

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE MONTH AND THE YEAR ENDED
31 DECEMBER 2015
(UNAUDITED)
WITH
INDEPENDENT
AUDITOR'S REVIEW REPORT

SAUDI STEEL PIPES COMAPNY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH AND THE YEAR ENDED 31 DECEMBER 2015

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KPMG Al Fozan & Partners

Al Subeaei Towers
King Abdulaziz Road
P O Box 4803
Al Khobar 31952
Kingdom of Saudi Arabia

Telephone +966 13 887 7241
Fax +966 13 887 7254
Internet www.kpmg.com.sa

License No. 46/11/323 issued 11/3/1992

**REVIEW REPORT ON THE INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

**The Shareholders
Saudi Steel Pipes Company
(A Saudi Joint Stock Company)
Al-Dammam, Kingdom of Saudi Arabia**

Scope of review:

We have reviewed the accompanying interim consolidated balance sheet of **Saudi Steel Pipes Company** (the “Company”) as at 31 December 2015, the related interim consolidated statement of income for the three-month period and the year then ended, the interim consolidated statement of cash flows and the interim consolidated statement of changes in shareholders’ equity for the year then ended and the attached interim consolidated notes 1 to 12 which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Company’s management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit 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 such an opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.



Emphasis of a matter

We draw attention to Note 1 to the interim consolidated financial statements; as of 31 December 2015, the accumulated losses of Company's Subsidiary "Titanium and Steel Manufacturing Company Limited" (hereinafter referred to as "TSM Arabia" or the "Subsidiary"), exceeded the Subsidiary's share capital by SR 10.7 million. Additionally, on 17 January 2016, the Company has announced its intention to acquire the 30% ownership interest of TSM Tech in the Subsidiary of which the related negotiation has started. Accordingly, the Board of Directors of the Company has passed a resolution on 18 January 2016 confirming the continuation of TSM Arabia's business and providing the sufficient financial support to enable TSM Arabia to meet its financial obligations as and when they fall due. Based on the Group management's preliminary business plan for TSM Arabia, they believe that TSM Arabia will be able to generate sufficient income and positive cash flow to support its operation in the future.

For KPMG Al Fozan & Partners

Khail Ibrahim Al Sedais
License No: 371



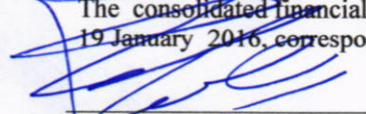
Al Khobar, 19 January 2016
Corresponding to: 9 Rabi' II 1437H

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

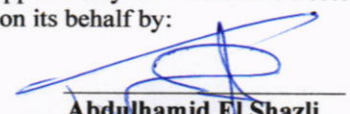
INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS AT 31 DECEMBER 2015
(Expressed in Saudi Riyals)

	Note	31/12/2015 (Unaudited)	31/12/2014 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		4,821,790	5,458,770
Deposits with banks		13,000,000	16,500,000
Accounts receivable, net		89,128,979	94,327,506
Inventories, net		284,883,299	403,549,527
Due from related parties		5,288,019	6,902,902
Prepayments and other assets		16,496,473	14,743,384
Total current assets		413,618,560	541,482,089
Non-current assets			
Property, plant and equipment	4	496,462,280	431,512,257
Constructions under progress	5	237,864,583	282,978,670
Intangible assets		13,345,992	16,181,121
Prepayments and other assets		12,853,438	11,315,970
Loan to an associate		26,250,000	26,250,000
Investments in associates	6	88,274,214	88,925,835
Total non-current assets		875,050,507	857,163,853
Total assets		1,288,669,067	1,398,645,942
LIABILITIES			
Current liabilities			
Accounts payable		110,975,690	143,176,387
Accrued expenses and other liabilities		19,430,644	17,304,784
Due to related parties		4,004,951	4,857,237
Short term loan		33,645,723	32,827,604
Bank overdrafts		446,168	210,946
Current portion of long-term loans		93,530,651	78,270,244
Provision for Zakat and income Tax		12,720,490	16,354,582
Total current liabilities		274,754,317	293,001,784
Non-current liabilities			
Long-term loans		184,851,853	251,365,781
Employees' end of service benefits		48,511,654	47,705,359
Total non-current liabilities		233,363,507	299,071,140
Total liabilities		508,117,824	592,072,924
SHAREHOLDERS' EQUITY			
Share capital		510,000,000	510,000,000
Share premium		218,828,409	218,828,409
Statutory reserve		58,982,034	54,976,052
Treasury shares (Employee Share Ownership Program)		(12,010,100)	(11,842,600)
Retained earnings		4,750,900	31,099,709
Equity attributable to shareholders of the Company		780,551,243	803,061,570
Non-controlling interest	1	-	3,511,448
Total shareholders' equity		780,551,243	806,573,018
Total liabilities and shareholders' equity		1,288,669,067	1,398,645,942

The consolidated financial statements appearing on pages (1) to (11) were approved by the Board of Directors on 19 January 2016, corresponding to 9 Rabi' II 1437H and have been signed on its behalf by:


Riyadh Al Rabiah
Vice-Chairman & Managing Director


Ahmed Al Debasi
Chief Executive Officer


Abdulhamid El Shazli
Finance Manager

The accompanying notes 1 through 12 form an integral part of these interim consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE MONTH AND YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

	Note	Three month period ended 31 December		Year ended 31 December	
		2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Audited)
Sales	10	143,548,620	141,743,029	851,883,643	857,993,624
Cost of sales	10	(132,002,891)	(122,361,542)	(750,698,904)	(760,744,154)
Gross profit for the period/year	10	11,545,729	19,381,487	101,184,739	97,249,470
Selling and marketing expenses		(6,172,018)	(4,695,020)	(24,096,969)	(21,473,262)
General and administrative expenses		(6,481,479)	(7,660,673)	(30,559,634)	(30,295,629)
Operating (loss)/income for the period/year		(1,107,768)	7,025,794	46,528,136	45,480,579
Finance charges		(1,806,119)	(1,254,796)	(6,942,223)	(5,115,622)
Other (expenses)/income, net		(304,477)	157,142	(2,385,923)	121,521
Share of profit/(loss) in associates		1,914,379	(2,030,471)	(651,621)	(17,171,571)
Net (loss)/income for the period/year		(1,303,985)	3,897,669	36,548,369	23,314,907
(Loss)/profit attributable to:					
Equity shareholders		(1,303,985)	5,300,158	40,059,817	29,403,459
Non-controlling interest	1	-	(1,402,489)	(3,511,448)	(6,088,552)
		(1,303,985)	3,897,669	36,548,369	23,314,907
(Loss)/earnings per share from net income:					
Basic	9	(0.026)	0.105	0.793	0.582
Diluted	9	(0.026)	0.104	0.785	0.576
(Loss)/earnings per share from operating income:					
Basic	9	(0.022)	0.139	0.921	0.900
Diluted	9	(0.022)	0.138	0.912	0.892

The accompanying notes 1 through 11 form an integral part of these interim consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

	Note	Year ended 31 December	
		2015 (Unaudited)	2014 (Audited)
Cash flows from operating activities:			
Net income for the year		36,548,369	23,314,907
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation	4	36,885,768	29,605,666
Amortization		2,835,129	2,690,486
Loss (gain) on sale of property, plant and equipment		11,250	(44,256)
Reduction in the value of inventories		1,600,000	-
Provision for doubtful debts		1,603,623	-
Write off property, plant and equipment		1,019,345	-
Employees' end of service benefits charged during the year		5,674,039	10,740,418
Share of loss in associates		651,621	17,171,571
Share based expenses - (Employee share ownership program)		1,726,650	1,513,650
Net cash provided before changes in operating assets and liabilities		88,555,794	84,992,442
Changes in operating assets and liabilities:			
Accounts receivable		3,594,904	61,325,585
Inventories		117,066,228	4,617,243
Prepayments and other assets		(3,290,557)	(122,049,737)
Related party balances, net		762,597	6,051,844
Accounts payable		(32,200,697)	87,526,103
Accrued expenses and other liabilities		(1,133,290)	(5,683,348)
Zakat and tax paid		(13,671,736)	(13,612,378)
		159,683,243	103,167,754
Employees end of service benefits paid		(4,867,744)	(1,173,115)
Net cash provided by operating activities		154,815,499	101,994,639
Cash flows from investing activities:			
Purchases of property, plant and equipment	4	(13,791,671)	(19,706,800)
Proceeds from sale of property, plant and equipment		30,000	323,592
Additions to intangible assets		-	(424,125)
Additions to construction under progress	5	(43,990,628)	(61,174,809)
Net change in deposits with bank		3,500,000	-
Net cash used in investing activities		(54,252,299)	(80,982,142)
Cash flows from financing activities:			
Bank overdrafts		235,222	210,946
Net change in loans		(50,435,402)	(52,887,811)
Dividends paid		(51,000,000)	-
Net cash used in financing activities		(101,200,180)	(52,676,865)
Net change in cash and cash equivalents		(636,980)	(31,664,368)
Cash and cash equivalents at the beginning of the year		5,458,770	37,123,138
Cash and cash equivalents at the end of the year		4,821,790	5,458,770
Supplemental schedule of non-cash information:			
Transfer of constructions in progress to property, plant and equipment	5	89,104,715	38,561,965

The accompanying notes 1 through 11 form an integral part of these interim consolidated financial statements.

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SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

	Share capital	Share premium	Statutory reserve	Treasury shares (Employee share ownership program)	Retained earnings	Equity attributable to shareholders of the Company	Non-controlling interests	Total
Balance as at 31 December 2014 (Audited)	510,000,000	218,828,409	54,976,052	(11,842,600)	31,099,709	803,061,570	3,511,448	806,573,018
Net income for the year ended 31 December 2015	-	-	-	-	40,059,817	40,059,817	(3,511,448)	36,548,369
Transfer to statutory reserve	-	-	4,005,982	-	(4,005,982)	-	-	-
Dividends distributed	-	-	-	-	(51,000,000)	(51,000,000)	-	(51,000,000)
Board of directors bonus	-	-	-	-	(1,800,000)	(1,800,000)	-	(1,800,000)
Provision for zakat and income tax	-	-	-	-	(10,037,644)	(10,037,644)	-	(10,037,644)
Acquisition of shares	-	-	-	(435,000)	435,000	-	-	-
Share issued to employees	-	-	-	267,500	-	267,500	-	267,500
Balance as at 31 December 2015 (Unaudited)	510,000,000	218,828,409	58,982,034	(12,010,100)	4,750,900	780,551,243	-	780,551,243
Balance as at 31 December 2013 (Audited)	510,000,000	218,828,409	52,035,706	(13,356,250)	17,199,372	784,707,237	9,600,000	794,307,237
Net income for the year ended 31 December 2014	-	-	-	-	29,403,459	29,403,459	(6,088,552)	23,314,907
Transfer to statutory reserve	-	-	2,940,346	-	(2,940,346)	-	-	-
Provision for zakat and income tax	-	-	-	-	(12,562,776)	(12,562,776)	-	(12,562,776)
Share issued to employees	-	-	-	1,513,650	-	1,513,650	-	1,513,650
Balance as at 31 December 2014 (Audited)	510,000,000	218,828,409	54,976,052	(11,842,600)	31,099,709	803,061,570	3,511,448	806,573,018

The accompanying notes 1 through 11 form an integral part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Steel Pipes Company (referred hereinafter as the “Company”) is a Saudi Arabian company originally incorporated as a limited liability Company registered under the Commercial Registration Number 9144 dated 27/07/1400H (10/06/1980G) in the City of Dammam, Kingdom of Saudi Arabia.

The principal activities of the Company 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 Company’s registered office is located at the following address:

P.O.Box 11680 Dammam 31463
Kingdom of Saudi Arabia

During the year 2008, the Company's legal status has been transformed from limited liability to closed joint stock company. The Company's subscribed capital stock has been increased from 1,200,000 shares (at SR 100 per share) to 35,000,000 shares (at SR10 per share). Such increases were taken from the Company's retained earnings and were effective from the issuance of Ministerial Resolution No. F-187 on 3/6/1429H (07/06/2008G) and amended Commercial Registration No. 9144 dated 14/06/1429H (18/06/2008G).

On 27 June 2009, the Company offered to the public 16,000,000 new shares to increase the capital by 31.4% of the existing share capital at an initial public offering of SR 25 per share with a nominal value of SR 10 per share. The Company's authorized and issued share capital after the initial public offering is 51 million shares at SR 10 per share held by the following shareholders as at 31 December 2015:

Shareholders	Nationality	Number of Shares	Share Capital	Percentage Owned
Rabiah & Nassar Group	Saudi	20,403,075	204,030,750	40.01%
Hu Steel Co. Ltd.	South Korean	8,350,650	83,506,500	16.37%
Khalid Saleh Abdul Rahman Al Shathri	Saudi	5,277,295	52,772,950	10.35%
Al-Khorayef Sons Co.	Saudi	1,195,000	11,950,000	2.34%
Fahad Mohammed Saja	Saudi	1,391,775	13,917,750	2.73%
Ahmed Mubarak Al-Debasi	Saudi	391,000	3,910,000	0.77%
Employee Share Program	Saudi/Non Saudi	478,004	4,780,040	0.94%
Public Free Float	Saudi/Non Saudi	13,513,201	135,132,010	26.50%
Total		51,000,000	510,000,000	100%

Titanium and Steel Manufacturing Company Limited (referred hereinafter as the “Subsidiary or “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 Saudi Steel Pipes owns 70%. The remaining 30% is owned by TSM Tech Company, a South Korean company registered in Ulsan City, South Korea. Civil works of TSM Arabia started in the first quarter of 2012 and the commercial production started on the first quarter of year 2014.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

As of 31 December 2015, the accumulated losses of Company's Subsidiary "Titanium and Steel Manufacturing Company Limited" exceeded the Subsidiary's share capital by SR 10.7 million. On 17 January 2016, the Company has announced its intention to acquire the 30% ownership interest of TSM Tech in the Subsidiary of which the related negotiation has started. Accordingly, the Board of Directors of the Company has passed a resolution on 18 January 2016 confirming the continuation of TSM Arabia's business and providing the sufficient financial support to enable TSM Arabia to meet its financial obligations as when they fall due. Based on the group management's preliminary business plan for TSM Arabia, they believe that TSM Arabia will be able to generate sufficient income and positive cash flow to support its operation in the future. Consequently, excess loss of SR 3M was assumed by the Company over its share in TSM Arabia's current year net loss.

2 BASIS OF PREPARATION

a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA) and the relevant Saudi Laws and Regulations.

These interim consolidated financial statements and notes thereto should be read in conjunction with the annual audited consolidated financial statements and related notes for the year ended 31 December 2014.

The Company has made all the necessary adjustments for issuing the interim consolidated financial statements.

The interim consolidated financial statements were authorized for issue by the Board of Directors on 19 January 2016.

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting and the going concern concept.

c) Functional and presentation currency

These interim consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Company.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

d) Use of estimates and judgments

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these judgments and estimates of assumptions are prepared in the light of the most recent and relevant information available to management. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. In particular, information about significant areas of estimated uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the interim consolidated financial statements are described in the following notes:

Note 4	- Estimated useful lives of property, plant and equipment
Note 6	- Impairment for investment in associates
Note 7	- Provision for Zakat and Income Tax
Note 11	- Financial instruments

3 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted by the Group in the preparation of its interim consolidated financial statements are in conformity with those described in the Group's audited consolidated financial statements for the year ended 31 December 2014. These accounting policies have been applied consistently to all periods presented in the interim consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

4 PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the year ended 31 December 2015 comprise of the following:

	Land	Machinery & equipment	Building & structures	Vehicles	Furniture & fixtures	Office & electrical equipment	Total
<u>Cost</u>							
Balance at 1 January 2015 (Audited)	157,850,000	396,554,840	141,167,060	5,153,425	4,476,846	21,110,449	726,312,620
Additions	-	8,385,808	1,925,728	829,000	777,800	1,873,335	13,791,671
Transfers from constructions under progress	-	71,059,674	18,045,041	-	-	-	89,104,715
Disposals	-	-	-	(55,000)	-	-	(55,000)
Write-off	-	(6,704,288)	(306,400)	-	-	-	(7,010,688)
Balance at 31 December 2015	157,850,000	469,296,034	160,831,429	5,927,425	5,254,646	22,983,784	822,143,318
<u>Accumulated Depreciation</u>							
Balance at 1 January 2015 (Audited)	-	215,836,335	58,267,211	3,012,811	2,593,747	15,090,259	294,800,363
Charge for the year	-	27,147,340	6,088,083	788,998	652,445	2,208,902	36,885,768
Disposals	-	-	-	(13,750)	-	-	(13,750)
Write-off	-	(5,816,923)	(174,420)	-	-	-	(5,991,343)
Balance at 31 December 2015	-	237,166,752	64,180,874	3,788,059	3,246,192	17,299,161	325,681,038
<u>Carrying amount</u>							
At 31 December 2015 (Unaudited)	157,850,000	232,129,282	96,650,555	2,139,366	2,008,454	5,684,623	496,462,280
At 31 December 2014 (Audited)	157,850,000	180,718,505	82,899,849	2,140,614	1,883,099	6,020,190	431,512,257

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

5 CONSTRUCTIONS UNDER PROGRESS

The movement in Constructions under progress during the year ended 31 December 2015 comprise of:

	Balance at 1 January 2015 (Audited)	Additions (Unaudited)	Transferred to Property, Plant & Equipment (Unaudited)	Balance at 31 December 2015 (Unaudited)
<u>Existing Factory</u>				
Small Diameter	2,328,400	6,439,442	(815,423)	7,952,419
Medium Diameter	976,805	6,661,431	-	7,638,236
Induction bending	499,538	999,413	-	1,498,951
	<u>3,804,743</u>	<u>14,100,286</u>	<u>(815,423)</u>	<u>17,089,606</u>
<u>Expansions*</u>				
8" API Tubemill	172,949,726	17,419,586	-	190,369,312
60" Induction Bending	36,486,313	4,484,924	(40,971,237)	-
20" OCTG Pipe Threading Line	45,304,720	1,678,590	(46,983,310)	-
30" External Pipe Coating	24,265,795	5,986,474	-	30,252,269
	<u>279,006,554</u>	<u>29,569,574</u>	<u>(87,954,547)</u>	<u>220,621,581</u>
<u>Building and structures</u>	<u>167,373</u>	<u>320,768</u>	<u>(334,745)</u>	<u>153,396</u>
Total	<u>282,978,670</u>	<u>43,990,628</u>	<u>(89,104,715)</u>	<u>237,864,583</u>

*Include capitalized finance costs amounting to SR 1,022,904 for the year ended 31 December 2015 (SR 2,733,572 for the year ended 31 December 2014).

6 INVESTMENT IN ASSOCIATES

Investments in associates as at 31 December comprise of the following:

	2015			2014		
	GPC	CDC	Total	GPC	CDC	Total
Cost of acquisition	45,000,000	67,950,000	112,950,000	45,000,000	67,950,000	112,950,000
Accumulated share of loss from associates	(16,367,750)	(8,308,036)	(24,675,786)	(16,788,307)	(7,235,858)	(24,024,165)
Net Investment value	<u>28,632,250</u>	<u>59,641,964</u>	<u>88,274,214</u>	<u>28,211,693</u>	<u>60,714,142</u>	<u>88,925,835</u>

Global Pipe Company (GPC)

Global Pipe Company (GPC) is a limited liability company whose capital is owned by the Company, EEW Company of Germany ("EEW") and other Saudi shareholders. The Company is engaged in producing various types of Large Welded pipes up to 60 inches and large structural tubular pipes. The total share capital of Global Pipe Company is SR 125 million of which, 35% is attributed to Saudi Steel Pipes and EEW each and 30% for other Saudi shareholders. The cost of acquisition of this investment includes a premium of SR 1,250,000.

Chemical Development Company (CDC)

Chemical Development Company (CDC) is a holding company whose purpose is to develop strategic industrial projects. Saudi Steel Pipes owns 20% of CDC's total current issued shares with total share capital of SR 300 million. Its first project is the construction of polysilicon plant in cooperation with KCC Corporation. KCC Corporation is a South - Korean company specialized in manufacturing silicones and polysilicon materials. The plant is located in Jubail Second Industrial City and will produce 12,350 tons annually (in two phases) of solar grade polysilicon, the main material used in the production of solar products. The cost of acquisition of this investment includes a premium of SR 7,950,000.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

7 ZAKAT AND INCOME TAX PROVISION

As per the Saudi Regulations, the Saudi Shareholders are subject to Zakat calculated according to regulations promulgated by the government authorities computed at 2.5%. The Foreign Shareholders are subject to Income tax at a flat rate of 20% on the taxable income.

Under SOCPA standard 11, the provision for Zakat of Saudi Shareholders and income tax of foreign shareholders are deducted from the retained earnings. The corresponding liability account is reflected with other current obligations under the headings Accrued expenses and other liabilities in the Consolidated Balance Sheet.

Computation and provision of estimated Zakat and Income Tax liability are made quarterly. Adjustments arising from final zakat assessments are recorded in the period in which such assessments are approved.

8 COMMITMENTS AND CONTINGENCIES

The Company's contingent liabilities relating to letters of credit and bank guarantees amounting to SR 163.9 million as of 31 December 2015 (2014 : SR 183.9 million).

The Company has provided corporate guarantees to Saudi Industrial Development Fund ("SIDF") and to a commercial bank for the loan obtained by the subsidiary and an associate amounting to SR 452.2 million as of 31 December 2015 (2014 : SR 434.1 million).

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders 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.

<i>Basic earnings per share</i>	31 December 2015 (Unaudited)	31 December 2014 (Audited)
Operating income for the year	46,528,136	45,480,579
Net income for the year	40,059,817	29,403,459
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	(750,000)	(735,000)
Add: Weighted average number of shares issued to employees	271,996	261,296
Weighted average number of outstanding shares	50,521,996	50,526,296
Basic earnings per share from net income	0.793	0.582
Basic earnings per share from operating income	0.921	0.900
<i>Diluted earnings per share</i>		
Weighted average number of outstanding shares	51,000,000	51,000,000
Diluted earnings per share from net income	0.785	0.576
Diluted earnings per share from operating income	0.912	0.892

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in Saudi Riyals)

10 SEGMENTAL REPORTING

The management of the Company views the entire business activities of the Company as one operating segment for performance assessment and resources allocation.

Because the management views the entire business activities of the Company as one segment, segment reporting is provided by geographical segments only. The details of the local and export sales for the year ended 31 December 2015 and 2014 are as follows:

2015 (Unaudited)	Local sales	Export sales	Total
Sales	786,285,712	65,597,931	851,883,643
Cost of sales	(695,624,060)	(55,074,844)	(750,698,904)
Gross profit	90,661,652	10,523,087	101,184,739
Gross profit percentage	11.5%	16%	11.9%
2014 (Audited)	Local sales	Export sales	Total
Sales	798,275,365	59,718,259	857,993,624
Cost of sales	(713,256,149)	(47,488,005)	(760,744,154)
Gross profit	85,019,216	12,230,254	97,249,470
Gross profit percentage	10.7%	20.5%	11.3%

11 FINANCIAL INSTRUMENTS

Financial instruments carried on the interim consolidated balance sheet include cash and cash equivalents, trade and other accounts receivable, investments, trade payable, due from related parties and other liabilities.

Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risks. Cash and cash equivalents are placed with national banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

Interest rate risk is the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risk arise mainly from short term bank deposits and bank debts and long term debts, which are at floating rates of interest.

Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company are not significant.

Liquidity risk is the risk that an enterprise may encounter difficulty in meeting commitments associated with financial instruments. Liquidity risk may result from the inability to realize the value of a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments.

Currency risk is the risk that the value of a financial instrument may fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi riyal and United States dollar. Other transactions in foreign currencies other than US Dollar are not material. Currency risk is managed on regular basis.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying financial statements are prepared under the historical cost method differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

12 COMPARATIVE FIGURES

Certain reclassifications have been made to the prior period/year balances to be consistent with the current period/year presentation.