

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED
30 SEPTEMBER 2016
(UNAUDITED)
WITH
INDEPENDENT
AUDITORS' REVIEW REPORT**

SAUDI STEEL PIPES COMAPNY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016

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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 30 September 2016, the related interim consolidated statement of income for the three month and nine month periods then ended, the interim consolidated statements of cash flows and changes in equity for the nine month period then ended and the attached notes 1 through 11 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 provide a conclusion on the review of these interim consolidated financial statements based on our review.

We conducted our review in accordance with Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion:

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia.



Emphasis of matters

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

- on 22 February 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 own 100% of this subsidiary. However, the legal formalities associated with the above transaction are still in progress and management believes that these legal formalities will be finalized in due course. Accordingly, as at 30 September 2016, the accompanying interim consolidated financial statements reflect 100% of the period losses and accumulated losses incurred by the subsidiary.
- as at 30 September 2016, the accumulated losses of the subsidiary exceeded its share capital by SR 22.7 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 on 18 January 2016 confirming the continuation of TSM Arabia's business and providing sufficient financial support to enable TSM Arabia to meet its financial obligations as and when they fall due.

For KPMG Al Fozan & Partners
Certified Public Accountants



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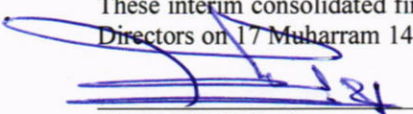
Al Khobar, 17 Muharram 1438H
Corresponding to: 18 October 2016G

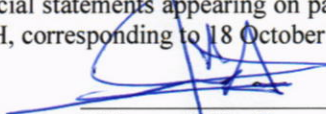
SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

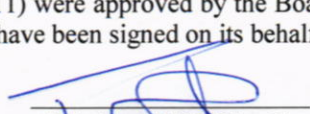
INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS AT 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

	Notes	30 September 2016	30 September 2015
ASSETS			
Current assets			
Cash and cash equivalents		8,738,246	9,773,820
Deposits with banks		13,000,000	13,000,000
Accounts receivable		96,463,002	132,701,760
Inventories		265,981,083	295,034,408
Due from related parties		6,749,418	6,846,697
Prepayments and other current assets		21,059,318	18,035,413
Total current assets		411,991,067	475,392,098
Non-current assets			
Investment in associates	4	152,226,805	112,609,835
Property, plant and equipment	5	541,101,831	498,514,646
Capital work in progress	6	187,140,599	230,932,799
Intangible assets		11,591,340	14,004,774
Prepayments and other non-current assets		13,957,508	16,745,007
Total non-current assets		906,018,083	872,807,061
Total assets		1,318,009,150	1,348,199,159
LIABILITIES			
Current liabilities			
Accounts payable		106,624,019	141,912,204
Accrued expenses and other current liabilities		17,632,129	35,050,549
Due to related parties		4,154,048	4,036,254
Provision for Zakat and income tax		7,106,011	11,262,103
Short-term loan		110,831,209	16,751,691
Current portion of long-term loans		76,370,669	61,650,000
Total current liabilities		322,718,085	270,662,801
Non-current liabilities			
Long-term loans		153,109,922	243,436,851
Employees' end of service benefits		48,631,230	48,392,359
Total non-current liabilities		201,741,152	291,829,210
Total liabilities		524,459,237	562,492,011
EQUITY			
Shareholders' equity			
Share capital	1	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)	(12,010,100)
Retained earnings		18,237,380	15,260,904
Equity attributable to shareholders of the Company		793,549,913	787,235,265
Non-controlling interest		-	(1,528,117)
Total equity		793,549,913	785,707,148
Total liabilities and equity		1,318,009,150	1,348,199,159

These interim consolidated financial statements appearing on pages (1) to (11) were approved by the Board of Directors on 17 Muharram 1438H, corresponding to 18 October 2016G 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 11 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 AND NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

	Notes	Three month period ended 30 September		Nine month period ended 30 September	
		2016	2015	2016	2015
Sales	10	122,610,761	179,876,893	468,300,609	708,335,023
Cost of sales	10	(111,480,978)	(158,354,369)	(411,197,192)	(618,696,013)
Gross profit	10	11,129,783	21,522,524	57,103,417	89,639,010
Selling and marketing expenses		(4,116,217)	(5,513,548)	(17,895,871)	(17,924,951)
General and administrative expenses		(7,218,152)	(7,675,115)	(22,819,128)	(24,078,155)
Operating (loss) / income		(204,586)	8,333,861	16,388,418	47,635,904
Finance charges		(2,856,818)	(2,080,057)	(7,548,268)	(5,136,104)
Other expenses, net		(311,208)	(339,222)	(2,744,876)	(2,081,446)
Share of income / (loss) from associates	4	9,146,222	480,000	13,628,454	(2,566,000)
Net income for the period		5,773,610	6,394,582	19,723,728	37,852,354
Net income attributable to:					
Equity shareholders		5,773,610	8,018,323	19,723,728	42,891,919
Non-controlling interest (loss)		-	(1,623,741)	-	(5,039,565)
		5,773,610	6,394,582	19,723,728	37,852,354
Earnings per share from net income					
Basic	9	0.114	0.159	0.390	0.849
Diluted	9	0.113	0.157	0.386	0.841
(Loss) / earnings per share from operating (loss) / income					
Basic	9	(0.004)	0.165	0.324	0.943
Diluted	9	(0.004)	0.163	0.321	0.934

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 NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

		Nine month period ended 30 September	
	Notes	2016	2015
Cash flows from operating activities:			
Net income for the period		19,723,728	37,852,354
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation	5	29,212,324	27,718,922
Amortization		2,942,490	2,176,347
(Gain) / loss on sale of property, plant and equipment		(58,400)	11,250
Property, plant and equipment – written off		1,873,053	1,019,345
Employees' end of service benefits charged during the period		4,300,972	4,621,336
Share of (profits) / loss in associates		(13,628,454)	2,566,000
Provision for doubtful debts		681,364	1,500,000
Provision for inventories		2,000,000	1,500,000
Finance charges		7,548,268	5,136,104
Share based expenses - (Employee Share Ownership Program)		-	267,500
		<u>54,595,345</u>	<u>84,369,158</u>
Changes in operating assets and liabilities:			
Accounts receivable		(8,499,635)	(39,874,254)
Inventories		11,203,289	107,015,119
Prepayments and other assets		(5,892,542)	(8,721,066)
Due from related parties		(1,461,399)	56,205
Due to related parties		149,097	(820,986)
Accounts payable		(4,351,671)	(1,264,183)
Accrued expenses and other current liabilities		655,415	17,745,766
Zakat and income tax paid during the period		(7,461,441)	(13,078,204)
Deposits with banks		-	3,500,000
		<u>38,936,458</u>	<u>148,927,555</u>
Employees end of service benefits paid		(4,181,394)	(3,934,336)
Finance charges paid		(7,548,268)	(5,136,104)
Net cash provided by operating activities		<u>27,206,796</u>	<u>139,857,115</u>
Cash flows from investing activities:			
Purchases of property, plant and equipment	5	(5,907,710)	(7,492,614)
Proceeds from sale of property, plant and equipment		117,000	30,000
Additions to capital work in progress	6	(15,996,638)	(36,243,421)
Investment in an associate	4	(8,000,000)	-
Loan to an associate	4	(17,500,000)	-
Net cash used in investing activities		<u>(47,287,348)</u>	<u>(43,706,035)</u>
Cash flows from financing activities:			
Net change in short-term loans		75,741,499	(16,286,859)
Long-term loans receipts		9,314,904	-
Long-term loans repayment		(62,250,000)	(24,549,171)
Dividends paid	1	-	(51,000,000)
Net cash provided by / (used in) financing activities		<u>22,806,403</u>	<u>(91,836,030)</u>
Net change in cash and cash equivalents		<u>2,725,851</u>	<u>4,315,050</u>
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		<u>8,738,246</u>	<u>9,773,820</u>
Non-cash supplemental information:			
Transfer of capital work in progress to property, plant and equipment	5	69,565,968	88,289,292


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 CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

	Share capital	Share premium	Statutory reserve	Treasury shares (Employee Share Ownership Program)	Retained earnings	Equity attributable to the 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 30 September 2016	-	-	-	-	19,723,728	19,723,728	-	19,723,728
Reversal of Board of Directors bonus	-	-	-	-	1,800,000	1,800,000	-	1,800,000
Provision for Zakat and income tax (Note 7)	-	-	-	-	(4,706,419)	(4,706,419)	-	(4,706,419)
Balance as at 30 September 2016	510,000,000	218,828,409	58,494,224	(12,010,100)	18,237,380	793,549,913	-	793,549,913
Balance as at 1 January 2015 (audited)	510,000,000	218,828,409	55,156,052	(11,842,600)	30,919,710	803,061,571	3,511,448	806,573,019
Net income for the period ended 30 September 2015	-	-	-	-	42,891,919	42,891,919	(5,039,565)	37,852,354
Provision for Zakat and income tax (Note 7)	-	-	-	-	(7,985,725)	(7,985,725)	-	(7,985,725)
Dividends (Note 1)	-	-	-	-	(51,000,000)	(51,000,000)	-	(51,000,000)
Premium on acquisition of shares	-	-	-	(435,000)	435,000	-	-	-
Share issued to employees	-	-	-	267,500	-	267,500	-	267,500
Balance as at 30 September 2015	510,000,000	218,828,409	55,156,052	(12,010,100)	15,260,904	787,235,265	(1,528,117)	785,707,148

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)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 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 Rajab 1400H (10 June 1980G) in 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 was effective from the issuance of Ministerial Resolution No. F-187 on 3 Jumada Al-Thani 1429H (7 June 2008G) and amended Commercial Registration No. 2050009144 dated 14 Jumada Al-Thani 1429H (18 June 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 30 September 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	650,000	6,500,000	1.27%
Employee Share Program	Saudi/Non Saudi	478,004	4,780,040	0.94%
Ahmed Mubarak Al-Debasi	Saudi	391,000	3,910,000	0.77%
Public Free Float	Saudi/Non Saudi	14,058,201	140,582,010	27.56%
Total		51,000,000	510,000,000	100%

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

Subsidiary	Country of incorporation	Legal status	Effective ownership interest at 30 September	
			2016	2015
Titanium and Steel Manufacturing Company Limited "TSM Arabia"	Saudi Arabia	Limited Liability	100%	70%

No dividends was approved by the Board of Directors during the period ended 30 September 2016 (30 September 2015: SR 51 million).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

1 ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

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 was owned by TSM Tech Company, a South Korean company registered in Ulsan City, South Korea. The commercial production started in the first quarter of year 2014.

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

- a) The acquisition consideration has been stated at SR 1.
- b) TSM Tech Company 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 Company 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 Company will continue providing the technical support to TSM Arabia in accordance with the previously signed agreement between TSM Tech Company and TSM Arabia for 10 years.

The legal formalities associated with the above transaction were still in process as at 30 September 2016.

As at 30 September 2016, the accumulated losses of TSM Arabia exceeded its share capital by SR 22.7 million.

The Board of Directors of the Saudi Steel Pipes 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 business plan for TSM Arabia, they believe that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operations in the future.

2 BASIS OF PREPARATION

a) Statement of compliance

The accompanying interim Consolidated financial statements have been prepared in accordance with the Saudi Accounting Standard for Interim Financial Information issued by the Saudi Organization for Certified Public Accountants (SOCPA). These interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and should be read in conjunction with the Company's audited consolidated financial statements for the year ended 31 December 2015.

The results of operations in these interim financial statements do not necessarily represent an accurate indicator of the results of operations at year end.

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 Company.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

2 BASIS OF PREPARATION (Continued)

d) Use of estimates and judgements

The preparation of interim consolidated 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 judgements 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 5 - Estimated useful lives of property, plant and equipment
- Note 4 - Impairment for investment in associates
- Note 7 - Provision for Zakat and Income tax

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.

4 INVESTMENT IN ASSOCIATES

Investments in associates comprise of the following:

	30 September 2016			30 September 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
Additions	-	8,000,000	8,000,000	-	-	-
Loan contribution	43,750,000	-	43,750,000	26,250,000	-	26,250,000
Accumulated share of losses from associates	(2,796,660)	(9,676,535)	(12,473,195)	(18,316,307)	(8,273,858)	(26,590,165)
Net investment value	85,953,340	66,273,465	152,226,805	52,933,693	59,676,142	112,609,835

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. GPC 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, Saudi Steel Pipes owns 35%, EEW owns 35% and 30% is owned by other shareholders. The cost of acquisition of this investment included a premium of SR 1,250,000. The Company recognized its share of profit in GPC of SR 14 million for the period ended 30 September 2016 (30 September 2015: share of loss of SR 1.53 million) representing 35% of GPC net profit of SR 40 million recognized for the period then ended (30 September 2015: net loss SR 4.37 million).

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 328.96 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 tonn annually (in two phases) of solar grade polysilicon. The cost of acquisition of this investment includes a premium of SR 7,950,000. The Company recognized its share of loss in CDC of SR 0.37 million (30 September 2015: SR 1.04 million) for the period ended 30 September 2016 representing 20% of CDC net loss of SR 1.85 million incurred during the period then ended (30 September 2015: loss of SR 5.20 million).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

5 PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the period ended 30 September 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	22,983,784	822,453,168
Additions during the period	-	3,150,640	931,248	503,500	113,478	1,208,844	5,907,710
Transfers from capital work in progress (Note 5)	-	53,520,581	15,441,343	-	516,500	87,544	69,565,968
Disposals	-	-	-	(586,000)	-	-	(586,000)
Write offs	-	(12,661,320)	-	-	-	-	(12,661,320)
Balance at 30 September 2016	157,850,000	513,615,785	177,204,020	5,844,925	5,884,624	24,280,172	884,679,526
<u>Accumulated Depreciation</u>							
Balance at 1 January 2016 (Audited)	-	237,166,752	64,180,874	3,788,059	3,246,192	17,299,161	325,681,038
Charge for the period	-	21,580,523	4,858,335	618,277	531,246	1,623,943	29,212,324
Disposals	-	-	-	(527,400)	-	-	(527,400)
Write offs	-	(10,788,267)	-	-	-	-	(10,788,267)
Balance at 30 September 2016	-	247,959,008	69,039,209	3,878,936	3,777,438	18,923,104	343,577,695
<u>Net Book Value</u>							
At 30 September 2016 (Unaudited)	157,850,000	265,656,777	108,164,811	1,965,989	2,107,186	5,357,068	541,101,831
At 30 September 2015 (Unaudited)	157,850,000	235,372,618	96,376,374	1,859,677	573,610	6,482,367	498,514,646

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

6 CAPITAL WORK IN PROGRESS

The movement in capital work in progress during the period ended 30 September 2016 comprise of:

	Balance at 1 January 2016 (Audited)	Additions * (Unaudited)	Transferred to property, plant & equipment (Unaudited)	Balance at 30 September 2016 (Unaudited)	Balance at 30 September 2015 (Unaudited)
<u>Existing Factory</u>					
Small Diameter	7,952,419	4,984,165	(4,928,838)	8,007,746	6,084,154
Medium Diameter	7,638,236	3,418,257	(7,965,341)	3,091,152	7,623,874
Induction bending	1,498,951	396,531	(1,594,914)	300,568	927,713
	17,089,606	8,798,953	(14,489,093)	11,399,466	14,635,741
<u>Expansions</u>					
8" API Tube mill	190,369,312	8,298,057	(23,501,307)	175,166,062	186,524,389
30" External Pipe Coating	30,252,269	1,212,718	(31,464,987)	-	29,754,174
	220,621,581	9,510,775	(54,966,294)	175,166,062	216,278,563
<u>Building and structures</u>	153,396	532,256	(110,581)	575,071	18,495
	237,864,583	18,841,984	(69,565,968)	187,140,599	230,932,799

* These additions include finance costs amounting to SR 2,845,346 for the period ended 30 September 2016 (2015: SR 1,022,904).

7 ZAKAT AND INCOME TAX PROVISION

The Company and its subsidiary have filed their Zakat and tax returns with the General Authority of Zakat and Tax (GAZT) for the years upto 2015. The Company and its subsidiary have obtained their Zakat and tax certificates which are valid upto 30 April 2017.

8 COMMITMENTS AND CONTINGENCIES

	30 September 2016 (Un-audited)	30 September 2015 (Un-audited)
Letters of credit	1,389,930	24,765,232
Letters of guarantee *	98,535,412	154,181,697
Capital commitments	7,179,250	16,077,798

*This includes guarantee provided to Saudi Iron and Steel Company amounting to SR 90 million (30 September 2015: SR 140 million) for the supply of raw materials.

The Company has also provided corporate guarantees to Saudi Industrial Development Fund (SIDF) and to commercial banks for the loan obtained by the subsidiary and an associate amounting to SR 651.5 million as at 30 September 2016 (30 September 2015: SR 434.1 million).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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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, which includes issuance of Employee Share Option Program (EOSP) and conversion of treasury shares into ordinary shares.

<i>Basic earnings per share</i>	30 September 2016 (Unaudited)	30 September 2015 (Unaudited)
Net income for the period	19,723,728	42,891,919
Operating income for the period	16,388,418	47,635,904
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)	(750,000)
Add: Weighted average number of shares issued to employees	284,808	271,996
Weighted average number of outstanding shares	50,521,996	50,521,996
Basic earnings per share from net income	0.390	0.849
Basic earnings per share from operating income	0.324	0.943
 <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	0.386	0.841
Diluted earnings per share from operating income	0.321	0.934

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 Company does not allocate assets and liabilities to the segments for the purpose of geographic segmental reporting. The information provided to management in relation to segment reporting is as follows:

2016 (Unaudited)	Local sales	Export sales	Total
Sales	413,995,292	54,305,317	468,300,609
Cost of sales	(366,940,142)	(44,257,050)	(411,197,192)
Gross profit	47,055,150	10,048,267	57,103,417
Gross profit percentage	11.4%	18.5%	12.2%

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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10 SEGMENTAL REPORTING (continued)

<u>2015 (Unaudited)</u>	<u>Local sales</u>	<u>Export sales</u>	<u>Total</u>
Sales	661,643,433	46,691,590	708,335,023
Cost of sales	(580,534,115)	(38,161,898)	(618,696,013)
Gross profit	<u>81,109,318</u>	<u>8,529,692</u>	<u>89,639,010</u>
Gross profit percentage	12.3%	18.3%	12.7%

11 APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements were authorized for issue by the Board of Directors on 17 Muharram 1438H corresponding to 18 October 2016G.