SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016
WITH
INDEPENDENT AUDITORS' REPORT

SAUDI STEEL PIPES COMAPNY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

KPMG

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of **Saudi Steel Pipes Company** (the "Company") and its subsidiary (collectively the "Group") which comprise the consolidated balance sheet as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 32 which form an integral part of the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

Auditors' responsibilities

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements taken as a whole:

1) present fairly, in all material respects, the financial position of the Saudi Steel Pipes Company and its subsidiary (the "Group") as at 31 December 2016, and of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of the financial statements.

Emphasis of matters

We draw attention to the following matters as explained in Note 1 to the accompanying 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 process and management believes that these legal formalities will be finalized in due course. Accordingly, the accompanying consolidated financial statements as at 31 December 2016 and for the year then ended, reflect 100% of the financial performance, financial position and cash flows of the subsidiary.

- as at 31 December 2016, the accumulated losses of TSM Arabia exceeded its share capital by SR 24.2 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 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. Accordingly, the subsidiary prepares its financial statements on the going concern basis.

For KPMG Al Fozan & Partners
Certified Public Accountants

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محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Khalil Ibrahim Al Sedais
License No: 371

Al Khobar, 16 Jumada Al-Thani 1438H
Corresponding to: 15 March 2017G

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	Notes	2016	2015
ASSETS			
Current assets			
Cash at banks and on hand	4	**17,322,519**	6,012,395
Deposits with banks	5	**13,000,000**	13,000,000
Accounts receivable	6	**97,775,899**	88,644,731
Due from related parties	7	**5,249,534**	5,288,019
Inventories	8	**224,296,144**	279,184,372
Prepayments and other current assets	9	**16,421,991**	16,270,846
Total current assets		**374,066,087**	408,400,363
Non-current assets			
Investment in associates	10	**111,895,102**	113,098,351
Property, plant and equipment	11	**531,000,190**	496,772,130
Capital work in progress	12	**192,785,117**	237,864,583
Intangible assets	13	**8,859,832**	13,345,992
Prepayments and other non-current assets	9	**13,684,732**	12,853,438
Total non-current assets		**858,224,973**	873,934,494
Total assets		**1,232,291,060**	1,282,334,857
LIABILITIES			
Current liabilities			
Accounts payable		**114,155,259**	110,975,690
Accrued expenses and other current liabilities	14	**22,617,738**	18,776,714
Due to related parties	7	**4,004,951**	4,004,951
Provision for Zakat and income tax	15	**7,270,471**	9,861,030
Bank overdraft	16	**4,298,060**	1,443,987
Short-term loan	17	**102,044,115**	33,645,723
Current portion of long-term loans	18	**63,438,386**	93,530,651
Total current liabilities		**317,828,980**	272,238,746
Non-current liabilities			
Long-term loans	18	**139,219,250**	184,851,853
Employees' end of service benefits	19	**47,691,003**	48,511,654
Total non-current liabilities		**186,910,253**	233,363,507
Total liabilities		**504,739,233**	505,602,253
EQUITY			
Shareholders' equity			
Share capital	1	**510,000,000**	510,000,000
Share premium	20	**218,828,409**	218,828,409
Statutory reserve	21	**58,494,224**	58,494,224
Treasury shares (Employee Share Ownership Program)	22	**(12,010,100)**	(12,010,100)
(Accumulated loss) / retained earnings		**(47,760,706)**	1,420,071
Total equity		**727,551,827**	776,732,604
Total liabilities and equity		**1,232,291,060**	1,282,334,857

These consolidated financial statements appearing on pages (1) to (28) were approved by the Board of Directors on 16 Jumada Al-Thani1438H, corresponding to 15 March 2017G and have been signed on its behalf by:

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

The accompanying notes 1 through 32 form an integral part of these consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in Saudi Riyals)

	Notes	2016	2015
Sales	30	**627,390,007**	852,088,326
Cost of sales	30	**(570,997,043)**	(756,313,607)
Gross profit	30	**56,392,964**	95,774,719
Selling and marketing expenses	23	**(22,798,804)**	(24,096,969)
General and administrative expenses	24	**(32,320,302)**	(30,594,635)
Operating income		**1,273,858**	41,083,115
Impairment loss on investment in an associate	10	**(34,978,676)**	-
Finance charges	25	**(10,139,326)**	(6,942,223)
Other expenses, net	26	**(9,327,708)**	(2,193,138)
Share of income / (loss) from associates	10	**8,275,427**	(2,077,484)
Net (loss) / income for the year		**(44,896,425)**	29,870,270
Net (loss) / income attributable to:			
Equity shareholders		**(44,896,425)**	33,381,718
Non-controlling interest (loss)		**-**	(3,511,448)
		(44,896,425)	29,870,270
(Loss) / earnings per share from net (loss) / income:			
Basic	29	**(0.889)**	0.661
Diluted	29	**(0.880)**	0.655
Earnings per share from operating income:			
Basic	29	**0.025**	0.868
Diluted	29	**0.024**	0.860

The accompanying notes 1 through 32 form an integral part of these consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in Saudi Riyals)

	Notes	2016	2015
Cash flows from operating activities:			
Net (loss) / income for the year		**(44,896,425)**	29,870,270
Adjustments to reconcile net (loss) / income to net cash provided by operating activities:			
Depreciation	11	**41,748,698**	36,885,768
Amortization	13	**2,770,127**	2,835,129
Intangible assets – written off	13	**1,716,033**	-
(Gain) / loss on sale of property, plant and equipment	26	**(58,400)**	11,250
Impairment of property, plant and equipment	26	**1,088,680**	-
Property, plant and equipment – written off	26	**8,506,141**	1,019,345
Employees' end of service benefits charged during the year	19	**5,449,546**	5,674,039
Impairment of investment in associates	10	**34,978,676**	-
Share of (profits) / loss in associates	10	**(8,275,427)**	2,077,484
Provision for doubtful debts	6	**1,315,020**	1,603,623
Inventories – written down	8	**2,230,299**	-
Provision for inventories	8	**6,863,371**	7,100,000
Finance charges	25	**10,139,326**	6,942,223
Share based expenses - (Employee Share Ownership Program)		**-**	1,726,650
		63,575,665	95,745,781
Changes in operating assets and liabilities:			
Accounts receivable		**(10,446,188)**	4,079,152
Inventories		**38,837,434**	117,265,155
Prepayments and other assets		**(982,439)**	(3,064,930)
Due from related parties		**38,485**	1,614,883
Due to related parties		**(149,701)**	(852,286)
Accounts payable		**3,179,570**	(32,200,697)
Accrued expenses and other current liabilities		**5,090,724**	(1,787,220)
Deposits with banks		**-**	3,500,000
		99,143,550	184,299,838
Employees end of service benefits paid	19	**(6,270,197)**	(4,867,744)
Zakat and income tax paid during the year	15	**(7,974,911)**	(13,671,736)
Finance charges paid		**(8,550,057)**	(6,942,223)
Net cash provided by operating activities		**76,348,385**	158,818,135
Cash flows from investing activities:			
Purchase of property, plant and equipment	11	**(10,219,401)**	(14,101,521)
Proceeds from sale of property, plant and equipment		**117,000**	30,000
Additions to capital work in progress	12	**(18,751,959)**	(43,990,628)
Investment in an associate	10	**(8,000,000)**	-
Loan to an associate		**(17,500,000)**	-
Net cash used in investing activities		**(54,354,360)**	(58,062,149)
Cash flows from financing activities:			
Net change in short-term loans		**68,398,392**	818,119
Proceeds of long-term loans		**9,465,634**	4,628,612
Long-term loans repayment		**(91,402,000)**	(55,882,133)
Dividends paid	1	**-**	(51,000,000)
Net cash used in financing activities		**(13,537,974)**	(101,435,402)
Net change in cash and cash equivalents		**8,456,051**	(679,416)
Cash and cash equivalents at the beginning of the year		**4,568,408**	5,247,824
Cash and cash equivalents at the end of the year	4	**13,024,459**	4,568,408

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in Saudi Riyals)

Non-cash supplemental information:	**Notes**	**2016**	2015
Transfer of capital work in progress to property, plant and equipment	11 & 12	**69,565,968**	89,104,715
Remuneration of Board of Directors	1	**1,100,000**	-
Reclassification of capital spare parts	11 & 12	**6,957,124**	-
Borrowing cost capitalized relating to SIDF loan	12	**4,622,229**	-

The accompanying notes 1 through 32 form an integral part of these consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR 31 DECEMBER 2016
(Expressed in Saudi Riyals)

	Share capital	Share premium	Statutory reserve	Treasury shares (Employee Share Ownership Program)	(Accumulated loss) / retained earnings	Equity attributable to the shareholders of the Company	Non-controlling interests	Total
Balance as at 1 January 2015	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 year ended 31 December 2015	-	-	-	-	33,381,718	33,381,718	(3,511,448)	29,870,270
Provision for Zakat and income tax (Note 15)	-	-	-	-	(7,178,184)	(7,178,184)	-	(7,178,184)
Transfer to statutory reserve	-	-	3,338,172	-	(3,338,172)	-	-	-
Board of Directors' remuneration (Note 1)	-	-	-	-	(1,800,000)	(1,800,000)	-	(1,800,000)
Dividends (Note 1)	-	-	-	-	(51,000,000)	(51,000,000)	-	(51,000,000)
Premium on acquisition of own shares	-	-	-	(435,000)	435,000	-	-	-
Shares issued to employees	-	-	-	267,500	-	267,500	-	267,500
Balance as at 31 December 2015	510,000,000	218,828,409	58,494,224	(12,010,100)	1,420,071	776,732,604	-	776,732,604
Balance as at 1 January 2016	510,000,000	218,828,409	58,494,224	(12,010,100)	1,420,071	776,732,604	-	776,732,604
Net loss for the year ended 31 December 2016	-	-	-	-	**(44,896,425)**	**(44,896,425)**	-	**(44,896,425)**
Provision for Zakat and income tax (Note 15)	-	-	-	-	**(5,384,352)**	**(5,384,352)**	-	**(5,384,352)**
Board of Directors' remuneration (Note 1)	-	-	-	-	**(700,000)**	**(700,000)**	-	**(700,000)**
Reversal of Board of Directors' 2015 remuneration (Note 1)	-	-	-	-	**1,800,000**	**1,800,000**	-	**1,800,000**
Balance as at 31 December 2016	**510,000,000**	**218,828,409**	**58,494,224**	**(12,010,100)**	**(47,760,706)**	**727,551,827**	-	**727,551,827**

The accompanying notes 1 through 32 form an integral part of these consolidated financial statements.

(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 include 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 31 December 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%
Mohammed Rasheed Mohammed Al Rasheed	Saudi	1,241,301	12,413,010	2.43%
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	13,466,900	134,669,000	26.40%
Total		**51,000,000**	**510,000,000**	**100%**

On 23 February 2016, Board of Directors has voluntarily waived their remuneration amounting to SR 1,800,000, which was accrued for the year ended 31 December 2015 due to insufficient retained earnings as at 31 December 2015. Also, the Board of Directors has approved remuneration of SR 700,000 during the year ended 31 December 2016 for independent members.

Further, no dividends were approved by the Board of Directors during the year ended 31 December 2016 (31 December 2015: SR 51 million).

(Expressed in Saudi Riyals)

1 ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

These 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 31 December	
			2016	2015
Titanium and Steel Manufacturing Company Limited "TSM Arabia"	Saudi Arabia	Limited liability	100%	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 Company initially owned 70%. The remaining 30% was owned by TSM Tech Company, a company registered in Ulsan City, South Korea. The commercial production of the subsidiary's plant 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 previously owned or part of it, if TSM Tech Company is able to overcome its current 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 Commercial 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 starting 01 September 2010.

The legal formalities associated with the above transaction were still in progress as at 31 December 2016.

As at 31 December 2016, the accumulated losses of TSM Arabia exceeded its share capital by SR 24.2 million.

Based on the Group management's 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. Further, the Board of Directors of Saudi Steel Pipes Company has passed a resolution 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. Accordingly, the subsidiary prepares its financial statements on a going concern basis.

2 BASIS OF PREPARATION

a) Statement of compliance

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

2 BASIS OF PREPARATION (continued)

a) Statement of compliance (continued)

The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "The Law") came into force on 25 Rajab 1437H (corresponding to 2 May 2016). The Company has amended its By-laws for required changes to align the By-laws to the provisions of the Law. Consequently, the Company has presented the amended By-laws to the shareholders in an Extraordinary General Assembly Meeting for their ratification and all the amendments were approved.

These consolidated financial statements include the assets, liabilities, the results of the operations and cash flows of the Group.

As required by SOCPA, all listed companies are required to make transition to International Financial Reporting Standards ("IFRS") as endorsed by SOCPA effective 1 January 2017 for preparation of their financial statements. In preparing the first set of IFRS financial statements, the Company will analyze the impact of the first time adoption of IFRS as endorsed by SOCPA in 2017 and prior years consolidated financial statements and will accordingly incorporate the necessary adjustments in its first set of IFRS financial statements.

b) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiary set forth in Note 1. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable, if any, are taken into account. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date control ceases.

All balances resulted from financials transactions between the Company and its Subsidiary are eliminated in preparing these consolidated financial statements. In addition, any unrealized gains and losses arising from transactions between the Company and its Subsidiary are eliminated on consolidation.

c) 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.

d) Functional and presentation currency

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

e) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and circumstances, actual results ultimately may differ from those estimates.

2 BASIS OF PREPARATION (Continued)

e) Use of estimates and judgments (continued)

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 consolidated financial statements are as follows:

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

Provision for slow moving inventory items
Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. The management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

Provisions and contingencies
A provision for incurred liabilities is recognized when the Group has a present legal or constructive obligation because of past events and it is more likely than not that, an outflow of resource will be required to settle the obligation and the amount has been reliably estimated.

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Group; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; assessed at each balance sheet date and disclosed in the Group's consolidated financial statements under contingent liabilities.

Useful lives of property, plant and equipment
The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and changes in depreciation charges, if any, are adjusted in current and future periods.

During the year, residual values of certain items of plant and machineries were revisited. These changes in accounting estimate have been accounted for in accordance with the requirements of generally accepted accounting standards in Saudi Arabia prospectively from start of this year and onwards. Had there been no change in estimate, depreciation charge to consolidated statement of income for the year ended would have been lower by SR 2.3 million and the carrying value of these assets as at 31 December 2016 would have been higher by the same amount.

2 BASIS OF PREPARATION (Continued)

e) Use of estimates and judgments (continued)

Impairment of non-financial assets
Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Non-current assets other than intangible assets and that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on intangible assets are not reversible.

Provision for warranties
Provision for warranties reflects the estimate of future claims in connection with goods sold to the customers. Provision is created based on general market conditions and the historical experience. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

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

Cash at banks and on hand
Cash at banks and on hand mainly include cash on hand and current account with banks. The statement of cash flows has been prepared using the indirect method. For the purpose of statement of cash flows, cash and cash equivalents are presented net of overdraft accounts.

Accounts receivable
Accounts receivable are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to the consolidated statement of income and any subsequent recovery of receivable amounts previously written off are credited to the consolidated statement of income.

Inventories
Inventories are valued at the lower of cost and net realizable value. Cost is determined on the weighted-average method. The cost of finished goods includes the cost of raw materials, direct labor and manufacturing overheads. Consumable spare parts are recognized as inventories. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)
Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

Investments in associates
Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 49 per cent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investee) and are initially recognized at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of income and expenses and equity movement of the equity accounted investees from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. The Group's share of profits or losses of the investee companies is credited or charged to the consolidated statement of income.

Property, plant and equipment
Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any, except for land, which is stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. The Group is accounting for capital spare parts under property, plant and equipment. The capital spare parts are those having a useful life of more than one year. These capital spare parts are required to be kept on hand to ensure uninterrupted operations of production machinery and equipment and are depreciated using the straight line method using the depreciation rates relevant to the corresponding machinery and equipment.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property plant, and equipment. All other expenditure is recognized in the consolidated statement of income when incurred.

Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment as follows:

Category of assets	Number of years
• Machineries and equipment	5 – 15
• Building and structures	25 – 33
• Vehicles	4
• Furniture and fixture	4
• Office equipment	4
• Tools and spares	15

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment is item being disposed and is recognized net within "other income" in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital work in progress
Capital work in progress represents the accumulated costs incurred by the Group in relation to the construction of its building and structures, manufacturing plant and facilities. Cost incurred for the construction of property, plant and equipment are initially charged to the capital work in progress and classified under non-current assets, then these expenses are transferred to property, plant and equipment when the construction of these facilities are completed. The depreciation for these projects start when they are ready for use. Finance costs on borrowings attributable to the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset that takes substantial time to be ready for its intended use.

Intangible assets
Intangible assets mainly includes pre-operating costs and are stated at cost less accumulated amortization and any impairment in value. Pre-operating costs includes all costs and expenses incurred during the pre-operating stage, which have future economic benefits. Such costs are recorded as intangible assets and amortized using the straight-line method over the related economic benefit periods not exceeding seven years.

Impairment of assets

Financial assets
A financial asset is assessed at each annual reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Non- financial assets
Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-current assets other than intangible assets and that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares (Employee share ownership program – "ESOP")
The ESOP is an employee benefit plan that designates a specific number of shares in order to distribute them among the Company's employees. The Company purchases treasury shares to support this account. Those shares are allocated to employees in three different categories namely; free, credit and cash basis. Additionally, a portion of the designated stocks would be reserved for future employees as well as for rewarding employees with free shares against service years.

Foreign currency translation
The consolidated financial statements are presented in Saudi Riyals, which is the functional currency of the Group. Foreign currency transactions are translated into Saudi Riyals at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect their Saudi Riyals equivalents as of the balance sheet date. Exchange adjustments are charged or credited to the consolidated statement of income.

Provision for employees' end of service benefits
Employee's end of service benefits are accrued in accordance with the labor and workman laws of Saudi Arabia, and charged to the consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

Accounts payable and accruals
Liabilities are recognized for amounts to be paid for goods received and services rendered, whether or not billed to the Group.

Provisions
Provisions are recognized if, as a result of past events, the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition
Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

The timing of transfer of risks and rewards varies depending on the individual terms of the sales agreement. Revenue is measured net of returns, trade discounts and volume rebates.

Expenses
Selling and marketing expenses are those arising from the Group's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding cost of sales and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax
The Company and its subsidiary is subject to Zakat and income tax in accordance with the regulations of the General Authority of Zakat and Tax (GAZT). Zakat for the Company and its subsidiaries is filed with the GAZT on a consolidated basis by the Company. Zakat and income tax for the Group are charged to consolidated statement of changes in equity on an accruals basis.

The Zakat charge is computed on the higher of Zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. The Zakat charge in the consolidated financial statements represents the Zakat for the Company and its subsidiary.

Deferred tax liabilities and assets are recognized for all temporary differences at current rates of taxation. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in near future to allow all or part of the deferred tax assets to be utilized.

Leases
Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. Other leases are classified as operating leases. Payments made under operating leases are recognized in the consolidated statement of income on straight-line basis over the terms of the lease.

Borrowings
Borrowings are recognized at the proceeds received, net of transaction costs incurred. Further, upfront fee that was deducted in advance by the SIDF, is deferred and presented netting of the principle amount of the loan. Such deferred amount is amortized over the term of the loan using the effective rate of interest. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, otherwise, such costs are charged to the consolidated statement of income.

Dividends
Dividends are recognized as liability at the time of their approval in the Annual General Assembly meeting. Interim dividends are recorded as and when approved by the Board of Directors.

Segmental reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Provision for warranties
A provision for warranties is required when the underlying products and services are sold. The provision is based on historical working data and a weighing of all possible outcomes against their associated probabilities. Warranties provision is charged to cost of sales in the statement of income.

(Expressed in Saudi Riyals)

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December comprise of the following:

	2016	2015
Cash at banks	**17,265,519**	5,700,395
Cash on hand	**57,000**	312,000
Cash in hand and at banks	**17,322,519**	6,012,395
Bank overdraft (Note 16)	**(4,298,060)**	(1,443,987)
	13,024,459	4,568,408

5 DEPOSITS WITH BANKS

These represent interest free deposits, which the Company is keeping with local banks. The purpose of these deposits is to provide credit facility to the Company's customers. These customers are granted the same product prices as are charged to cash customers. The customers are evaluated and selected by the banks. These deposits are collectable by the Company on demand. Please refer to Note 28 for Company's exposure to credit losses on these deposits.

6 ACCOUNTS RECEIVABLE

Accounts receivable as at 31 December are as follows:

	2016	2015
Accounts receivable	**99,163,088**	88,716,900
Less: provision for doubtful receivables	**(1,387,189)**	(72,169)
	97,775,899	88,644,731

The movement in provision for doubtful receivables for the year ended December 31 are as follows:

	2016	2015
Balance at beginning of the year	**72,169**	151,794
Provision recognized during the year (Note 23)	**1,315,020**	1,603,623
Doubtful debts written off	**-**	(1,683,248)
	1,387,189	72,169

7 RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its business, the Group deals with its related parties, which include shareholders, affiliate companies and other entities. These transactions are carried at arm's length basis; the terms and conditions of such transactions are approved by the Group's management. The significant related parties are as follows:

Name of entity	Relationship
Rabiah & Nassar Group	Shareholder
Abdullah Ibrahim Alkhorayef Sons Company	Shareholder
Saudi Pan Gulf	Shareholder
Hu Steel Co., Ltd.	Shareholder
Global Pipe Company	Associate
Chemical Development Company	Associate
TSM Tech. Korea	Shareholder in subsidiary

(Expressed in Saudi Riyals)

7 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

During the year ended 31 December, the Group had the following significant transactions with its related parties:

Related Party	Nature of transactions	2016	2015
Rabiah & Nassar Group	Sales	**5,150,176**	7,029,141
Abdullah Ibrahim Alkhorayef Sons Company	Sales	**946,764**	588,800
	Purchases	**1,111,834**	313,825
Saudi Pan Gulf Company	Sales	**11,526,753**	13,062,350
	Purchases	**2,365,512**	1,500,968
Hu Steel Company Ltd.	Service rendered	**299,404**	299,404

The transactions with related parties resulted in the following balances as at 31 December:

7.1) Due from related parties

	2016	2015
Saudi Pan Gulf	**3,561,336**	3,730,397
Rabiah & Nassar Group	**1,688,198**	1,433,767
TSM Tech. Company	-	123,855
	5,249,534	5,288,019

7.2) Due to related parties

	2016	2015
TSM Tech. Company	**3,855,251**	3,855,251
Hu Steel Company Ltd.	**149,700**	149,700
	4,004,951	4,004,951

8 INVENTORIES

	2016	2015
Materials	**84,629,332**	138,469,420
Finished goods and by-products	**76,501,131**	59,757,239
Spare parts and supplies (Note 11 & 12)	**34,071,400**	45,278,575
Work in-process	**27,454,968**	35,238,516
Materials in-transit	**10,732,983**	6,040,622
	233,389,814	284,784,372
Less: Provision for obsolete and slow moving inventories	**(6,863,371)**	(5,600,000)
Less: Inventories written down	**(2,230,299)**	-
	224,296,144	279,184,372

(Expressed in Saudi Riyals)

8 INVENTORIES (continued)

The movement in provision for obsolete and slow moving inventories for the year ended 31 December is as follows:

	2016	2015
Balance at beginning of the year	5,600,000	-
Provision made during the year	6,863,371	7,100,000
Provision utilized during the year	(5,600,000)	(1,500,000)
	6,863,371	5,600,000

9 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as at 31 December comprise of the following:

	2016	2015
Employee loans	21,977,750	20,394,372
Advance to suppliers	3,436,979	5,896,962
Prepaid expenses	2,927,511	2,444,158
Insurance claim	1,354,500	-
Others	409,983	388,792
	30,106,723	29,124,284
Presented in the balances sheet as follows:		
Current portion shown under current assets	16,421,991	16,270,846
Non-current portion shown under non-current assets	13,684,732	12,853,438
	30,106,723	29,124,284

Employee loans include certain amounts secured by mortgages of properties owned by employees such as land, building and vehicles for those who do not have sufficient end of service benefit balance that cover the loan balance.

10 INVESTMENT IN ASSOCIATES

Investment in associates comprise of the following:

	2016			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
Impairment	-	(34,978,676)	(34,978,676)	-	-	-
Accumulated share of losses as of 1 January	(16,800,114)	(9,301,535)	(26,101,649)	(16,788,307)	(7,235,858)	(24,024,165)
Share of net income / (loss) for the year	16,324,397	(8,048,970)	8,275,427	(11,807)	(2,065,677)	(2,077,484)
Net investment value	88,274,283	23,620,819	111,895,102	54,449,886	58,648,465	113,098,351

10 INVESTMENT IN ASSOCIATES (continued)

Global Pipe Company Limited (GPC)
Global Pipe Company Limited (GPC) is a limited liability company whose capital is owned by the Company, EEW Company of Germany ("EEW") and other Saudi shareholders. GPC is engaged in producing various types of large welded pipes up to 60 inches diameter and large structural tubular pipes. The total share capital of Global Pipe Company is SR 125 million of which, Saudi Steel Pipes owns 35%, EEW owns 35% and 30% is owned by other shareholders. The cost of acquisition of this investment includes a premium of SR 1,250,000. The Company recognized its share of profit in GPC of SR 16.3 million for the year ended 31 December 2016 (31 December 2015: share of loss of SR 0.01 million) representing 35% of GPC net profit of SR 46.6 million recognized for the year then ended (31 December 2015: net loss of SR 0.03 million).

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

Chemical Development Company Limited (CDC)
Chemical Development Company Limited (CDC) is a holding company whose purpose is to develop strategic industrial projects. Saudi Steel Pipes owns 20% of CDC's 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 is designed to produce 12,350 tonns 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 8.05 million (31 December 2015: SR 2.06 million) for the year ended 31 December 2016 representing 20% of CDC estimated net loss of SR 40.25 million incurred during the year then ended (31 December 2015: loss of SR 10.3 million).

The sale price of final product of CDC "Solar Grade Polysilicon" has dropped; accordingly, management of the Group has assessed the recoverability of its investment in CDC in the light of the existing impairment indicators.

Based on the management's assessment and a detailed impairment study, the Group has recognized an impairment loss of SR 34.9 million during the year. This impairment will be closely monitored and reviewed in future periods and the estimates for recoverability / future decline of the investment will be re-assessed accordingly.

(Expressed in Saudi Riyals)

11 PROPERTY, PLANT AND EQUIPMENT

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

	Land	Machinery & equipment	Building & structures	Vehicles	Furniture & fixtures	Office & electrical equipment	Total
Cost							
Balance at 1 January 2016	157,850,000	469,605,884	160,831,429	5,927,425	5,254,646	22,983,784	822,453,168
Reclassification of capital spares	-	5,844,810	-	-	-	-	5,844,810
Additions during the year	-	7,588,976	644,013	503,500	144,878	1,338,034	10,219,401
Transfers from capital work in progress (Note 12)	-	53,520,580	15,441,343	-	516,500	87,545	69,565,968
Disposals	-	-	-	(586,000)	-	-	(586,000)
Impairment (Note 26)	-	(1,430,383)	-	-	-	-	(1,430,383)
Write offs (Note 26)	-	(52,971,613)	(564,523)	-	-	-	(53,536,136)
Balance at 31 December 2016	**157,850,000**	**482,158,254**	**176,352,262**	**5,844,925**	**5,916,024**	**24,409,363**	**852,530,828**
Accumulated Depreciation							
Balance at 1 January 2016	-	237,166,752	64,180,874	3,788,059	3,246,192	17,299,161	325,681,038
Charge for the year	-	31,070,858	6,745,188	820,931	762,324	2,349,397	41,748,698
Disposals	-	-	-	(527,400)	-	-	(527,400)
Impairment (Note 26)	-	(341,703)	-	-	-	-	(341,703)
Write offs (Note 26)	-	(44,712,218)	(317,777)	-	-	-	(45,029,995)
Balance at 31 December 2016	-	**223,183,689**	**70,608,285**	**4,081,590**	**4,008,516**	**19,648,558**	**321,530,638**
Net Book Value							
At 31 December 2016	**157,850,000**	**258,974,565**	**105,743,977**	**1,763,335**	**1,907,508**	**4,760,805**	**531,000,190**
At 31 December 2015	157,850,000	232,439,132	96,650,555	2,139,366	2,008,454	5,684,623	496,772,130

During the year, management conducted an exercise for identification of capital spares that will be used with machinery and equipment which resulted in capital spares of SR 5.8 million being identified as capital spares and were accordingly reclassified from inventories to machinery and equipment.

(Expressed in Saudi Riyals)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation charge for the year ended 31 December has been allocated as follows:

	2016	2015
Cost of sales	**39,625,404**	34,422,559
General and administrative expenses (Note 24)	**2,123,294**	2,463,209
	41,748,698	36,885,768

12 CAPITAL WORK IN PROGRESS

The movement in capital work in progress during the year ended 31 December 2016 comprise of the following:

	Balance at 1 January 2016	Additions *	Transferred to property, plant & equipment	Balance at 31 December 2016
Existing Factory				
Small Diameter	7,952,419	6,762,178	(4,928,838)	9,785,759
Medium Diameter	7,638,236	4,519,577	(7,965,341)	4,192,472
Induction Bending	1,498,951	453,796	(1,594,914)	357,833
	17,089,606	**11,735,551**	**(14,489,093)**	**14,336,064**
Expansions				
8" API Tube mill	190,369,312	10,858,379	(23,501,307)	177,726,384
30" External Pipe Coating	30,252,269	1,212,718	(31,464,987)	-
	220,621,581	**12,071,097**	**(54,966,294)**	**177,726,384**
Building and structures	153,396	**679,854**	**(110,581)**	**722,669**
	237,864,583	**24,486,502**	**(69,565,968)**	**192,785,117**

* These additions include borrowing costs amounting to SR 4,622,229 for the year ended 31 December 2016 (2015: SR 1,022,904) and capital spares reclassified amounting to SAR 1,112,314 (2015: SR nil).

13 INTANGIBLE ASSETS

The movement in intangible assets during the year ended 31 December comprise of the following:

	2016	2015
Balance at the beginning of the year	**13,345,992**	16,181,121
Amortization during the year - (Note 24)	**(2,770,127)**	(2,835,129)
Intangible assets written off - (Note 24)	**(1,716,033)**	-
Net book value at the end of the year	**8,859,832**	13,345,992

14 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as at 31 December comprise of the following:

	2016	2015
Accrued expenses	**11,012,167**	4,931,688
Warranty provision	**6,000,000**	-
Advances from customers	**3,333,247**	5,169,434
Retention payable	**1,572,324**	6,875,592
Accrued Board of Directors' remuneration	**700,000**	1,800,000
	22,617,738	18,776,714

(Expressed in Saudi Riyals)

15 PROVISION FOR ZAKAT AND INCOME TAX

15 (a) The principal elements of Zakat base are as follows:

	2016	2015
Non-current assets	**858,224,973**	873,934,494
Non-current liabilities	**186,910,253**	233,363,507
Spare parts	**34,071,400**	45,278,575
Opening shareholders' equity	**776,732,604**	806,573,018
Net (loss) / income before Zakat	**(44,896,425)**	29,870,270

These figures have been adjusted in the calculation of Zakat and Income tax charge for the year.

15 (b) The movements of provision for Zakat and income tax account for the year ended 31 December comprise of the following:

	2016	2015
Balance at the beginning of the year	**9,861,030**	16,354,582
Provision for the year	**5,384,352**	8,110,539
Prior year excess provision	-	(932,355)
Payments during the year	**(7,974,911)**	(13,671,736)
Balance at the end of the year	**7,270,471**	9,861,030

Zakat and income tax charged to retained earnings is as follows:

	2016	2015
Provision for the year	**5,384,352**	8,110,539
Prior year excess provision	-	(932,355)
Total charge	**5,384,352**	7,178,184

15 (c) The Company and its Subsidiary have filed their Zakat and Tax returns with the General Authority for Zakat and Income Tax (GAZT) for the years up to 2015. The Company and its Subsidiary have obtained their Zakat and Tax certificates that are valid up to 30 April 2017.

(Expressed in Saudi Riyals)

16 BANK OVERDRAFT

Bank overdraft represents a credit facility from one of the local banks in Saudi Arabia for the purpose of financing the Company's daily operations (working capital requirements). This facility is granted to the Company on the basis of bank participation return on the Company's sales. Return to the bank is calculated as a function of the Company's monthly sales value and the average daily overdrafts during the month.

The Company entered into this facility agreement to reduce the high cash balances retained with banks and used for the settlement of its daily cash requirements.

In the previous year, the overdraft balance was settled through the Company's deposits, however, the facility is still usable by the Company based on management's discretion.

As at 31 December 2016, the bank overdraft balance of SR 4,298,060 (2015: SR 1,443,987) represents Subsidiary's negative bank balances and it's not part of a bank facility.

17 SHORT-TERM LOANS

Short term loans as at 31 December comprise of the following:

	2016	2015
Short-term loan facility	**102,044,115**	15,779,444
Murabaha loan	-	17,866,279
	102,044,115	33,645,723

18 LONG-TERM LOANS

The long-term loans as of 31 December comprise of the following:

	2016	2015
Saudi Industrial Development Fund (SIDF), net	**155,301,499**	169,611,271
Bank loans	**47,356,137**	108,771,233
	202,657,636	278,382,504

Presented in the consolidated balance sheet as follows:

	2016	2015
Current portion shown under current liabilities	**63,438,386**	93,530,651
Non-current portion shown under non-current liabilities	**139,219,250**	184,851,853
	202,657,636	278,382,504

(a) SIDF Loan

(I) SIDF granted the Company a long-term loan to finance the expansion projects of SR 68.65 million. This loan is secured by a mortgage on the Company's property, plant and equipment up to the loan amount. The last installment of the loan was due and paid in November 2016.

(II) In 2012, the Company applied for a new loan with SIDF amounting to SR 130 million that will be specifically intended to finance its various expansions projects and was granted to the Company in the same year. This loan is secured by a mortgage on the Company's property, plant and equipment up to the loan amount. As per the agreement, this debt will be payable in 14 installments, the first installment was due on October 2015 and the last installment is due in March 2022.

(Expressed in Saudi Riyals)

18 LONG TERM LOANS (continued)

(III) In addition, there is a long-term loan granted to the subsidiary by SIDF to finance the construction of a factory of the subsidiary by an amount of SR 41.7 million. In reference to the loan agreement, the SIDF and the subsidiary has agreed to reduce the loan facility to SR 40.3 million and reschedule the payment installments to be payable in 13 installments over 7 years starting in 2016. The loan is secured by a mortgage on the subsidiary's property, plant and equipment up to the loan amount and corporate guarantee issued by Saudi Steel Pipes Company.

(b) Bank Loans

The Company has entered into a Murabaha loan agreement with local banks to finance its various expansion projects. The total approved bank loan is SR 260 million wherein the SR 130 million will be settled through bridge loan from SIDF. These facilities are secured by the promissory notes and second mortgage on property, plant and equipment. The first installment if the loan was on 26 June 2015 and the last installment will be due on 25 March 2017.

The subsidiary has credit facility agreement with Saudi Investment Bank to finance the subsidiary's plant and the purchasing of the machinery and equipment. The total approved bank loan is SR 69.6 million wherein an amount of SR 38.7 million was settled through a bridge loan from SIDF.

The term loan agreements contain covenants requiring maintenance of certain financial ratios among other covenants. As at 31 December 2016, the subsidiary was non-compliant with certain covenants; however waiver for compliance with these covenants has been obtained. Further the management is in process of taking necessary remedial actions and is confident that covenant breach will be remedied within considerable period of time.

19 EMPLOYEES' END OF SERVICE BENEFITS

The movement in employees' end of service benefits during the year ended 31 December comprise of the following:

	2016	2015
Balance at the beginning of the year	**48,511,654**	47,705,359
Provision during the year	**5,449,546**	5,674,039
Payments during the year	**(6,270,197)**	(4,867,744)
Balance at the end of the year	**47,691,003**	48,511,654

20 SHARE PREMIUM

The share premium represents excess of the issue price over the par value on shares issued to the public at time of initial public offering of 16,000,000 new shares of SR 25 per share with a nominal value of SR 10 per share. (Refer Note 1)

21 STATUTORY RESERVE

In accordance with Company's By-laws, the Company is required to transfer 10% of its net income each year to a statutory reserve until such reserve equals 50% of its share capital. This reserve is not available for distributions to the shareholders. However, the statutory reserve can be used for mitigating the Company's losses or for increasing its capital.

(Expressed in Saudi Riyals)

22 TREASURY SHARES (EMPLOYEE SHARE OWNERSHIP PROGRAM)

The Company initially acquired 700,000 of the shares offered to the public for the employee share program. On the reporting date, the Company has cumulatively acquired an additional 62,812 shares (2015: 62,812 shares) to support the employee share program. This employee share program is divided into four types of shares, namely; free shares, credit shares, cash shares and future shares. As of 31 December 2016, the Company has issued 284,808 shares (2015: 284,808 shares) to qualified employees. The remaining 478,004 shares will be distributed to the employees gradually according to the program. The share acquired by the Company in lieu of employee shares program is initially recorded in the consolidated balance sheet as a deduction from shareholders equity and will be eliminated upon issuance to employees.

23 SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the year ended 31 December comprise of the following:

	2016	2015
Local transportation	**6,910,640**	8,170,475
Salaries and wages	**6,822,184**	5,078,555
Freight charges – export	**3,886,182**	2,497,444
Employee benefits	**1,721,892**	4,429,326
Bad debt expenses (Note 6)	**1,315,020**	1,603,623
Advertising	**848,566**	1,309,711
Rental	**492,625**	471,667
Sales commissions	**242,993**	133,141
Others	**558,702**	403,027
	22,798,804	24,096,969

24 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended 31 December comprise of the following:

	2016	2015
Salaries and wages	**13,904,278**	12,101,054
Employee benefits	**4,523,183**	7,936,270
Amortization of intangible assets (Note 13)	**2,770,127**	2,835,129
Depreciation (Note 11)	**2,123,294**	2,463,209
Legal and professional fee	**2,017,926**	787,203
Intangible assets – written off – (Note 13)	**1,716,033**	-
Charitable contributions	**1,434,601**	1,258,728
Travel	**636,334**	380,713
Others	**3,194,526**	2,832,329
	32,320,302	30,594,635

25 FINANCE CHARGES

Financial charges for the year ended 31 December comprise of the following:

	2016	2015
Follow up fee – SIDF	**3,919,648**	3,497,345
Finance charges – Local banks	**6,219,678**	3,444,878
	10,139,326	6,942,223

(Expressed in Saudi Riyals)

26 OTHER EXPENSES, NET

Other expenses for the year ended 31 December comprise of the following:

	2016	2015
Property, plant and equipment written off	**8,506,141**	1,008,095
Impairment of property, plant and equipment	**1,088,680**	-
Bank charges	**1,070,381**	1,102,998
(Gain) / loss on sale of property, plant and equipment	**(58,400)**	11,250
Insurance claim	**(1,354,500)**	-
Others	**75,406**	70,795
	9,327,708	2,193,138

27 COMPENSATION TO KEY MANAGEMENT PERSONNEL

The compensation and benefits of key management personnel for the year ended 31 December are shown below:

	2016	2015
Salaries and wages	**3,221,570**	4,306,028
Board of Directors' remuneration - (Note 1)	**700,000**	1,800,000
Allowances	**1,546,197**	1,669,513
Bonus	**130,945**	791,686
	5,598,712	8,567,227

28 COMMITMENTS AND CONTINGENCIES

	2016	2015
Letters of credit	**-**	15,735,662
Letters of guarantee *	**102,014,353**	148,149,743
Corporate guarantees**	**640,228,713**	542,228,713
Capital commitments	**5,374,939**	8,700,000

*This includes guarantee provided to Saudi Iron and Steel Company amounting to SR 90 million (31 December 2015: SR 140 million) for the supply of raw materials.

**This represents corporate guarantees issued to Saudi Industrial Development Fund (SIDF) and commercial banks for the loan obtained by the subsidiary and an associate amounting to SR 640.2 million as at 31 December 2016 (31 December 2015: SR 542.2 million).

As per the Company's agreement with banks, the customers of the Company are eligible to purchase the Company's products guaranteed by the Company against bank deposit amounting to SR 13 million (2015: SR 13 million) (Note 5). In case of customers default the maximum exposure on the Company for credit losses is 10% of the deposit, i.e. SR. 1.3 million (2015: SR 1.3 million).

(Expressed in Saudi Riyals)

29 EARNINGS PER SHARE

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

Basic earnings / (loss) per share	2016	2015
Net (loss) / income for the year	(44,896,425)	33,381,718
Operating income for the year	1,273,858	43,849,115
Weighted average number of outstanding shares		
Number of issued shares	**51,000,000**	51,000,000
Less: Treasury shares - shares kept for the employee share program	**(762,812)**	(762,812)
Add: Weighted average number of shares issued to employees	**284,808**	284,808
Weighted average number of outstanding shares	50,521,996	50,521,996
Basic (loss) / earnings per share from net income	(0.889)	0.661
Basic earnings per share from operating income	0.025	0.868
Diluted earnings / (loss) per share		
Weighted average number of outstanding shares	51,000,000	51,000,000
Diluted (loss) / earnings per share from net income	(0.880)	0.655
Diluted earnings per share from operating income	0.024	0.860

30 SEGMENTAL REPORTING

As the management views the entire business activities of the Group as two segments, accordingly segment reporting is provided by business activities as well as geographical segments.

Business segments:
The management of the Group views the business activities of the Group as mainly two operating segments for performance assessment and resources allocation as the principal activities of the Group are manufacturing of steel pipes and process equipment.

The Group's principal activities are related to the following main business segments:

- Process equipment: These include design, manufacture, assemble, maintain and market heavy process equipment for the utilization of Oil and Gas, Power Generation, Desalination, Mining, Solar Energy and Off-shore plants; and

- Steel pipes: These includes producing galvanized and non-galvanized steel pipes, square and rectangular pipes used in petroleum, gas, water and construction sectors, in addition to producing vertically welded electric resistance (ERW) pipes.

(Expressed in Saudi Riyals)

30 SEGMENTAL REPORTING (continued)

Business segments (continued):

	Steel pipes	Process equipment	Total
For the year ended 31 December 2016			
Revenues	**580,317,637**	**47,072,370**	**627,390,007**
Operating income / (loss)	**12,084,621**	**(10,810,763)**	**1,273,858**
Net loss	**(31,399,742)**	**(13,496,683)**	**(44,896,425)**
As of 31 December 2016			
Fixed assets	**458,479,945**	**72,520,245**	**531,000,190**
Total assets	**1,113,340,012**	**118,951,048**	**1,232,291,060**
Total liabilities	**398,573,145**	**106,166,088**	**504,739,233**
For the year ended 31 December 2015			
Revenues	837,248,696	14,839,630	852,088,326
Operating income / (loss)	60,672,271	(19,589,156)	41,083,115
Net income / (loss)	51,725,541	(21,855,271)	29,870,270
As of 31 December 2015			
Fixed assets	420,661,698	76,110,432	496,772,130
Total assets	1,173,424,320	108,910,537	1,282,334,857
Total liabilities	407,185,980	98,416,273	505,602,253

Geographical segments:

The Group does not allocate assets and liabilities to the segments for the purpose of geographic segmental reporting. The Group's revenue, cost of sales and gross profits, by geographical segment, are as follows:

2016	**Local sales**	**Export sales**	**Total**
Sales	**562,298,270**	**65,091,737**	**627,390,007**
Cost of sales	**(515,327,519)**	**(55,669,524)**	**(570,997,043)**
Gross profit	**46,970,751**	**9,422,213**	**56,392,964**
Gross profit percentage	**8.4%**	**14.5%**	**9%**

2015	Local sales	Export sales	Total
Sales	786,490,395	65,597,931	852,088,326
Cost of sales	(701,238,763)	(55,074,844)	(756,313,607)
Gross profit	85,251,632	10,523,087	95,774,719
Gross profit percentage	10.8%	16%	11.2%

31 FINANCIAL INSTRUMENTS

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, trade and other accounts receivable, investments, trade payables, due to and 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. Cash and cash equivalents are placed with national banks with sound banking reputation. Trade and other receivables 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 Group's financial position and cash flows. The Group's interest rate risk arise mainly from short-term bank deposits, 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 values of financial assets 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 Group'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 Group's transactions are principally in Saudi Riyals and United States Dollars. 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 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 Group's financial assets and liabilities are not materially different from their carrying values.

32 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Board of Directors on 16 Jumada Al-Thani 1438H corresponding to 15 March 2017G.