

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016
(UNAUDITED)
WITH
INDEPENDENT
AUDITORS' REVIEW REPORT

SAUDI STEEL PIPES COMAPNY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONRH PERIOD ENDED 31 MARCH 2016

	Page
Independent Auditors' Review Report	-
Interim Consolidated Balance Sheet (Unaudited)	1
Interim Consolidated Statement of Income (Unaudited)	2
Interim Consolidated Statement of Cash Flows (Unaudited)	3
Interim Consolidated Statement of Changes in Owners' Equity (Unaudited)	4
Notes to the Interim consolidated Financial Statements (Unaudited)	5 – 12



**KPMG Al Fozan & Partners
Certified Public Accountants**

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

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 March 2016, the related interim consolidated statement of income, the interim consolidated statement of cash flows and the interim consolidated statement of changes in owners' equity for the three month period ended 31 March 2016 and the attached interim consolidated notes 1 to 13 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 accompanying interim consolidated financial statements; on 22 February 2016, the Company signed an agreement with TSM Tech, the non-controlling shareholder of the Company's subsidiary "TSM Arabia" to acquire the remaining 30% shareholding in TSM Arabia and thus own 100% of the subsidiary. The legal formalities associated with the above acquisition are still in progress. As at 31 March 2016, the accompanying interim consolidated financial statements reflect 100% of the losses incurred by the subsidiary based on the aforementioned agreement to acquire the remaining 30% ownership in the subsidiary along with the Board of Directors' resolution passed on 18 January 2016 to financially support the Subsidiary to meet its liabilities as and when they fall due.

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

Al Khobar, 18 April 2016
Corresponding to: 11 Rajab 1437H

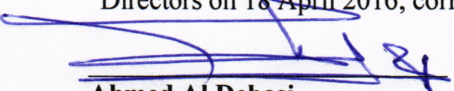


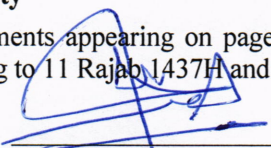
SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2016
(Expressed in Saudi Riyals)

	<u>Note</u>	<u>31/3/2016</u> <u>(Unaudited)</u>	<u>31/3/2015</u> <u>(Unaudited)</u>
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		7,769,666	11,934,199
Deposits with banks		13,000,000	16,500,000
Accounts receivable		156,837,341	154,631,233
Inventories		270,434,063	328,333,065
Due from related parties		7,192,267	6,704,125
Prepayments and other assets		17,161,439	18,412,264
Total current assets		472,394,776	536,514,886
Non-current assets			
Property, plant and equipment	4	550,556,856	512,565,607
Capital work in progress	5	181,226,418	212,863,781
Intangible assets		12,552,214	15,322,339
Prepayments and other assets		13,162,606	11,833,418
Investments in associates	6	112,522,080	112,547,835
Total non-current assets		870,020,174	865,132,980
Total assets		1,342,414,950	1,401,647,866
<u>LIABILITIES</u>			
Current liabilities			
Accounts payable		131,140,388	99,253,940
Accrued expenses and other liabilities		25,351,890	32,096,527
Due to related parties		3,997,889	3,855,251
Provision for Zakat and Income Tax		12,052,498	6,718,374
Short term loan		56,685,305	68,435,221
Current portion of long-term loans		100,844,255	89,360,813
Total current liabilities		330,072,225	299,720,126
Non-current liabilities			
Long-term loans		177,996,188	240,569,312
Employees' end of service benefits		49,946,695	47,192,685
Total non-current liabilities		227,942,883	287,761,997
Total liabilities		558,015,108	587,482,123
<u>SHAREHOLDERS' EQUITY</u>			
Share capital		510,000,000	510,000,000
Share premium		218,828,409	218,828,409
Statutory reserve		58,494,224	55,156,052
Treasury shares (Employee Share Ownership Program)		(12,010,100)	(11,763,850)
Retained earnings	12	9,087,309	40,079,071
Equity attributable to shareholders of the Company		784,399,842	812,299,682
Non-controlling interest		-	1,866,061
Total shareholders' equity		784,399,842	814,165,743
Total liabilities and shareholders' equity		1,342,414,950	1,401,647,866

The interim consolidated financial statements appearing on pages (1) to (12) were approved by the Board of Directors on 18 April 2016, corresponding to 11 Rajab 1437H and have been signed on its behalf by:


Ahmed Al Debasi
Managing Director


Hisham Al Hmili
Chief Executive Officer


Abdulhamid El Shazli
Finance Manager

The accompanying notes 1 through 13 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 PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Riyals)

	Note	Three month period ended 31 March	
		2016 (Unaudited)	2015 (Unaudited)
Sales	10	194,343,389	248,492,933
Cost of sales	10	(165,227,878)	(219,251,741)
Gross profit for the period	10	29,115,511	29,241,192
Selling and marketing expenses		(7,901,313)	(6,537,585)
General and administrative expenses		(8,112,373)	(8,098,121)
Operating income for the period		13,101,825	14,605,486
Finance charges		(2,342,743)	(1,735,695)
Other expenses, net		(2,124,105)	(472,885)
Share of loss in associates		(576,271)	(2,628,000)
Net income for the period		8,058,706	9,768,906
Attributable to:			
Equity shareholders		8,058,706	11,414,293
Non-controlling interest (loss)		-	(1,645,387)
		8,058,706	9,768,906
Earnings per share from net income:			
Basic	9	0.160	0.226
Diluted	9	0.158	0.224
Earnings per share from operating income:			
Basic	9	0.259	0.328
Diluted	9	0.257	0.325

The accompanying notes 1 through 13 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 THREE MONTH PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Riyals)

	Note	Three month ended 31 March	
		2016 (Unaudited)	2015 (Unaudited)
Cash flows from operating activities:			
Net income for the period		8,058,706	9,768,906
<i>Adjustments to reconcile net income to net cash used in operating activities:</i>			
Depreciation	4	10,143,078	9,310,575
Amortization		793,778	858,782
(Gain) / loss on sale of property, plant and equipment		(48,900)	11,250
Property, plant and equipment written off		1,873,053	-
Employees' end of service benefits charged during the period		1,823,909	2,110,431
Share of loss in associates		576,271	2,628,000
Provision for doubtful debts		681,364	500,000
Provision for inventories		-	500,000
Share based expenses - (Employee Share Ownership Program)		-	78,750
Net cash provided before changes in operating assets and liabilities		23,901,259	19,772,723
Changes in operating assets and liabilities:			
Accounts receivable		(68,873,974)	(60,803,727)
Inventories		8,750,309	74,716,462
Prepayments and other assets		(1,199,761)	(4,186,328)
Due to related parties		(7,062)	-
Due from related parties		(1,904,248)	(803,210)
Accounts payable		20,164,698	(43,922,447)
Accrued expenses and other liabilities		8,375,176	14,791,745
Zakat and income tax paid during the period		-	(11,891,138)
		(10,793,603)	(6,331,949)
Employees end of service benefits paid		(388,868)	(2,623,100)
Net cash used in operating activities		(11,182,471)	(8,955,049)
Cash flows from investing activities:			
Purchases of property, plant and equipment	4	(2,866,126)	(2,450,630)
Proceeds from sale of property, plant and equipment		92,000	30,000
Additions to capital work in progress	5	(6,339,666)	(17,839,658)
Net cash used in investing activities		(9,113,792)	(20,260,288)
Cash flows from financing activities:			
Change in due to bank		(1,443,987)	-
Proceeds from loans		47,477,126	56,137,910
Repayments of loans		(23,979,605)	(20,447,144)
Net cash provided by financing activities		22,053,534	35,690,766
Net change in cash and cash equivalents		1,757,271	6,475,429
Cash and cash equivalents at the beginning of the period		6,012,395	5,458,770
Cash and cash equivalents at the end of the period		7,769,666	11,934,199
Non-cash supplemental information:			
Reversal of accrued board of directors bonus	12	1,800,000	-
Transfer of capital work in progress to property, plant and equipment	5	62,977,831	87,954,547

The accompanying notes 1 through 13 form an integral part of these interim consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (UNAUDITED)
FOR THE THREE PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Riyals)

	Share capital	Share premium	Statutory reserve	Treasury shares (Employee Share Ownership Program)	Retained earnings (Note 12)	Equity attributable to shareholders of the Company	Non-controlling interests	Total
Balance as at 1 January 2016 (audited)	510,000,000	218,828,409	58,494,224	(12,010,100)	1,420,071	776,732,604	-	776,732,604
Net income for the period ended 31 March 2016 (unaudited)	-	-	-	-	8,058,706	8,058,706	-	8,058,706
Reversal of Board of Directors bonus (note 12)	-	-	-	-	1,800,000	1,800,000	-	1,800,000
Provision for zakat and income tax	-	-	-	-	(2,191,468)	(2,191,468)	-	(2,191,468)
Balance as at 31 March 2016	510,000,000	218,828,409	58,494,224	(12,010,100)	9,087,309	784,399,842	-	784,399,842
Balance as at 1 January 2015 (audited)	510,000,000	218,828,409	55,156,052	(11,842,600)	30,919,709	803,061,570	3,511,448	806,573,018
Net income for the period ended 31 March 2015 (unaudited)	-	-	-	-	11,414,293	11,414,293	(1,645,387)	9,768,906
Provision for zakat and income tax	-	-	-	-	(2,254,931)	(2,254,931)	-	(2,254,931)
Share issued to employees	-	-	-	78,750	-	78,750	-	78,750
Balance as at 31 March 2015	510,000,000	218,828,409	55,156,052	(11,763,850)	40,079,071	812,299,682	1,866,061	814,165,743

The accompanying notes 1 through 13 form an integral part of these interim consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Riyals)

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Steel Pipes Company (referred hereinafter as the "Company") is a Saudi Arabian company initially 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. 2050009144 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 March 2016:

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%
Fahad Mohammed Saja	Saudi	1,391,775	13,917,750	2.73%
Al-Khorayef Sons Co.	Saudi	1,063,500	10,635,000	2.09%
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	13,644,701	136,447,010	26.74%
Total		51,000,000	510,000,000	100%

These consolidated interim financial statements include the accounts of the Company and the following subsidiary. (referred to collectively as the "Group")

Subsidiary	Country of incorporation	Legal Entity	Effective ownership interest at 30 March,	
			2016	2015
Titanium and Steel Manufacturing Company Limited "TSM Arabia"	Saudi Arabia	Limited liability	100%	70%

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016**
(Expressed in Saudi Riyals)

1 ORGANIZATION AND PRINCIPAL ACTIVITIES (Cont'd)

TSM Arabia was formed in 2010 with a share capital of SR 32 million, to produce stationary process equipment such as heat exchangers and pressure vessels. The non-controlling interest of TSM Arabia owned by TSM Tech Company, a South Korean company registered in Ulsan City, South Korea. The commercial production started on the first quarter of year 2014.

On 22 February 2016, the Company signed an agreement (the "Agreement") with TSM Tech to acquire their shareholding in TSM Arabia subject to the following conditions:

- a) The acquisition contribution has been stated at SR 1.
- b) TSM Tech has the option to re-acquire the same interest or part of it, if they are able to overcome their financial difficulties and be able to finance the buyback of their interest in TSM Arabia. In such case, TSM Tech will reimburse the Company for any additional finance provided. This option is valid for one year from the date of the issuance of the new certificate of registration.
- c) TSM Tech will continue providing the technical support to TSM Arabia in accordance with the previously signed agreement between TSM Tech and TSM Arabia for 10 years.

The legal formalities associated with the above transfer were still on process as of 31 March 2016.

As of 31 March 2016, the accumulated losses of TSM Arabia exceeded its share capital by SR 16.8 million.

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 business plan for TSM Arabia, they believe that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operation in the future.

2 BASIS OF PREPARATION

a) Statement of compliance

These interim 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 relevant to the preparation of the financial statements.

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 2015.

The interim consolidated financial statements were authorized for issue by the Company's Board of Directors on 17 April 2016.

b) Basis of measurement

These interim 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 Riyals (SR) which is the functional currency of the Group.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016**
(Expressed in Saudi Riyals)

2 BASIS OF PREPARATION (Cont'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 2015. These accounting policies have been applied consistently to all periods presented in the interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Riyals)

4 PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the period ended 31 March 2016 comprise of the following:

	<u>Land</u>	<u>Machinery and equipment</u>	<u>Building and structures</u>	<u>Vehicles</u>	<u>Furniture and fixtures</u>	<u>Office and electrical equipment</u>	<u>Total</u>
<u>Cost</u>							
Balance at 1 January 2016 (Audited)	157,850,000	469,605,884	160,831,429	5,927,425	5,254,646	22,983,785	822,453,169
Additions for the three month period ended 31 March 2016	-	1,671,006	654,219	82,500	31,762	426,639	2,866,126
Transfers from capital work in progress	-	51,882,982	11,007,305	-	-	87,544	62,977,831
Disposals	-	-	-	(431,000)	-	-	(431,000)
Write-off	-	(12,661,320)	-	-	-	-	(12,661,320)
Balance at 31 March 2016	157,850,000	510,498,552	172,492,953	5,578,925	5,286,408	23,497,968	875,204,806
<u>Accumulated Depreciation</u>							
Balance at 1 January 2016 (Audited)	-	237,166,752	64,180,875	3,788,060	3,246,192	17,299,160	325,681,039
Charge for the three month period ended 31 March 2016	-	7,634,817	1,586,654	205,909	166,382	549,316	10,143,078
Disposals	-	-	-	(387,900)	-	-	(387,900)
Write-off	-	(10,788,267)	-	-	-	-	(10,788,267)
Balance at 31 March 2016	-	234,013,302	65,767,529	3,606,069	3,412,574	17,848,476	324,647,950
<u>Net Book Value</u>							
At 31 March 2016 (Unaudited)	157,850,000	276,485,250	106,725,424	1,972,856	1,873,834	5,649,492	550,556,856
At 31 March 2015 (Unaudited)	157,850,000	246,183,984	98,358,455	2,254,259	936,763	6,982,146	512,565,607

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Riyals)

5 CAPITAL WORK IN PROGRESS

The movement in capital work in progress during the period ended 31 March 2016 comprise of:

	Balance at 01 January 2016 (Audited)	Additions (Unaudited)	Transferred to Property, Plant & Equipment (Unaudited)	Balance at 31 March 2016 (Unaudited)
Existing Factory				
Small Diameter	7,952,419	1,369,900	-	9,322,319
Medium Diameter	7,638,236	2,111,319	(7,900,955)	1,848,600
Induction bending	1,498,951	-	-	1,498,951
	17,089,606	3,481,219	(7,900,955)	12,669,870
Expansions*				
8" API Tube mill	190,369,312	1,645,049	(23,501,308)	168,513,053
30" External Pipe Coating	30,252,269	1,212,718	(31,464,987)	-
	220,621,581	2,857,767	(54,966,295)	168,513,053
Building and structures	153,396	680	(110,581)	43,495
Total	237,864,583	6,339,666	(62,977,831)	181,226,418

* Includes capitalized finance costs amounting to SR Nil for the period ended 31 March 2016 (31 March 2015 SR 526,061).

6 INVESTMENT IN ASSOCIATES

Investments in associates comprise of the following:

	31 March 2016			31 March 2015		
	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
Loan contribution	26,250,000	-	26,250,000	26,250,000	-	26,250,000
Accumulated share of loss from associates	(15,576,385)	(11,101,535)	(26,677,920)	(19,343,307)	(7,308,858)	(26,652,165)
Net Investment value	55,673,615	56,848,465	112,522,080	51,906,693	60,641,142	112,547,835

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. 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.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016
(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 under current liabilities in the Interim 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 175 million as of 31 March 2016 (31 March 2015: SR 196.4 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 434.1 million as of 31 March 2016 (31 March 2015: SR 325.6 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 period. 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 March 2016 (Unaudited)	31 March 2015 (Unaudited)
Net income for the period	8,058,706	11,414,293
Operating income for the period	13,101,825	16,559,803
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)	(747,812)
Add: Weighted average number of shares issued to employees	284,808	277,258
Weighted average number of outstanding shares	50,521,996	50,529,446
Basic earnings per share from net income	0.160	0.226
Basic earnings per share from operating income	0.259	0.328
<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	0.158	0.224
Diluted earnings per share from operating income	0.257	0.325

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016
(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 three months ended 31 March 2016 and 2015 are as follows:

<u>2016 (Unaudited)</u>	<u>Local sales</u>	<u>Export sales</u>	<u>Total</u>
Sales	167,044,487	27,298,902	194,343,389
Cost of sales	142,324,359	22,903,519	165,227,878
Gross profit	24,720,128	4,395,383	29,115,510
Gross profit percentage	14.8%	16.1%	15%
<u>2015 (Unaudited)</u>	<u>Local sales</u>	<u>Export sales</u>	<u>Total</u>
Sales	236,271,096	12,221,837	248,492,933
Cost of sales	(208,774,045)	(10,477,696)	(219,251,741)
Gross profit	27,497,051	1,744,141	29,241,192
Gross profit percentage	11.6%	14.3%	11.8%

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 certain other assets and liabilities.

Credit risk is the risk that one party may fail to discharge an obligation and can 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 local 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 raising funds to meet 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 interim consolidated 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.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Riyals)

12 RETAINED EARNINGS

Retained earnings attributed to Saudi and non-Saudi shareholders are analyzed as follows:

	31 March 2016			31 March 2015		
	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	total
January 1	1,646,388	(226,317)	1,420,071	25,450,423	5,469,286	30,919,709
Net income for the period ended 31 March 2016 (unaudited)	6,739,496	1,319,210	8,058,706	9,545,773	1,868,520	11,414,293
Reversal of Board of Directors bonus*	1,505,340	294,660	1,800,000	-	-	-
Provision for zakat and income tax	(1,681,807)	(509,661)	(2,191,468)	(1,730,511)	(524,420)	(2,254,931)
March 31	8,209,417	877,892	9,087,309	33,265,685	6,813,386	40,079,071

* On 23 February 2016, the board of directors has voluntarily waived their bonuses which was accrued for the year ended 31 December 2015 in order to support the financial position of the Company.

13 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements were authorized for issue by the Board of Directors on 18 April 2016.