SAUDI STEEL PIPES COMPANY

(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND TWELVE MONTHS PERIOD ENDED
31 DECEMBER 2016
(UNAUDITED)
WITH
INDEPENDENT AUDITORS' REVIEW REPORT

SAUDI STEEL PIPES COMAPNY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND TWELVE MONTHS PERIOD ENDED 31 DECEMBER 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") and its subsidiary (collectively the "Group") as at 31 December 2016, the related interim consolidated statement of income for the three and twelve months period then ended, the interim consolidated statements of cash flows and changes in equity for the twelve months period ended and the attached notes 1 through 14 which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group'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 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.

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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, the accompanying interim consolidated financial statements as at 31 December 2016 and for the twelve months period then ended, reflect 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 24.1 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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Certified Public Accountants
KPMG Al Fozan & Partners

Khalil Ibrahim Al Sedais
License No: 371

Al Khobar, 21 Rabi' Al-Thani 1438H
Corresponding to: 19 January 2017G

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	Notes	2016 Unaudited	2015 Audited
ASSETS			
Current assets			
Cash and cash equivalents		**17,322,519**	6,012,395
Deposits with banks		**13,000,000**	13,000,000
Accounts receivable		**97,775,899**	88,644,731
Inventories	4	**224,296,144**	279,184,372
Due from related parties		**5,249,534**	5,288,019
Prepayments and other current assets		**15,067,491**	16,270,846
Total current assets		**372,711,587**	408,400,363
Non-current assets			
Investment in associates	5	**108,233,812**	113,098,351
Property, plant and equipment	6	**532,080,924**	496,772,130
Capital work in progress	7	**192,785,117**	237,864,583
Intangible assets		**8,859,832**	13,345,992
Prepayments and other non-current assets		**13,684,732**	12,853,438
Total non-current assets		**855,644,417**	873,934,494
Total assets		**1,228,356,004**	1,282,334,857
LIABILITIES			
Current liabilities			
Accounts payable		**114,155,260**	110,975,690
Accrued expenses and other current liabilities		**20,267,438**	18,776,714
Due to related parties		**3,855,250**	4,004,951
Provision for Zakat and income tax	8	**6,592,538**	9,861,030
Short-term loan		**106,342,175**	35,089,710
Current portion of long-term loans	9	**63,438,386**	93,530,651
Total current liabilities		**314,651,047**	272,238,746
Non-current liabilities			
Long-term loans	9	**139,219,250**	184,851,853
Employees' end of service benefits		**47,691,003**	48,511,654
Total non-current liabilities		**186,910,253**	233,363,507
Total liabilities		**501,561,300**	505,602,253
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**	58,494,224
Treasury shares (Employee Share Ownership Program)		**(12,010,100)**	(12,010,100)
(Accumulated loss) / retained earnings		**(48,517,829)**	1,420,071
Total equity		**726,794,704**	776,732,604
Total liabilities and equity		**1,228,356,004**	1,282,334,857

These interim consolidated financial statements appearing on pages (1) to (18) were approved by the Board of Directors on 21 Rabi Al'Thani 1438H, corresponding to 19 January 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 14 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 TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2016
(Expressed in Saudi Riyals)

		Three months period ended 31 December		**Twelve months period ended 31 December**	
	Notes	**2016 Unaudited**	2015 Unaudited	**2016 Unaudited**	2015 Audited
Sales	12	**159,089,398**	143,548,620	**627,390,007**	852,088,326
Cost of sales	12	**(156,807,797)**	(132,002,891)	**(568,004,989)**	(756,313,607)
Gross profit	12	**2,281,601**	11,545,729	**59,385,018**	95,774,719
Selling and marketing expenses		**(4,902,933)**	(6,172,018)	**(22,798,804)**	(24,096,969)
General and administrative expenses		**(9,501,174)**	(6,481,479)	**(32,320,302)**	(30,594,635)
Operating (loss) / income		**(12,122,506)**	(1,107,768)	**4,265,912**	41,083,115
Impairment loss on investment in associates	5	**(34,978,676)**	-	**(34,978,676)**	-
Finance charges		**(2,591,058)**	(1,806,119)	**(10,139,326)**	(6,942,223)
Other expenses, net	6	**(6,848,652)**	(304,477)	**(9,593,528)**	(2,193,138)
Share of (loss) / income from associates	5	**(9,014,317)**	1,914,379	**4,614,137**	(2,077,484)
Net (loss) / income for the period		**(65,555,209)**	(1,303,985)	**(45,831,481)**	29,870,270
Net (loss) / income attributable to:					
Equity shareholders		**(65,555,209)**	(1,303,985)	**(45,831,481)**	33,381,718
Non-controlling interest (loss)		**-**	-	**-**	(3,511,448)
		(65,555,209)	(1,303,985)	**(45,831,481)**	29,870,270
(Loss) / earnings per share from net (loss) / income:					
Basic	11	**(1.298)**	(0.026)	**(0.907)**	0.661
Diluted	11	**(1.285)**	(0.025)	**(0.899)**	0.655
(Loss) / earnings per share from operating (loss) / income:					
Basic	11	**(0.240)**	(0.022)	**0.084**	0.868
Diluted	11	**(0.238)**	(0.021)	**0.083**	0.860

The accompanying notes 1 through 14 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 TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2016
(Expressed in Saudi Riyals)

		Twelve months period ended 31 December	
	Notes	2016 Unaudited	2015 Audited
Cash flows from operating activities:			
Net (loss) / income for the period		**(45,831,481)**	29,870,270
Adjustments to reconcile net (loss) / income to net cash provided by operating activities:			
Depreciation	6	**41,756,644**	36,885,768
Amortization		**2,770,127**	2,835,129
Intangible assets – written off		**1,716,033**	-
(Gain) / loss on sale of property, plant and equipment		**(58,400)**	11,250
Property, plant and equipment – written off	6	**8,506,141**	1,019,345
Employees' end of service benefits charged during the period		**5,449,546**	5,674,039
Impairment of investment in associates		**34,978,676**	-
Share of (profits) / loss in associates		**(4,614,137)**	2,077,484
Provision for doubtful debts		**1,315,020**	1,603,623
Inventories – written down	4	**2,230,299**	-
Provision for inventories	4	**6,863,371**	7,100,000
Finance charges		**10,139,326**	6,942,223
Share based expenses - (Employee Share Ownership Program)		**-**	1,726,650
		65,221,165	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		**372,061**	(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		**2,090,724**	(1,787,220)
Deposits with banks		**-**	3,500,000
		99,143,550	184,299,838
Employees end of service benefits paid		**(6,270,197)**	(4,867,744)
Zakat and income tax paid during the period		**(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:			
Purchases of property, plant and equipment	6	**(10,219,401)**	(14,101,521)
Proceeds from sale of property, plant and equipment		**117,000**	30,000
Additions to capital work in progress	7	**(18,751,959)**	(43,990,628)
Investment in an associate	5	**(8,000,000)**	-
Loan to an associate	5	**(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		**71,252,465**	2,051,160
Long-term loans receipts		**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		**(10,683,901)**	(100,202,361)
Net change in cash and cash equivalents		**11,310,124**	553,625
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		**17,322,519**	6,012,395

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (CONTINUED)
FOR THE TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2016
(Expressed in Saudi Riyals)

	Notes	Twelve months period ended 31 December	
Non-cash supplemental information:		**2016 Unaudited**	2015 Audited
Transfer of capital work in progress to property, plant and equipment	6	**69,565,968**	89,104,715
Reversal of 2015 remuneration to Board of Directors	1	**1,200,000**	-
Reclassification of capital spare parts	6 & 7	**6,957,124**	-
Borrowing cost capitalized relating to SIDF loan	7	**4,622,229**	-

The accompanying notes 1 through 14 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 TWELVE MONTHS PERIOD 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 2016 (audited)	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 twelve months period ended 31 December 2016	-	-	-	-	**(45,831,481)**	**(45,831,481)**	-	**(45,831,481)**
Provision for Zakat and income tax	-	-	-	-	**(4,706,419)**	**(4,706,419)**	-	**(4,706,419)**
Board of Directors remuneration for 2016	-	-	-	-	**(600,000)**	**(600,000)**	-	**(600,000)**
Reversal of Board of Directors 2015 remuneration (Note 1)	-	-	-	-	**1,200,000**	**1,200,000**	-	**1,200,000**
Balance as at 31 December 2016	**510,000,000**	**218,828,409**	**58,494,224**	**(12,010,100)**	**(48,517,829)**	**726,794,704**	-	**726,794,704**
Balance as at 1 January 2015 (audited)	510,000,000	218,828,409	55,156,052	(11,842,600)	30,919,709	803,061,570	3,511,448	806,573,018
Net income for the year ended 31 December 2015	-	-	-	-	33,381,718	33,381,718	(3,511,448)	29,870,270
Provision for Zakat and income tax	-	-	-	-	(7,178,184)	(7,178,184)	-	(7,178,184)
Transfer to statutory reserve	-	-	3,338,172	-	(3,338,172)	-	-	-
Board of Directors remuneration	-	-	-	-	(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	-	-	-
Share 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

The accompanying notes 1 through 14 form an integral part of these interim 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 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 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%**

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 31 December	
			2016	2015
Titanium and Steel Manufacturing Company Limited "TSM Arabia"	Saudi Arabia	Limited liability	100%	100%

1 ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

On 23 February 2016, Board of Directors has voluntarily waived a portion of their remuneration amounting to SR 1,200,000, which were accrued for the year ended 31 December 2015 in order to support the financial position of the Group. Also, the Board of Directors has approved remuneration of SR 600,000 during the period ended 31 December 2016.

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

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 previously owned 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 progress as at 31 December 2016.

As at 31 December 2016, the accumulated losses of TSM Arabia exceeded its share capital by SR 24.1 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 the Saudi Steel Pipes Company has passed a resolution on 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. Accordingly, the subsidiary prepares its financial statements on the going concern basis.

2 BASIS OF PREPARATION

a) Statement of compliance

These 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 consolidated 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 Group'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 and cash flows as will be reported in annual audited consolidated financial statements for the year ended 31 December 2016.

2 BASIS OF PREPARATION (Continued)

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgments

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 judgments and estimates of assumptions are prepared in the light of the most recent and relevant information available to management. Actual results may differ from these estimates.

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

Note 5	- Impairment for investment in associates, based on the recoverable amount of the investment and related assumptions including discount rate, terminal value and growth rate.
Note 6	- Estimated useful lives and residual values of property, plant and equipment.
Note 8	- Provision for Zakat and Income tax.

During the period, 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 period and onwards. Had there been no change in estimate, depreciation charge to interim consolidated statement of income for the twelve months period ended would have been lower by SR 2.3 million and the carrying value of these assets would have been higher by the same amount.

3 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

These interim consolidated financial statements include the financial statements of the Company and its subsidiary set forth in Note 1. Subsidiaries are entities controlled by the Company. Control exists when the Company 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 interim 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 interim consolidated financial statements. In addition, any unrealized gains and losses arising from transactions between the Company and its Subsidiary are eliminated on consolidation.

Cash at banks and on hand

Cash at banks and on hand mainly include cash on hand and current account with banks. The interim statement of cash flow has been prepared using the indirect method.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Accounts receivable are carried at original amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is a significant doubt that the Company will not be able to collect any of the amounts due according to the original terms of the invoice. Such provision is charged to the interim consolidated statement of income and reported. When accounts receivable are uncollectible, they are written-off against the provision for doubtful accounts. Any subsequent recoveries of amounts previously written-off are credited against "other revenues" in the interim consolidated statement of income.

Inventories

Inventories are valued at the lower of cost or 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.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Investments in associates

Associates are those entities in which the Company has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 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 Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The interim consolidated financial statements include the Company'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 Company's share of losses exceeds its interest in an associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate. The Company's share of profits or losses of the investee companies is credited or charged to the interim 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. 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 the items of spare parts to be kept on hand to ensure uninterrupted operations of production machinery and equipment.

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

Depreciation is charged to the 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 Asset	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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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's item being disposed and is recognized net within "other income" in the interim consolidated Statement of Income.

Capital work in progress

Capital work in progress represents the accumulated costs incurred by the Company 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 then these expenses are transferred to property, plant and equipment when the construction of these facilities are completed. 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

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 profit or loss.

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

The carrying amounts of non-financial assets of the Company, are reviewed at the date of the financial statements to ascertain whether there is an event or changes in circumstances indicating that the carrying amount of an asset exceeds its recoverable amount.

When such indicator exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. The impairment calculated as the difference between the carrying amount and estimated recoverable amount, discounted using the effective interest rate.

A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)
Non- financial assets (continued)
Impairment losses are recognized in respect of cash- generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

Impairment losses in respect of other intangible assets in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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 who are in service at the time of the initial public offering of the Company's stocks. 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 interim consolidated financial statements are presented in Saudi Riyals, which is the functional currency of the Company. 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 interim 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 interim 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 when 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from sales is recognized upon delivery or shipment of products to customers and it is recorded net of returns, trade discounts and volume rebates.

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- There is sufficient expectation that economic benefits will flow to the Company; and
- It is probable that the costs that are charged or will be charged to the Company with the transaction can be accurately determined.

Other revenues are recognized according to the accrual basis.

Expenses

Selling, markting, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting standards. Allocations between cost of revenue and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

Segmental reporting

A segment is a distinguishable component of the Company that is engaged in providing products, services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

Basic and diluted 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. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the interim consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

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 and income tax are charged to interim consolidated statement of changes in equity.

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.

(Expressed in Saudi Riyals)

4 INVENTORIES

	2016 Unaudited	2015 Audited
Raw materials	**83,209,242**	138,469,420
Finished goods and by-products	**75,716,664**	59,757,239
Spare parts and supplies	**34,071,400**	45,278,575
Work in-process	**27,429,226**	35,238,516
Materials in-transit	**10,732,983**	6,040,622
	231,159,515	284,784,372
Less: Provision for obsolete and slow moving inventories	**(6,863,371)**	(5,600,000)
	224,296,144	279,184,372

The movement in provision for slow moving inventories for the twelve months period ended December 31 is as follows:

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

4.1 During the period, inventories amounting to SR 2.2 million (31 December 2015: nil) were written down on account of net realizable value adjustment.

5 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 period	**12,663,107**	**(8,048,970)**	**4,614,137**	(11,807)	(2,065,677)	(2,077,484)
Net investment value	**84,612,993**	**23,620,819**	**108,233,812**	54,449,886	58,648,465	113,098,351

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 included a premium of SR 1,250,000. The Company recognized its share of profit in GPC of SR 12.6 million for the period ended 31 December 2016 (31 December 2015: share of loss of SR 0.01 million) representing 35% of GPC net profit of SR 36.1 million recognized for the period then ended (31 December 2015: net loss of SR 0.03 million).

5 INVESTMENT IN ASSOCIATES (continued)

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 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 8.05 million (31 December 2015: SR 2.06 million) for the period ended 31 December 2016 representing 20% of CDC estimated net loss of SR 40.25 million incurred during the period then ended (31 December 2015: loss of SR 10.3 million).

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

Based on the management assessment, the Group has recorded impairment of SR 34.9 million during the period based on a detailed impairment study. This impairment will be closely monitored and reviewed in future years and the estimates for recoverability / future decline of the investment will be re-assessed.

(Expressed in Saudi Riyals)

6 PROPERTY, PLANT AND EQUIPMENT

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

	Land	Machinery and equipment	Building and structures	Vehicles	Furniture and fixtures	Office and electrical equipment	Total
Cost							
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
Reclassification of capital spares	-	**5,844,810**	-	-	-	-	**5,844,810**
Additions during the period	-	**7,588,976**	**644,013**	**503,500**	**144,878**	**1,338,034**	**10,219,401**
Transfers from capital work in progress (Note 7)	-	**53,520,580**	**15,441,343**	-	**516,500**	**87,545**	**69,565,968**
Disposals	-	-	-	**(586,000)**	-	-	**(586,000)**
Write offs	-	**(52,971,613)**	**(564,523)**	-	-	-	**(53,536,136)**
Balance at 31 December 2016	**157,850,000**	**483,588,637**	**176,352,262**	**5,844,925**	**5,916,024**	**24,409,363**	**853,961,211**
Accumulated Depreciation							
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	-	**31,078,804**	**6,745,188**	**820,931**	**762,324**	**2,349,397**	**41,756,644**
Disposals	-	-	-	**(527,400)**	-	-	**(527,400)**
Write offs	-	**(44,712,218)**	**(317,777)**	-	-	-	**(45,029,995)**
Balance at 31 December 2016	**-**	**223,533,338**	**70,608,285**	**4,081,590**	**4,008,516**	**19,648,558**	**321,880,287**
Net Book Value							
At 31 December 2016 (Unaudited)	**157,850,000**	**260,055,299**	**105,743,977**	**1,763,335**	**1,907,508**	**4,760,805**	**532,080,924**
At 31 December 2015 (Audited)	157,850,000	232,439,132 `	96,650,555	2,139,366	2,008,454	5,684,623	496,772,130

During the period, management conducted an exercise for identification of capital spare parts that will be used with machinery and equipment which resulted in capital spares of SR 5.8 million being identified as capital spare parts and were accordingly reclassified from inventories to machinery and equipment. In addition, the machinery and equipment having carrying amount of 8.5 million (2015: 1.01 SR million) were written off during the period as there were no future economic benefits for these assets and is recorded under other expenses in the interim consolidated statement of income.

(Expressed in Saudi Riyals)

7 CAPITAL WORK IN PROGRESS

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

	Balance at 1 January 2016 (Audited)	**Additions * (Unaudited)**	**Transferred to property, plant & equipment (Unaudited)**	**Balance at 31 December 2016 (Unaudited)**
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 twelve months period ended 31 December 2016 (2015: SR 1,022,904) and capital spares reclassified amounting to SAR 1,112,314 (2015: SR nil).

8 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. No assessments for the Company or subsidiary have been initiated by GAZT for prior years to date.

9 LONG TERM LOANS

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

	2016 Unaudited	2015 Audited
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 interim consolidated balance sheet as follows:

	2016 Unaudited	2015 Audited
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

The term loan agreements contain covenants requiring maintenance of certain financial ratios among other covenants. As at 31 December 2016, the subsidiary is non-compliant with certain covenants. Consequently, in accordance with the terms of the loan agreements, the Group has 30 days from the date of non-compliance to take necessary actions to remedy the covenants breach. Management is actively pursuing remedial actions including negotiations with the banks and is confident that covenant breach will be remedied before expiry of 30 days period.

(Expressed in Saudi Riyals)

10 COMMITMENTS AND CONTINGENCIES

	2016 Un-audited	2015 Audited
Letters of credit	-	15,735,662
Letters of guarantee *	**102,014,353**	148,149,743
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.

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 640.2 million as at 31 December 2016 (31 December 2015: SR 452.2 million).

11 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 (ESOP) and conversion of treasury shares into ordinary shares.

Basic earnings per share	**2016 Unaudited**	2015 Audited
Net (loss) / income for the period	**(45,831,481)**	33,381,718
Operating income for the period	**4,265,912**	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	**(0.907)**	0.661
Basic earnings per share from operating income	**0.084**	0.868
Diluted earnings per share		
Weighted average number of outstanding shares	**51,000,000**	51,000,000
Diluted (loss) / earnings per share from net income	**(0.899)**	0.655
Diluted earnings per share from operating income	**0.083**	0.860

(Expressed in Saudi Riyals)

12 SEGMENTAL REPORTING

The management of the Group views the business activities of the Group as mainly one operating segment for performance assessment and resources allocation as the principal activities of the Group is pipe manufacturing.

Because the management views the entire business activities of the Group as one segment, segment reporting is provided by geographical segments only. The Group 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	**562,298,270**	**65,091,737**	**627,390,007**
Cost of sales	**(515,335,465)**	**(52,669,524)**	**(568,004,989)**
Gross profit	**46,962,805**	**12,422,213**	**59,385,018**
Gross profit percentage	**8.4%**	**19.1%**	**9.5%**

2015 (Audited)	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%

13 RECLASSIFICATIONS

Certain reclassifications have been made in these interim consolidated financial statements to conform with the current period's presentation.

14 APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements were authorized for issue by the Board of Directors on 21 Rabi Al-Thani 1438H corresponding to 19 January 2017G.