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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH INDEPENDENT AUDITOR'S REPORT

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Index **Page**

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, 2018, 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 our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

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

Emphasis of Matters

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

1- Note 2 to the accompanying consolidated financial statements; where the accumulated losses of TSM Arabia (the subsidiary) as at December 31, 2018 have exceeded its share capital by SR 117.92 million. The Board of Directors of the Group has passed a resolution to continue TSM Arabia's business and to provide sufficient financial support to enable TSM Arabia to meet its financial obligations as and when they fall due. Accordingly, the subsidiary's financial statements were prepared on a going concern basis. Additionally, the subsidiary was in breach of its loan facilities financial covenants. The management of the subsidiary is in the process of taking the necessary remedial actions to resolve the breach including obtaining the required waiver documents. Accordingly, the loans are continued to be classified as per their original terms of payment.

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

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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.

Key audit matter	How the matter was addressed
1- Revenue Recognition – Sale of goods	
During the year ended December 31, 2018, the Group recognized total revenue of SR 646.20 million (SR 2017: 696.42 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 included 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, 2018, the Group has total inventory of SR 202.15 million (2017: 185.74 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. Cost is determined using the weighted average cost method. Inventory may be including slow moving, obsolete or damaged inventory items. The determination of whether the inventory will be realized for a value less than cost requires management to exercise judgement and apply assumptions which include the following: - 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- ***Impairment of non-current assets***	
Non-current assets included property plant and equipment as of December 31, 2018 amounted to SR 615.67 million (2017: SR 705.28 million). Management conducts impairment review on an annual basis to assess whether there is any indication of potential impairment. This review has resulted in an indication of impairment for several business units. Management has appointed an independent consultant for conducting an impairment study for these business units. These studies have resulted in an impairment of an amount of SR 72.99 million. In preparing these impairment studies, management assesses the future business plan of the relevant business units and apply valuation models to determine the expected recoverable amount and realizable values for the purpose of impairment assessment. We have considered this matter as a key audit matter because the assessment of the recoverable amount requires a number of key judgments and assumptions in determining the recoverable values for assessing impairment, which include assumptions related to future sales volume, prices, operating assets, growth rates, terminal value, discount rates and other related assumptions. The accounting policy for impairment of non-current assets is outlined in Note 3, and the impairment is presented in Note 4.4.	Our procedures included the following: - 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, the related discount rates and other related assumptions. - 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. - Evaluated the whole model calculations by our auditor expert. - We assessed whether the related disclosures are in accordance with the requirements of International Financial Reporting Standards.

Other Information included in the Group's 2018 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 related 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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SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	Note	December 31, 2018 SR	December 31, 2017 SR
ASSETS			
Non-current assets			
Property, plant and equipment	4	**615,671,975**	705,283,360
Intangible assets	5	**1,280,143**	566,311
Investments, net	6.1	**96,481,720**	96,727,317
Trade and other receivables - non-current	7	**10,380,361**	10,905,083
		723,814,199	813,482,071
Current assets			
Inventories	8	**202,145,086**	185,743,446
Deposit with banks	9	**3,000,000**	3,000,000
Trade and other receivables - current	7	**199,747,473**	202,828,418
Cash and cash equivalents	10	**23,499,467**	10,497,222
		428,392,026	402,069,086
TOTAL ASSETS		**1,152,206,225**	1,215,551,157
EQUITY AND LIABILITIES			
Equity			
Share capital	11.1	**510,000,000**	510,000,000
Share premium	11.2	**131,306,055**	218,828,409
Statutory reserve	11.2	**58,494,224**	58,494,224
Actuarial reserve	13	**(2,061,237)**	(751,680)
Accumulated losses	11.2	**(126,793,725)**	(45,112,039)
Treasury shares	11.3	**(11,502,225)**	(11,611,575)
		559,443,092	729,847,339
LIABILITIES			
Non-current liabilities			
Borrowings – non-current	12	**134,902,189**	119,627,844
Employees' end of service benefits	13	**58,325,525**	56,887,723
Finance lease liability – non-current		**83,762**	155,698
Retention payables		**633,713**	633,713
		193,945,189	177,304,978
Current liabilities			
Trade and other payables	14	**214,397,182**	161,086,340
Borrowings – current	12	**176,876,483**	139,148,716
Finance lease liability – current		**128,491**	69,802
Zakat and income tax	15	**7,415,788**	8,093,982
		398,817,944	308,398,840
TOTAL LIABILITIES		**592,763,133**	485,703,818
TOTAL EQUITY AND LIABILITIES		**1,152,206,225**	1,215,551,157

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 17, 2019.

Ahmed Al Debasi	**Mariano Armengol Lamazares**	**Abdulhamid El Shazli**
Authorized Director	**Chief Executive Officer**	**Finance Manager**

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

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	December 31, 2018 SR	December 31, 2017 SR
Revenue	21	**646,201,904**	696,421,393
Cost of revenue	17	**(648,272,908)**	(602,977,060)
Gross profit		**(2,071,004)**	93,444,333
Selling, marketing and distribution expenses	18	**(17,039,279)**	(15,506,560)
Administrative expenses	19	**(29,860,272)**	(27,581,265)
Allowance for impairment of trade receivables		**(2,453,398)**	(3,051,908)
Other income / (expenses), net	20	**364,521**	(1,836,414)
Operating (loss) / profit		**(51,059,432)**	45,468,186
Share of (loss) / profit in an Associate	6.1	**(245,597)**	11,318,040
Impairment of property, plant and equipment	4	**(72,988,419)**	-
Provision for liability against guarantee to an investee company	14.1	**(30,000,000)**	-
Impairment of investment at fair value through profit or loss	6.2	-	(23,620,819)
Financial charges		**(12,074,033)**	(9,672,633)
(Loss) / profit before zakat & income tax		**(166,367,481)**	23,492,774
Zakat and income tax	15	**(2,289,695)**	(4,400,792)
(Loss) / profit for the year		**(168,657,176)**	19,091,982
Other comprehensive income (OCI)			
Items that will not be reclassified to profit or loss in subsequent years			
Loss attributable to the re-measurements of employees' end of service benefits	13	**(1,309,557)**	(1,034,080)
Total comprehensive (loss) / income, net		**(169,966,733)**	18,057,902
(Loss) / earnings per share			
Basic (loss) / earnings per share	23	**(3.34)**	0.38
Diluted (loss) / earnings per share	23	**(3.31)**	0.37

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 17, 2019.

Ahmed Al Debasi	**Mariano Armengol Lamazares**	**Abdulhamid El-Shazli**
Authorized Director	**Chief Executive Officer**	**Finance Manager**

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

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT DECEMBER 31, 2018

	Share capital	Share premium	Statutory reserve	Actuarial reserve	Accumulated losses	Treasury shares	Total equity
	SR	SR	SR	SR	SR	SR	SR
Balance as at January 1, 2017	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
Balance as at January 1, 2018	**510,000,000**	**218,828,409**	**58,494,224**	**(751,680)**	**(45,112,039)**	**(11,611,575)**	**729,847,339**
Adjustment on adoption of IFRS 9 (Note 3.6.1 B)	-	-	-	-	**(546,864)**	-	**(546,864)**
Balance as at January 1, 2018 (Restated)	**510,000,000**	**218,828,409**	**58,494,224**	**(751,680)**	**(45,658,903)**	**(11,611,575)**	**729,300,475**
Net loss for the year	-	-	-	-	**(168,657,176)**	-	**(168,657,176)**
Other comprehensive loss for the year	-	-	-	**(1,309,557)**	-	-	**(1,309,557)**
Absorption of accumulated losses against share premium (Note 11.2 (a)	-	**(87,522,354)**	-	-	**87,522,354**	-	-
Share issued to employees	-	-	-	-	-	**109,350**	**109,350**
Balance as at December 31, 2018	**510,000,000**	**131,306,055**	**58,494,224**	**(2,061,237)**	**(126,793,725)**	**(11,502,225)**	**559,443,092**

These consolidated financial statements were approved and authorised for issue by the board of directors on behalf of shareholders on March 17, 2019.

Ahmed Al Debasi	**Mariano Armengol Lamazares**	**Abdulhamid El Shazli**
Authorized Director	**Chief Executive Officer**	**Finance Manager**

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2018

	December 31, 2018	December 31, 2017
	SR	SR
Cash flows from operating activities:		
(Loss) / profit before zakat and income tax	**(166,367,481)**	23,492,774
Adjustments for:		
Depreciation of property, plant and equipment	**47,329,123**	41,682,234
Amortization of intangible assets	**233,428**	500,037
Loss / (gain) on disposal of property, plant and equipment, net	**82,006**	(37,600)
Property, plant and equipment – written off	**283,754**	100,334
Impairment on property, plant and equipment	**72,988,419**	-
Provision for liability against guarantee provided to an investee Company	**30,000,000**	-
Impairment on investment at fair value through profit or loss	-	23,620,819
Provision for slow moving inventory	**14,304,298**	4,500,000
Reversal of provision for warranty, net	**(900,620)**	-
Allowance for impairment for trade receivables	**2,453,398**	3,051,907
Finance cost	**12,074,032**	9,672,633
Share of loss / (profit) in an associate	**245,597**	(11,318,040)
Employees' end of service benefits	**7,150,124**	6,839,483
Movement in working capital		
Inventories	**(30,705,939)**	23,319,716
Trade and other receivables	**2,863,205**	(76,769,100)
Deposit with banks	-	10,000,000
Trade and other payables	**23,855,566**	22,495,175
Due to / from related parties	**(2,343,521)**	(891,219)
Cash generated from operations	**13,545,389**	80,259,153
Finance cost paid	**(9,233,687)**	(8,730,294)
Zakat and income tax paid	**(2,960,470)**	(3,577,281)
Employees' end of service benefits paid	**(7,021,879)**	(2,859,482)
Net cash (used in) / generated from operating activities	**(5,670,647)**	65,092,096
Cash flows from investing activities:		
Additions to property, plant and equipment and intangible assets	**(32,048,991)**	(19,325,571)
Proceeds from sale of property, plant and equipment	**29,813**	44,350
Net cash used in investing activities	**(32,019,178)**	(19,281,221)
Cash flows from financing activities:		
Proceeds from / (repayment of) borrowings and finance lease, net	**50,692,070**	(52,636,171)
Net cash generated from / (used in) financing activities	**50,692,070**	(52,636,171)
Net change in cash and cash equivalents	**13,002,245**	(6,825,296)
Cash and cash equivalent at the beginning of the year	**10,497,222**	17,322,518
Cash and cash equivalents at the end of the year	**23,499,467**	10,497,222
Significant 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 17, 2019.

Ahmed Al Debasi	**Mariano Armengol Lamazares**	**Abdulhamid El Shazli**
Authorized Director	**Chief Executive Officer**	**Finance Manager**

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

The Company 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 Company 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, 2018 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	
		2018	2017
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 Safar 4, 1432H (corresponding to January 8, 2011 G) to produce stationary process equipment such as heat exchangers and pressure vessels. The subsidiary's total share capital is SR 32 million of which the Group owns 100%. Initially the Group owned 70 % of share capital of TSM Arabia. On February 22, 2016, the Group signed an agreement with TSM Tech Company to acquire remaining 30% shareholding in TSM Arabia. The legal formalities associated with the acquisition were completed and the articles of association of the subsidiary were amended accordingly.

As of December 31, 2018, the accumulated losses of TSM Arabia have exceeded its share capital by SR 117.92 million. The Board of Directors of the Group has passed a resolution to continue TSM Arabia's business and to provide sufficient financial support to enable TSM Arabia to meet its financial obligations as and when they fall due. Accordingly, the subsidiary's financial statements were prepared on a going concern basis.

3. BASIS OF PREPARATION

3.1 Statement of compliance

These 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").

As required by the Capital Market Authority ("CMA") through its circular dated 16th October 2016 the Group needs to apply the cost model to measure the property, plant and equipment, investment property and intangible assets upon adopting the IFRS for three years' period starting from the IFRS adoption date.

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.

3.2 Preparation of the consolidated financial statements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in consolidated financial statements. The estimates that are significant to the consolidated financial statements are disclosed in note 3.7.19.

3.3 Basis of Consolidation

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

Control is achieved when the Group:

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

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

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

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

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.

3. BASIS OF PREPARATION (Continued)

3.3 Basis of Consolidation (Continued)

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

3.4 Standard issued and applied in January 1, 2018

IFRS 9 and IFRS 15

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

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

IFRIC 22 - Foreign Currency Transactions and Advance Consideration
These amendments clarify the transaction date used to determine the exchange rate.

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

IAS 40 – Investment property
Amends to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

3. BASIS OF PREPARATION (Continued)

3.4 Standards issued and applied in January 1, 2018 (Continued)

Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)
IFRS 1- deletes some short term exemptions and IAS 28 clarifies the criteria for election to measure at fair value through profit or loss an investment in an associate or a joint venture, that is held by an entity that is a venture capital organization, or other qualifying entity.

3.5 Standards issued but not yet effective

The following new accounting standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting year beginning on January 1, 2019 or later. The Group has not early adopted them.

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

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

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

IFRS 17 – Insurance Contracts

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

This standard is mandatory for the accounting year beginning on January 1, 2022.

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

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

Annual Improvements to IFRSs 2015–2017 Cycle

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

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

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

3. BASIS OF PREPARATION (Continued)

3.5 Standards issued but not yet effective (Continued)

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

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

Other amendments

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

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

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

3.6 Change in accounting policy

3.6.1 Adoption of IFRS 9 financial instruments

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

Transition

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

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

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

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

3.6.1 Adoption of IFRS 9 financial instruments (Continued)

3.6.1 (A) Classification of financial assets and financial liabilities

Financial assets

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

(i) Financial assets at amortized cost

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

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

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

Business model assessment

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

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

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

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

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

3.6.1 Adoption of IFRS 9 financial instruments (Continued)

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

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

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

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

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

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

3.6.1 Adoption of IFRS 9 financial instruments (Continued)

3.6.1 (B) Impairment of financial assets

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

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

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

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to accumulated losses. The consolidated statement of financial position as at January 1, 2018 was restated, resulting in decreases in Trade and other receivables and increase in accumulated losses by SR 546,864.

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

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

		Original under IAS 39		Transition	After adopting IFRS 9	
	Note	**Class**	**Amount SR**	**adjust-ment**	**Class**	**Amount SR**
Financial assets						
Trade receivables, net	3.6.1B	Loans and receivables	170,623,222	(546,864)	Amortized cost	170,076,358
Employee loans		Loans and receivables	19,255,252	-	Amortized cost	19,255,252
Deposit with bank		Loans and receivables	3,000,000	-	Amortized cost	3,000,000
Due from related parties		Loans and receivables	4,496,990	-	Amortized cost	4,496,990
Other receivables		Loans and receivables	455,598	-	Amortized cost	455,598
Cash and cash equivalents		Loans and receivables	10,497,222	-	Amortized cost	10,497,222
Investment available for sale		Available –for -sale	-	-	Fair Value through profit or loss	-
			208,328,284	**(546,864)**		**207,781,420**
Financial Liabilities						
Trade and retention payables		Loans and Borrowings	136,812,203	-	Amortized cost	136,812,203
Due to related parties		Loans and Borrowings	2,374,029	-	Amortized cost	2,374,029
Accrued expenses		Loans and Borrowings	14,450,508	-	Amortized cost	14,450,508
Other liabilities		Loans and Borrowings	514,824	-	Amortized cost	514,824
Lease liability		Loans and Borrowings	225,500	-	Amortized cost	225,500
Short term borrowings		Loans and Borrowings	94,765,641	-	Amortized cost	94,765,641
Long term finance		Loans and Borrowings	164,010,919	-	Amortized cost	164,010,919
			413,153,624	**-**		**413,153,624**

i) Impact on accumulated losses

	Amount SR
Closing balance under IAS 39 (December 31, 2017)	(45,112,039)
Recognition of expected credit losses under IFRS 9 (3.6.1 B)	(546,864)
Opening balance under IFRS 9 (January 1, 2018)	(45,658,903)

ii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

	Amount SR
Closing balance under IAS 39 (December 31, 2017)	3,708,320
Recognition of expected credit losses under IFRS 9 (3.6.1 B)	546,864
Opening balance under IFRS 9 (January 1, 2018)	4,255,184

3. BASIS OF PREPARATION (Continued)

3.6 Change in accounting policy (Continued)

3.6.2 IFRS 15 – Revenue from Contract with Customers

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

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

a) Identification of a contract with a customer, i.e., agreements with the Company that creates enforceable rights and obligations.

b) Identification of the performance obligations in the contract, i.e., promises in such contracts to transfer products or services.

c) Determination of the transaction price which shall be the amount of consideration the Company will expect to be entitled to in exchange for fulfilling its performance obligations (and excluding any amounts collected on behalf of third parties).

d) Allocation of the transaction price to each identified performance obligation based on the relative stand-alone estimated selling price of the products or services provided to the customer.

e) Recognition of revenue when/as a performance obligation is satisfied, i.e., when the promised products or services are transferred to the customer and the customer obtains control. This may be over time or at a point in time.

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

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

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

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

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

3. BASIS OF PREPARATION (Continued)

3.7 Principal Accounting Policies:

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

3.7.1 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)

3.7.1 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)

3.7.1 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.

3.7.2 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.

3.7.3 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)

3.7.4 Loan to an associate

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

3.7.5 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)

3.7.6 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.

3.7.7 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.

3.7.8 Dividends

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

3.7.9 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'.

3.7.10 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)

3.7.10 Borrowings (Continued)

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

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

3.7.11 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)

3.7.11 Employees benefits (Continued)

Employee share ownership program (ESOP) (Continued)

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

3.7.12 Service warranties and provisions

Service warranties

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

Provisions

Provisions are recognized when the Group has:

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

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

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

3.7.13 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)

3.7.14 Selling, marketing and distribution expenses

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

3.7.15 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.

3.7.16 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.

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.

3.7.17 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.

3.7.18 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.

3. BASIS OF PREPARATION (Continued)

3.7.18 Segment reporting (Continued)

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.

3.7.19 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.

3. BASIS OF PREPARATION (Continued)

3.7.19 Critical judgments and estimates (Continued)

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

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

Provision for obsolete, slow moving and damaged inventory

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

Contingencies

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

4. PROPERTY, PLANT AND EQUIPMENT

	Note	**December 31, 2018**	December 31, 2017
		SR	SR
Operating fixed assets	4.1	**608,393,446**	693,779,964
Capital work-in-progress	4.3	**7,278,529**	11,503,396
		615,671,975	705,283,360

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Operating fixed assets

	Land	Land Improvements	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and fixtures	Office and equipment's	Leased asset	Total
	SR	**SR**	**SR**	**SR**	**SR**	**SR**	**SR**	**SR**	**SR**
At January 1, 2018									
Cost	157,850,000	1,930,667	234,621,180	623,618,608	5,777,425	4,169,666	24,403,296	225,500	1,052,596,342
Accumulated depreciation	-	(257,418)	(80,365,228)	(252,594,143)	(4,566,844)	(3,174,080)	(17,846,138)	(12,527)	(358,816,378)
Net book value	157,850,000	1,673,249	154,255,952	371,024,465	1,210,581	995,586	6,557,158	212,973	693,779,964
Year ended December 31, 2018									
Cost									
Opening	157,850,000	1,930,667	234,621,180	623,618,608	5,777,425	4,169,666	24,403,296	225,500	1,052,596,342
Additions	**-**	**40,590**	**-**	**2,444,932**	**-**	**-**	**72,201**	**-**	**2,557,723**
Transferred from CWIP	**-**	**-**	**5,080,534**	**26,234,507**	**127,800**	**71,299**	**1,254,735**	**-**	**32,768,875**
Disposals and written-off	**-**	**-**	**-**	**(3,728,467)**	**(583,300)**	**-**	**(3,499)**	**-**	**(4,315,266)**
	157,850,000	**1,971,257**	**239,701,714**	**648,569,580**	**5,321,925**	**4,240,965**	**25,726,733**	**225,500**	**1,083,607,674**
Accumulated depreciation and impairment									
Accumulated depreciation									
Opening	-	257,418	80,365,228	252,594,143	4,566,844	3,174,080	17,846,138	12,527	358,816,378
For the year	**-**	**65,410**	**8,917,928**	**36,030,564**	**259,535**	**319,367**	**1,661,152**	**75,167**	**47,329,123**
Disposals and written-off	**-**		**-**	**(3,616,647)**	**(299,910)**	**-**	**(3,135)**	**-**	**(3,919,692)**
	-	**322,828**	**89,283,156**	**285,008,060**	**4,526,469**	**3,493,447**	**19,504,155**	**87,694**	**402,225,809**
Accumulated Impairment									
Opening	-	-	-	-	-	-	-	-	-
For the year (note 4.4)	**-**	**1,428,363**	**31,799,543**	**39,452,958**	**66,542**	**-**	**141,160**	**99,853**	**72,988,419**
	-	**1,428,363**	**31,799,543**	**39,452,958**	**66,542**	**-**	**141,160**	**99,853**	**72,988,419**
Total Accumulated depreciation and impairment	**-**	**1,751,191**	**121,082,699**	**324,461,018**	**4,593,011**	**3,493,447**	**19,645,315**	**187,547**	**475,214,228**
Net book value	**157,850,000**	**220,066**	**118,619,015**	**324,108,562**	**728,914**	**747,518**	**6,081,418**	**37,953**	**608,393,446**

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.1 Operating fixed assets

	Land	Land Improvements	Building on Leasehold land	Machinery and Equipment	Vehicles	Furniture and fixtures	Office and equipment's	Leased asset	Total
	SR	SR	SR	SR	SR	SR	SR		SR
At January 1, 2017									
Cost	157,850,000	1,930,667	178,688,378	484,053,040	5,844,925	4,896,445	19,493,956	-	852,757,411
Accumulated depreciation	-	(193,066)	(72,821,591)	(222,010,801)	(4,081,592)	(3,598,992)	(14,578,521)	-	(317,284,563)
Net book value	157,850,000	1,737,601	105,866,787	262,042,239	1,763,333	1,297,453	4,915,435	-	535,472,848
Year ended December 31, 2017									
Cost									
Opening	157,850,000	1,930,667	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	-	-
Disposals and written-off	-	-	-	(6,130)	(67,500)	-	(183,873)	-	(257,503)
	157,850,000	1,930,667	234,621,180	623,618,608	5,777,425	4,169,666	24,403,296	225,500	1,052,596,342
Accumulated depreciation									
Opening	-	193,066	72,821,591	222,010,801	4,081,592	3,598,992	14,578,521	-	317,284,563
For the year	-	64,352	7,543,637	30,583,342	546,002	332,804	2,599,570	12,527	41,682,234
Disposals and written-off	-	-	-	-	(60,750)	-	(89,669)	-	(150,419)
Reclassifications	-	-	-	-	-	(757,716)	757,716	-	-
	-	257,418	80,365,228	252,594,143	4,566,844	3,174,080	17,846,138	12,527	358,816,378
Net book value	157,850,000	1,673,249	154,255,952	371,024,465	1,210,581	995,586	6,557,158	212,973	693,779,964

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

4.2 Depreciation for the year has been allocated as under:

	Note	December 31, 2018	December 31, 2017
		SR	SR
Cost of goods manufactured	17	**45,872,882**	39,835,735
Administrative expenses	19	**1,456,241**	1,846,499
		47,329,123	41,682,234

* Operating assets are pledged as security against certain borrowings.

4.3 Capital work-in-progress:

	Note	December 31, 2018	December 31, 2017
		SR	SR
Net book value at the beginning of the year		11,503,396	191,442,674
Additions during the year		**29,491,268**	18,593,708
Transferred to operating fixed assets	4.1	**(32,768,875)**	(198,210,667)
Transferred to intangible assets	5	**(947,260)**	(322,319)
Net book value at the end of the year		**7,278,529**	11,503,396

4.4 Impairment of property plant and equipment:

	Note	December 31, 2018	December 31, 2017
		SR	SR
Impairment of bending factory	**4.4 (a)**	**21,000,000**	-
Impairment of TSM Arabia division	**4.4 (b)**	**51,988,419**	-
Net book value		**72,988,419**	-

(a) During the year, the Group management hired an independent consultant to undertake an impairment assessment of its bending factory having total property, plant and equipment amounting to SR 59.4 million. Based on the results of the impairment study, the Board of Directors has decided to impair property, plant and equipment of this division by an amount of SR 21 million.

(b) As stated in Note 2 to the consolidated financial statements; management has considered the continuous losses of TSM Arabia (the subsidiary) as an indication of impairment for its assets. Accordingly, management has appointed an independent consultant for conducting an impairment study for the subsidiary. This study has resulted in an impairment of an amount of SR 51.99 million, which has been charged to the Group's consolidated statement of profit or loss and other comprehensive income in the current year.

5. INTANGIBLE ASSETS

	Note	December 31, 2018	December 31, 2017
		SR	SR
Cost		**7,210,416**	7,109,981
Accumulated amortization		**(5,930,273)**	(6,543,670)
Net book value		**1,280,143**	566,311

5. INTANGIBLE ASSETS (Continued)

	Note	**December 31, 2018**	December 31, 2017
		SR	SR
Cost			
Opening balance		7,109,981	6,787,662
Transferred from CWIP	4.3	**947,260**	322,319
Written off		**(846,825)**	-
Closing balance		**7,210,416**	7,109,981
Accumulated amortization			
Opening balance		6,543,670	6,043,633
Charged for the year		**233,428**	500,037
Written off		**(846,825)**	-
Closing balance		**5,930,273**	6,543,670
Net book value		**1,280,143**	566,311

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

6. INVESTMENTS

Investments are classified as follows:

	Note	**December 31, 2018**	December 31, 2017
		SR	SR
Investment in associate	6.1	**96,481,720**	96,727,317
Investment at fair value through profit or loss	6.2	**-**	-
		96,481,720	96,727,317

6.1 Investments in associate

Movement for investments in associate is as follows:

	Note	**December 31, 2018**	December 31, 2017
		SR	SR
Global Pipe Company ("GPC")			
Opening value of investment		96,727,317	85,409,277
Share of net (loss) / income for the year		**(245,597)**	11,318,040
		96,481,720	96,727,317
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 earnings / (losses) (opening balance)		**7,977,317**	(3,340,723)
Share of net (loss) / income for the year		**(245,597)**	11,318,040
Net investment value		**96,481,720**	96,727,317

Global Pipe Company ("GPC")

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

6. INVESTMENTS (Continued)

6.1 Investment in associate (Continued)

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

6.2 Investment at fair value through profit or loss

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

	December 31, 2018	December 31, 2017
	SR	SR
Opening balance for the year	**-**	23,620,819
Impairment of investment	**-**	(23,620,819)
Closing balance of the year	**-**	-

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

In 2016, and based on an impairment study, SR 43 million of this investment was impaired and adjusted against the consolidated statement of profit or loss for the year ended December 31, 2016. During the year 2017, a further assessment was made by management with respect to this investment, taking in consideration the current status of the Company and its future viability and accordingly in 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, 2018**	December 31, 2017
		SR	SR
Trade receivables	7.1	**115,822,224**	130,935,226
Revenue recognized in excess of billings		**61,295,646**	43,396,316
Allowance for Impairment for trade receivables	7.2	**(6,704,798)**	(3,708,320)
Trade receivables, net		**170,413,072**	170,623,222
Due from related parties	22 (A)	**6,977,207**	4,496,990
Prepayments and advances to suppliers		**13,027,528**	18,902,439
Value added tax adjustable / refundable		**1,669,207**	-
Employee loans		**17,413,192**	19,255,252
Other receivables		**627,628**	455,598
		210,127,834	213,733,501
Less: non-current portion of employee loans		**(10,380,361)**	(10,905,083)
Total current portion, net		**199,747,473**	202,828,418

7 TRADE AND OTHER RECEIVABLES (Continued)

7.1 The five major customers' balances represent 71.4% (2017: 64.8%) of trade receivable. Balance due from one major customer represents 47.6% (2017: 50.2%).

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

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

Age of trade receivables is presented in note 24.2.1.

8. INVENTORIES

	Note	**December 31, 2018**	December 31, 2017
		SR	SR
Raw Material			
In hand		**38,532,923**	30,391,770
In transit		**8,392,257**	925,929
		46,925,180	31,317,699
Work in progress		**45,619,569**	59,774,989
Finished goods including by-products		**81,796,196**	46,745,511
Spare parts and supplies		**45,888,347**	55,929,278
		220,229,292	193,767,477
Allowance for slow moving inventory	8.1	**(18,084,206)**	(8,024,031)
		202,145,086	185,743,446

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

	December 31, 2018	December 31, 2017
	SR	SR
Opening balance	**8,024,031**	7,052,585
Addition for the year	**14,304,299**	4,500,000
Utilized against inventories written off	**(4,244,124)**	(3,528,554)
Closing balance	**18,084,206**	8,024,031

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, 2018	December 31, 2017
	SR	SR
Cash on hand	**27,000**	27,000
Cash at banks	**23,472,467**	10,470,222
	23,499,467	10,497,222

10.1 Reconciliation of liabilities arising from financing activities

		Cash flows	**Non- cash charges**	
	December 31, 2017	**Loans (paid) / received, net**	**Amortization of finance charges**	**December 31, 2018**
	SR	**SR**	**SR**	**SR**
Long term commercial loans	10,296,501	**(10,296,501)**	**-**	**-**
SIDF Loan	153,714,418	**(13,475,000)**	**2,257,889**	**142,497,307**
Overdraft	13,162,468	**(7,728,238)**	**-**	**5,434,230**
Short term Murabaha loan	81,603,173	**82,243,962**	**-**	**163,847,135**
Finance lease liability	225,500	**(52,153)**	**38,906**	**212,253**
	259,002,060	**50,692,070**	**2,296,795**	**311,990,925**

10.2 Significant non-cash transactions

	December 31, 2018	December 31, 2017
	SR	SR
Transfer of capital work in progress to property, plant and equipment	**32,768,875**	198,210,667
Transfer of capital work in progress to intangible assets	**947,260**	322,319
Absorption of accumulated losses against share premium	**87,522,354**	-
Borrowing cost capitalized	**-**	928,404
Un-winding of interest amortization	**2,296,795**	2,412,920
Allowance for impairment of trade receivables charged to accumulated losses on adoption of IFRS 9 – (note: 3.6.1 B)	**546,864**	-
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
Zakat Payable Adjusted	**7,419**	-

11 EQUITY

11.1 Share capital

	Number of shares		Share Capital	
	December 31, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
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

11. EQUITY (Continued)

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

	December 31, 2018	December 31, 2017
	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.

11.2 Premium and other reserves

	Note	**December 31, 2018**	December 31, 2017
		SR	SR
Share premium	11.2 (a)	**131,306,055**	218,828,409
Statutory reserve	11.2 (b)	**58,494,224**	58,494,224
Actuarial reserve	11.2 (c)	**(2,061,237)**	(751,680)
Accumulated losses	11.2 (d)	**(126,793,725)**	(45,112,039)

11.2 (a) Share premium

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

During the year ended December 31, 2018, the shareholders of the Group in their Ordinary General Assembly Meeting held at September 5, 2018 approved the recommendation of the Board of Directors to cover the accumulated losses amounting to SR 87.52 million as of June 30, 2018 by transfer from the share premium to the accumulated losses.

11.2 (b) Statutory reserve

In accordance with Company's By-Laws, the Group is required to transfer 10% of net income each year to a statutory reserve until such reserve equals 30% of its share capital. This reserve is not available for distribution to shareholders.

11.2(c) Actuarial reserve

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 (Note 13).

11.2 (d) Accumulated losses

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

	December 31, 2018	December 31, 2017
	SR	SR
Saudi share	**(105,597,070)**	(36,914,888)
Non-Saudi share	**(21,196,655)**	(8,197,151)
	(126,793,725)	(45,112,039)

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. EQUITY (Continued)

11.3 Treasury shares

Movement in treasury shares for year ended December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
As at January 1,	(462,063)	(478,004)
Treasury shares granted to employees	**4,374**	15,941
As at December 31,	**(457,689)**	(462,063)
Amount (SR) as at December 31,	**11,502,225**	11,611,575

As at December 31, 2018 the treasury shares held by the Company represent 2.26% of the share capital (2017: 2.28%). Their market value amounts to SR 8.3 million. (2017: SR 7.4 million). The Company 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 2018, the Company has granted 4,374 shares to qualified employees. The remaining 457,689 shares will be distributed to the employees gradually according to the program. The employee shares program is initially recorded in the Statement of financial position as a deduction to shareholder's equity and will be eliminated upon issuance to employees.

12. BORROWINGS

	Current		**Non-Current**	
	December 31, 2018 SR	December31, 2017 SR	**December 31, 2018 SR**	December31, 2017 SR
Term loans				
Saudi Industrial Development Fund (SIDF)	**-**	-	**142,497,307**	153,714,418
Bank Loans	**-**	-	**-**	10,296,501
Short Term				
Overdraft	**5,434,230**	13,162,468	**-**	-
Murabaha loan	**163,847,135**	81,603,173	**-**	-
	169,281,365	94,765,641	**142,497,307**	164,010,919
Current portion of long term loans	**37,747,651**	44,383,075	**(37,747,651)**	(44,383,075)
Non-current portion of Murabaha loans	**(30,152,533)**	-	**30,152,533**	-
Total borrowings	**176,876,483**	139,148,716	**134,902,189**	119,627,844

The term of finances are as under:

Loan Name	**Balance in SR**	**Type of loan**	**Number of remaining installments**	**Payment term**	**Period**	**Mark up**
SIDF – I	111,770,182	Long-term	7	Semi-annual	April 2018 to March 2022	Follow-up cost every 6 month
SIDF – II	30,727,125	Long-term	7	Semi-annual	July 2017 to July 2022	Follow-up cost every 6 month
Total long term	**142,497,307**					
Murabaha Loan	163,847,135	Short-term	-	From 3 to 6 months	-	SIBOR+1.10% to 2.50%
Bank Overdraft	5,434,230	Short-term	-	-	-	9%
Total borrowings	**311,778,672**					

12 BORROWINGS (Continued)

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

These borrowings facility agreements are subject to certain financial and non-financial covenants. The Group is complying with all the covenants except for a long term loan obtained by the subsidiary which has a balance of SR 30.7 million. The management is in the process of taking the necessary remedial actions to resolve the breach, including obtaining the required waiver documents. Accordingly, loans are continued to be classified as per their original terms of payment.

13 EMPLOYEES' END OF SERVICE BENEFITS

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

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

	December 31, 2018	December 31, 2017
	SR	SR
Opening balance as at January 1	**56,887,723**	52,769,752
Expense charge for the year	**7,150,124**	6,839,483
Re-measurement loss	**1,309,557**	1,034,080
Payments	**(7,021,879)**	(2,859,482)
Transferred to accrued liabilities for outgoing members	**-**	(896,110)
Closing balance	**58,325,525**	56,887,723

Charge to consolidated statement of profit or loss for the year

	December 31, 2018	December 31, 2017
	SR	SR
Current service cost	**5,296,451**	4,991,445
Interest cost	**1,853,673**	1,848,038
Cost recognized in profit and loss	**7,150,124**	6,839,483

Principal actuarial assumptions

	December 31, 2018	December 31, 2017
Discount factor used	**4.45%**	3.25%
Salary increase rate	**5%**	3% - 5%
Rates of employees turnover	**Moderate**	Moderate

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

	December 31, 2018		December 31, 2017	
	Percentage	**Amount**	Percentage	Amount
		SR		SR
Discount rate				
Increase	**+ .5 %**	**5,776,261**	+ .5 %	53,836,106
Decrease	**- .5 %**	**61,070,092**	- .5 %	60,218,255
Expected rate of salary				
Increase	**+ .5 %**	**59,953,179**	+ .5 %	60,048,295
Decrease	**- .5 %**	**56,783,122**	- .5 %	53,959,511

14. TRADE AND OTHER PAYABLES

Trade and other payables comprise of the following:

	December 31, 2018	December 31, 2017
	SR	SR
Trade payables	**152,278,755**	136,041,794
Due to related parties (Note 22B)	**2,374,029**	2,374,029
Warranty provision	**1,517,500**	5,195,312
Provision for liability against guarantee to an investee company (Note 14.1)	**30,000,000**	-
Accrued expenses	**25,904,510**	14,450,508
Other liabilities	**2,322,388**	3,024,697
	214,397,182	161,086,340

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

15. ZAKAT AND INCOME TAX

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

	Note	**December 31, 2018**	December 31, 2017
		SR	SR
At January 1,		**8,093,982**	7,270,471
Payments		**(2,960,470)**	(3,577,281)
Adjustments		**(7,419)**	-
Provision charged for the year	15.2	**2,289,695**	4,400,792
As at December 31,		**7,415,788**	8,093,982

15.2 Components of provision charged for the year:

	Note	**December 31, 2018**	December 31, 2017
		SR	SR
Current year's zakat and income tax		**2,289,695**	4,400,792
		2,289,695	4,400,792
Current year's zakat and income tax			
Zakat	(a)	**2,289,695**	3,137,419
Income tax	(b)	**-**	1,263,373
		2,289,695	4,400,792

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, 2018	December 31, 2017
	SR	SR
a) Zakat		
Zakat for holding Company		
Opening Share capital	**510,000,000**	510,000,000
Reserves and opening provisions less utilized	**277,125,589**	253,283,753
Closing value of bank loans	**111,770,182**	123,890,000
Closing value of long term assets	**(732,060,991)**	(775,684,038)
Other adjustments	**1,539,762**	-
Zakatble income for the year	**(58,854,050)**	38,579,057
Zakat base	**109,520,492**	150,068,772
Attributable to Saudi Shareholders @ 83.63% (2017: 83.63%)	**91,587,800**	125,496,776
Zakat due at 2.5% of Saudi shareholding for holding Company.	**2,289,695**	3,137,419
Zakat for subsidiary company	**-**	-
Total Zakat	**2,289,695**	3,137,419

	December 31, 2018	December 31, 2017
	SR	SR
b) Income tax		
(Loss) / profit before zakat & income tax	**(166,367,481)**	23,492,774
Adjustments	**107,513,431**	15,086,283
Taxable (loss) / income for the year	**(58,854,050)**	38,579,057
Attributable (loss) / income to Non-Saudi shareholders at 16.37% (2017: 16.37%)	**(9,636,659)**	6,316,867
Income tax due at 20% of Non-Saudi shareholders	**-**	1,263,373

15.3 Zakat and income tax status

The Holding Company has filed zakat and income tax return for the year ended December 31, 2017 and obtained the required certificate valid until 30 April 2019. The Holding Company was inspected and had last assessment up to year 2004, afterward no assessment order was issued by GAZT to the Company as of the period ended December 31, 2018. No assessment has been issued yet to the subsidiary.

16. CONTINGENCIES AND COMMITMENTS

	December 31, 2018	December 31, 2017
	SR	SR
Letters of credit	**27,745,067**	37,016,998
Letters of guarantee	**141,650,141**	149,300,502
Corporate guarantees (note 16.1)	**591,006,733**	661,387,291
Capital commitments	**4,900,138**	5,510,024

16.1 Corporate guarantees represent guarantees issued by the Holding Company to its subsidiary, associate and investment at fair value through profit or loss amounting to SR 119.28 million, SR 471.73 million and nil respectively (2017: SR 132.72 million, SR 498.67 million, SR 30 million respectively).

17. COST OF REVENUE

	December 31, 2018	December 31, 2017
	SR	**SR**
Raw material consumed, net	**442,707,616**	408,656,572
Spares parts and consumables consumed	**23,325,282**	20,641,137
Salaries and staff related benefits	**93,968,892**	98,931,059
Services and subcontractor	**15,666,421**	23,952,722
Depreciation	**45,872,882**	39,835,735
Provision for slow moving inventory	**14,304,298**	4,500,000
Others	**31,068,359**	23,029,329
Total operating cost	**666,913,750**	619,546,554
Movement in inventory	**(18,640,842)**	(16,569,494)
Total	**648,272,908**	602,977,060

18. SELLING, MARKETING AND DISTRIBUTION EXPENSES

	December 31, 2018	December 31, 2017
	SR	SR
Salaries and wages	**8,045,608**	7,994,473
Local transportation	**4,018,405**	4,633,162
Freight charges – export	**2,187,110**	1,202,117
Others	**2,788,156**	1,676,809
	17,039,279	15,506,561

19. ADMINISTRATIVE EXPENSES

	December 31, 2018	December 31, 2017
	SR	SR
Salaries and wages	**19,012,300**	18,026,325
Directors remuneration	**2,029,146**	1,040,000
Amortization of intangible assets	**233,428**	500,037
Depreciation	**1,456,241**	1,846,499
Information technology expenses	**2,073,282**	2,430,544
Others	**5,055,875**	3,737,860
	29,860,272	27,581,265

20. OTHER (INCOME) / EXPENSES, NET

	December 31, 2018	December 31, 2017
	SR	SR
Property, plant and equipment written off	**283,754**	100,334
Loss / (Gain) on disposal of Property, plant and equipment	**82,006**	(37,600)
Bank Charges	**275,250**	1,579,973
Other (income) / expense, net	**(1,005,531)**	193,707
	(364,521)	1,836,414

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, 2018			For year ended December 31, 2017		
	Steel pipes SR	**Process equipment SR**	**Total SR**	Steel pipes SR	Process equipment SR	Total SR
Revenue	**587,738,759**	**58,463,145**	**646,201,904**	616,744,627	79,676,766	696,421,393
Cost of revenue	**(573,895,259)**	**(74,377,649)**	**(648,272,908)**	(528,927,836)	(74,049,224)	(602,977,060)
Share of profit in an associates	**(245,597)**	**-**	**(245,597)**	11,318,040	-	11,318,040
(Loss) / Profit for the year	**(85,521,608)**	**(83,135,568)**	**(168,657,176)**	25,266,223	(6,174,241)	19,091,982

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

December 31, 2018	**Steel pipes SR**	**Process equipment SR**	**Intra group eliminations SR**	**Total SR**
Non-current assets	**703,897,556**	**19,916,643**	**-**	**723,814,199**
Total Assets	**1,086,620,952**	**125,361,702**	**(59,776,429)**	**1,152,206,225**
Total liabilities	**525,177,860**	**205,561,701**	**(137,976,428)**	**592,763,133**

December 31, 2017	Steel pipes SR	Process Equipment SR	Intra group eliminations 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

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

	December 31, 2018	December 31, 2017
	SR	SR
Saudi Arabia	**618,926,720**	665,499,496
Other countries	**27,275,184**	30,921,897
	646,201,904	696,421,393

Transactions with a major customer

Revenue from one major customer accounted for 51.47% of the total revenue for the year. (51.97% for year ended December 31, 2017).

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
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	**Year ended December 31, 2018 SR**	Year ended December 31, 2017 SR
Rabiah & Nassar Group	Sales	**2,105,645**	3,813,412
Saudi Pan Gulf	Sales	**12,291,989**	9,233,170
Saudi Pan Gulf	Purchases	**-**	2,978,188
Hu Steel Company Ltd.	Service rendered	**319,598**	309,512

A) Balances receivable from related parties are as follows:

	December 31, 2018 SR	December 31, 2017 SR
Saudi Pan Gulf	**5,808,133**	2,823,219
Rabiah & Nassar Group	**1,169,074**	1,570,240
Pan Gulf Piping System	**-**	103,531
	6,977,207	4,496,990

B) Balances payable to related parties are as follows:

	December 31 2018 SR	December 31 2017 SR
TSM Tech Company Limited	**2,214,230**	2,214,230
Hu Steel Company Ltd.	**159,799**	159,799
	2,374,029	2,374,029

C) Remuneration of directors and key management personnel

	December 31, 2018		December 31, 2017	
	Directors SR	**Key management personnel SR**	Directors SR	Key management personnel SR
Board Remuneration	**2,029,146**	**-**	1,040,000	-
Salaries & Wages	**-**	**2,851,168**	-	3,095,496
Allowances	**-**	**1,205,108**	-	1,229,792
Bonus	**-**	**94,465**	-	65,891
End of service	**-**	**397,246**	-	290,458
	2,029,146	**4,547,987**	1,040,000	4,681,637

23. (LOSS) / EARNINGS PER SHARE

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

(Loss) / earnings per share for the year are represented as follows:

	December 31, 2018	December 31, 2017
	SR	SR
Basic (loss) / earnings per share	**(3.34)**	0.38
(loss) / profit for the year	**(168,657,176)**	19,091,982
Weighted average number of outstanding shares	**50,540,966**	50,533,391
Diluted (loss) / earnings per share	**(3.31)**	0.37
(loss) / profit for the year	**(168,657,176)**	19,091,982
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: Number of shares issued to employees	**309,497**	300,749
Number of outstanding shares	**50,546,685**	50,537,937
Weighted average number of outstanding shares	**50,540,966**	50,533,391

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, 2018	December 31, 2017
	SR	SR
Financial assets at amortized cost:		
Trade receivables, net	**170,413,072**	170,623,222
Employee loans	**17,413,192**	19,255,252
Deposit with bank	**3,000,000**	3,000,000
Due from related parties	**6,977,207**	4,496,990
Other receivables	**627,628**	455,598
Cash and cash equivalents	**23,499,467**	10,497,222
Total financial assets	**221,930,566**	208,328,284

	December 31, 2018	December 31, 2017
	SR	SR
Financial Liabilities at amortized cost:		
Trade and retention payables	**152,912,468**	136,041,794
Due to related party	**2,374,029**	2,374,029
Accrued expenses	**21,172,176**	14,450,508
Other liabilities (excluding advances from customers)	**2,322,388**	514,824
Provision for liability against guarantee to an investee company	**30,000,000**	-
Lease liability	**212,253**	225,500
Borrowings	**311,778,672**	258,776,560
Total financial liabilities	**520,771,986**	412,383,215

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 Risk management of financial instruments (Continued)

24.2.1 Credit risk and concentration of credit risk (Continued)

	December 31, 2018	December 31, 2017
	SR	SR
Trade receivables, net	**170,413,072**	170,623,222
Employee loans	**17,413,192**	19,255,252
Deposit with bank	**3,000,000**	3,000,000
Due from related parties	**6,977,207**	4,496,990
Other receivables	**627,628**	455,598
Bank balances	**23,472,467**	10,470,222
	221,903,566	208,301,284

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 47.6% (2017: 50.2%) 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**
2018						
Trade receivables	**170,413,072**	**85,499,662**	**37,333,626**	**9,492,808**	**44,791,774**	**(6,704,798)**
2017						
Trade receivables	170,623,222	164,526,341	3,200,845	2,927,088	3,677,268	(3,708,320)

As at December 31, 2018 the receivables above one year majorly represented by unbilled revenue mounting to SR 39.2 million, which is not subject to impairment assessment under Expected Credit Loss (ECL) model, because it has not yet been charged to customers.

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.

24. FINANCIAL RISK MANAGEMENT (Continued)

24.2 Risk management of financial instruments (Continued)

24.2.2 Liquidity risk (Continued)

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

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

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

	Carrying Amount	Contractual cash flows	Less than 3 months	3 to 12 Months	1 to 5 Years
	SR	SR	SR	SR	SR
December 31, 2018					
Interest-bearing loans and lease liability	**311,990,926**	**324,951,796**	**58,274,021**	**120,655,343**	**146,022,432**
Trade payable and retention payable	**152,912,468**	**152,912,468**	**152,278,755**	**-**	**633,713**
Accrued liabilities	**21,172,176**	**21,172,176**	**21,172,176**	**-**	**-**
Other liabilities	**4,696,415**	**4,696,415**	**4,696,415**	**-**	**-**
Total financial Liabilities	**490,771,985**	**503,732,855**	**236,421,367**	**120,655,343**	**146,656,145**
December 31, 2017					
Interest-bearing loans and lease liability	259,002,060	275,345,592	61,981,351	86,345,377	127,018,864
Trade 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

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 222.15 million (2017: SR 198.43 million) and un-availed borrowing facilities of SR 307.32 million (2017: SR 205.84 million).

24. FINANCIAL RISK MANAGEMENT (Continued)

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

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 employed comprises shareholders' equity as shown in the consolidated statement of financial position under equity section and net debt (net of cash and cash equivalent).

24. FINANCIAL RISK MANAGEMENT (Continued)

24.2 Risk management of financial instruments (Continued)

24.2.5 Capital risk management (Continued)

The salient information relating to capital risk management of the Group as of December 31, 2018 and 2017were as follows:

	December 31, 2018	December 31, 2017
	SR	SR
Total debt	**311,990,925**	259,002,060
Less: Cash and bank balances	**(23,499,467)**	(10,497,222)
Net Debt	**288,491,458**	248,504,838
Total equity	**559,443,092**	729,847,339
Total capital Employed	**847,934,550**	978,352,177
Gearing ratio	**34.02%**	25.40%

25. SIGNIFICANT EVENTS

During the year ended December 31, 2018, the shareholder of the Group in their Ordinary General Assembly Meeting held at September 5, 2018 approved the recommendation of the Board of Directors to cover the accumulated losses amounting to SR 87.52 million as of June 30, 2018 by transfer from the share premium to the accumulated losses.

26. SUBSEQUENT EVENTS

1- During the year a group of shareholders of the Group have entered into a non-binding memorandum of understanding (the MOU) with a strategic investor to consider the possibility of an acquisition of shares by the strategic investor from this group of shareholders. The transactions may involve purchase of 45% to 49% of the share capital of the Group by the strategic investor. The MOU was expired on August 31, 2018 and during the period the strategic investor will be conducting commercial and legal due diligence.

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

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

2- As at December 31, 2018, the accumulated losses of the Group have reached to SR 126,793,725. In meeting of board of directors dated March 17, 2019, the board member unanimously approved to absorb the whole amount of these accumulated loss as at December 31, 2018 by transferring the same amount from share premium to accumulated losses.

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

27. PRIOR YEAR RECLASIFICATIONS

Certain comparative figures for year 2017 have been reclassified, to conform with the presentation in the current year.

Reference to note 17 to the accompanying consolidated financial statements, the consumption of certain raw materials amounting SR. 45.3 million was previously grouped in year 2017 under consumption of “Spares parts and consumables consumed”. The Group re-classified the consumption of these raw materials as “raw material consumed, net” under same line item cost of revenue.

28. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 17, 2019 corresponding to Rajab 10, 1439H.