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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2017 (UNAUDITED)

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE THREE MONTHS ENDED MARCH 31, 2017

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Shareholders of
SAUDI STEEL PIPES COMPANY (SSPC)
(A Saudi Joint Stock Company)
Dammam, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Saudi Steel Pipes Company (the "Company") and its Subsidiary (collectively referred to as the "Group") as of March 31, 2017 and the related condensed consolidated interim statements of income and other comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standards No. 34, Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement endorsed by Saudi Organization of Certified Public Accountants. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standards No. 34.

Emphasis of Matter:

We draw attention to the following matters as explained in Note 1 to the accompanying condensed consolidated interim financial statements;

- On February 22, 2016, the Company signed an agreement with TSM Tech Company, the non-controlling shareholder of the Company's subsidiary "TSM Arabia" to acquire 30% of the share capital of TSM Arabia and thus owning 100% of this subsidiary. Legal formalities associated with the above transaction were still in process as of quarter end. Accordingly, the accompanying condensed consolidated interim financial statements as at March 31, 2017 and as at December 31, 2016 include 100% of the financial position, financial performance and cash flows of the subsidiary. Subsequently on April 16, 2017 the legal formalities associated with the acquisition were completed.

REPORT ON REVIEW OF CONDENSED
CONSOLIDATED INTERIM FINANCIAL STATEMENTS-(Continued)

Emphasis of Matter: (Continued)

- As at March 31, 2017, the accumulated losses of TSM Arabia exceeded its share capital by SR 28.3 million. Based on the business plan for TSM Arabia, management believes that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operations in the future. Furthermore, the Board of Directors of Saudi Steel Pipes Company has passed a resolution to continue TSM Arabia's business and to provide sufficient financial support to enable TSM Arabia meet its financial obligations as and when they fall due. Accordingly, the subsidiary financial statements were prepared on going concern basis.

PKF Al-Bassam & Al Nemer
Allied Accountants

Ibrahim A. Al Bassam
License No.337
Al Khobar,

May 9, 2017
Sha`ban 13, 1438H

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2017

	Note	March 31, 2017 (Un-audited) SR	December 31, 2016 (Restated) (Note 4.1) SR	January 1, 2016 (Restated) (Note 4.1) SR
ASSETS				
Non-current assets				
Property, plant and equipment	5	**722,585,961**	726,915,523	738,786,983
Intangible assets		**768,341**	744,028	1,147,995
Investment in associate, net	6.2	**91,992,972**	85,409,279	46,868,728
Investment available for sale	6.3	**23,620,819**	23,620,819	58,648,465
Trade and other receivables – non-current	7	**10,573,263**	10,535,992	10,303,858
		849,541,356	847,225,641	855,756,029
Current assets				
Inventories		**247,861,831**	224,296,144	279,184,372
Deposit with banks		**13,000,000**	13,000,000	13,000,000
Trade and other receivables	7	**140,598,547**	119,364,591	110,141,755
Cash and cash equivalents		**2,549,160**	17,322,519	6,012,395
		404,009,538	373,983,254	408,338,522
TOTAL ASSETS		**1,253,550,894**	1,221,208,895	1,264,094,551
EQUITY AND LIABILITIES				
Equity				
Share capital		**510,000,000**	510,000,000	510,000,000
Share Premium		**218,828,409**	218,828,409	218,828,409
Statutory reserve		**58,494,224**	58,494,224	58,494,224
Accumulated losses		**(53,715,905)**	(63,921,621)	(20,875,438)
Treasury shares		**(11,673,300)**	(12,010,100)	(12,010,100)
		721,933,428	711,390,912	754,437,095
LIABILITIES				
Non-current liabilities				
Borrowings – non-current	8	**130,867,346**	139,219,250	184,851,853
Employees' end of service benefits	9	**54,159,104**	52,769,753	52,566,857
		185,026,450	191,989,003	237,418,710
Current liabilities				
Trade and other payable	10	**186,482,200**	140,777,948	133,757,355
Borrowings – current	8	**151,593,095**	169,780,561	128,620,361
Zakat and income tax		**8,515,721**	7,270,471	9,861,030
		346,591,016	317,828,980	272,238,746
TOTAL LIABILITIES		**531,617,466**	509,817,983	509,657,456
TOTAL EQUITY AND LIABILITIES		**1,253,550,894**	1,221,208,895	1,264,094,551

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

The accompanying notes 1 through 15 form an integral part of these consolidated interim financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017

	Note	March 31, 2017 Un-audited (Note 4.2)	March 31, 2016 (Restated) (Note 4.2)
		SR	SR
Revenue	11	135,350,277	194,343,388
Cost of revenue	11	(117,233,216)	(165,401,213)
Gross profit		18,117,061	28,942,175
Selling, marketing and distribution expenses		(3,753,918)	(7,901,313)
Administrative expenses		(6,631,634)	(7,468,738)
Other expenses		(330,543)	(2,124,107)
Operating profit		7,400,966	11,448,017
Share of profit in associate		6,583,693	1,602,788
Financial charges		(2,533,693)	(2,342,743)
Profit before zakat		11,450,966	10,708,062
Zakat and income tax		(1,245,250)	(2,191,468)
Profit for the period		10,205,716	8,516,594
Other comprehensive income		-	-
Total Comprehensive income, net of tax		10,205,716	8,516,594
Earnings per share			
Basic earnings per share	13	0.202	0.169
Diluted earnings per share	13	0.200	0.167

Ahmed Al Debasi
Authorised Director

Hisham Al Hmili
Chief Executive Officer

Abdulhamid El Shazli
Finance Manager

The accompanying notes 1 through 15 form an integral part of these consolidated interim financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017

	Note	Share Capital	Share Premium	Statutory Reserve	Accumulated Losses	Treasury Shares (Employee share ownership program)	Total equity
		SR	SR	SR	SR	SR	SR
Balance as at January 1, 2016 - As per SOCPA		510,000,000	218,828,409	58,494,224	1,420,071	(12,010,100)	776,732,604
Impact of adoption of IFRS	4.3	-	-	-	(22,295,509)	-	(22,295,509)
Balance as at January 1, 2016 – As per IFRS		510,000,000	218,828,409	58,494,224	(20,875,438)	(12,010,100)	754,437,095
Net income for the period		-	-	-	8,516,594	-	8,516,594
Reversal of Board of Directors' 2015 remuneration		-	-	-	1,800,000	-	1,800,000
Other comprehensive income		-	-	-	-	-	-
Balance as at March 31, 2016 - Un-audited		510,000,000	218,828,409	58,494,224	(10,558,844)	(12,010,100)	764,753,689
Balance as at January 1, 2017 - As per SOCPA		**510,000,000**	**218,828,409**	**58,494,224**	**(47,760,706)**	**(12,010,100)**	**727,551,827**
Impact of adoption of IFRS	4.3	-	-	-	**(16,160,915)**	-	**(16,160,915)**
Balance as at January 1, 2017 – As per IFRS		**510,000,000**	**218,828,409**	**58,494,224**	**(63,921,621)**	**(12,010,100)**	**711,390,912**
Net income for the period		-	-	-	**10,205,716**	-	**10,205,716**
Other comprehensive income		-	-	-	-	-	-
Share issued to employees		-	-	-	-	**336,800**	**336,800**
Balance as at March 31, 2017 - Un-audited		**510,000,000**	**218,828,409**	**58,494,224**	**(53,715,905)**	**(11,673,300)**	**721,933,428**

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

The accompanying notes 1 through 15 form an integral part of these consolidated interim financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017

	March 31, 2017 (Un-audited) SR	March 31, 2016 (Restated) SR
Cash flows from operating activities:		
Profit before zakat and income tax	**11,450,966**	10,708,062
Adjustments for:		
Depreciation of property, plant and equipment	**9,611,196**	10,409,713
Amortization of intangible assets	**50,782**	191,879
Gain on disposal of property, plant and equipment	-	(48,900)
Impairment of property, plant and equipment	-	1,873,053
Provision for doubtful debts	**51,907**	681,364
Provision for inventories	**2,000,000**	-
Company's share of profit in associate	**(6,583,693)**	(1,602,788)
Employees' end of service benefits	**1,709,872**	1,688,874
	18,291,030	23,901,257
Movement in working capital		
Inventories	**(25,565,684)**	8,750,309
Trade and other receivables	**(16,939,281)**	(68,873,974)
Prepayments and other assets	**(698,645)**	(1,199,761)
Accounts payables	**41,451,297**	20,164,698
Accrued expenses and other liabilities	**4,739,452**	8,375,178
Due to / from related parties	**(3,834,908)**	(1,911,310)
	(847,769)	(34,694,860)
Cash generated from / (used in) operations	**17,443,261**	(10,793,603)
Employees' end of service benefits paid	**(320,521)**	(388,868)
Net cash generated from / (used in) operating activities	**17,122,740**	(11,182,471)
Cash flows from investing activities:		
Additions to property, plant and equipment	**(5,281,635)**	(9,205,792)
Proceeds from sale of property, plant and equipment	-	92,000
Payments for acquisition of intangible assets	**(75,094)**	-
Net cash used in investing activities	**(5,356,729)**	(9,113,792)
Cash flows from financing activities:		
(Repayment of) / proceeds from borrowings, net	**(26,539,370)**	22,053,534
Net cash (used in) / generated from financing activities	**(26,539,370)**	22,053,534
Net change in cash and cash equivalents	**(14,773,359)**	1,757,271
Cash and cash equivalent at the beginning of the period	**17,322,519**	6,012,395
Cash and cash equivalents at end of the period	**2,549,160**	7,769,666

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

The accompanying notes 1 through 15 form an integral part of these consolidated interim financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Steel Pipes Company ("the Company" or "SSPC") is a Saudi joint stock company registered in Dammam under registration number 2050009144 dated Jumada Al-Thani 14 1429H (June 18, 2008). The share capital of the Company is SR 510,000,000 divided into 51 million shares of SR 10 per share.

The principal activities of the Company and its subsidiary (together, "the Group") 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.

The main office of the Group is as follows:
P.O Box 11680, Dammam 31463
Kingdom of Saudi Arabia

2. STRUCTURE OF THE GROUP

The subsidiary of the Group, for which the assets, liabilities and result of operations have been included in the consolidated financial statements of the Group, is as follows:

Name of consolidated subsidiary	Principal activity	Effective ownership	
		2016	2015
Titanium and Steel Manufacturing Company Limited ("TSM Arabia")	Manufacture Stationary process equipment's	100%	100%

Titanium and Steel Manufacturing (TSM Arabia)
TSM Arabia was formed in 2010 to produce stationary process equipment such as heat exchangers and pressure vessels. The subsidiary's total share capital is SR 32 million of which SSPC owns 100%. Civil works of TSM Arabia started in the first quarter of 2012 and the commercial production started on the first quarter of 2014. Initially the Group owned 70 % of share capital of TSM. On February 22, 2016, the Group signed an agreement with TSM Tech Company to acquire remaining 30% shareholding in TSM Arabia, legal procedures of acquisition of remaining shareholding were completed subsequent to the quarter end and article of association of the subsidiary were accordingly amended.

As of March 31, 2017, the accumulated losses of TSM Arabia exceeded its share capital by SR 28.3 million. Based on the business plan for TSM Arabia, management believes that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operations in the future. Furthermore, the Board of Directors of Saudi Steel Pipes Company has passed a resolution to continued 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 financial statements were prepared on going concern basis.

3. BASIS OF PREPARATION

3.1 Statement of compliance

These condensed consolidate interim financial information of the Group for the three months' period ended March 31, 2017 has been prepared in accordance with the requirements of International Accounting Standard 34 - "Interim Financial Reporting" that are endorsed in Saudi Arabia and other standards and pronouncement endorsed by the Saudi Organization for Certified Public Accountants.

3.1 Statement of compliance (Continued)

These are the Group's first IFRS condensed consolidated interim financial statements which prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied as at March 31, 2017, together with the comparative consolidated statement of financial position as at January 1, 2016 and December 31, 2016. The date of transition to IFRS is January 1, 2016. For periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The disclosures to these condensed consolidated interim financial statements do not include the information required to be reported for full annual financial statements. Comparative condensed consolidated interim statements of financial position is extracted from annual restated financial statements as of December 31, 2016 whereas comparative condensed consolidated interim statement of income and other comprehensive income, statement of cash flow and statement of changes in equity are extracted from restated condensed interim financial information of the Group for the period ended March 31, 2016.

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

An explanation of how the transition to IFRSs has affected the reported financial position and financial performance of the Group is provided in note 4. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported previously under Saudi Arabia GAAP (SOCPA) to the amounts reported for those periods and at the date of transition under IFRSs. (i.e. January 1, 2016).

IFRS 1 allows first-time adopters certain exemptions upon transition from the retrospective application of certain requirements under IFRS. IFRS 1 Prohibits retrospective application of IFRS with respect to accounting estimates, but allows retrospective application of "derecognition of financial assets and liabilities", "hedge accounting", "non-controlling interest", "classification and measurement of financial assets", "impairment of financial assets", "embedded derivatives" and "government loans". The Group has applied optional exemption as explained in note 4.
The interim condensed 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 Basis of Consolidation

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

Control is achieved when the Company:

- 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 Company 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.

3.2 Basis of Consolidation (Continued)

When the Company 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 Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company 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 Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Condensed Consolidated Interim Statement of Income and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Condensed Consolidated Interim Statement of Income and each component of other comprehensive income are attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

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

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

When the Group loses control of a subsidiary, a gain or loss is recognized in the condensed consolidated interim statement of income 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 condensed consolidated interim statement of income or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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3.3 Application of new and revised International Financial Reporting Standards (IFRSs)

Standards, amendments to standards and interpretations becoming effective in future periods

The following new accounting standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting period beginning on January 01, 2018 or later. The Group has not early adopted them.

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

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

The standard contains requirements in the following areas:

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

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

Derecognition
The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

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

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

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

3.3 Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

IFRS 15 – Revenue from Contract with Customers (Continued)
It defines new five-step model criteria to recognize revenue from customer contracts. These five steps include (i) Identify the contract with a customer, (ii) identify the performance obligations within the contract, (iii) determine the transaction price, (iv) allocate the price to the performance obligations and (v) recognize revenue when (or as) the performance obligations are fulfilled.

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

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

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

This standard is mandatory for the accounting period beginning on January 01, 2019. The Group will adopt the standard on same date.

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

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

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

IFRIC 22 - Foreign Currency Transactions and Advance Consideration
These amendments clarify the transaction date used to determine the exchange rate. IFRIC 22 is effective for annual reporting periods beginning on or after January 01, 2018.

Amendments to IFRS 7 Financial Instruments.
Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. The amendments will be applied prospectively to annual periods when IFRS 9 is first applied.

Management anticipates that these new standards, interpretations and amendments except for IFRS 9 and IFRS 15 will have no material impact on the condensed consolidated interim financial statements of the Group in the period of initial application. However, it is not practicable at this stage to provide a reasonable estimate of the effects of the application of IFRS 9 and IFRS 15 until the Group performs a detailed review.

3.4 Principal Accounting Policies

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

3.4.1 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 condensed consolidated interim statement of income, 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 - 10years

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the condensed consolidated interim statement of income.

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;

• 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 condensed consolidated interim statement of income as incurred.

3.4.1 Property, plant and equipment (Continued)

Componentization of assets (Continued)
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 period.

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 profit or loss during the reporting period 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 condensed consolidated interim statement of income 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.

3.4.1 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

3.4.2 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 derecognition 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 condensed consolidated interim statement of income when the asset is derecognized.

3.4.3 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 condensed consolidated interim statement of income, 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 condensed consolidated interim statement of income.

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 condensed consolidated interim statement of income.

3.4.4 Financial assets

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

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

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

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

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

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

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

Level 1
The fair value of financial instruments quoted in active markets is based on their quoted closing price at the condensed consolidated interim statement of financial position date. Examples include exchange-traded commodity derivatives and other financial assets such as investments in equity and debt securities.

Level 2
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters for interest rates, yield curves or foreign exchange rates, dealer quotes for similar instruments and use of comparable arm’s length transactions.

Level 3
The fair value of financial instruments that are measured on the basis of entity specific valuations using inputs that are not based on observable market data (unobservable inputs).

3.4.4 Financial assets (Continued)

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

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

3.4.5 Financial liabilities

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

Measurement

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

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

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

3.4.5 Financial liabilities (Continued)

Impairment of non-financial assets

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

3.4.6 Effective interest method

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

3.4.7 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.

3.4.8 Inventories

Inventories except wastes are valued at lower of cost and net realizable value. The cost of inventories shall comprise 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 are revised regularly, if necessary, in light of current conditions any write-down to NRV recorded as an expense in the period in which the write-down occurs. Any reversal is recognized in condensed consolidated interim statement of profit or loss in the period 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.

A provision 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.

3.4.9 Cash and cash equivalents

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

3.4.10 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.

3.4.11 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 period but not distributed at the end of the reporting period.

3.4.12 Functional and presentation currency

Items included in the condensed consolidated interim financial statements of the Group is measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The condensed consolidated interim financial statements are presented in Saudi Riyals 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 condensed consolidated interim statement of income. 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 condensed consolidated interim statement of income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the condensed consolidated interim statement of income within 'Other income/(expenses) – net'.

3.4.13 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 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 condensed consolidated interim 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 condensed consolidated interim statement of income 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.

3.4.13 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 period in which they are incurred in the condensed consolidated interim statement of income.

3.4.14 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 period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period 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 condensed consolidated interim statement of financial position.

Employees' end-of-service benefits (EOSB)
The liability or asset recognized in the condensed consolidated interim 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 period. 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 condensed consolidated interim statement of income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in condensed consolidated interim statement of income 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 condensed consolidated interim statement of income.

Remeasurement gains or losses
Remeasurement gains or losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period 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 SSPC'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.

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. To measure the value of services received in an equity-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 grant date i.e. the date at which the parties became parties to this equity based share based scheme.

3.4.15 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 period. 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.

3.4.16 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 for the Group and zakat related to the Group’s subsidiary is charged to the condensed consolidated interim statement of income. Differences, if any, at the finalization of final assessments are accounted for when such amounts are determined and settled against any previously provided provisions, if any.

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

Deferred tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the condensed consolidated interim financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3.4.17 Revenue recognition

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

Revenue is recognized when all the following conditions are met:

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

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

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

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

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

3.4.18 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.

3.4.19 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) are presented as a separate line item in the condensed consolidated interim statement of income.

3.4.20 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 condensed consolidated interim statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Asset acquired under finance lease is depreciated over the shorter of the useful life of the asset and the lease term.

3.4.20 Leases (Continued)

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

3.4.21 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.

3.4.22 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 condensed consolidated interim statement of income.

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 Manufacturing 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 condensed consolidated interim 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.

3.4.23 Critical judgments and estimates

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

- Economic useful lives of property, plant, equipment;
- Zakat and income taxes;
- Impairment of non-financial assets;
- Estimation of defined benefit obligation;
- Provision for decommissioning obligation;
- Provision for doubtful debts;
- 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 in accordance with the regulations of General Authority of Zakat and Tax ("GAZT"). Zakat is accrued and charged to the condensed consolidated interim statement of income. Additional zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

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

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

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

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

3.4.23 Critical judgments and estimates (Continued)

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. TRANSITION TO IFRS

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

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

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

4. TRANSITION TO IFRS (Continued)

4.1 Effect of IFRS adoption on the condensed consolidated interim statement of financial position.

		December 31, 2016				January 1, 2016		
		As per				As per		
	Note	SOCPA	Transition effect	IFRS		SOCPA	Transition effect	IFRS
		SR	SR	SR	Note	SR	SR	SR
ASSETS								
Non-current assets								
Property, plant and equipment	**4.4.1 (A)**	723,785,307	3,130,216	726,915,523	**4.4.1 (A)**	734,636,713	4,150,270	738,786,983
Intangible assets	**4.4.1 (B)**	8,859,832	(8,115,804)	744,028	**4.4.1 (B)**	13,345,992	(12,197,997)	1,147,995
Investment in associate, net	**4.4.2 (A)**	111,895,102	(26,485,823)	85,409,279	**4.4.2 (A)**	113,098,351	(66,229,623)	46,868,728
Investment available for sale	**4.4.2 (C)**	-	23,620,819	23,620,819	**4.4.2 (C)**	-	58,648,465	58,648,465
Trade and other receivables – non-current	**4.4.5**	13,684,732	(3,148,740)	10,535,992	**4.4.5**	12,853,438	(2,549,580)	10,303,858
		858,224,973	(10,999,332)	847,225,641		873,934,494	(18,178,465)	855,756,029
Current assets								
Inventories		224,296,144	-	224,296,144		279,184,372	-	279,184,372
Deposit with banks		13,000,000	-	13,000,000		13,000,000	-	13,000,000
Trade and other receivables	**4.4.5**	119,447,424	(82,833)	119,364,591	**4.4.5**	110,203,596	(61,841)	110,141,755
Cash and cash equivalents		17,322,519	-	17,322,519		6,012,395	-	6,012,395
		374,066,087	(82,833)	373,983,254		408,400,363	(61,841)	408,338,522
TOTAL ASSETS		1,232,291,060	(11,082,165)	1,221,208,895		1,282,334,857	(18,240,306)	1,264,094,551

4. TRANSITION TO IFRS (Continued)

4.1 Effect of IFRS adoption on the condensed consolidated interim statement of financial position. (Continued)

		December 31, 2016				January 1, 2016		
		As per				As per		
	Note	SOCPA	Transition effect	IFRS	Note	SOCPA	Transition effect	IFRS
		SR	SR	SR		SR	SR	SR
EQUITY AND LIABILITIES								
EQUITY								
Share capital		510,000,000	-	510,000,000		510,000,000	-	510,000,000
Share Premium		218,828,409	-	218,828,409		218,828,409	-	218,828,409
Statutory reserve		58,494,224	-	58,494,224		58,494,224	-	58,494,224
Accumulated losses	**4.3**	(47,760,706)	(16,160,915)	(63,921,621)	**4.3**	1,420,071	(22,295,509)	(20,875,438)
Treasury shares		(12,010,100)	-	(12,010,100)		(12,010,100)	-	(12,010,100)
		727,551,827	(16,160,915)	711,390,912		776,732,604	(22,295,509)	754,437,095
LIABILITIES								
Non-current liabilities								
Borrowings – non-current		139,219,250	-	139,219,250		184,851,853	-	184,851,853
Employees' end of service benefits	**4.4.3**	47,691,003	5,078,750	52,769,753	**4.4.3**	48,511,654	4,055,203	52,566,857
		186,910,253	5,078,750	191,989,003		233,363,507	4,055,203	237,418,710
Current liabilities								
Trade and other payable		140,777,948	-	140,777,948		133,757,355	-	133,757,355
Borrowings – current		169,780,561	-	169,780,561		128,620,361	-	128,620,361
Zakat and income tax		7,270,471	-	7,270,471		9,861,030	-	9,861,030
		317,828,980	-	317,828,980		272,238,746	-	272,238,746
Total liabilities		504,739,233	5,078,750	509,817,983		505,602,253	4,055,203	509,657,456
TOTAL EQUITY AND LIABILITIES		1,232,291,060	(11,082,165)	1,221,208,895		1,282,334,857	(18,240,306)	1,264,094,551

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4. TRANSITION TO IFRS (Continued)

4.2 Effect of IFRS adoption on the condensed consolidated interim statement of income.

	Note	March 31, 2016 SOCPA	Transition Adjustment	March 31, 2016 IFRS
		SR		SR
Revenue		194,343,388		194,343,388
Cost of revenue	**4.4.6**	(165,227,878)	173,335	(165,401,213)
Gross profit		29,115,510	173,335	28,942,175
Selling, marketing and distribution expenses		(7,901,313)		(7,901,313)
Administrative expense	**4.4.6**	(8,112,373)	(643,635)	(7,468,738)
Other expenses		(2,124,107)	-	(2,124,107)
Operating profit		10,977,717	(470,300)	11,448,017
Share of profit in associate	**4.4.6**	(576,271)	(2,179,059)	1,602,788
Financial charges		(2,342,743)	-	(2,342,743)
Profit before zakat		8,058,703	2,649,359	10,708,062
Zakat and income tax	**4.4.6**	-	2,191,468	(2,191,468)
Profit for the period		8,058,703	457,891	8,516,594
Other comprehensive income		-	-	-
Total Comprehensive income, net of tax		8,058,703	457,891	8,516,594

4.3 Reconciliation of equity under IFRS and SOCPA.

Reconciliation of equity

	Note	December 31, 2016	January 1, 2016
Total equity under SOCPA		727,551,827	776,732,604
Transition adjustments			
Impact of actuarial value on employees' end of service benefits	**4.4.3**	(5,078,750)	(4,055,203)
Share of derecognition of pre-operating expenses of an associate under IFRS.	**4.4.2 (B)**	(2,865,004)	(7,581,158)
Intangible Assets - Pre-operating cost	**4.4.1 (C)**	(3,643,145)	(6,705,284)
Derecognition of capital work in progress	**4.4.1 (E)**	(1,342,443)	(1,342,443)
Discounting of employees' loan	**4.4.5**	(3,231,573)	(2,611,421)
Total adjustments to equity		(16,160,915)	(22,295,509)
Total equity under IFRS		711,390,912	754,437,095

4.4 Notes to reconciliations

4.4.1 Property, plant and equipment and intangible assets.

A) Adjustments in property, plant and equipment;

	Note	December 31, 2016	January 01, 2016
Reclassification from Pre-operating expenses	**4.4.1 (C)**	4,933,934	6,167,417
Reclassification to software	**4.4.1 (D)**	(461,275)	(674,704)
Impact of reclassification on operating fixed assets		4,472,659	5,492,713
De recognition of capital work in progress	**4.4.1 (E)**	(1,342,443)	(1,342,443)
Total impact of transition on Property, Plant and Equipment.		3,130,216	4,150,270

B) Adjustments in intangible assets;

	Note	December 31, 2016	January 01, 2016
Reclassification to property, plant and equipment	**4.4.1 (C)**	(4,933,934)	(6,167,417)
Derecognized against retained earnings	**4.4.1 (C)**	(3,643,145)	(6,705,284)
Total impact on pre-operating expenses		(8,577,079)	(12,872,701)
Reclassification from property, plant and equipment	**4.4.1 (D)**	461,275	674,704
Total impact of transition on Intangible Assets.		(8,115,804)	(12,197,997)

C) Pre-operating expenses

Under SOCPA Accounting Standards, the Group capitalized all the costs and expenses incurred during pre-operating stage of a new subsidiary, TSM Arabia, up to 2013 amounting to SR 18,021,782 and amortized it on straight-line basis over seven years. As at January 01, 2016 and December 31, 2016 the net carrying value of the asset was SR 12,872,701 and SR 8,577,079 respectively. Under IFRS, the amount of pre-operating expenses that do not qualify for recognition as an asset amounted to SR 6,705,284 and 3,643,145 as at January 1, 2016 and December 31, 2016 respectively, are derecognized against retained earnings net of amortization expenses already expensed in previous years.

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

The impact of reversal of amortization for these total pre-operating expenses is SR 643,635 in the three months' period ended March 31, 2016. Additional depreciation charged for assets classified to property plant and equipment is SR 308,371 and SR 1,020,054 charged to Condensed Consolidated Interim Statement of Income, for the three months' period ended March 31, 2016 and year ended December 31, 2016 respectively.

D) Software

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

E) Capital work in progress

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

4.4.2 Investments

A) Adjustments in investment in associates;

	Note	December 31, 2016	January 01, 2016
Written off of pre-operating expenses	4.4.2 (B)	(2,865,004)	(7,581,158)
Reclassification to available for sale	4.4.2 (C)	(23,620,819)	(58,648,465)
Total impact of transition on investment in associate.		(26,485,823)	(66,229,623)

B) Investment in Associate

Under SOCPA Accounting Standards, an associate of the Group, Global Pipe Company, capitalized all the costs and expenses incurred during pre-operating stage of its formation and amortized it on straight-line basis over four years. As at January 01, 2016 and December 31, 2016 the carrying value of the pre-operating expenses was SR 21,660,450 and SR 8,185,726 respectively. Under IFRS, this amount of pre-operating expenses does not qualify for recognition as an asset shall be expensed accordingly the Group adjusted proportionate share i.e. 35% of such asset in the retained earnings in the amounts of SR 7,581,158 and SR 2,865,004 as at January 1, 2016 and December 31, 2016 respectively.

The impact of reversal of amortization of these pre-operating expenses in Condensed Consolidated Interim Statement of Income is SR 379,059 for the three months' period ended March 31, 2016.

C) Investment available for sale

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

The losses recorded by the group for this investment under equity method were SR 1,800,000 for the three months' period ended March 31, 2016 in the condensed consolidated interim statement of income. So these losses have been reversed as result of reclassification to available for sale investment.

4.4.3 Employees' End of Service Benefit Obligations

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

The impact of actuarial valuation for EOSB in Condensed Consolidated Interim Statement of Income is reduction of an amount of SR 135,036 for the three months' period ended March 31, 2016. The actuarial valuation as of December 31, 2016 resulted in actuarial gain amounting to SR 282,400 which is recognized in Other Comprehensive Income and further expense charge of SR 1,305,947 in profit and loss for year 2016, which results in a net effect of increase on EOSB by the amount of SR 1,023,547.

4.4.4 Zakat and Tax

The Group previously recognized Zakat and Tax charge in retained earnings via Condensed Consolidated Interim Statement of Changes in Equity. Under IFRS, this charge is recorded in Condensed Consolidated Interim Statement of Income and therefore Zakat and Tax charge for the three months' period ended March 31, 2016 amounting to SR 2,191,468 has been reclassified from Condensed Consolidated Interim Statement of Changes in Equity to Condensed Consolidates Statement of Income.

4.4.5 Discounting of employee's loan

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

The impact of such discounting is as follows:

	December 31, 2016	January 01, 2016
On trade and other receivables – non-current	(3,148,740)	(2,549,580)
On trade and other receivables - current	(82,833)	(61,841)
Total impact Retained Earnings.	(3,231,573)	(2,611,421)

4.4.6 Impacts on condensed consolidated interim statement of income

A) Adjustments in condensed consolidated interim statement of income**;**

	Note	March 31, 2016
Cost of revenue		
Impact of EOSB measurement by actuarial.	4.4.3	(135,036)
Depreciation on Pre-operating expenses transferred to property, plant and equipment	4.4.1 (C)	308,371
		173,335
Administrative expense		
Reversal of amortization expenses of pre-operating expenses – intangible assets.	4.4.1 (C)	(643,635)
		(643,635)
Share of net loss in associate		
Reversal of amortization of pre-operating expenses of associate	4.4.2 (B)	(379,059)
Reversal of losses of associate recorded under equity method	4.4.2 (C)	(1,800,000)
		(2,179,059)
Zakat and income tax		
Reclassification from condensed consolidated interim statement changes in equity	4.4.4	2,191,468
		2,191,468
Total Impact on condensed consolidated interim statement of income and other comprehensive income		**457,891**

5. PROPERTY, PLANT AND EQUIPMENT

Carrying amounts of

	Note	**March 31, 2017 Un-Audited SR**	December 31, 2016 (Restated) SR
Operating fixed assets	5.1	**526,304,014**	535,472,849
Capital work-in-progress	5.3	**196,281,947**	191,442,674
		722,585,961	726,915,523

5.1 Operating fixed assets

	Note	**March 31, 2017 Un-Audited SR**	December 31, 2016 (Restated) SR
Net book value at beginning of period / year		**531,000,190**	496,772,130
Impact of transition	4.4.1 (A)	**4,472,659**	5,492,713
Adjusted Net book value at beginning of period (Restated)		**535,472,849**	502,264,843
Addition during the period / year		**442,361**	10,219,401
Transferred from CWIP		**-**	69,565,968
Reclassification of Capital Spares		**-**	5,844,810
Disposals - at net book value		**-**	(58,600)
Depreciation charge during the period / year		**(9,611,196)**	(41,748,698)
Impairment of operating fixed assets		**-**	(1,088,680)
Write offs		**-**	(8,506,141)
Impact of IFRS transition	4.4.1 (C)	**-**	(1,020,054)
Net book value at the end of the period / year		**526,304,014**	535,472,849

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

	March 31, 2017 Un-Audited SR	December 31, 2016 (Restated) SR
Building and structures	**6,400**	16,085,356
Machinery and equipment's	**29,640**	61,109,556
Vehicles	**-**	503,500
Furniture & fixture	**-**	661,378
Office and electrical equipment	**406,321**	1,425,579
	442,361	79,785,369

5. PROPERTY PLANT AND EQUIPMENT (Continued)

5.3 Capital work-in-progress:

	Note	**March 31, 2017 Un-Audited SR**	December 31, 2016 (Restated) SR
Net book value at beginning of period / year		**192,785,117**	237,864,583
Impact of transition	4.4.1 (E)	**(1,342,443)**	(1,342,443)
Adjusted net book value at beginning of period / year (Restated)		**191,442,674**	236,522,140
Additions during the period / year		**4,839,273**	24,486,502
Transferred to property plant and equipment		**-**	(69,565,968)
Net book value at the end of the period / year		**196,281,947**	191,442,674

6. INVESTMENTS

6.1 Investments are classified as follows:

	Note	**March 31, 2017 Un-Audited SR**	December 31, 2016 (Restated) SR
Investment in associate, net	6.2	**91,992,972**	85,409,279
Investments available for sale	6.3	**23,620,819**	23,620,819
		115,613,791	109,030,098

6.2 Investments in associate, net

Movement for **i**nvestments in associates is as follows:

	Note	**March 31, 2017 Un-Audited SR**	December31, 2016 (Restated) SR
Global Pipe Company			
Cost of acquisition		**45,000,000**	45,000,000
Loan Contribution		**43,750,000**	43,750,000
Accumulated share of loss from associate		**(475,717)**	(16,800,114)
Share of net income / (loss) for the period		**6,583,693**	16,324,397
Impact of transition	4.4.2 (A)	**(2,865,004)**	(2,865,004)
Net investment value		**91,992,972**	85,409,279

Global Pipe Company (“GPC”)

Global Pipe Company Limited (GPC) is a limited liability company whose capital is owned by the Company, EEW Company of Germany ("EEW") and other Saudi shareholders. GPC is engaged in producing various types of large welded pipes up to 60 inches’ diameter and large structural tubular pipes. The total share capital of Global Pipe Company is SR 125 million of which, Saudi Steel Pipes owns 35%.

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

6. INVESTMENTS (Continued)

6.3 Investment available for sale

Movement for available for sale investments is as follows:

	March 31, 2017 Un-Audited SR	December31, 2016 (Restated) SR
Opening balance	**23,620,819**	58,648,465
Acquisition during the period / year	**-**	8,000,000
Impairment of investments*	**-**	(43,027,646)
Closing balance	**23,620,819**	23,620,819

Investment available for sales represent a 20% share in Chemical Development Company Limited (CDC), a holding company whose purpose is to develop strategic industrial projects. Under IFRS conversion and as at date of transition, this investment has been reclassified from investment in associates to available for sale investments, considering all required transition affects (note 4.4.2 (c)).

7. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise of the following:

	Note	**March 31, 2017 SR**	December 31, 2016 SR	January 01, 2016 SR
Trade receivables		**116,087,980**	99,163,087	88,716,899
Impairment for doubtful debts		**(1,424,708)**	(1,387,189)	(72,169)
Net trade receivable		**114,663,272**	97,775,898	88,644,730
Due from related parties	12 (A)	**8,934,742**	5,249,534	5,288,019
Prepayments and other debit balances – at amortized cost		**27,573,796**	26,875,151	26,512,864
		151,171,810	129,900,583	120,445,613
Less: non-current portion at amortized cost		**(10,573,263)**	(10,535,992)	(10,303,858)
Total current portion, net		**140,598,547**	119,364,591	110,141,755

Movement in the allowance for doubtful debts is as follows:

	March 31, 2017	December 31, 2016	January 01, 2016
Opening balance	**1,387,189**	72,169	151,794
Addition for the period/year	**51,907**	1,315,020	1,603,623
Utilized against receivables written off	**(14,388)**	-	(1,683,248)
Closing balance	**1,424,708**	1,387,189	72,169

8. BORROWINGS

	Current			Non-Current		
	31-Mar-17	31-Dec-16	01-Jan-16	**31-Mar-17**	31-Dec-16	01-Jan-16
	Un-Audited	(Restated)	(Restated)	**Un-Audited**	(Restated)	(Restated)
Term loans	**SR**	SR	SR	**SR**	SR	SR
Saudi Industrial Development Fund (SIDF), net	**-**	-	-	**153,658,063**	155,301,499	169,611,271
Bank Loans	**-**	-	-	**25,746,234**	47,356,137	108,771,233
Short Term						
Short-term loan facility	**99,102,339**	102,044,115	33,645,723	**-**	-	-
Bank overdraft	**3,953,805**	4,298,060	1,443,987	**-**	-	-
	103,056,144	106,342,175	35,089,710	**179,404,297**	202,657,636	278,382,504
Current portion of term loans	**48,536,951**	63,438,386	93,530,651	**(48,536,951)**	(63,438,386)	(93,530,651)
Total Borrowings	**151,593,095**	169,780,561	128,620,361	**130,867,346**	139,219,250	184,851,853

The term of finances are as under:

Loan Name	**Balance In SR**	**Type of loan**	**Number of install-ments**	**Payment term**	**Period**	**Mark up**
SIDF – I	118,766,117	Long-term	10	Semi-annual	May 2017 to March 2021	Follow-up cost every 6 Month
SIDF – II	34,891,946	Long-term	11	Semi-annual	July 2017 to July 2022	Follow-up cost every 6 Month
Total SIDF	153,658,063					
Long Term Bank Loans	25,746,234	Long-term	5	3 Monthly	April 2017 to April 2018	SIBOR+ 2%
Total long term	**179,404,297**					
Murabaha Loan	99,102,339	Short-term	-	From 3 to 6 months	-	SIBOR+1.25% to 2.50%
Bank Over-draft	3,953,805	Short-term	-	-	-	-
Total Borrowings	**282,460,441**					

9. EMPLOYEE’S END OF SERVICE BENEFITS

The Group carried out actuarial valuations to account for its obligations under defined benefit plan. As per valuation results, the Group has made adjustment of SR 4,055,203 and 5,078,750 as at December 31, 2015 and December 31, 2016 respectively representing additional liability and respective adjustment was made in opening retained earnings. (Ref: note 4.4.3).

9. EMPLOYEES' END OF SERVICE BENEFITS (Continued)

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

	March 31, 2017 SR	December 31, 2016 SR
Opening Balance as at January 1 – as per SOCPA	**47,691,003**	48,511,654
Impact of transition (Note 4.4.3)	**5,078,750**	4,055,203
Opening Balance as at January 1 – as per IFRS (Restated)	**52,769,753**	52,566,857
Expense charge for the year	**1,709,872**	6,755,494
Remeasurement (gain)	**-**	(282,400)
Payment	**(320,521)**	(6,270,198)
Closing balance	**54,159,104**	52,769,753

Charge to condensed consolidated interim statement of income for the year

	March 31, 2017 SR	December 31, 2016 SR
Current service cost	**1,247,863**	4,913,179
Past service cost	**-**	-
Interest cost	**462,009**	1,842,315
Cost recognized in profit and loss	**1,709,872**	6,755,494

Principal actuarial assumptions

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

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

	December 31, 2016	
	Percentage	Amount SR
Discount rate		
Increase	+ .5 %	50,071,900
Decrease	- .5 %	55,709,543
Expected rate of salary		
Increase	+ .5 %	55,559,274
Decrease	- .5 %	50,181,967

10. TRADE AND OTHER PAYABLE

Trade and other payable comprise of the following:

	Note	**March 31, 2017 SR**	December 31, 2016 SR	January 01, 2016 SR
Trade Payables		**155,606,556**	114,155,258	110,975,690
Due to related parties	**12 (B)**	**3,855,251**	4,004,951	4,004,951
Accrued expenses and other liabilities		**27,020,393**	22,617,739	18,776,714
		186,482,200	140,777,948	133,757,355

11. SEGMENTAL REPORTING

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 4 of these condensed consolidated interim financial statements.

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

	Steel pipes	**Process equipment**	**Total**
As at March 31, 2017			
Non-current assets	**772,516,870**	**77,024,486**	**849,541,356**
Total Assets	**1,129,112,532**	**124,438,362**	**1,253,550,894**
Total liabilities	**416,101,446**	**115,516,020**	**531,617,466**
Revenue	**119,653,823**	**15,696,454**	**135,350,277**
Cost of revenue	**104,771,972**	**12,461,244**	**117,233,216**
Profit for the period	**9,942,064**	**263,652**	**10,205,716**
Share of profit in associates	**6,583,693**	**-**	**6,583,693**

	Steel pipes	Process Equipment	Total
As at March 31, 2016			
Non-current assets	772,935,525	81,420,505	854,356,030
Total Assets	1,224,857,739	101,831,227	1,326,688,966
Total liabilities	463,230,271	98,705,006	561,935,277
Revenue	189,379,754	4,963,634	194,343,388
Cost of revenue	157,234,916	8,166,297	165,401,213
Profit for the period	14,442,097	(5,925,503)	8,516,594
Share of profit in associates	1,602,788	-	1,602,788

Geographical segment

A geographical segment is a Group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments. The Group's operation is conducted mainly in the Kingdom of Saudi Arabia. The selected financial information covering the revenue as at March 31, 2017 and December 31, 2016, categorized by these geographic segments is as follows:

	March 31, 2017 SR	March 31, 2016 SR
Saudi Arabia	**127,895,455**	167,044,487
Other countries	**7,454,822**	27,298,901
	135,350,277	194,343,388

11. SEGMENTAL REPORTING (Continued)

TRANSACTIONS WITH A MAJOR CUSTOMER

Revenue from one major customer accounted for 28.97% of the total revenue for the period.

12. RELATED PARTIES' TRANSACTIONS AND BALANCES

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

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

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

Related party	Nature of transaction	**Three months period ended March 31, 2017**	Three months period ended March 31, 2016
Rabiah & Nassar Group	Sales	**1,450,431**	2,158,630
Abdullah Ibrahim Alkhorayef Sons Company	Sales	**419,760**	420,429
Saudi Pan Gulf Company	Sales	**3,260,339**	3,159,551
Hu Steel Company Ltd.	Service rendered	**74,850**	74,850

A) Balances receivable from related parties are as follows:

	March 31, 2017	December 31, 2016
Saudi Pan Gulf	**6,207,722**	3,561,336
Rabiah & Nassar Group	**2,307,260**	1,688,198
Abdullah Ibrahim Alkhorayef Sons Company	**419,760**	-
	8,934,742	5,249,534

B) Balances payable to related parties are as follows:

	March 31 2017	December 31 2016
	SR	**SR**
TSM Tech. Company	**3,855,251**	3,855,251
Hu Steel Company Ltd.	**-**	149,700
	3,855,251	4,004,951

13. EARNING PER SHARE

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

Earnings and losses per share are represented as follows:

	March 31 2017	March 31 2016
Basic earnings per share	**0.202**	0.169
Profit for the period	**10,205,716**	8,516,594
Weighted average number of outstanding shares	**50,521,996**	50,521,996
Diluted earnings per share	**0.200**	0.167
Profit for the period	**10,205,716**	8,516,594
Weighted average number of outstanding shares, net of 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 the employee share program	**(762,812)**	(762,812)
Add: Weighted average number of shares issued to employees	**298,280**	284,808
Number of outstanding shares	**50,535,468**	50,521,996
Weighted average number of outstanding shares	**50,521,996**	50,521,996

14. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk including currency risk and cash flow and fair value interest rate risk and price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group reviews and agrees policies for managing each of these risks and these policies are summarized below:

Interest 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 financial positions and cash flows. The Group is subject to interest rate risk on its interest bearing assets and liabilities mainly bank overdraft and bank facilities. 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.

Liquidity risk

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

The Group's 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 balance sheet date and the Group expects to have adequate funds available to do so.

14. FINANCIAL RISK MANAGEMENT (Continued)

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

Financial liabilities

	Less than 3 months	3 to 12 Months	1 to 5 Years	Total
As at March 31, 2017				
Interest-bearing loans and borrowings	**58,423,321**	**93,169,774**	**130,867,346**	**282,460,441**
Accounts payable	**155,517,578**	**88,978**	**-**	**155,606,556**
Accrued Liabilities	**11,802,510**	**15,217,883**	**-**	**27,020,393**
Other Liabilities	**-**	**3,855,251**	**-**	**3,855,251**
Total undiscounted financial liabilities	**225,743,409**	**112,331,886**	**130,867,346**	**468,942,641**
As at December 31, 2016				
Interest-bearing loans and borrowings	88,634,531	81,146,030	139,219,250	308,999,811
Accounts payable	114,155,258	-	-	114,155,258
Accrued Liabilities	6,816,527	15,801,212	-	22,617,739
Other Liabilities	149,700	3,855,251	-	4,004,951
Total undiscounted financial liabilities	209,756,016	100,802,493	139,219,250	449,777,759

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks – currency risk, cash flow and fair value interest risk and price risk.

Currency risk
Currency risk is the risk that value of financial instruments will fluctuate due to change 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 against the US Dollar is fixed. The Group's exposure to currency risk arising from currencies that are not pegged to USD is not material.

Fair values of financial instruments
Fair value is the amount for which an asset could be exchanges, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalent, accounts receivables and other assets, its financial liabilities consist of bank facilities, trade accounts payables, accrued expenses and other liabilities.

The fair values of financial instruments are not materially different from their carrying values.

14. FINANCIAL RISK MANAGEMENT (Continued)

The following table shows an analysis of fair value of financial instruments by level of the fair value hierarchy:

31-Mar-17	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in ordinary shares				
Investments in Global Pipe Company.	-	-	**91,992,972**	**91,992,972**
Investments in Chemical Development Company Limited.	-	**23,620,819**	**-**	**23,620,819**
	-	**23,620,819**	**91,992,972**	**115,613,791**

31-Dec-16	Level 1	Level 2	Level 3	Total
Investment in ordinary shares				
Investments in Global Pipe Company.	-	-	85,409,279	85,409,279
Investments in Chemical Development Company Limited.	-	23,620,819	-	23,620,819
	-	23,620,819	85,409,279	109,030,098

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

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation. The Group is exposed to credit risk in relation to its monetary assets, mainly trade receivables, bank balances and due from related parties. The Group has policies in place to minimize its exposure to credit risk. Banking transactions are limited to branches of reputed local and international banks. The Group has a formal procedure for monitoring and follows up of trade receivables. Receivables are classified as past due if they are outstanding for more than ninety days.

Management views that the balance maintained with the banks and financial institutions with no formal rating to be high credit qualified financial institutions.

The maximum exposure to credit risk is represented by the carrying amount of the financial assets in the condensed consolidated interim statement of financial position accounting for SR 139,147,174.

15. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the board of directors and authorized for issue on May 9, 2017.