THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)

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

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(A Saudi Joint Stock Company)
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FOR THE YEAR ENDED 31 DECEMBER 2016

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AUDITORS' REPORT

To the shareholders
The Saudi Arabian Amiantit Company
(A Saudi Joint Stock Company)
Dammam, Kingdom of Saudi Arabia

Scope of Audit
We have audited the accompanying consolidated balance sheet of The Saudi Arabian Amiantit Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 December 2016, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the related notes from 1 to 29 which form an integral part of these consolidated financial statements. These consolidated financial statements are the responsibility of the Company's board of directors and have been prepared by them in accordance with article 126 of the Regulations for Companies and submitted to us with all necessary information and explanations that we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

I. Present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and the consolidated results of its operations and its cash flows for the year then ended in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Group; and

II. Comply with the relevant provisions of the Regulations for Companies and the Company's by-laws in so far as these relate to the preparation and presentation of these consolidated financial statements.

Emphasis of matters
Without qualifying our opinion, we would like to draw attention to the following:

I. Notes 11 and 28 to the accompanying consolidated financial statements. As stated therein, the Group owns a parcel of industrial land in Jeddah which was acquired in 2009 through the acquisition, from a related party, of a subsidiary that owns this land. The ownership of this parcel is being legally challenged by third parties. As at 31 December 2016, the net book value of property, plant and equipment constructed over this parcel of land amounted to SR 75.9 million (2015: SR 87.6 million). Management of the Group believes that the outcome of the litigation process will not affect the carrying amounts or useful lives of property, plant and equipment constructed over this parcel of land nor will it result in any liabilities.

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II. Note 14 to the accompanying consolidated financial statements. As stated therein, these consolidated financial statements put the Company in breach of some of the financial covenants stated in the credit facility agreements with commercial banks. Management of the Company believes that the breach will not affect the maturity profile of its debt or the availability of credit.

For Baker Tilly MKM and Co.
Certified Public Accountants

Ayad Obeyan Alseraihi
License No. 405

2 Jumada al-Akhirah 1438
1 March 2017

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و
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THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note	2016 *SR'000*	2015 *SR'000*
ASSETS			
Current assets			
Cash and cash equivalents	7	**122,522**	166,501
Accounts receivable	8	**1,193,786**	1,228,965
Inventories	9	**918,383**	1,276,130
Prepayments and other receivables		**172,803**	256,647
		2,407,494	2,928,243
Non-current assets			
Non-current receivables	8	**565,529**	824,950
Investment in associates	10	**122,540**	127,923
Property, plant and equipment	11	**693,998**	728,308
Intangible assets	12	**8,995**	13,251
Deferred income tax assets	16	**7,952**	8,067
Other non-current assets	19	**14,647**	13,766
		1,413,661	1,716,265
TOTAL ASSETS		**3,821,155**	4,644,508
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	13	**1,160,387**	1,618,177
Current portion of long-term borrowings	14	**164,414**	18,560
Accounts payable		**353,796**	528,844
Accrued expenses and other liabilities	15	**252,142**	320,899
Zakat and taxes payable	16	**96,493**	90,889
		2,027,232	2,577,369
Non-current liabilities			
Long-term borrowing	14	**520,637**	426,728
Employees' terminal benefits	17	**72,718**	78,743
Warranty provision	18	**19,419**	13,338
Other non-current liabilities		**17,304**	19,966
		630,078	538,775
Total liabilities		**2,657,310**	3,116,144
Shareholders' equity			
Share capital	20	**1,155,000**	1,155,000
Statuary reserve	21	**189,472**	189,472
Retained earnings		**21,800**	332,190
Employees share ownership program and reserve	17	**(31,914)**	(31,914)
Change in fair value of interest rate swap	26	**(2,143)**	-
Foreign currency translation adjustments		**(209,241)**	(181,349)
Equity attributable to shareholders of the Company		**1,122,974**	1,463,399
Non-controlling interests		**40,871**	64,965
Total equity		**1,163,845**	1,528,364
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,821,155**	4,644,508

شركة أميانتيت العربية السعودية (شركة مساهمة سعودية) الدمام
AMIANTIT
C. R. 2050002103
DAMMAM
SAUDI ARABIAN AMIANTIT CO. (SAUDI JOINT STOCK CO.)

The attached notes from 1 to 29 form an integral part of these consolidated financial statements.

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 SR'000	2015 SR'000
Sales		**2,145,286**	2,908,627
Cost of sales		**(1,883,298)**	(2,408,984)
Gross profit		**261,988**	499,643
Operating expenses			
Selling and marketing	22	**(81,911)**	(87,007)
Provision for doubtful debts	8	**(78,007)**	(27,229)
General and administrative	23	**(167,187)**	(164,457)
(Loss) income from main operations		**(65,117)**	220,950
Other income (expenses)			
Share in net income of associates	10	**5,729**	5,667
Financial charges, net	13,14	**(111,259)**	(85,804)
Impairment of non-current assets	24	**(28,081)**	(5,025)
Others, net	24	**193**	(21,370)
(Loss) income before non-controlling interests, zakat and income tax		**(198,535)**	114,418
Income tax	16	**(7,640)**	(4,661)
Zakat	16	**(40,114)**	(34,500)
(Loss) income before non controlling interests		**(246,289)**	75,257
Non-controlling interests		**(4,506)**	26,117
Net (loss) income for the year		**(250,795)**	101,374
(Loss) earnings per share (Saudi Riyals):	27		
* From main operations		**(0.57)**	1.95
* From net (loss) income for the year		**(2.21)**	0.89

شركة أميانتيت العربية السعودية (شركة مساهمة سعودية) الدمام س.ت ٢٠٥٠٠٠٢١٠٣ أميانتيت AMIANTIT C. R. 2050002103 DAMMAM SAUDI ARABIAN AMIANTIT CO. (A SAUDI JOINT STOCK CO.)

The attached notes from 1 to 29 form an integral part of these consolidated financial statements.

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 *SR'000*	2015 *SR'000*
OPERATING ACTIVITIES		
Income before non-controlling interests, zakat and income tax	**(198,535)**	114,418
Adjustments for non-cash items:		
Depreciation, amortization and impairment	**114,353**	129,967
Share in net income of associates	**(5,729)**	(5,667)
Deferred income tax credits	**115**	(172)
Changes in working capital:		
Accounts receivable	**282,619**	(212,535)
Inventories	**357,747**	(159,768)
Prepayments and other receivable	**83,844**	(79,946)
Accounts payable	**(175,048)**	96,307
Accrued expenses and other current liabilities	**(68,757)**	19,004
Employees' terminal benefits	**(6,025)**	687
Warranty provision	**6,081**	-
Zakat and income tax paid	**(42,150)**	(30,793)
Net cash generated from (utilized in) operating activaties	**348,515**	(128,498)
INVESTING ACTIVITIES		
Proceeds from disposal of investments	-	62,789
Dividends received from an associated company	**977**	-
Purchase of property, plant and equipment	**(72,817)**	(61,333)
Intangible assets and other non-current assets incurred	**(1,838)**	(352)
Net cash (utilized in) generated from investing activities	**(73,678)**	1,104
FINANCING ACTIVITIES		
Change in short-term borrowings	**(457,790)**	(198,858)
Proceeds from long-term borrowings	**274,028**	405,364
Repayments of long-term borrowings	**(34,265)**	(8,354)
Transactions with non-controlling interests	**(12,742)**	-
Dividends paid	**(75,075)**	-
Dividends paid by subsidiaries to non-controlling interests	**(400)**	(18,856)
Board of directors' remuneration paid	**(1,800)**	-
Changes in other non-current liabilities	**(4,805)**	16,574
Net cash (utilized in) generated from financing activities	**(312,849)**	195,870
Net change in cash and cash equivalents	**(38,012)**	68,476
Cash and cash equivalents at the beginning of the year	**166,501**	105,768
Foreign currency translation adjustment	**(5,967)**	(7,743)
Cash and cash equivalents at the end of the year	**122,522**	166,501
Non-cash transactions		
Reserve for transactions with non-controlling interest	**17,280**	-
Foreign currency translation adjustments	**(21,925)**	(72,282)
Change in fair value of interest rate swap	**(2,143)**	-

The attached notes from 1 to 29 form an integral part of these consolidated financial statements.

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUIRY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Share capital	Statutory reserve	Retained earnings	Employees' share program and reserve	Change in fair value of interest rate swap	Foreign currency translation adjustments	Total
		SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
1 January 2015		1,155,000	179,335	241,457	(31,741)	-	(109,067)	1,434,984
Net income for the year		-	-	101,374	-	-	-	101,374
Transfer to statutory reserve	21	-	10,137	(10,137)	-	-	-	-
Charge for employees share program	17	-	-	(504)	(173)	-	-	(677)
Foreign currency translation adjustments		-	-	-	-	-	(72,282)	(72,282)
31 December 2015		1,155,000	189,472	332,190	(31,914)		(181,349)	1,463,399
Net loss for the year		-	-	**(250,795)**	-	-	-	**(250,795)**
Dividends	25	-	-	**(75,075)**	-	-	-	**(75,075)**
Board of directors' fee		-	-	**(1,800)**	-	-	-	**(1,800)**
Transactions with non-controlling interest	1	-	-	**17,280**	-	-	-	**17,280**
Foreign currency translation adjustments		-	-	-	-	**(2,143)**	**(27,892)**	**(30,035)**
31 December 2016		**1,155,000**	**189,472**	**21,800**	**(31,914)**	**(2,143)**	**(209,241)**	**1,122,974**

شركة أميانتيت العربية السعودية (شركة مساهمة سعودية)
AMIANTIT
C. R. 2050002103
DAMMAM
SAUDI ARABIAN AMIANTIT CO. (SAUDI JOINT STOCK CO.)

The attached notes from 1 to 29 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Saudi Arabian Amiantit Company (the "Company" or "SAAC") and its subsidiaries (collectively referred to as the "Group") consist of the Company and its various Saudi Arabian and foreign subsidiaries. The Group is principally engaged in manufacturing and selling various types of pipes and related products, licensing of related technologies, and water management services including related consultancy, engineering and operations.

The Company is a joint stock company registered in the Kingdom of Saudi Arabia under commercial registration No. 2050002103 issued in Dammam on 17 Rabi' I 1388 H (13 June 1968). The registered address of the Company is P.O. Box 589, First Industrial Area, Dammam 31421, Kingdom of Saudi Arabia.

Following is the list of principal operating subsidiaries included in the Group:

Subsidiary	Country of incorporation	Ownership percentage as at 31 December	
		2016	2015
Amiantit Fiberglass Industries Limited (AFIL)	Saudi Arabia	**100**	100
Saudi Arabian Ductile Iron Pipe Company Limited (SADIP)	Saudi Arabia	**100**	100
International Infrastructure Management and Operations Company Limited (AMIWATER)	Saudi Arabia	**100**	100
Infrastructure Engineering Contracting Company	Saudi Arabia	**100**	100
Amiantit Rubber Industries limited (ARIL)	Saudi Arabia	**80**	80
Ameron Saudi Arabia Limited (ASAL)	Saudi Arabia	**100**	69.70
Bondstrand Limited (BSL)	Saudi Arabia	**60**	60
Saudi Arabia Concrete Products Limited (SACOP)	Saudi Arabia	**100**	58.80
Fiberglass Pipes and Ductile Iron Pipes Factory Company Ltd (FPC)	Saudi Arabia	**100**	100
Flowtite Technology Bahrain W.L.L	Bahrain	**100**	100
Amiantit Germany GmbH	Germany	**100**	100
PWT Wasser - und Abwassertechnik GmbH (PWT)	Germany	**100**	100
Flowtite Technology A.S.	Norway	**100**	100
Subor Boru Sanayi Ve Ticaret A.S.	Turkey	**50**	50
Amitech Poland Sp.z o.o.	Poland	**100**	100
Amiantit Spain	Spain	**100**	100
Amitech Astana LLC	Kazakhstan	**51**	51
Amitech France	France	**100**	100
Amiantit Norway AS	Norway	**100**	100

Ownership interests in certain subsidiaries are registered in the name of other subsidiaries or in the name of certain intermediate holding companies for and on behalf of SAAC.

1. GENERAL INFORMATION (continued)

On 15 June 2016, the Company executed a share purchase agreement with Ameron Inc. ("AI"), a U.S. based corporation, whereby the Company acquired their non-controlling interests in Ameron Saudi Arabia Limited ("ASAL") and Saudi Arabia Concrete Products Limited ("SACOP"). The Company purchased 30.3% of the shares of ASAL and 41.2% of the shares of SACOP, thereby becoming the sole partner of both companies, for total consideration of SR 1.9 million. The legal formalities for these transactions have been completed. The consideration paid was less than the carrying amount of non-controlling interests acquired by SR 17.3 million. This difference was recognized directly as an increase in retained earnings.

On 15 December 2016, the Company signed a Memorandum of Understanding (MOU) with the Austrian holding WIG Wietersdorfer Holding GmbH (WIG) regarding a possible merger of its European pipe manufacturing and sales companies and its Flowtite technology with the Hobas AG group of companies. The MOU states that both the Company and WIG will merge their respective pipe manufacturing business in Europe. As a result of the proposed merger, a joint venture company equally owned and mutually controlled by the Company and WIG will own and control the European pipe business activities of the two partners. If the merger is completed, the Company will lose its control over the following significant subsidiaries:

Subsidiary	**Country of incorporation**	**Effective ownership percentage**
Amiantit Germany GmbH	Germany	100
Flowtite Technology A.S.	Norway	100
Amitech Poland Sp.z o.o.	Poland	100
Amiantit Spain	Spain	100
Amiantit France	France	100
Amiantit Norway AS	Norway	100

The combined sales and net income of the above subsidiaries for the year ended 31 December 2016 amounted to EUR 120 million (SR 470 million) and EUR 1.6 million (SR 6.6 million), respectively. The combined total assets and total liabilities of these subsidiaries as at 31 December 2016 amounted to EUR 96.3 million (SR 381.2 million) and EUR 46.8 (SR 185.2 million), respectively. The businesses contributed from Hobas AG Group to the joint venture are of comparable size.

On 6 February 2017, the Company signed a Joint Venture (JV) agreement with WIG pursuant to the MOU signed on 15 December 2016. The JV agreement is valid to 16 December 2017. The execution of the JV agreement is subject to many conditions including, inter alia, the following:

- The approval of the competent merger control authorities in the European Union
- Restructuring the ownership of certain subsidiaries
- Transfer of technology use rights

Due to the above conditions, the assets and liabilities of these subsidiaries have not been presented as held for sale assets and liabilities in these consolidated financial statements.

The accompanying consolidated financial statements were authorized for issue by the Company's Board of Directors on 1 March 2017.

2. BASIS OF PREPARATION

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as disclosed in note (1) above. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Changes are made to the accounting policies of the subsidiary when necessary to align it with the accounting policies of the Group.

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is obtained by the Company and cease to be consolidated from the date on which control is lost. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal.

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Company in the subsidiaries and are presented separately within equity in the consolidated balance sheet, separately from equity attributable to the shareholders of the Company.

All significant inter-company transactions and balances have been eliminated in preparing the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting convention
The accompanying consolidated financial statements have been prepared under the historical cost convention using the accrual basis of accounting modified to include the measurement at fair value for financial derivatives.

Critical accounting estimates and judgments
The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting
(a) Business segment

A business segment is a group of assets, operations or entities:
(i) that are engaged in revenue producing activities;
(ii) whose results of operations are continuously analysed by management in order to make decisions related to resource allocation and performance assessment; and
(iii) whose financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

Foreign currencies
(a) Reporting currency
The consolidated financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances
Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognized in the consolidated income statement.

(c) Group companies
Cumulative adjustments resulting from the translation of the financial statements of the foreign subsidiaries into Saudi Riyals are reported as a separate component of equity.

Dividends received from subsidiaries and associates are translated at the exchange rate in effect at the transaction date.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

Account receivable
Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, which is adjusted subsequently for impairment loss, if any.

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any minority interests in the acquiree. For each business combination, the acquirer measures the minority interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Company acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the consideration transferred over the subsidiary's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, except construction in progress which is stated at cost. Land is not depreciated. Depreciation is charged to the consolidated income statement, using the straight-line method, to allocate the cost of the related assets to their estimated useful lives:

	Number of years
Buildings and land improvements	3 - 35
Plant, machinery and equipment	4- 25
Furniture, fixtures and office equipment	3- 8

Gains and losses on disposals are determined by comparing sales proceeds with the carrying amount and are included in the consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

Deferred charges

Costs that are not of benefit beyond the current period are charged to the consolidated income statement, while costs that will benefit future periods are capitalized and amortized over the lesser of these periods or seven years.

Impairment of non-current assets

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

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

Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Provisions
Warranty provisions - The Group offers warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Warranty provisions and reversals are charged and credited, respectively, to "Cost of sales" in the consolidated income statement. Adjustments are made to the warranty provision considering the changes in recent trends, technological improvements and legal and constructive obligations of the Company.

Onerous contracts - Provisions against onerous contracts are recognized when the Company expects that the costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Such provisions are charged to "Cost of sales" in the consolidated income statement.

Zakat and taxes
The Company is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income tax. Income tax provisions related to the foreign shareholders in such subsidiaries are charged to the non-controlling interests.

Provision for zakat and income tax for the Company and zakat and income tax related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the consolidated income statement. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

The Company and its Saudi Arabian subsidiaries withhold tax on certain transactions with non-resident parties, including dividend payments to foreign shareholders of the Saudi Arabian subsidiaries, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Regulation.

Foreign subsidiaries are subject to income tax in their respective countries of domicile which are charged to the consolidated income statement.

Deferred income tax is recognized on all major temporary differences between financial income and taxable income during the period in which such differences arise, and is adjusted when related temporary differences are reversed. Deferred income tax is determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' terminal benefits

Provision is made for amounts payable under employment contracts applicable to employees' accumulated periods of service at every reporting date.

Employees' share ownership plan

The Company offers an Employees' Share Ownership Plan ("ESOP"), which provide service awards to certain levels of employees. These employees, subject to their subscription of ESOP and meeting the underlying conditions, are given the Company's shares.

The employees' service cost of share options granted to them under the ESOP is measured by reference to the fair value of the Company's shares on the date on which the options are granted. This cost is recognized as an expense over the period in which service conditions are fulfilled by the employees, ending on the date on which the relevant employees become fully entitled to the shares (the "vesting date"). The cumulative expense recognized, for the equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Company's best estimate of the number of shares that will ultimately vest. The charge for a period recorded in the consolidated income statement represents the movement in cumulative expense recognized as at the beginning and end of that period.

Shares purchased by the financial institution acting as trustee for the ESOP are carried at cost as a deduction from shareholders' equity until the options vest and the underlying shares are transferred to the employee. Any difference between the employee service cost and the purchase cost of the shares is taken directly to retained earnings as an equity adjustment.

Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income to a statutory reserve until such reserve equals 30% of share capital. Such transfer is made at the end of the fiscal year. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve is not available for distribution to the shareholders of the Company.

Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Company.

Derivative financial instruments

Derivative financial instruments are initially recorded at cost and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the consolidated income statement as they arise.

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the consolidated balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated income statement. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which is also immediately recognized in the consolidated income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)
A cash flow hedge is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability, an unrecognized firm commitment or a forecasted transaction. To the extent that the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in equity. Subsequently, the amount is included in the consolidated income statement in the same period or periods during which the hedged item affects net income or loss. For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the recorded carrying amount of the acquired asset or liability.

Earnings per share
Basic earnings (loss) per share from operations is calculated by dividing income (loss) from operations for the period by the weighted average of number of shares outstanding during the period.

Basic earnings (loss) per share from net income is calculated by dividing the net income for the period by the weighted average number of shares outstanding during the period.

Revenues
Revenues are recognized upon delivery of products or on the performance of services. Revenues on long-term contracts are recognized on the percentage of completion basis. Revenues are shown net of sales discounts.

Selling, marketing and general and administrative expenses
Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Company's products. All other expenses, other than cost of sales, finance charges and impairment losses, are classified as general and administrative expenses. Allocations between selling and distribution, general and administrative expenses and cost of sales, when required, are made on a consistent basis.

Operating leases
Rental expense under operating leases is charged to the consolidated income statement over the period of the respective lease. Rental income is recognized on the accrual basis in accordance with the terms of the contracts.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

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. Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, accounts and other receivables, short-term and long-term borrowings, accounts payable and accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Comapany's financial assets and liabilities are not materially different from their carrying values.

5. RISK MANAGEMENT

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, United States ("US") dollars and Euros.

Interest rate risks
Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risks arise mainly from the bank borrowings, which are at floating rate of interest and are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and utilizes interest rate swaps to manage interest rate risks.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of a provision for doubtful accounts.

Liquidity risk
Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

6. SEGMENT INFORMATION

The Group operates principally in the following business segments:

(i) Manufacturing and selling various types of pipes and development and licensing of related technologies; and

(ii) Water management and related consultancy, engineering and operations.

6. SEGMENT INFORMATION (continued)

Selected financial information as at 31 December and for the years then ended, summarized by the above business segments, is as follows:

	Pipe manufacturing *SR'000*	Water management *SR'000*	Total *SR'000*
2016			
Sales	**1,968,641**	**176,645**	**2,145,286**
Net income (loss)	**(151,682)**	**(99,113)**	**(250,795)**
Financial charges	**(107,389)**	**(3,870)**	**(111,259)**
Depreciation	**(79,117)**	**(1,998)**	**(81,115)**
Property, plant and equipment	**678,198**	**15,800**	**693,998**
Total assets	**2,986,940**	**834,215**	**3,821,155**
2015			
Sales	2,584,388	324,239	2,908,627
Net income (loss)	127,026	(25,652)	101,374
Financial charges	(61,488)	(24,316)	(85,804)
Depreciation	(73,729)	(1,955)	(75,684)
Property, plant and equipment	712,869	15,439	728,308
Total assets	4,286,468	358,040	4,644,508

The Group's operations are conducted in Saudi Arabia and certain other countries, primarily certain European countries. Selected financial information as at 31 December and for the years then ended summarized by geographic area, is as follows:

	Saudi Arabia	Europe	Elsewhere	Total
2016				
Sales	**1,143,939**	**971,117**	**30,230**	**2,145,286**
Non-current assets:				
• Property, plant and equipment	**535,066**	**145,404**	**13,528**	**693,998**
• Other non-current assets	**662,185**	**30,360**	**27,118**	**719,663**
2015				
Sales	1,803,346	1,086,697	18,584	2,908,627
Non-current assets:				
• Property, plant and equipment	561,954	152,042	14,312	728,308
• Other non-current assets	920,455	30,301	37,201	987,957

7. CASH AND CASH EQUIVALENTS

	2016 *SR'000*	2015 *SR'000*
Cash on hand	**1,732**	1,994
Cash at bank	**93,064**	142,235
Time deposits	**27,726**	22,272
	122,522	166,501

Time deposits are held by commercial banks and yield financial income at prevailing market rates.

8. ACCOUNTS RECEIVABLE

	2016 *SR'000*	2015 *SR'000*
Trade receivables - third parties	**1,855,654**	2,101,647
Trade receivables - related parties	**42,957**	40,621
	1,898,611	2,142,268
Less: provision for doubtful debts	**(139,296)**	(88,353)
	1,759,315	2,053,915
Less: Non-current portion	**(565,529)**	(824,950)
	1,193,786	1,228,965

The non-current portion of accounts receivable represents balances that management estimates it will collect after one year from the consolidated balance sheet date.

The movement in the provision for doubtful debts is as follows:

	2016 *SR'000*	2015 *SR'000*
1 January	**88,353**	92,307
Additions	**54,592**	25,279
Write-offs	**(1,736)**	(26,977)
Currency translation adjustments	**(1,913)**	(2,256)
31 December	**139,296**	88,353

8. ACCOUNTS RECEIVABLE (continued)

An aged analysis of accounts receivable balances as at 31 December 2016 is as follows:

	< 180 days *SR'000*	181-365 days *SR'000*	366-730 days *SR'000*	> 730 days *SR'000*	Total *SR'000*
2016	**494,477**	**597,970**	**493,879**	**269,328**	**1,855,654**
2015	1,054,189	222,508	436,783	388,167	2,101,647

The Company records a provision for doubtful accounts considering various factors including age of the receivable balances, financial condition of the customers, economic conditions of the countries of domicile, etc. Management believes that adequate provision has been made against doubtful accounts receivable balances as at 31 December, 2016.

As at 31 December 2016 accounts receivable amounting to SR 46.4 million (2015: SR 55.4 million) were collateralized against bank borrowings.

9. INVENTORIES

	2016 *SR'000*	2015 *SR'000*
Raw materials	**346,668**	437,584
Work in process	**194,009**	272,854
Spare parts and supplies, not held for sale	**101,121**	106,894
Finished products	**385,404**	552,697
Goods in transit	**7,781**	6,372
	1,034,983	1,376,401
Less: provision for inventory obsolescence	**(116,600)**	(100,271)
	918,383	1,276,130

Inventories at 31 December 2016 amounting to SR 53.6 million (2015: SR 48.8 million) were pledged against the bank borrowings.

The movement in the provision for inventory obsolescence is as follows:

	2016 *SR'000*	2015 *SR'000*
1 January	**100,271**	77,146
Additions	**26,506**	23,635
Write-offs	**(10,003)**	(133)
Currency translation adjustments	**(174)**	(377)
31 December	**116,600**	100,271

10. INVESTMENT IN ASSOCIATES

	2016 *SR'000*	2015 *SR'000*
Amiantit Fiberglass Egypt Co. ("AFEC")	**21,490**	23,582
Ameron Egypt ("AE")	**26,470**	27,017
Amitech Maroc ("AM")	**17,473**	23,398
Amiantit Qatar Pipe Co. Ltd. ("AQAP")	**32,454**	26,326
International Water Distribution Company ("TAWZEA")	**55,580**	48,124
Other	**41,928**	42,394
	195,395	190,841
Accumulated impairment losses	**(72,855)**	(62,918)
	122,540	127,923

The movement in investment in associates is as follows:

	2016 *SR'000*	2015 *SR'000*
1 January	**127,923**	129,778
Additions	**-**	4,821
Share in net income	**5,729**	5,667
Dividends	**(977)**	(989)
Foreign currency translation adjustments	**(200)**	(6,329)
Impairment losses	**(9,935)**	(5,025)
31 December	**122,540**	127,923

10. INVESTMENT IN ASSOCIATES (continued)

Summarized financial information of the principal associates, based on their most recent available financial information is as follows:

Name	Country of incorporation	Assets *SR'000*	Liabilities *SR'000*	Revenues *SR'000*	Net income (loss) *SR'000*	Company's ownership interest *%*
2016						
AFEC	Egypt	**81,048**	**95,636**	**34,320**	**(33,091)**	**50%**
AE	Egypt	**35,678**	**36,602**	**6,661**	**(11,755)**	**49%**
AM	Morocco	**134,514**	**99,401**	**51,705**	**(10,602)**	**50%**
AQAP	Qatar	**239,846**	**146,437**	**199,286**	**15,153**	**40%**
TAWZEA	Saudi Arabia	**270,163**	**159,005**	**230,723**	**14,912**	**50%**
2015						
AFEC	Egypt	83,319	55,608	60,564	(1,154)	50%
AE	Egypt	45,161	31,486	15,648	(2,039)	49%
AM	Morocco	173,349	126,063	119,319	491	50%
AQAP	Qatar	169,944	90,064	82,352	8,787	40%
TAWZEA	Saudi Arabia	260,927	164,681	202,419	7,239	50%

11. PROPERTY, PLANT AND EQUIPMENT

	1 January *SR'000*	Additions *SR'000*	Disposals/ transfers *SR'000*	Foreign currency translation adjustments *SR'000*	31 December *SR'000*
2016					
Cost					
Land	230,810	229	(17,277)	(1,211)	**212,551**
Buildings and land improvements	446,886	8,797	(7,699)	(9,242)	**438,742**
Plant, machinery and equipment	1,441,537	48,648	(190,194)	(17,130)	**1,282,861**
Furniture, fixtures and office equipment	98,985	8,261	(9,263)	(2,414)	**95,569**
Construction in progress	74,345	6,882	(10,460)	(507)	**70,260**
	2,292,563	72,817	(234,893)	(30,504)	**2,099,983**
Accumulated depreciation and impairment					
Land	(150,000)	-	-	-	**(150,000)**
Buildings and land improvements	(264,520)	(11,357)	14,667	4,946	**(256,264)**
Plant, machinery and equipment	(1,076,080)	(66,649)	197,380	15,715	**(929,634)**
Furniture, fixtures, office equipment	(73,655)	(3,109)	4,700	1,977	**(70,087)**
	(1,564,255)	(81,115)	216,747	22,638	**(1,405,985)**
Net book value	728,308				**693,998**
2015					
Cost					
Land	238,606	13	(4,250)	(3,559)	230,810
Buildings and land improvements	473,225	4,072	(3,156)	(27,255)	446,886
Plant, machinery and equipment	1,405,479	103,481	(12,177)	(55,246)	1,441,537
Furniture, fixtures and office equipment	100,185	12,653	(7,642)	(6,211)	98,985
Construction in progress	117,744	59,162	(102,382)	(179)	74,345
	2,335,239	179,381	(129,607)	(92,450)	2,292,563
Accumulated depreciation and impairment					
Land	(150,000)	-	-	-	(150,000)
Buildings and land improvements	(261,077)	(17,612)	2,079	12,090	(264,520)
Plant, machinery and equipment	(1,066,237)	(47,739)	886	37,010	(1,076,080)
Furniture, fixtures and office equipment	(72,516)	(10,333)	4,346	4,848	(73,655)
	(1,549,830)	(75,684)	7,311	53,948	(1,564,255)
Net book value	785,409				728,308

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Certain property, plant and equipment of the Group with a net book value of SR 59.5 million (2015: 59.8 million) are constructed on land parcels leased under various operating lease agreements at nominal annual rents from the Saudi Arabian government under renewable operating leases.

The Group owns two parcels of industrial land in Dammam since 1971. The book value of the two parcels in the Group's accounting records is SR 1.4 million. The fair value of these two parcels of land as at 31 December 2016, according to a valuation prepared by an independent valuer, was SR 323.4 million.

The Group owns a parcel of industrial land in Jeddah which was acquired in 2009 through the acquisition, from a related party, of a subsidiary that owns this land. The ownership of the parcel is being contested in the Saudi Arabian judicial system. The gross value of this parcel of land, before deducting an impairment provision, as at 31 December 2016 and 2015 was SR 150 million and management of the Group has made an impairment provision for the full value of the parcel at the acquisition date. The net book value of property, plant and equipment constructed over this parcel of land as at 31 December is as follows:

	2016	2015
	SR'000	*SR'000*
Buildings and land improvements	**33,406**	36,860
Plant, machinery and equipment	**42,007**	50,143
Furniture, fixtures and office equipment	**486**	621
	75,899	87,624

Management of the Group believes that the outcome of the litigation process will not impact the carrying amounts or useful lives of property, plant and equipment constructed over this parcel of land.

Property, plant and equipment at 31 December 2016 with a net book value of SR 59.6 million (2015: SR 59.8 million) were pledged against the bank borrowings.

12. INTANGIBLE ASSETS

	Goodwill	Deferred charges	Total
	SR'000	*SR'000*	*SR'000*
1 January 2015	10,227	3,433	13,660
Additions	-	810	810
Amortization and write-offs	(262)	(411)	(673)
Foreign currency translation adjustments	(546)	-	(546)
31 December 2015	9,419	3,832	13,251
Additions	**-**	**957**	**957**
Amortization and write-offs	**(4,813)**	**(344)**	**(5,157)**
Foreign currency translation adjustments	**(56)**	**-**	**(56)**
31 December 2016	**4,550**	**4,445**	**8,995**

13. SHORT-TERM BORROWINGS

	2016 SR'000	2015 SR'000
Bank overdrafts	3,078	3,234
Short-term bank loans	1,157,309	1,614,943
	1,160,387	1,618,177

These represent borrowing facilities obtained from various commercial banks and bear financial charges at prevailing market rates which are based on inter-bank offer rates.

The carrying values of the short-term borrowings are denominated in following currencies:

	2016 SR'000	2015 SR'000
Saudi Riyals	1,138,857	1,553,268
Euros	1,005	2,229
Other	20,525	62,680
	1,160,387	1,618,177

14. LONG-TERM BORROWINGS

	2016 SR'000	2015 SR'000
Commercial bank loans	675,559	435,162
Loans from non-controlling interest	9,492	10,126
	685,051	445,288
Current portion shown under current liabilities	(164,414)	(18,560)
	520,637	426,728

Commercial bank loans:
The Company and certain of its subsidiaries have obtained loan facilities from various commercial banks. These loans are mainly denominated in Saudi Riyals, US dollars, and Euros. These loans generally bear financial charges based on prevailing market rates. The aggregate maturities of the loans outstanding at 31 December 2016, based on their respective repayment schedules, are repayable at dates from 2017 to 2033. Certain of these loans are secured by a mortgage on property, plant and equipment, collateralization of trade accounts receivable and a pledge of inventories.

The covenants of certain of the short-term and long-term borrowing facilities require the Group to maintain certain level of financial conditions, require lenders' prior approval for dividends distribution above a certain amount and limit the amount of annual capital expenditure and certain other requirements. These consolidated financial statements put the Company in breach of some of the financial covenants stated in the credit facility agreements with commercial banks. Management of the Company believes that the breach will not affect the maturity profile of its debt or the availability of credit.

14. LONG-TERM BORROWINGS (continued)

Loans from non-controlling interest:

These represent US dollars denominated loans from non-controlling interest of a foreign subsidiary. Such loans do not carry any financial charges and are payable in unequal quarterly instalments ending in 2021.

The carrying values of the long-term borrowings are denominated in following currencies:

	2016 *SR'000*	2015 *SR'000*
Saudi Riyals	**600,374**	400,000
Euros	**22,956**	4,749
US dollars	**15,148**	25,603
Other	**46,573**	14,936
	685,051	445,288

The maturity profile of long-term borrowings is as follows:

	2016 *SR'000*	2015 *SR'000*
Years ending 31 December:		
2016	-	18,560
2017	**164,414**	104,089
2018	**197,130**	102,293
2019	**170,644**	102,011
2020	**118,185**	102,892
2021	**20,405**	15,443
Thereafter	**14,273**	-
	685,051	445,288

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	2016 *SR'000*	2015 *SR'000*
Salaries, wages and benefits	**18,242**	25,304
Advances from customers	**131,686**	187,058
Sales agency fees	**17,871**	16,056
Financial charges	**21,325**	19,276
Other accrued expenses and other payables	**63,018**	73,205
	252,142	320,899

16. ZAKAT AND INCOME TAX

Components of zakat base:

The Company and its Saudi Arabian subsidiaries are subject to zakat and income taxes. Zakat is payable at 2.5% of the greater of the approximate zakat base and adjusted net income. Income tax is payable at the rates applicable to foreign subsidiaries. The significant components of the zakat base of each company under zakat and income tax regulation are principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less a deduction for the net book value of property, plant and equipment, investments and certain other items.

The provision for zakat and income tax as at 31 December is as follows:

	2016 *SR'000*	2015 *SR'000*
Zakat for SAAC	**36,688**	33,951
Zakat and income taxes for Saudi Arabian subsidiaries	**47,135**	36,509
Income and other taxes for foreign subsidiaries	**12,670**	20,429
	96,493	90,889

Income taxes related to foreign subsidiaries charged to the consolidated statement of income:

	2016 *SR'000*	2015 *SR'000*
Current income tax charges	**7,756**	4,833
Deferred income tax credits	**(116)**	(172)
	7,640	4,661

The movements in deferred income tax assets for the years ended 31 December are as follows:

	2016 *SR'000*	2015 *SR'000*
1 January	**8,067**	9,105
Credits	**116**	172
Foreign currency translation adjustments	**(231)**	(1,210)
31 December	**7,952**	8,067

The provision for zakat charged to the consolidated statement of income:

	2016 *SR'000*	2015 *SR'000*
Zakat for SAAC	**10,984**	16,575
Share of SAAC in zakat of subsidiaries	**29,130**	17,925
	40,114	34,500

16. ZAKAT AND INCOME TAX (continued)

Status of certificates and assessments:

The Company and the Saudi Arabian subsidiaries have received final or restricted zakat and income tax certificates for the years to 2014. The Company received final assessments from GAZT until 2009. The assessments for the years from 2010 to 2014 are still under review by GAZT.

17. EMPLOYEE BENEFITS

Employees' terminal benefits:

The movement in employees' terminal benefits is as follows:

	2016 *SR'000*	2015 *SR'000*
1 January	**78,743**	78,585
Provisions	**6,648**	10,390
Payments	**(12,204)**	(9,765)
Foreign currency translation adjustments	**(469)**	(467)
31 December	**72,718**	78,743

Employee share ownership plan and reserve:

The Company has implemented an Employee Share Ownership Plan ("ESOP"), which provides an award for service to certain levels of employees effective 1 January 2012. These employees, subject to their subscription to ESOP, after completing employment with the Group for a period of three years and maintaining a required level of performance, were awarded shares of the Company, at no cost, upon the vesting date during 2015. The total number of shares awarded in 2015 was 593,000 shares.

The Company has recorded expenses in 2016 amounting to Saudi Riyals 1.1 million (2015: Saudi Riyals 3.1 million) related to such options.

Following is the movement in share options during the years ended 31 December:

	2016	2015
Outstanding at 1 January	-	636,000
Options exercised	-	(593,000)
Forfeited during the year	-	(43,000)
Outstanding at 31 December	-	-

17. EMPLOYEE BENEFITS (continued)

During 2012, the Company purchased 2.5 million of its own shares, through a financial institution, for the purpose of the ESOP which have been recorded under "Employees shares program and reserve" in the statement of changes in shareholders' equity in the consolidated financial statements. Employees' shares program and reserve includes the cost of shares purchased and proportionate fair value of the options granted during 2016 and 2015 and outstanding at 31 December as follow:

	2016 *SR'000*	2015 *SR'000*
1 January	**31,914**	31,741
Employee share option program reserve	**-**	173
31 December	**31,914**	31,914

The employees' share ownership program and reserve at 31 December 2016 represents the value of the remaining shares held by the trustee for future options to be offered to the employees of the Company. Management is currently in the process of formalizing the future option plans.

The remaining shares not awarded through the first plan as described above, and amounting to Saudi Riyals 16.0 million will be assigned to a new ESOP, which is expected to be scheduled to span over the years 2017 and 2018 with related options maturing in 2018. The necessary approvals are under submission at related competent authorities.

18. WARRANTY PROVISION

	2016 *SR'000*	2015 *SR'000*
1 January	**13,338**	20,525
Additions (reversals)	**7,253**	(4,403)
Utilizations and adjustments	**(1,438)**	(1,335)
Foreign currency translation adjustments	**266**	(1,449)
31 December	**19,419**	13,338

19. RELATED PARTY MATTERS

The Group has transactions with their respective non-controlling interests, other companies affiliated with such shareholders and other associates (collectively the "related parties").

Related party transactions
Significant transactions with related parties in the normal course of business included in the consolidated financial statements are summarized below:

	2016	2015
	SR'000	*SR'000*
Sales	**16,480**	10,048
Purchases	**12,704**	12,587

Loans to and amounts receivable from associates:
Other non-current assets at 31 December include loans to and amounts receivable from associates as follows:

	2016	2015
	SR'000	*SR'000*
Amitech Morocco	**23,587**	22,579
Amitech Libya	-	3,273
Amitech Algeria	-	1,852
Amitech Qatar	**2,098**	1,783
Sarplast Qatar	**1,702**	1,627
Flowtite Eksport	-	18
	27,387	31,132
Less: Current-portion included under accounts receivable	**(18,993)**	(22,975)
	8,394	8,157

During 2015, part of the loan receivable from Amitech Morocco amounting to 4.8 million was converted to equity.

20. SHARE CAPITAL

The share capital of the Company as at 31 December 2016 and 2015 was comprised of 115.5 million ordinary shares stated at SR 10 per share.

21. STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 30% of its share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve is currently not available for distribution to the shareholders of the Company.

22. SELLING AND MARKETING EXPENSES

	2016 *SR'000*	2015 *SR'000*
Salaries and benefits	**42,524**	38,994
Sales commission and agency fees	**7,574**	18,357
Sales promotion	**13,777**	11,075
Travelling	**8,690**	8,468
Professional services	**3,958**	4,312
Information technology and communication	**1,104**	1,164
Depreciation	**679**	666
Other	**3,605**	3,971
	81,911	87,007

23. GENERAL AND ADMINISRATIVE EXPENSES

	2016 *SR'000*	2015 *SR'000*
Salaries, wages and benefits	**76,108**	82,327
Professional services	**39,424**	31,501
Travelling	**18,726**	22,571
Information technology and communication	**7,456**	8,314
Depreciation and amortization	**9,542**	7,436
Maintenance	**3,054**	3,487
Other	**12,877**	8,821
	167,187	164,457

24. OTHER INCOME (EXPENSES)

	2016 *SR'000*	2015 *SR'000*
Foreign exchange differences	**(13,429)**	(25,333)
Gain from settlement of debts	**16,541**	-
Miscellaneous income	**(2,919)**	3,963
	193	(21,370)

25. DIVIDENDS

During 2016, the Company's general assembly declared and paid dividends amounting to SR 75.1 million (2015: Nil).

26. INTEREST RATE SWAP CONTRACT

As at 31 December 2016, the Group had an interest rate swap ("IRS") contract with a local commercial bank in relation to loans with variable profit rates. As at 31 December 2016, the nominal amount of the IRS contract was SR 231.6 million (31 December 2015: nil). The fair value of the IRS contract has declined as at 31 December 2016 to SR (2.1) million (31 December 2015: nil).

The Group accounts for the IRS contract as an effective cash flow hedge. Accordingly, the Group recorded the decline in fair value of the IRS contract in equity and a corresponding non-current liability was recorded in the consolidated balance sheet.

27. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2016 and 2015 have been computed by dividing the income from main operations and net income for each year by the weighted average number of 113,564,309 shares outstanding during both years.

28. CONTINGENCIES AND COMMITMENTS

(i) The Group is contingently liable for bank guarantees issued in the normal course of business. The amount of these guarantees as at 31 December 2016 was SR 454.7 million (31 December 2015: SR 477.9 million). The Company, collectively with other shareholders of associated companies, is also contingently liable for corporate guarantees in relation to the credit facilities of related associated companies. The amount of these guarantees as at 31 December 2016 was SR 184.5 million (31 December 2015: SR 202.4 million).

(ii) PWT Wasser- und Abwassertechnik GmbH ("PWT"), a wholly owned subsidiary of the Company, engaged in Engineering, Procurement and Construction (EPC) contracting for water and sewage treatment plants, faced certain issues in a project in Iraq. PWT terminated the contract with one of its sub-contractors due to non-performance of its obligations under the contract. The sub-contractor has filed a claim against PWT with the competent court in Iraq for compensation of costs incurred prior to its termination as well as for lost profit. After a lengthy litigation process, the Iraqi Appellate Court ruled, on 10 January 2017, in favour of PWT and dismissed all claims raised by the sub-contractor. The sub-contractor appealed against the latest ruling and the Iraqi Court of Cassation, on 6 February 2017, dismissed their appeal and put an end to this case. In its basis for the ruling, the Appellate Court relied on a specialists report which concluded that the value of work accomplished by the sub-contractor was less than the amounts they received and accordingly, the sub-contractor owes PWT a net amount of Iraqi dinars 16.7 billion (SR 54.8 million).

The total provision for advances as at 31 December 2016 amounted to SR 48 million (31 December 2015: SR 27 million). The latest ruling on 10 January 2017 gives PWT the possibility to claim back SR 54.8 million from the sub-contractor. Nevertheless, the Group's management decided to keep the provision as PWT needs to start a new legal process to claim back part of these advances, the outcome of which is uncertain at this stage.

28. CONTINGENCIES AND COMMITMENTS (continued)

(iii) As stated in note 11, the Group owns a parcel of industrial land in Jeddah which was acquired in 2009 through the acquisition, from a related party, of a subsidiary that owns this land. The ownership of this parcel is being contested in the Saudi Arabian judicial system. Management of the Group believes that the outcome of the litigation process will not result in any liabilities.

(iv) Capital expenditure contracted by the Group but not yet incurred till 31 December 2016 was approximately SR 0.8 million (31 December 2015: SR 22.6 million).

29. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.