**	50,521,996

24. 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.

24.1 Financial instruments by category

	December 31, 2017	December 31, 2016 (Re-stated)	January 1, 2016 (Re-stated)
	SR	SR	SR
Financial assets at amortized cost:			
Trade receivables, net	**170,623,222**	97,652,044	88,644,730
Employee loans	**19,255,252**	18,746,176	17,782,953
Deposit with bank	**3,000,000**	13,000,000	13,000,000
Due from related parties	**4,496,990**	5,249,534	5,164,164
Other receivables	**455,598**	1,764,304	388,792
Cash and cash equivalents	**10,497,222**	17,322,518	6,012,395
	208,328,284	153,734,576	130,993,034
Financial assets at FVTOCI:			
Investment available for sale	**-**	23,620,819	58,648,465
Total Financial assets	**208,328,284**	177,355,395	189,641,499

Financial Liabilities at amortized cost:

	December 31, 2017	December 31, 2016 (Re-stated)	January 1, 2016 (Re-stated)
	SR	SR	SR
Trade and retention payables	**136,812,203**	114,788,971	110,975,691
Due to related party	**2,237,333**	3,881,096	3,881,096
Accrued expenses	**14,450,508**	12,103,647	13,341,353
Other liabilities (excluding advances from customers)	**514,824**	958,850	890,879
Lease liability	**225,500**	-	-
Short term borrowings	**94,765,641**	106,342,175	35,089,710
Long term finance	**164,010,919**	202,657,636	278,382,504
Total financial liabilities	**413,016,928**	440,732,375	442,561,233

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

24.2 Risk management of financial instruments

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

24.2.1 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:

24. FINANCIAL RISK MANAGEMENT (Continued)

24.2.1 Credit risk and concentration of credit risk (Continued)

	December 31, 2017	December 31, 2016 (Re-stated)	January 1, 2016 (Re-stated)
	SR	SR	SR
Trade receivables, net	**170,623,222**	97,652,044	88,644,730
Employee loans	**19,255,252**	18,746,176	17,782,953
Deposit with bank	**3,000,000**	13,000,000	13,000,000
Due from related parties	**4,496,990**	5,249,534	5,164,164
Other receivables	**455,598**	1,764,304	388792
Bank balances	**10,470,222**	17,265,518	5,700,395
	208,301,284	153,677,576	130,681,034

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 50.19% (2016: 15.54%) 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:

			Past Due			
	Carrying amount	**Not Due**	**90-180 Days**	**Up to 1 year**	**Above 1 year**	**Provision**
	SR	**SR**	**SR**	**SR**	**SR**	**SR**
2017						
Trade receivables	**170,623,222**	**164,526,341**	**3,200,845**	**2,927,088**	**3,677,268**	**(3,708,320)**
2016						
Trade receivables	97,652,044	83,848,362	8,067,994	5,858,138	1,264,739	(1,387,189)

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.

24.2.2 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.

24. FINANCIAL RISK MANAGEMENT (Continued)

24.2.2 Liquidity risk (Continued)

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
December 31, 2017					
Interest-bearing loans and Borrowings	**259,002,060**	**275,345,592**	**61,981,351**	**86,345,377**	**127,018,864**
Accounts payable and retention payable	**136,812,203**	**136,812,203**	**136,178,490**	**-**	**633,713**
Accrued liabilities	**14,450,508**	**14,450,508**	**14,450,508**	**-**	**-**
Other liabilities	**2,752,157**	**2,752,157**	**2,752,157**	**-**	**-**
Total financial Liabilities	**413,016,928**	**429,360,460**	**215,362,506**	**86,345,377**	**127,652,577**
December 31, 2016 (re-stated)					
Interest-bearing loans and Borrowings	308,999,811	330,077,667	112,481,744	39,689,468	177,906,455
Accounts payable and retention payable	114,788,971	114,788,971	114,155,258	-	633,713
Accrued liabilities	12,103,647	12,103,647	12,103,647	-	-
Other liabilities	4,839,946	4,839,946	1,108,550	1,654,362	2,077,034
Total financial Liabilities	440,732,375	461,810,231	239,849,199	41,343,830	180,617,202

The Group manage its liquidity risk on a regular basis to ensure sufficient funds are available to meet the Group's future requirements. As at the year end, the Group has liquid assets of SR 198.43 million (2016: SR 144.33 million) and un-availed borrowing facilities of SR 106.40 million (2016: SR 113 million).

24. FINANCIAL RISK MANAGEMENT (Continued)

24.2.3 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 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 begged to US Dollar. The Group's expo-sure to currency risk arising from currencies that are not pegged to USD is not material. The Group is exposed to currency risk on foreign debtors and foreign trade payables in Euros and GBPs. The total foreign currency risk exposure on reporting date is immaterial.

24.2.4 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 trade accounts payables, some accrued expenses and other liabilities. The fair values of financial instruments are not materially different from their carrying values.

The following table shows the fair values of financial assets including their levels in the fair value hierarchy. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value. All financial liabilities are at amortized cost and their fair value is a reasonable approximation of fair value.

December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	SR	**SR**	**SR**	**SR**
Investments in Chemical Development Company Limited	-	-	-	-
	-	-	-	-

December 31, 2016 (re-stated)	Level 1	Level 2	Level 3	Total
	SR	SR	SR	SR
Investments in Chemical Development Company Limited.	-	23,620,819	-	23,620,819
	-	23,620,819	-	23,620,819

There were no transfers between level 1 and level 2 fair value measurements and no transfers into or out of level 3 fair value measurements during the year.

24. FINANCIAL RISK MANAGEMENT (Continued)

24.2.5 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 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, 2017 and 2016 and January 1, 2016 were as follows:

	December 31, 2017	December 31, 2016 (Re-stated)	January 1, 2016 (Re-stated)
	SR	SR	SR
Total debt	**259,002,060**	308,999,811	313,472,214
Less: Cash and bank balances	**(10,497,222)**	(17,322,518)	(6,012,395)
Net Debt	**248,504,838**	291,677,293	307,459,819
Total equity	**729,847,339**	711,390,912	754,437,095
Total capital Employed	**978,352,177**	1,003,068,205	1,061,896,914
Gearing ratio	**25.40%**	29.08%	28.95%

25. TRANSITION TO IFRS

As stated in note 3.1, Group’s consolidated financial statements are prepared in accordance with accounting standards highlighted under International Financial Reporting Standards (IFRS). The accounting policies described in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2017. The comparative information presented in the consolidated statement of financial position in these consolidated financial statement is for December 31, 2016 and in the preparation of an opening IFRS statement of financial position is at January 1, 2016 (the Group’s date of transition).

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemption;

Unquoted equity instruments:
On date of transition, under requirement of IAS 39, the Group reclassified an investment in an unquoted company “CDC” from investment in associate (under equity method of accounting) to available for sale financial asset. IAS 39 requires an entity to measure financial instruments initially at fair value. However, in accordance with the IFRS 1 exemption, the Group has not measured this investment at fair value at the initial recognition and carrying value of this available for sale investments was considered to be the deemed value of the investment.

25. TRANSITION TO IFRS (Continued)

25.1 Effect of IFRS adoption on the consolidated statement of financial position

		December 31, 2016				January 1, 2016		
		As per				As per		
	Note	SOCPA	Transition effect	IFRS	Note	SOCPA	Transition effect	IFRS
		SR	SR	SR		SR	SR	SR
ASSETS								
Non-current assets								
Property, plant and equipment	25.4.1 (A)	723,785,306	3,130,216	726,915,522	25.4.1 (A)	734,636,712	4,150,270	738,786,982
Intangible assets	25.4.1 (B)	8,859,833	(8,115,804)	744,029	25.4.1 (B)	13,345,992	(12,197,997)	1,147,995
Investment in associate, net	25.4.2 (A)	111,895,100	(26,485,823)	85,409,277	25.4.2 (A)	113,098,351	(66,229,623)	46,868,728
Investment available for sale	25.4.2 (C)	-	23,620,819	23,620,819	25.4.2 (C)	-	58,648,465	58,648,465
Trade and other receivables - non-current	25.4.5	13,417,782	(3,148,740)	10,269,042	25.4.5	12,579,450	(2,549,580)	10,029,870
		857,958,021	(10,999,332)	846,958,689		873,660,505	(18,178,465)	855,482,040
Current assets								
Inventories		213,563,162	-	213,563,162		273,143,750	-	273,143,750
Deposit with banks		13,000,000	-	13,000,000		13,000,000	-	13,000,000
Trade and other receivables	25.4.5	130,323,502	(82,833)	130,240,669	25.4.5	116,394,352	(61,841)	116,332,511
Cash and cash equivalents		17,322,518	-	17,322,518		6,012,395	-	6,012,395
		374,209,182	(82,833)	374,126,349		408,550,497	(61,841)	408,488,656
TOTAL ASSETS		1,232,167,203	(11,082,165)	1,221,085,038		1,282,211,002	(18,240,306)	1,263,970,696

25. TRANSITION TO IFRS (Continued)

25.1 Effect of IFRS adoption on the consolidated statement of financial position (Continued)

	Note	December 31, 2016 SOCPA	December 31, 2016 As per Transition effect	December 31, 2016 IFRS	Note	January 1, 2016 SOCPA	January 1, 2016 As per Transition effect	January 1, 2016 IFRS
		SR	SR	SR		SR	SR	SR
EQUITY AND LIABILITIES								
EQUITY								
Share capital		510,000,000	-	510,000,000		510,000,000	-	510,000,000
Share Premium		218,828,409	-	218,828,409		218,828,409	-	218,828,409
Statutory reserve		58,494,224	-	58,494,224		58,494,224	-	58,494,224
Other reserve		-	282,400	282,400		-	-	-
Accumulated losses		(47,760,706)	(16,443,315)	(64,204,021)		1,420,071	(22,295,509)	(20,875,438)
Treasury shares		(12,010,100)	-	(12,010,100)		(12,010,100)	-	(12,010,100)
	25.3	727,551,827	(16,160,915)	711,390,912	25.3	776,732,604	(22,295,509)	754,437,095
LIABILITIES								
Non-current liabilities								
Borrowings - non-current		139,219,250	-	139,219,250		184,851,853	-	184,851,853
Employees' end of service benefits	25.4.3	47,691,002	5,078,750	52,769,752	25.4.3	48,511,654	4,055,203	52,566,857
Retention payables		633,713	-	633,713		-	-	-
		187,543,965	5,078,750	192,622,715		233,363,507	4,055,203	237,418,710
Current liabilities								
Trade and other payables		140,020,379	-	140,020,379		133,633,500	-	133,633,500
Borrowings – current		169,780,561	-	169,780,561		128,620,361	-	128,620,361
Zakat and income tax		7,270,471	-	7,270,471		9,861,030	-	9,861,030
		317,071,411	-	317,071,411		272,114,891	-	272,114,891
Total liabilities		504,615,376	5,078,750	509,694,126		505,478,398	4,055,203	509,533,601
TOTAL EQUITY AND LIABILITIES		1,232,167,203	(11,082,165)	1,221,085,038		1,282,211,002	(18,240,306)	1,263,970,696

25. TRANSITION TO IFRS (Continued)

25.2 Effect of IFRS adoption on the consolidated statement of profit or loss and other comprehensive income

	Note	December 31, 2016 SOCPA	Transition Adjustment	December 31, 2016 (Restated)
		SR		SR
Revenue		604,767,876	-	604,767,876
Cost of revenue	25.4.7	(548,374,911)	(2,539,430)	(550,914,341)
Gross profit		56,392,965	(2,539,430)	53,853,535
Selling, marketing and distribution expenses		(22,798,804)	-	(22,798,804)
Administrative expenses	25.4.7	(32,320,300)	3,595,622	(28,724,678)
Other expenses		(9,327,708)	-	(9,327,708)
Operating loss		(8,053,847)	1,056,192	(6,997,655)
Share of profit in an associate	25.4.7	8,275,425	12,765,124	21,040,549
Impairment of investment available for sale	25.4.7	(34,978,676)	(8,048,970)	(43,027,646)
Finance charges	25.4.7	(10,139,327)	(620,152)	(10,759,479)
Loss before zakat		(44,896,425)	5,152,194	(39,744,231)
Zakat and income tax	25.4.7	-	(5,384,352)	(5,384,352)
Loss for the year		(44,896,425)	(232,158)	(45,128,583)
Other comprehensive income	25.4.7	-	282,400	282,400
Total comprehensive loss		(44,896,425)	50,242	(44,846,183)

25. TRANSITION TO IFRS (Continued)

25.3 Reconciliation of equity under IFRS and SOCPA

	Note	December 31, 2016	January 1, 2016
		SR	SR
Total equity under SOCPA		727,551,827	776,732,604
Transition adjustments			
Impact of actuarial value on employees' end of service benefits	25.4.3	(5,078,750)	(4,055,203)
Share of de-recognition of pre-operating expenses of an associate under IFRS	25.4.2 (B)	(2,865,004)	(7,581,158)
Intangible Assets - Pre-operating cost	25.4.1 (C)	(3,643,145)	(6,705,284)
De-recognition of capital work in progress	25.4.1 (E)	(1,342,443)	(1,342,443)
Discounting of employees' loan	25.4.5	(3,231,573)	(2,611,421)
Total adjustments to equity		(16,160,915)	(22,295,509)
Total equity under IFRS		711,390,912	754,437,095

Zakat and income tax and directors' remuneration for the year ended December 31, 2016 has no reconciling effect on equity balance for the year ended on December 31, 2016.

25.4 Notes to reconciliations

25.4.1 Property, plant and equipment and intangible assets

A) Adjustments in property, plant and equipment;

	Note	December 31, 2016	January 1, 2016
		SR	SR
Reclassification from Pre-operating expenses	25.4.1 (C)	4,933,934	6,167,417
Reclassification to intangible assets (software)	25.4.1 (D)	(461,275)	(674,704)
Impact of reclassification on operating fixed assets		4,472,659	5,492,713
De recognition of capital work in progress	25.4.1 (E)	(1,342,443)	(1,342,443)
Total impact of transition on Property, Plant and Equipment.		3,130,216	4,150,270

B) Adjustments in intangible assets;

	Note	December 31, 2016	January 1, 2016
		SR	SR
Reclassification to property, plant and equipment	25.4.1 (C)	(4,933,934)	(6,167,417)
Derecognized against accumulated losses	25.4.1 (C)	(3,643,145)	(6,705,284)
Total impact on pre-operating expenses		(8,577,079)	(12,872,701)
Reclassification from property, plant and equipment	25.4.1 (D)	461,275	674,704
Total impact of transition on Intangible Assets.		(8,115,804)	(12,197,997)

25. TRANSITION TO IFRS (Continued)

25.4 Notes to reconciliations (Continued)

25.4.1 Property, plant and equipment and intangible assets (Continued)

C) Pre-operating expenses

Under SOCPA Accounting Standards, the Group capitalized all the costs and expenses incurred during pre-operating stage of a new subsidiary, TSM Arabia, up to 2013 amounting to SR 18,021,782 and amortized it on straight-line basis over seven years. As at January 1, 2016 and December 31, 2016 the net carrying value of the asset was SR 12,872,701 and SR 8,577,079 respectively. Under IFRS, the amount of pre-operating expenses that do not qualify for recognition as an asset amounted to SR 6,705,284 and SR 3,643,145 as at January 1, 2016 and December 31, 2016 respectively, are derecognized against retained earnings net of amortization expenses already expensed in previous years.

Remaining balance of capitalized pre-operating expenses under SOCPA, amounting to SR 6,167,417 and SR 4,933,934 as at January 1, 2016 and December 31, 2016 respectively, which qualify recognition as fixed assets under IFRS, have been reclassified to Property, Plant and Equipment.

The impact of reversal of amortization for these total pre-operating expenses to consolidated statement of profit or loss is SR 4,295,622 for year ended December 31, 2016. Additional depreciation charged for assets classified to property plant, equipment is SR 1,233,483 charged to Consolidated Statement of profit or loss, for year ended December 31, 2016.

D) Software

Property, plant and equipment included an amount of SR 674,704 and SR 461,275 as at January 1, 2016 and December 31, 2016 respectively representing software that has been reclassified from property, plant and equipment to intangible assets.

E) Capital work in progress

As at January 1, 2016, capital work in progress includes an amount of SR 1,342,443 representing electricity expenses that do not meet the capitalization criteria, accordingly this amount has been derecognized against retained earnings.

25.4.2 Investments

A) Adjustments in investment in associates;

	Note	December 31, 2016	January 1, 2016
		SR	SR
Write off of pre-operating expenses	25.4.2 (B)	(2,865,004)	(7,581,158)
Reclassification to available for sale	25.4.2 (C)	(23,620,819)	(58,648,465)
Total impact of transition on investment in associate.		(26,485,823)	(66,229,623)

B) Investment in Associate

Under SOCPA Accounting Standards, an associate of the Group, Global Pipe Company, capitalized all the costs and expenses incurred during pre-operating stage of its formation and amortized it on straight-line basis over four years. As at January 1, 2016 and December 31, 2016 the carrying value of the pre-operating expenses was SR 21,660,450 and SR 8,185,726 respectively. Under IFRS, this amount of pre-operating expenses that does not qualify for recognition as an asset shall be expensed, accordingly the Group adjusted proportionate share i.e. 35% of such asset in the retained earnings in the amounts of SR 7,581,158 and SR 2,865,004 as at January 1, 2016 and December 31, 2016 respectively.

The impact of reversal of amortization of these pre-operating expenses in Consolidated Statement of profit or loss is SR 4,716,154, including other adjustments, reversed for the complete year ended December 31, 2016.

25. TRANSITION TO IFRS (Continued)

25.4 Notes to reconciliations (Continued)

25.4.2 Investments (Continued)

C) Investment available for sale

Under SOCPA Accounting Standards, the Group accounted for an investment in an unquoted Company, Chemical Development Company (CDC), as investment in associate (under equity method of accounting), having carrying amount of SR 58,648,465, and SR 23,620,819 as at January 1, 2016 and December 31, 2016 respectively. The Group was not exercising significant influence on the CDC main operating sectors. Based on IAS 39 guidance, the Group has reclassified this investment as available for sale financial asset. IFRS requires available for sale financial assets to be measured at fair value.

The Group as of December 31, 2016 recorded a total loss for this investment amounting to SR 43,027,646. Total loss recorded in year 2016 represents the Group's share of loss for the year amounting to SR 8,048,970 and impairment loss of SR 34,978,676. Therefore, these impacts have been reversed as result of reclassification to available for sale investment and the total amount of SR 43,027,646 is treated as impairment loss for available for sale investment.

25.4.3 Employees' End of Service Benefit Obligations

Under SOCPA, the Group accounted for employees' end of service benefit obligations ("EOSB") with reference to the mode of computation stipulated under the Saudi Labor law. Under IFRS, the Group accounts for EOSB as a defined benefit obligation recognized on actuarial basis. Accordingly, the Group appointed an independent actuary for the computation of the defined benefit liability as at January 1, 2016 and onwards. The obligation computed by the actuary as compared with the liability recorded under SOCPA has resulted in an increase of SR 4,055,203 and SR 5,078,750 as at January 1, 2016 and December 31, 2016 respectively, which is adjusted against retained earnings.

The actuarial re-measurement valuation as of December 31, 2016 resulted in actuarial gain amounting to SR 282,400 which is recognized in other comprehensive income and further expense charge of SR 1,305,947 in profit and loss for complete year ended December 31 2016, which results in a net effect of increase on EOSB by the amount of SR 1,023,547.

25.4.4 Zakat and Tax

The Group previously recognized Zakat and Income tax charge in retained earnings via consolidated statement of changes in equity. Under IFRS, this charge is recorded in consolidated statement of profit or loss and therefore zakat and income tax charge for the year ended December 31, 2016 amounting to SR 5,384,352 has been reclassified from consolidated statement of changes in equity to consolidated statement of profit or loss. The total amount of zakat and income tax reclassified to consolidated statement of profit or loss and other comprehensive income includes an amount of SR 172,000 which represents the zakat provision of subsidiary company of the Group.

25.4.5 Discounting of employees' loan

The Group has provided interest free loans to its employees which is mostly repayable on period exceeding one year and recognized these loans at amount of face value under SOCPA. On transition date, based on IAS 39 guidance, the Group has discounted these loans to its present value.

The impact of such discounting is as follows:

	December 31, 2016	January 1, 2016
	SR	SR
On trade and other receivables – non-current	(3,148,740)	(2,549,580)
On trade and other receivables – current	(82,833)	(61,841)
Total impact on accumulated losses	(3,231,573)	(2,611,421)

The impact of un-discounting of such loans in Consolidated Statement of profit or loss is amounting SR 620,152 for the year ended December 31, 2016.

25. TRANSITION TO IFRS (Continued)

25.4 Notes to reconciliations (Continued)

25.4.6 Classification of directors' remuneration

The Group previously recognized director's remuneration in retained earnings via consolidated statement of changes in equity. Under IFRS, this expense is recorded in consolidated statement of profit or loss and therefore director's remuneration charge for the year ended December 31, 2016 amounting to SR 700,000 has been reclassified from consolidated statement of changes in equity to consolidated statement of profit or loss.

25.4.7 Impacts on consolidated statement of profit or loss

	Note	December 31, 2016
Cost of revenue		
Impact of EOSB measurement by actuarial	25.4.3	(1,305,947)
Depreciation on Pre-operating expenses transferred to property, plant and equipment	25.4.1 (C)	(1,233,483)
		(2,539,430)
Administrative expense		
Impact of reclassification of director remuneration.	25.4.6	(700,000)
Reversal of amortization expenses of pre-operating expenses – intangible assets	25.4.1 (C)	4,295,622
		3,595,622
Share of net loss in associate		
Reversal of loss and impairment loss of associate recorded under equity method	25.4.2 (C)	8,048,970
Reversal of amortization of pre-operating expenses of associate	25.4.2 (B)	4,716,154
		12,765,124
Impairment on investment available for sale		
Impairment on investment available for sale	25.4.2 (C)	(8,048,970)
Financial charges		
Discounting of employee's loan	25.4.5	(620,152)
Zakat and income tax		
Reclassification from consolidated statement of changes in equity	25.4.4	(5,384,352)
Other comprehensive income		
Impact of actuarial valuation	25.4.3	282,400
Total Impact on consolidated statement of profit or loss and other comprehensive income		50,242

26. PRIOR YEAR ADJUSTMENT AND RECLASIFICATIONS

Certain comparative figures for year 2016 and 2015 have been reclassified, other than transition restatement mentioned in note 25, to conform with the presentation in the current year. The details and impacts of major re-classification on figures of comparative balances are as follows.

26.1 Reclassification of balances reported under consolidated statement of financial position

a) For the year ended December 31, 2016 and 2015 the advance to suppliers for purchase of inventory were classified as inventory in transit. The Group re-classified these advances as "prepaid expense and advances to suppliers" and comparative balances of both inventory in transit, prepaid expense and advances to suppliers and related notes has been adjusted to reflect such re-classification.

26. PRIOR YEAR RECLASIFICATIONS (Continued)

26.1 Reclassification of balances reported under statement of financial position (Continued)

	Restatement effect on balances			
	December 31 , 2016		December 31 , 2015	
	Debit	Credit	Debit	Credit.
	SR	SR	SR	SR
Re-classification of advance to suppliers				
Inventories	-	10,732,983	-	6,040,622
Trade and other receivables	10,732,983	-	6,040,622	-

26.2 Reclassification of balances reported under consolidated statement of profit or loss and other comprehensive income

a) For the year ended December 31, 2016 the sales of by product inventory had presented as revenue. For better presentation the Group chooses not to present it as revenue instead to deduct these sales of by product from cost of sales and accordingly comparative figures of revenue and cost of revenue and related notes has been adjusted to reflect such reclassification.

	December 31 , 2016	
	Debit	Credit
	SR	SR
Re-classification of by product sales		
Revenue	22,622,131	-
Cost of revenue	-	22,622,131

27. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 20, 2018 corresponding to Rajab 3, 1439H.