

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

SAUDI STEEL PIPES COMAPNY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

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REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Scope of review:

We have reviewed the accompanying interim consolidated balance sheet of **Saudi Steel Pipes Company** (the "Company") as at 30 June 2016, the related interim consolidated statement of income for three months and six months periods then ended, the interim consolidated statement of cash flows and the interim consolidated statement of changes in owners' equity for the six months period then ended and the attached interim consolidated notes 1 through 11 which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

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

Conclusion:

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



Emphasis of a matter

We draw attention to Note 1 to the accompanying interim consolidated financial statements; on 22 February 2016, the Company signed an agreement with TSM Tech, the non-controlling shareholder of the Company's subsidiary "TSM Arabia" to acquire the remaining 30% shareholding in TSM Arabia and thus own 100% of the subsidiary. The legal formalities associated with the above acquisition are still in progress. As at 30 June 2016, the accompanying interim consolidated financial statements reflect 100% of the losses incurred by the subsidiary based on the aforementioned agreement to acquire the remaining 30% ownership in the subsidiary along with the Board of Directors' resolution passed on 18 January 2016 to financially support the subsidiary to meet its liabilities as and when they fall due.

For KPMG Al Fozan & Partners
Certified Public Accountants



Khalil Ibrahim Al Sedais
License No: 371

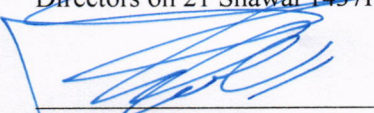
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Corresponding to: 26 July 2016G

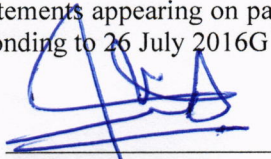
SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

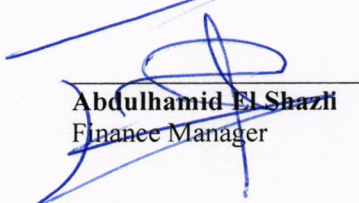
INTERIM CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2016
(Expressed in Saudi Riyals)

	Note	30/6/2016 (Unaudited)	30/6/2015 (Unaudited)
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		3,811,719	16,766,241
Deposits with banks		13,000,000	16,000,000
Accounts receivable, net		123,477,412	179,460,136
Inventories		236,729,173	279,978,416
Due from related parties		8,073,409	7,699,357
Prepayments and other current assets		16,856,037	18,519,544
Total current assets		401,947,750	518,423,694
Non-current assets			
Property, plant and equipment	4	548,663,409	506,290,338
Capital work in progress	5	181,871,232	218,531,270
Intangible assets		12,175,028	14,663,557
Prepayments and other non-current assets		14,810,435	12,312,604
Investments in associates	6	125,580,583	112,129,835
Total non-current assets		883,100,687	863,927,604
Total assets		1,285,048,437	1,382,351,298
<u>LIABILITIES</u>			
Current liabilities			
Accounts payable		73,798,538	131,129,454
Accrued expenses and other current liabilities		17,787,614	18,811,147
Due to related parties		5,109,723	3,855,245
Provision for Zakat and income tax		6,531,739	9,566,554
Short term loan		103,574,770	58,183,032
Current portion of long-term loans		84,581,976	56,999,024
Total current liabilities		291,384,360	278,544,456
Non-current liabilities			
Long-term loans		157,203,663	248,775,173
Employees' end of service benefits		47,596,368	48,111,371
Total non-current liabilities		204,800,031	296,886,544
Total liabilities		496,184,391	575,431,000
<u>OWNERS' EQUITY</u>			
Share capital		510,000,000	510,000,000
Share premium		218,828,409	218,828,409
Statutory reserve		58,494,224	55,156,052
Treasury shares (Employee Share Ownership Program)		(12,010,100)	(12,191,450)
Retained earnings		13,551,513	35,031,662
Equity attributable to owners of the Company		788,864,046	806,824,673
Non-controlling interest		-	95,625
Total owners' equity		788,864,046	806,920,298
Total liabilities and owners' equity		1,285,048,437	1,382,351,298

These interim consolidated financial statements appearing on pages (1) to (11) were approved by the Board of Directors on 21 Shawal 1437H, corresponding to 26 July 2016G and have been signed on its behalf by:


Riyadh Al Rabiah
Vice Chairman


Hisham Al Hmili
Chief Executive Officer


Abdulhamid El Shazli
Finance Manager

The accompanying notes 1 through 11 form an integral part of these interim consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016
(Expressed in Saudi Riyals)

	Note	Three month period ended 30 June		Six month period ended 30 June	
		2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Sales	10	151,346,459	279,965,198	345,689,848	528,458,131
Cost of sales	10	(134,488,336)	(241,089,903)	(299,716,214)	(460,341,644)
Gross profit	10	16,858,123	38,875,295	45,973,634	68,116,487
Selling and marketing expenses		(5,878,341)	(5,873,818)	(13,779,654)	(12,411,402)
General and administrative expenses		(7,488,602)	(8,304,919)	(15,600,976)	(16,403,040)
Operating income		3,491,180	24,696,558	16,593,004	39,302,045
Finance charges		(2,348,707)	(1,320,352)	(4,691,450)	(3,056,047)
Other expenses, net		(309,558)	(1,269,339)	(2,433,668)	(1,742,224)
Share of income / (loss) in associates	6	5,058,503	(418,000)	4,482,232	(3,046,000)
Net income for the period		5,891,418	21,688,867	13,950,118	31,457,774
Attributable to:					
Non controlling interest (loss)		-	(1,770,436)	-	(3,415,823)
Equity shareholders		5,891,418	23,459,303	13,950,118	34,873,597
		5,891,418	21,688,867	13,950,118	31,457,774
Earnings per share from net income					
Basic	9	0.116	0.464	0.276	0.690
Diluted	9	0.115	0.460	0.273	0.683
Earnings per share from operating income					
Basic	9	0.069	0.489	0.328	0.778
Diluted	9	0.068	0.484	0.325	0.770

The accompanying notes 1 through 11 form an integral part of these interim consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016**

(Expressed in Saudi Riyals)

	Note	Six month period ended 30 June	
		2016 (Unaudited)	2015 (Unaudited)
Cash flows from operating activities:			
Net income for the period		13,950,118	31,457,774
<i>Adjustments to reconcile net income to net cash (used in) / provided by operating activities:</i>			
Depreciation	4	20,311,259	18,672,863
Amortization		1,170,964	1,517,564
(Gain) / loss on sale of property, plant and equipment		(58,400)	1,030,595
Property, plant and equipment – written off		1,873,053	-
Employees' end of service benefits charged during the period		2,975,303	3,393,908
Share of (profits) / loss in associates		(4,482,232)	3,046,000
Provision for doubtful debts		681,364	1,000,000
Provision for inventories		-	1,000,000
Share based expenses - (Employee Share Ownership Program)		-	86,150
Net cash provided before changes in operating assets and liabilities		36,421,429	61,204,854
Changes in operating assets and liabilities:			
Accounts receivable		(35,514,045)	(86,132,630)
Inventories		42,455,199	122,571,108
Prepayments and other assets		(2,542,188)	(4,772,794)
Due from related parties		(2,785,390)	(796,451)
Due to related parties		1,104,772	(1,001,992)
Accounts payable		(37,177,152)	(12,046,937)
Accrued expenses and other current liabilities		810,900	1,506,366
Zakat and income tax paid during the period		(6,947,967)	(12,484,670)
Decrease in deposits with banks		-	500,000
		(4,174,442)	68,546,854
Employees end of service benefits paid		(3,890,589)	(2,987,896)
Net cash (used in) / provided by operating activities		(8,065,031)	65,558,958
Cash flows from investing activities:			
Purchases of property, plant and equipment	4	(5,084,723)	(6,222,250)
Proceeds from sale of property, plant and equipment		117,000	30,000
Additions to capital work in progress	5	(13,056,117)	(23,841,892)
Investment made in associates	6	(8,000,000)	-
Net cash used in investing activities		(26,023,840)	(30,034,142)
Cash flows from financing activities:			
Net change in short term loans		68,485,060	25,144,482
Long term loans receipts		10,078,135	-
Long term loans repayment		(46,675,000)	(23,861,827)
Dividends paid		-	(25,500,000)
Net cash provided by / (used in) financing activities		31,888,195	(24,217,345)
Net change in cash and cash equivalents		(2,200,676)	11,307,471
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		3,811,719	16,766,241
Non-cash supplemental information:			
Transfer of capital work in progress to property, plant and equipment	5	69,049,468	88,289,292

The accompanying notes 1 through 11 form an integral part of these interim consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016
(Expressed in Saudi Riyals)

	Share capital	Share premium	Statutory reserve	Treasury shares (Employee Share Ownership Program)	Retained earnings	Equity attributable to shareholders of the Company	Non-controlling interests	Total
Balance as at 1 January 2016 (audited)	510,000,000	218,828,409	58,494,224	(12,010,100)	1,420,071	776,732,604	-	776,732,604
Net income for the period ended 30 June 2016 (unaudited)	-	-	-	-	13,950,118	13,950,118	-	13,950,118
Reversal of Board of Directors bonus	-	-	-	-	1,800,000	1,800,000	-	1,800,000
Provision for Zakat and income tax	-	-	-	-	(3,618,676)	(3,618,676)	-	(3,618,676)
Balance as at 30 June 2016	510,000,000	218,828,409	58,494,224	(12,010,100)	13,551,513	788,864,046	-	788,864,046
Balance as at 1 January 2015 (audited)	510,000,000	218,828,409	55,156,052	(11,842,600)	30,919,709	803,061,570	3,511,448	806,573,018
Net income for the period ended 30 June 2015 (unaudited)	-	-	-	-	34,873,597	34,873,597	(3,415,823)	31,457,774
Provision for Zakat and income tax	-	-	-	-	(5,696,644)	(5,696,644)	-	(5,696,644)
Dividends	-	-	-	-	(25,500,000)	(25,500,000)	-	(25,500,000)
Premium on acquisition of shares	-	-	-	(435,000)	435,000	-	-	-
Share issued to employees	-	-	-	86,150	-	86,150	-	86,150
Balance as at 30 June 2015	510,000,000	218,828,409	55,156,052	(12,191,450)	35,031,662	806,824,673	95,625	806,920,298

The accompanying notes 1 through 11 form an integral part of these interim consolidated financial statements.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Steel Pipes Company (referred hereinafter as the "Company") is a Saudi Arabian company initially incorporated as a limited liability Company registered under the Commercial Registration Number 9144 dated 27 Rajab 1400H (10 June 1980G) in the City of Dammam, Kingdom of Saudi Arabia.

The principal activities of the Company are the manufacturing of black and galvanized steel pipes, production of ERW/HFI galvanized and threaded steel pipes and seamless pipes, pipes with three layer external coating by Polyethylene and Polypropylene in different diameters, pipes with epoxy coating inside, bended pipes in different diameters, space frame, and submerged arc welded pipes.

The Company's registered office is located at the following address:

P.O.Box 11680 Dammam 31463
Kingdom of Saudi Arabia

During the year 2008, the Company's legal status has been transformed from limited liability to closed joint stock company. The Company's subscribed capital stock has been increased from 1,200,000 shares (at SR 100 per share) to 35,000,000 shares (at SR10 per share). Such increases were taken from the Company's retained earnings and was effective from the issuance of Ministerial Resolution No. F-187 on 3 Jumada Al-Thani 1429H (07 June 2008G) and amended Commercial Registration No. 2050009144 dated 14 Jumada Al-Thani 1429H (18 June 2008G).

On 27 June 2009, the Company offered to the public 16,000,000 new shares to increase the capital by 31.4% of the existing share capital at an initial public offering of SR 25 per share with a nominal value of SR 10 per share. The Company's authorized and issued share capital after the initial public offering is 51 million shares at SR 10 per share held by the following shareholders as at 30 June 2016:

Shareholders	Nationality	Number of Shares	Share Capital	Percentage Owned
Rabiah & Nassar Group	Saudi	20,403,075	204,030,750	40.01%
Hu Steel Co. Ltd.	South Korean	8,350,650	83,506,500	16.37%
Khalid Saleh Abdul Rahman Al Shathri	Saudi	5,277,295	52,772,950	10.35%
Fahad Mohammed Saja	Saudi	1,391,775	13,917,750	2.73%
Al-Khorayef Sons Co.	Saudi	875,000	8,750,000	1.72%
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	13,833,201	138,332,010	27.11%
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 collectively as the "Group"):

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

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

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

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

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

The legal formalities associated with the above transfer were still in process as of 30 June 2016.

As of 30 June 2016, the accumulated losses of TSM Arabia exceeded its share capital by SR 22.8 million.

The Board of Directors of the Company has passed a resolution on 18 January 2016 confirming the continuation of TSM Arabia's business and providing the sufficient financial support to enable TSM Arabia to meet its financial obligations as when they fall due. Based on the Group management's business plan for TSM Arabia, they believe that TSM Arabia will be able to generate sufficient income and positive cash flows to support its operations in the future.

2 BASIS OF PREPARATION

a) Statement of compliance

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

These interim consolidated financial statements and notes thereto should be read in conjunction with the annual audited consolidated financial statements and related notes for the year ended 31 December 2015.

b) Basis of measurement

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

c) Functional and presentation currency

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

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

2 BASIS OF PREPARATION (Continued)

d) Use of estimates and judgements

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these judgements and estimates of assumptions are prepared in the light of the most recent and relevant information available to management. Actual results may differ from these estimates.

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

Note 4	- Estimated useful lives of property, plant and equipment
Note 6	- Impairment for investment in associates
Note 7	- Provision for Zakat and Income tax

3 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted by the Group in the preparation of its interim consolidated financial statements are in conformity with those described in the Group's audited consolidated financial statements for the year ended 31 December 2015. These accounting policies have been applied consistently to all periods presented in the interim consolidated financial statements.

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

4 PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the period ended 30 June 2016 comprise of the following:

<u>Cost</u>	<u>Land</u>	<u>Machinery and equipment</u>	<u>Building and structures</u>	<u>Vehicles</u>	<u>Furniture and fixtures</u>	<u>Office and electrical equipments</u>	<u>Total</u>
Balance at 1 January 2016 (Audited)	157,850,000	469,605,884	160,831,429	5,927,425	5,254,646	22,983,784	822,453,168
Additions during the period	-	2,432,045	770,519	271,500	47,378	1,563,281	5,084,723
Transfers from capital work in progress	-	53,520,581	15,441,343	-	-	87,544	69,049,468
Disposals	-	-	-	(586,000)	-	-	(586,000)
Write offs	-	(12,661,320)	-	-	-	-	(12,661,320)
Balance at 30 June 2016	157,850,000	512,897,190	177,043,291	5,612,925	5,302,024	24,634,609	883,340,039
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	-	15,255,722	3,199,359	417,374	340,649	1,098,155	20,311,259
Disposals	-	-	-	(527,400)	-	-	(527,400)
Write offs	-	(10,788,267)	-	-	-	-	(10,788,267)
Balance at 30 June 2016	-	241,634,207	67,380,233	3,678,033	3,586,841	18,397,316	334,676,630
Net Book Value							
At 30 June 2016 (Unaudited)	157,850,000	271,262,983	109,663,058	1,934,892	1,715,183	6,237,293	548,663,409
At 30 June 2015 (Unaudited)	157,850,000	239,614,826	97,726,470	2,056,968	733,314	8,308,760	506,290,338

Machinery and equipment written off during the period ended 30 June 2016 includes edge milling machine and its ancillary equipments that has no expected future use.

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

5 CAPITAL WORK IN PROGRESS

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

	Balance at 01 January 2016 (Audited)	Additions * (Unaudited)	Transferred to Property, Plant & Equipment (Unaudited)	Balance at 30 June 2016 (Unaudited)	Balance at 30 June 2015 (Unaudited)
<u>Existing Factory</u>					
Small Diameter	7,952,419	3,185,960	(4,412,338)	6,726,041	4,335,932
Medium Diameter	7,638,236	3,039,139	(7,965,341)	2,712,034	3,986,406
Induction bending	1,498,951	178,681	(1,594,914)	82,718	927,713
	17,089,606	6,403,780	(13,972,593)	9,520,793	9,250,051
<u>Expansions*</u>					
8" API Tubemill	190,369,312	4,932,485	(23,501,308)	171,800,489	182,193,625
30" External Pipe Coating	30,252,269	1,212,718	(31,464,987)	-	27,069,099
	220,621,581	6,145,203	(54,966,295)	171,800,489	209,262,724
<u>Building and structures</u>	153,396	507,134	(110,580)	549,950	18,495
	237,864,583	13,056,117	(69,049,468)	181,871,232	218,531,270

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

6 INVESTMENT IN ASSOCIATES

Investments in associates comprise of the following:

	30 June 2016			30 June 2015		
	GPC	CDC	Total	GPC	CDC	Total
Cost of acquisition	45,000,000	67,950,000	112,950,000	45,000,000	67,950,000	112,950,000
Loan contribution	26,250,000	-	26,250,000	26,250,000	-	26,250,000
Additions	-	8,000,000	8,000,000	-	-	-
Accumulated share of loss from associates	(12,117,882)	(9,501,535)	(21,619,417)	(19,686,307)	(7,383,858)	(27,070,165)
Net investment value	59,132,118	66,448,465	125,580,583	51,563,693	60,566,142	112,129,835

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 included a premium of SR 1,250,000. The Company recognized share of profit of SR 3.46 million during the quarter ended 30 June 2016 as GPC recorded net profit of SAR 13.3 million during the six month period ended 30 June 2016.

Chemical Development Company (CDC)

Chemical Development Company (CDC) is a holding company whose purpose is to develop strategic industrial projects. Saudi Steel Pipes owns 20% of CDC's total current issued shares with total share capital of SR 328.16 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 tonnes 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. During the period, CDC incurred net loss of SAR 1 million.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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(Expressed in Saudi Riyals)

7 ZAKAT AND INCOME TAX PROVISION

As per the Saudi Regulations, the Saudi Shareholders are subject to Zakat calculated according to regulations promulgated by the government authorities computed at 2.5%. The Foreign Shareholders are subject to Income tax at a flat rate of 20% on the taxable income.

Under SOCPA standard 11, the provision for Zakat of Saudi Shareholders and income tax of foreign shareholders are deducted from the retained earnings. The corresponding liability account is reflected with under current liabilities in the Interim Consolidated Balance Sheet. Computation and provision of estimated Zakat and Income Tax liability are made quarterly. Adjustments arising from final Zakat assessments are recorded in the period in which such assessments are approved.

8 COMMITMENTS AND CONTINGENCIES

	30 June 2016 (Un-audited)	30 June 2015 (Un-audited)
Letters of credit	13,927,961	19,785,803
Letters of guarantee	147,865,518	164,220,816

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

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. With regard to diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

	30 June 2016 (Unaudited)	30 June 2015 (Unaudited)
<i>Basic earnings per share</i>		
Net income for the period	13,950,118	34,873,597
Operating income for the period	16,593,004	39,302,045
Weighted average number of outstanding shares		
Number of issued shares	51,000,000	51,000,000
Less: Treasury shares - shares kept for the employee share program	(762,812)	(750,000)
Add: Weighted average number of shares issued to employees	284,808	264,742
Weighted average number of outstanding shares	50,521,996	50,514,742
Basic earnings per share from net income	0.276	0.690
Basic earnings per share from operating income	0.328	0.778
<i>Diluted earnings per share</i>		
Weighted average number of outstanding shares	51,000,000	51,000,000
Diluted earnings per share from net income	0.273	0.683
Diluted earnings per share from operating income	0.325	0.770

SAUDI STEEL PIPES COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

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

Because the management views the entire business activities of the Company as one segment, segment reporting is provided by geographical segments only. The details of the local and export sales for the six months ended 30 June 2016 and 2015 are as follows:

<u>2016 (Unaudited)</u>	<u>Local sales</u>	<u>Export sales</u>	<u>Total</u>
Sales	302,451,227	43,238,621	345,689,848
Cost of sales	(263,227,023)	(36,489,191)	(299,716,214)
Gross profit	39,224,204	6,749,430	45,973,634
Gross profit percentage	12.9%	15.6%	13.3%
<u>2015 (Unaudited)</u>	<u>Local sales</u>	<u>Export sales</u>	<u>Total</u>
Sales	493,845,008	34,613,123	528,458,131
Cost of sales	(431,702,782)	(28,638,863)	(460,341,644)
Gross profit	62,142,226	5,974,260	68,116,487
Gross profit percentage	12.6%	17.3%	12.9%

11 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements were authorized for issue by the Board of Directors on 21 Shawal 1437H corresponding to 26 July 2016G.