SAUDI STEEL PIPES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015
Toghether With
INDEPENDENT AUDITOR'S REPORT

SAUDI STEEL PIPES COMAPNY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

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INDEPENDENT AUDITORS' REPORT

The Shareholders
Saudi Steel Pipes Company
A Saudi Joint Stock Company
Dammam, Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of Saudi Steel Pipes Company (the "Company") which comprise the consolidated balance sheet as at 31 December 2015 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (35) which form an integral part of the consolidated financial statements.

Management's responsibility for the 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 article 123 of the Regulations for Companies and the Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of 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 financial statements.

Auditors' responsibility

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 consolidated 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 consolidated 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 consolidated 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 Company as at December 31, 2015, and the results of its 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 Company; and

2) Comply with the requirements of the Regulations for Companies and the Company's bylaws with respect to the preparation and presentation of the financial statements.

Emphasis of a matter

We draw attention to notes 1 and 34 to the consolidated financial statements; the accumulated losses of the 70% owned Company's subsidiary (herein after referred to as "TSM Arabia" or the "Subsidiary") exceeded the Subsidiary's share capital by SR 10.6 million. the Company' board of directors confirmed the continuation of TSM Arabia operations and to provide the financial support to the Subsidiary when needed. Further, On 22 February 2016, the Company has signed an agreement with the non-controlling shareholder of the Subsidiary to acquire the remaining ownership interest in TSM Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

Al Khobar, 23 February 2016
Corresponding to: 14 Jumada I 1437H

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	Note	2015	2014
ASSETS			
Current assets			
Cash at banks and on hand	4	**6,012,395**	5,458,770
Deposits with banks	5	**13,000,000**	16,500,000
Accounts receivable, net	6	**88,644,731**	94,327,506
Due from related parties	7	**5,288,019**	6,902,902
Inventories	8	**279,184,372**	403,549,527
Prepayments and other assets	9	**16,270,846**	14,743,384
Total current assets		**408,400,363**	541,482,089
Non-current assets			
Investments in associates	14	**86,848,351**	88,925,835
Prepayments and other assets	9	**12,853,438**	11,315,970
Loan to an associate	13	**26,250,000**	26,250,000
Intangible assets	12	**13,345,992**	16,181,121
Property, plant and equipment	10	**496,772,130**	431,512,257
Constructions under progress	11	**237,864,583**	282,978,670
Total non-current assets		**873,934,494**	857,163,853
Total assets		**1,282,334,857**	1,398,645,942
LIABILITIES			
Current liabilities			
Accounts payable		**110,975,690**	143,176,387
Accrued expenses and other liabilities	15	**18,776,714**	17,304,784
Due to related parties	7	**4,004,951**	4,857,237
Provision for Zakat and Income Tax	16	**9,861,030**	16,354,582
Bank overdraft	17	**1,443,987**	210,946
Short-term loan	18	**33,645,723**	32,827,604
Current portion of long-term loans	19	**93,530,651**	78,270,244
Total current liabilities		**272,238,746**	293,001,784
Non-current liabilities			
Long-term loans	19	**184,851,853**	251,365,781
Employees' end of service benefits	20	**48,511,654**	47,705,359
Total non-current liabilities		**233,363,507**	299,071,140
Total liabilities		**505,602,253**	592,072,924
SHAREHOLDERS' EQUITY			
Share capital	1	**510,000,000**	510,000,000
Share premium	1	**218,828,409**	218,828,409
Statutory reserve	21	**58,494,224**	55,156,052
Treasury shares (employee share ownership program)	22	**(12,010,100)**	(11,842,600)
Retained earnings	31	**1,420,071**	30,919,709
Equity attributable to shareholders of the Company		**776,732,604**	803,061,570
Non-controlling interest	32	-	3,511,448
Total shareholders' equity		776,732,604	806,573,018
Total liabilities and shareholders' equity		1,282,334,857	1,398,645,942

The accompanying notes 1 through 35 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 2015
(Expressed in Saudi Riyals)

	Note	2015	2014
Sales	*30*	**852,088,326**	857,993,624
Cost of sales	*30*	**(756,313,607)**	(760,744,154)
Gross profit		**95,774,719**	97,249,470
Selling and marketing expenses	*23*	**(24,096,969)**	(21,473,262)
General and administrative expenses	*24*	**(30,594,635)**	(28,495,629)
Operating income		**41,083,115**	47,280,579
Financial charges	*25*	**(6,942,223)**	(5,115,622)
Other (expenses) / income, net	*26*	**(2,193,138)**	121,521
Share of net loss in investment in an associate	*14*	**(2,077,484)**	(17,171,571)
Net income for the year		**29,870,270**	25,114,907
Net income attributable to:			
Shareholders of the Company		**33,381,718**	31,203,459
Non-controlling interests	*32*	**(3,511,448)**	(6,088,552)
Net income for the year		**29,870,270**	25,114,907
Earnings per share from net income			
Basic	*29*	**0.661**	0.618
Diluted	*29*	**0.655**	0.612
Earnings per share from operating income:			
Basic	*29*	**0.929**	1.047
Diluted	*29*	**0.921**	1.037

The accompanying notes 1 through 35 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 2015
(Expressed in Saudi Riyals)

	Note	2015	2014
Cash flows from operating activities:			
Net income for the year		**29,870,270**	25,114,907
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	10	**36,885,768**	29,605,666
Amortization	12	**2,835,129**	2,690,486
Loss/(gains) from sale of property, plant and equipment		**11,250**	(44,256)
Impairment of inventories		**7,100,000**	--
Provision for doubtful debts		**1,603,623**	--
Property, plant and equipment written off		**1,019,345**	--
Employees' end of service benefits charged during the year	20	**5,674,039**	10,740,418
Company's share of losses in associates, net	14	**2,077,484**	17,171,571
Share based expenses - (employee share ownership program)		**1,726,650**	1,513,650
		88,803,558	86,792,442
Changes in operating assets and liabilities:			
Accounts receivable		**4,079,152**	61,325,585
Related party balances, net		**762,597**	4,617,243
Inventories		**117,265,155**	(122,049,737)
Prepayments and other assets		**(3,064,930)**	6,051,844
Accounts payable		**(32,200,697)**	87,526,103
Accrued and other liabilities		**(1,787,220)**	(7,483,348)
Zakat and income tax paid		**(13,671,736)**	(13,612,378)
		160,185,879	103,167,754
Employees end of service benefits paid		**(4,867,744)**	(1,173,115)
Net cash provided by operating activities		**155,318,135**	101,994,639
Cash flows from investing activities			
Purchase of property, plant and equipment	10	**(14,101,521)**	(19,706,800)
Proceeds from sale of property, plant and equipment		**30,000**	323,592
Net change in deposit with bank		**3,500,000**	-
Additions to intangible assets	12	-	(424,125)
Additions to constructions under progress	11	**(43,990,628)**	(61,174,809)
Net cash used in investing activities		**(54,562,149)**	(80,982,142)
Cash flows from financing activities:			
Bank overdraft		**1,233,041**	210,946
Proceeds from loans during the year		**61,159,723**	118,209,780
Repayments of loans during the year		**(111,595,125)**	(171,097,591)
Dividends paid		**(51,000,000)**	-
Net cash provided by financing activities		**(100,202,361)**	(52,676,865)
Net change in cash and cash equivalents		**553,625**	(31,664,368)
Cash and cash equivalents at the beginning of the year		**5,458,770**	37,123,138
Cash and cash equivalents at the end of the year	4	**6,012,395**	5,458,770
Supplemental schedule of non-cash information:			
Transfer of constructions under progress to property, plant and equipment		**89,104,715**	38,561,965

The accompanying notes 1 through 35 form an integral part of these consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	Equity attributable to shareholders of the Company							
	Share capital	**Share premium**	**Statutory reserve**	**Treasury shares (Employee share ownership program)**	**Retained earnings (note 31)**	**Total**	**Non-con-trolling interests (note 32)**	**Total equity**
Balance as at 31 December 2013	510,000,000	218,828,409	52,035,706	(13,356,250)	17,199,372	784,707,237	9,600,000	794,307,237
Net income for the year ended 31 December 2014	-	-	-	-	31,203,459	31,203,459	(6,088,552)	25,114,907
Board of directors bonus	-	-	-	-	(1,800,000)	(1,800,000)	-	(1,800,000)
Transfer to statutory reserve	-	-	3,120,346	-	(3,120,346)	-	-	-
Provision for zakat and income tax	-	-	-	-	(12,562,776)	(12,562,776)	-	(12,562,776)
Share issued to employees	-	-	-	1,513,650	-	1,513,650	-	1,513,650
Balance as at 31 December 2014	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**
Transfer to statutory reserve	-	-	**3,338,172**	-	**(3,338,172)**	-	-	-
Dividends distributed	-	-	-	-	**(51,000,000)**	**(51,000,000)**	-	**(51,000,000)**
Board of directors bonus	-	-	-	-	**(1,800,000)**	**(1,800,000)**	-	**(1,800,000)**
Provision for zakat and income tax	-	-	-	-	**(7,178,184)**	**(7,178,184)**	-	**(7,178,184)**
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 35 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 originally
incorporated as limited liability Company registered under the Commercial Registration Number 9144 dated 27 Rajab 1400H (10 June 1980G) in the City of Dammam, Kingdom of Saudi Arabia.

In 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) by capitalizing the company's retained earnings and were effective from the issuance of Ministerial Resolution No. F-187 on 3 Jumada Al-Thani 1429H (7 June 2008G) and amended Commercial Registration No. 9144 dated 14 Jumada Al-Thani1429H (18 June 2008G).

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

On 27 June 2009, the Company offered to the public 16,000,000 new shares to increase its capital by 31.4% of the total share capital outstanding at that time at an initial public offering of SR 25 per share with a nominal value of SR 10 per share resulted in share premium amounted to SR 218,828,409. The Company's authorized and issued share after the initial public offering is 51 million shares at SR 10 per share held by the following shareholders as at 31 December 2015:

Shareholders	Nationality	Number of Shares	Share Capital	Percentage Owned
Rabiah & Nassar Group	Saudi	20,403,075	204,030,750	40.01%
Hu Steel Co. Ltd.	South Korean	8,350,650	83,506,500	16.37%
Khalid Saleh Abdul Rahman Al Shathri	Saudi	5,277,295	52,772,950	10.35%
Al-Khorayef Sons Co.	Saudi	1,195,000	11,950,000	2.34%
Fahad Mohammed Saja	Saudi	1,391,775	13,917,750	2.73%
Ahmed Mubarak Al-Debasi	Saudi	391,000	3,910,000	0.77%
Employee Share Program	Saudi/Non Saudi	478,004	4,780,040	0.94%
Public Free Float	Saudi/Non Saudi	13,513,201	135,132,010	26.49%
Total		**51,000,000**	**510,000,000**	**100%**

Titanium and Steel Manufacturing Company Limited (referred hereinafter as the "Subsidiary" or "TSM Arabia") (the Company and its subsidiary herein after are referred to collectively as the "Group") was formed in 2010 to produce stationary process equipment such as heat exchangers and pressure vessels. The Subsidiary's total share capital is SR 32 million of which Saudi Steel Pipes owns 70%. The remaining 30% is owned by TSM Tech Company, a South Korean company registered in Ulsan City, South Korea. Civil works of TSM Arabia started in the first quarter of 2012 and the commercial production started on the first quarter of year 2014.

As of 31 December 2015, the accumulated losses of Company's Subsidiary "Titanium and Steel Manufacturing Company Limited" exceeded the Subsidiary's share capital by SR 10.6 million.

1 ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

The Board of Directors of the Company has passed a resolution on 18 January 2016 confirming the continuation of TSM Arabia's business and providing the sufficient financial support to enable TSM Arabia to meet its financial obligations as when they fall due.

Based on the group management's preliminary business plan for TSM Arabia, they believe that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operation in the future. Consequently, excess loss of SR 3 million was assumed by the Company over its share in TSM Arabia's current year net loss. Subsequent to the reporting date , the Company has signed an agreement with the non-controlling shareholder of the Subsidiary to acquire the remaining ownership interest in TSM Arabia (also refer to note 34).

2 BASIS OF PREPARATION

a) Statement of compliance

These 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 the financial statements.

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgments

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although estimates and judgments are made applying the best information currently available to management, actual results may eventually 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 consolidated financial statements are described in the following notes:

Note 10 - Estimated useful lives of property, plant and equipment
Note 16 - Provision for Zakat and Income Tax
Note 20 - Provision for employees' end of service benefits
Note 33 - Financial instruments.

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 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 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 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.

3.2 Cash at banks and on hand

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

3.3 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 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 consolidated statement of income.

3.4 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.

3.5 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 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 consolidated Statement of Income.

3.6 Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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

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 statement of income.

3.7 Construction under progress

Constructions under 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 construction under 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.

3.8 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. The pre-operating costs related to the Company's subsidiary set forth in Note (1).

3.9 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.

3 **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Non- financial assets

The carrying amounts of non-financial assets of the Company, except inventories, assets held for sale and assets resulting from construction contracts, if any, 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.

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.

3.10 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.

3.11 Foreign currency translation

The 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 statement of income.

3.12 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.

3.13 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.

3.14 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3.15 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.

3.16 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.

3.17 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. Because the management views the whole activities of the Company as one operating segment, reporting is provided by geographical segments only.

3.18 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 year. 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.

3.19 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

3.20 Zakat and income tax

The Company and its subsidiaries are subject to Zakat and income-tax in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Zakat and income tax are charged to consolidated statement of shareholders 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 CASH AT BANKS AND ON HAND

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

	2015	2014
Cash at banks	**5,700,395**	5,066,770
Cash on hand	**312,000**	392,000
	6,012,395	5,458,770

5 DEPOSITS WITH BANKS

Deposits with banks as at 31 December are as follows:

	2015	2014
Deposits with banks*	**13,000,000**	16,500,000

* These deposits with banks represent interest free deposits which are kept with local banks for the purpose of providing the Company's customers with interest free credit to buy Company products (note 28). These customers are granted the same prices charged to cash customers. The Customers are evaluated and chosen by the bank. These deposits are collectable on demand.

6 ACCOUNTS RECEIVABLE, NET

Accounts receivable, net as at 31 December are as follows:

	2015	2014
Accounts receivable	**88,716,900**	94,479,300
Less: Impairment loss for doubtful debts	**(72,169)**	(151,794)
	88,644,731	94,327,506

The movement on the Impairment loss for doubtful debts is as follows:

	2015	2014
Beginning of the year	**151,794**	151,794
Impairment during the year	**1,603,623**	-
Doubtful debts written off	**(1,683,248)**	-
	72,169	151,794

7 RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its business, the Company deals with its related parties, which include shareholders, affiliate companies and other entities. These transactions are dealt with on agreed terms, these terms and conditions of such transactions are approved by the Company's management. The significant related parties are listed as follows:

Name of entity	Relationship
Rabiah & Nassar Group	Shareholder
Al – Khorayef Sons Co.	Shareholder
Saudi Pan Gulf – Fahad Mohammed Saja	Shareholder
Hu Steel Co., Ltd.	Shareholder
Global Pipes 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 Company had the following significant transactions with its related parties.

Related Party	Nature of transactions	2015	2014
Rabiah & Nassar Group	Sales	**7,029,141**	7,930,139
AL-Khorayef Sons Company	Sales	**588,800**	1,908,341
	Purchases	**313,825**	3,913,976
Saudi Pan Gulf Company	Sales	**13,062,350**	14,507,182
	Purchases	**1,500,968**	881,412
Hu Steel Company, Ltd.	Service rendered	**299,404**	-
TSM Tech. Korea	Sales	-	455,132
	Purchases and services rendered	-	4,901,418

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

7.1) Due from related parties

	2015	2014
Saudi Pan Gulf - Fahad Mohammed Saja	**3,730,397**	4,164,497
Rabiah & Nassar Group	**1,433,767**	2,047,185
TSM Tech. Korea	**123,855**	-
Al-Khorayef Sons Co.	-	691,220
	5,288,019	6,902,902

7.2) Due to related parties

	2015	2014
TSM Tech Korea	**3,855,251**	3,855,251
AL-Khorayef Sons Company	-	887,890
Hu Steel Company Ltd.	**149,700**	114,096
	4,004,951	4,857,237

8 INVENTORIES

Inventories as at 31 December comprise of the following:

	2015	2014
Materials	**138,469,420**	249,600,644
Finished goods and by-products	**59,757,239**	82,912,808
Spare parts and supplies	**45,278,575**	41,589,510
Work in-process	**35,238,516**	23,632,427
Materials in-transit	**6,040,622**	5,814,138
	284,784,372	403,549,527
Less: Provision for slow moving items	**(5,600,000)**	-
	279,184,372	403,549,527

The movement on the provision for slow moving inventory is as follows:

	2015	2014
Beginning of the year	-	-
Provision for the year	**7,100,000**	-
Provision utilized during the year	**(1,500,000)**	-
	5,600,000	-

(Expressed in Saudi Riyals)

9 PREPAYMENTS AND OTHER ASSETS

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

	2015	2014
Employee loans*	**20,394,372**	18,483,418
Advance payments	**5,896,962**	5,507,766
Prepaid expenses	**2,444,158**	1,653,889
Others	**388,792**	414,281
	29,124,284	26,059,354
Presented in the balances sheet as follows:		
Current portion shown under current assets	**16,270,846**	14,743,384
Non-current portion shown under non-current assets	**12,853,438**	11,315,970
	29,124,284	26,059,354

*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.

(Expressed in Saudi Riyals)

10 PROPERTY, PLANT AND EQUIPMENT

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

	Land	Machinery & equipment	Building & structures	Vehicles	Furniture & fixtures	Office & electrical equipment	Total
Cost							
Balance at 1 January 2015	157,850,000	396,554,840	141,167,060	5,153,425	4,476,846	21,110,449	726,312,620
Additions	-	8,695,658	1,925,728	829,000	777,800	1,873,335	14,101,521
Transfers from constructions under progress	-	71,059,674	18,045,041	-	-	-	89,104,715
Disposals	-	-	-	(55,000)	-	-	(55,000)
Write-off	-	(6,704,288)	(306,400)	-	-	-	(7,010,688)
Balance at 31 December 2015	**157,850,000**	**469,605,884**	**160,831,429**	**5,927,425**	**5,254,646**	**22,983,784**	**822,453,168**
Accumulated depreciation							
Balance at 1 January 2015	-	215,836,335	58,267,211	3,012,811	2,593,747	15,090,259	294,800,363
Charge for the year	-	27,147,340	6,088,083	788,998	652,445	2,208,902	36,885,768
Disposals	-	-	-	(13,750)	-	-	(13,750)
Write-off	-	(5,816,923)	(174,420)	-	-	-	(5,991,343)
Balance at 31 December 2015	-	**237,166,752**	**64,180,874**	**3,788,059**	**3,246,192**	**17,299,161**	**325,681,038**
Carrying amount							
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**
At 31 December 2014	157,850,000	180,718,505	82,899,849	2,140,614	1,883,099	6,020,190	431,512,257

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

	2015	2014
Cost of sales	**34,422,560**	26,991,545
General and administrative expenses (Note 24)	**2,463,208**	2,614,121
	36,885,768	29,605,666

(Expressed in Saudi Riyals)

11 CONSTRUCTIONS UNDER PROGRESS

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

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

Construction under progress includes capitalized finance costs amounting to SR 1,022,904 for the year ended 31 December 2015 (2014: SR 2,733,572).

12 INTANGIBLE ASSETS

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

	2015	2014
Cost		
Balance at the beginning of the year	**16,181,121**	18,447,482
Additions during the year	-	424,125
	16,181,121	18,871,607
Amortization during the year	**(2,835,129)**	(2,690,486)
Net book value at the end of the year	**13,345,992**	16,181,121

13 LOAN TO AN ASSOCIATE

The Board of Directors has approved and thereafter extended an interest free loan to Global Pipe Company of SR 26.25 million to an associate. 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 the associate from SR 125 million to SR 200 million effected by shareholders loan at their respective ownership percentage. The equity structure of the associate following this arrangement has become SR 200 million of which SR 125 million is injected to share capital and SR 75 million as shareholders contribution in the form of loan to increase its total equity to SR 200 million.

(Expressed in Saudi Riyals)

14 INVESTMENTS IN ASSOCIATES

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

	2015			2014		
	GPC	**CDC**	**Total**	GPC	CDC	Total
Cost of acquisition	**45,000,000**	**67,950,000**	**112,950,000**	45,000,000	67,950,000	112,950,000
Accumulated share of loss from associates	**(16,800,114)**	**(9,301,535)**	**(26,101,649)**	(16,788,307)	(7,235,858)	(24,024,165)
Net investment value	**28,199,886**	**58,648,465**	**86,848,351**	28,211,693	60,714,142	88,925,835

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

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

15 ACCRUED EXPENSES AND OTHER LIABILITIES

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

	2015	2014
Retention payable	**6,875,592**	8,761,684
Advances from customers	**5,169,434**	1,229,054
Accrued expenses	**4,931,688**	5,514,046
Accrued Board of Directors bonus	**1,800,000**	1,800,000
	18,776,714	17,304,784

(Expressed in Saudi Riyals)

16 ZAKAT AND INCOME TAX

16 (a) The Saudi shareholders of the Company are subject to Zakat calculated according to regulations promulgated by the government authorities computed at 2.5% and the foreign shareholders are subject to Income Tax at a flat rate of 20% on the taxable income.

Under SOCPA Standard 11, the provision for Zakat of Saudi partners and income tax of foreign shareholders are presented as a direct charge to Retained Earnings. The corresponding liability account is presented as part of accrued expenses in the consolidated balance sheet.

16 (b) The Zakat and income tax computations are as follows:

	2015	2014
Adjusted net income	**63,802,599**	51,317,937
Resources	**1,057,293,162**	1,207,311,411
Deduction from resources	**(833,082,252)**	(767,912,015)
Zakat base	**288,013,509**	490,717,333
Zakat base for Saudi Shareholders	**240,865,698**	406,823,065
Provision for zakat @ 2.5%	**6,021,642**	10,170,577

	2015	2014
Share of foreign shareholders on adjusted net income - 16.37%	**10,444,485**	11,960,997
Income tax base	**10,444,485**	11,960,997
Provision for income tax @ 20%	**2,088,897**	2,392,199
Total provision	**8,110,539**	12,562,776

For the year ended 31 December 2015, no provision for Zakat and income Tax were provided for the Subsidiary, as the Zakat and Tax bases are negative.

16 (c) The movements of provision for zakat and income tax account for the year ended 31 December comprise of the following:

	2015	2014
Balance at the beginning of the year	**16,354,582**	17,404,184
Provision for the year	**8,110,539**	12,562,776
Prior year excess provision	**(932,355)**	-
Payments during the year	**(13,671,736)**	(13,612,378)
Balance at the end of the year	**9,861,030**	16,354,582

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

	2015	2014
Provision for the year	**8,110,539**	12,562,776
Prior year excess provision	**(932,355)**	-
Total charge	**7,178,184**	12,562,776

16 (d) The Company and its Subsidiary have filed their Zakat and Tax returns with the Department of Zakat and Income Tax (DZIT) for the years up to 2014. The Company and its Subsidiary have obtained their Zakat and Tax certificate which is valid up to 30 April 2016.

(Expressed in Saudi Riyals)

17 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 year 2015, 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 2015, the bank overdraft balance of SR 1,443,987 (2014: Nil) represents Subsediary's negative bank balances and it's not part of a bank facility.

18 SHORT TERM LOANS

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

	2015	2014
Murabaha loan	**17,866,279**	12,160,334
Letter of credit purchase finance	**-**	15,000,000
Short term loan facility	**15,779,444**	5,667,270
	33,645,723	32,827,604

19 LONG TERM LOANS

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

		2015	2014
Saudi Industrial Development Fund (SIDF), net	**(a)**	**169,611,271**	164,982,659
Bank loans	**(b)**	**108,771,233**	164,653,366
		278,382,504	329,636,025

Presented in the balance sheet as follows:

	2015	2014
Current portion shown under current liabilities	**93,530,651**	78,270,244
Non-current portion shown under non-current liabilities	**184,851,853**	251,365,781
	278,382,504	329,636,025

(a) SIDF Loan

(I) SIDF granted the Company a long-term loan to finance the expansion projects with an amount 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 is due on November 2016.

(II) In 2012, the Company applied for a new loan with SIDF amounting to SR130 million that will be specifically intended to finance its various expansions projects and was granted to the Company in the same year. The Company had received an amount of SR 61 million in year 2013 and an amount of SR 41 million in year 2014 and SR 19.8 in 2015. 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 is due on October 2015 and the last installment is due in March 2021.

(Expressed in Saudi Riyals)

19 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. At the end of the year 2014, total amount of SR 29.5 million was received, in 2015 the Subsidiary received further loan disbursement amounted to SR 7.7 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 on 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 prorata corporate guarantee issued by the Subsidiary.

(b) Bank Loans

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

The Subsidiary has credit facility agreement with the 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 for SIDF loan.

20 EMPLOYEES' END OF SERVICE BENEFITS

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

	2015	2014
Balance at the beginning of the year	**47,705,359**	38,138,056
Provision during the year	**5,674,039**	10,740,418
Payments during the year	**(4,867,744)**	(1,173,115)
Balance at the end of the year	**48,511,654**	47,705,359

21 STATUTORY RESERVE

In accordance with Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, 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, where elected by shareholders.

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 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 2015, the Company has issued 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 balance sheet as a deduction from shareholders equity and will be eliminated upon issuance to employees.

(Expressed in Saudi Riyals)

23 SELLING AND MARKETING EXPENSES

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

	2015	2014
Local transportation	**8,170,475**	8,707,199
Salaries and wages	**5,078,555**	4,657,840
Employee benefits	**4,429,326**	3,374,187
Freight charges – export	**2,497,444**	2,057,896
Advertising	**1,309,711**	1,313,911
Bad debt expenses	**1,603,623**	-
Rental	**471,667**	463,417
Sales commissions	**133,141**	161,938
Others	**403,027**	736,874
	24,096,969	21,473,262

24 GENERAL AND ADMINISTRATIVE EXPENSES

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

	2015	2014
Salaries and wages	**11,323,719**	9,083,579
Employee benefits	**7,936,270**	8,307,084
Amortization of intangible assets	**2,835,129**	2,690,486
Depreciation (Note 10)	**2,463,209**	2,614,121
Charitable contributions	**1,258,728**	822,138
Legal and professional fee	**787,203**	1,095,522
Social insurance	**777,335**	913,716
Travel	**380,713**	421,504
Others	**2,832,329**	2,547,479
	30,594,635	28,495,629

25 FINANCIAL CHARGES

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

	2015	2014
Finance charges – SIDF	**3,497,345**	2,847,912
Finance charges – Local banks	**3,444,878**	2,267,710
	6,942,223	5,115,622

26 OTHER EXPENSES, NET

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

	2015	2014
Property plant and equipment written off	**(1,019,345)**	-
Bank charges	**(1,102,998)**	(1,082,744)
Human Resource Development Fund (“HRDF”) refund	-	1,200,921
Others	**(70,795)**	3,344
	(2,193,138)	121,521

(Expressed in Saudi Riyals)

27 COMPENSATION TO KEY MANAGEMENT PERSONNEL

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

	2015	2014
Salaries and wages	**4,306,028**	3,391,780
Board of Directors' bonus	**1,800,000**	1,800,000
Allowances	**1,669,513**	1,389,602
Bonus	**791,686**	104,352
	8,567,227	6,685,734

28 COMMITMENTS AND CONTINGENCIES

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

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

The Company has entered into contracts with various parties to construct the plant expansion. As at 31 December 2015, the Company's obligations under the non cancellable contract commitments for the construction of the expansion of the plant amounted to SR 8.7 million (2014 : SR 29.6 million) which are payable within one year from the year end.

As per the Company agreement with banks, the customers of the Company are eligible to purchase the Company's products guaranteed by the Company deposit amounting to SR 13 million (2014: SR 16.5 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 (2014: SR 1.65 million) .

29 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. 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. Dilutive ordinary shares assumed that all share options that are currently exercisable are issued.

Basic earnings per share	**31 December 2015**	31 December 2014
Operating income for the year	**46,959,862**	52,882,713
Net income for the year	**33,381,718**	31,203,459
Weighted average number of outstanding shares		
Number of issued shares	**51,000,000**	51,000,000
Less: Treasury shares - shares kept for the employee share program	**(762,812)**	(735,000)
Add: Weighted average number of shares issued to employees	**284,808**	252,172
Weighted average number of outstanding shares	**50,521,996**	50,526,296
Basic earnings per share from net income	**0.661**	0.618
Basic earnings per share from operating income	**0.929**	1.047
Diluted earnings per share		
Weighted average number of outstanding shares	**51,000,000**	51,000,000
Diluted earnings per share from net income	**0.655**	0.612
Diluted earnings per share from operating income	**0.921**	1.037

(Expressed in Saudi Riyals)

30 SEGMENTAL REPORTING

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

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

2015	**Export sales**	**Local sales**	**Total**
Sales	**65,597,931**	**786,490,395**	**852,088,326**
Percentage from sales	**7.7%**	**92.3%**	**100%**
Cost of sales	**(55,074,844)**	**(701,238,763)**	**(756,313,607)**
Gross profit	**10,523,087**	**85,251,632**	**95,774,719**
Gross profit percentage of total sales	**16%**	**11%**	**11%**

2014	Export sale	Local sale	Total
Sales*	59,718,259	798,275,365	857,993,624
Percentage from sales	7%	93%	100%
Cost of sales	(47,488,005)	(713,256,149)	(760,744,154)
Gross Profit	12,230,254	85,019,216	97,249,470
Gross profit percentage of total sales	20.5%	10.7%	11.3%

Sales include an amount of Nil in the year ended 31 December 2015 (2014: SR 11,960,982) received from one of the major customer relating to a settlement.

31 RETAINED EARNINGS

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

	2015			2014		
	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	total
January 1	**25,450,423**	**5,469,286**	**30,919,709**	13,566,888	3,632,484	17,199,372
Net Income for the year	**27,915,854**	**5,465,864**	**33,381,718**	26,094,260	5,109,199	31,203,459
Board of Directors Bonus	**(1,505,271)**	**(294,729)**	**(1,800,000)**	(1,505,271)	(294,729)	(1,800,000)
Provision for Zakat and Income Tax	**(5,137,457)**	**(2,040,727)**	**(7,178,184)**	(10,096,028)	(2,466,748)	(12,562,776)
Dividends	**(42,649,350)**	**(8,350,650)**	**(51,000,000)**	-	-	-
Transfer to statutory reserve	**(2,791,585)**	**(546,587)**	**(3,338,172)**	(2,609,426)	(510,920)	(3,120,346)
Re-acquisition of shares	363,774	71,226	435,000	-	-	-
December 31	1,646,388	(226,317)	1,420,071	25,450,423	5,469,286	30,919,709

32 NON-CONTROLLING INTEREST

During the year, the Company has entered into a bargain to purchase the shares of the non-controlling shareholders in TSM Arabia.

During the year 2015, the non-controlling interest share of the loss in excess of their share of TSM Arabia capital amounted to SR 3 million was assumed by the Company over its share in TSM Arabia's current year net loss based on the company's intention to acquire the non-controlling interest share in the company (Note 1 and 34)

32 NON-CONTROLLING INTEREST (Continued)

The non-controlling interest share of the Subsidiary loss is as follows:

	2015	2014
Non-controlling interest, 1 January	**3,511,448**	9,600,000
Non-controlling interest's share of loss during the year	**(6,556,581)**	(6,088,552)
Excess loss assumed by the Company	**3,045,133**	-
31 December	**-**	3,511,448

For the year ended 31 December 2015, the total loss attributed to the non-controlling interest amounted to **SR 3,511,448** (SR 6,088,552 for the year ended 31 December 2014).

33 FINANCIAL INSTRUMENTS

Financial instruments carried on the balance sheet include cash and cash equivalents, trade and other accounts receivable, investments, trade payable, 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. The Company has no significant concentration of credit risks. Cash and cash equivalents are placed with national banks with sound banking reputation. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

Interest rate risk is the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risk arise mainly from short term bank deposits and bank debts and long term debts, which are at floating rates of interest.
Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company are not significant.

Liquidity risk is the risk that an enterprise may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to realize the 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 Company's future commitments.

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

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

34 SUBSEQUENT EVENT

Subsequent to the year ended 31 December 2015, the Company signed an agreement (the "agreement") with TSM Tech to acquire their shareholding in TSM Arabia on 22 February 2016 subject to the following conditions:

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

35 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Board of Directors on 23 February 2016.